恒生銀行
HANG SENG BANK

Annual Report 2023

2023年年報

The printed version of Hang Seng Bank's Annual Report 2023 will replace this version in late March 2024.

恒生銀行2023年年報之印刷本將於2024年3月底取代此版本。

CONTENTS

* Where possible, percentages in this section have been rounded to the nearest percentage point to facilitate easy reading. Percentage-based indicators remain at 1 or 2 decimal places as appropriate.

The abbreviations 'HK$m' and 'HK$bn' represent millions and billions of Hong Kong dollars respectively.

CORPORATE PROFILE

Founded in 1933, Hang Seng has continually innovated to provide best-in-class, customer-centric banking, investment and wealth management services for individuals and businesses. It is widely recognised as the leading domestic bank in Hong Kong, currently serving more than 3.9 million customers.

Combining its award-winning mobile app and strong digital capabilities with a vast network of over 260 service outlets in Hong Kong, Hang Seng offers a seamless omni-channel experience for customers to take care of their banking and financial needs anytime, anywhere.

Its wholly owned subsidiary, Hang Seng Bank (China) Limited, operates a strategic network of outlets in almost 20 major cities in mainland China to serve a growing base of mainland customers locally and those with cross-boundary banking needs. The Bank also operates branches in Macau and Singapore, and a representative office in Taipei.

As a homegrown financial institution, Hang Seng is closely tied to the Hong Kong community. It supports the community with a dedicated programme of social and environmental initiatives focused on future skills for the younger generation, sustainable finance and financial literacy, addressing climate change and caring for the community.

Hang Seng is a principal member of the HSBC Group, one of the world's largest banking and financial services organisations. More information on Hang Seng is available at www.hangseng.com.

RATINGS 2023

Moody’s
Long-term Bank Deposit (local and foreign currency)
Aa3

Short-term Bank deposit (local and foreign currency)
Prime-1

Outlook
Stable

Standard & Poor’s
Long-term Issuer Credit (local and foreign currency)
AA-

Short-term Issuer Credit (local and foreign currency)
A-1+

Outlook
Stable

RESULTS IN BRIEF

For the year	**2023**	2022 *(restated)*	Change
	HK$m	HK$m	%
Net operating income before change in expected credit losses and other credit impairment charges	**40,822**	34,399	19
Operating profit	**19,946**	12,899	55
Profit before tax	**20,105**	12,781	57
Profit attributable to shareholders	**17,848**	11,286	58
	%	%	
Return on average ordinary shareholders' equity	**11.3**	7.2	
Cost efficiency ratio[1]	**35.8**	40.1	
	HK$	HK$	%
Earnings per share	**8.97**	5.53	62
Dividends per share	**6.50**	4.10	59

At year-end	**At 31 December 2023**	At 31 December 2022 *(restated)*	Change
	HK$m	HK$m	%
Shareholders' equity	**168,131**	159,933	5
Total assets	**1,692,094**	1,854,446	(9)
	%	%	
Capital ratios			
- Common Equity Tier 1 ('CET1') Capital Ratio	**18.1**	15.2	
- Tier 1 Capital Ratio	**19.9**	16.8	
- Total Capital Ratio	**21.4**	18.1	
Liquidity ratios			
- Liquidity coverage ratio	**260.7**	281.3	
- Net stable funding ratio	**168.4**	163.8	

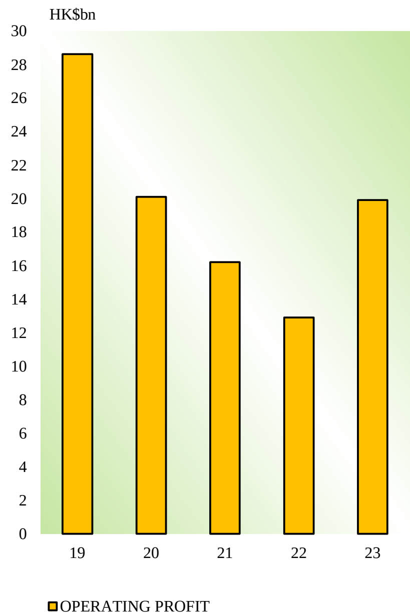
[1] Cost efficiency ratio is operating expenses divided by net operating income before change in expected credit losses and other credit impairment charges.

FIVE-YEAR FINANCIAL SUMMARY

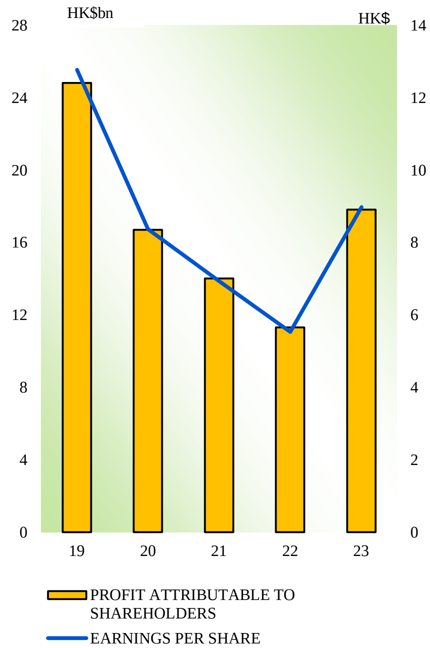
	2019	2020	2021	2022 *(restated)*	**2023**
For the year	HK$bn	HK$bn	HK$bn	HK$bn	**HK$bn**
Operating profit	28.6	20.1	16.2	12.9	**19.9**
Profit before tax	28.8	19.4	16.4	12.8	**20.1**
Profit attributable to shareholders	24.8	16.7	14.0	11.3	**17.8**
At year-end	HK$bn	HK$bn	HK$bn	HK$bn	**HK$bn**
Shareholders' equity	178.8	183.1	184.3	159.9	**168.1**
Issued and paid-up capital	9.7	9.7	9.7	9.7	**9.7**
Total assets	1,677.0	1,759.8	1,820.2	1,854.4	**1,692.1**
Total liabilities	1,498.1	1,576.6	1,635.8	1,694.4	**1,523.9**
Per share	HK$	HK$	HK$	HK$	**HK$**
Earnings per share	12.77	8.36	6.93	5.53	**8.97**
Dividends per share					
- 1st to 4th interim dividends	8.20	5.50	5.10	4.10	**6.50**
Ratios	%	%	%	%	**%**
Return on average ordinary shareholders' equity	15.2	9.6	7.7	7.2	**11.3**
Post-tax return on average total assets	1.5	1.0	0.8	0.6	**1.0**
Capital ratios					
- Common Equity Tier 1 ('CET1') Capital Ratio	16.9	16.8	15.9	15.2	**18.1**
- Tier 1 Capital Ratio	18.7	18.5	17.5	16.8	**19.9**
- Total Capital Ratio	20.8	20.0	18.9	18.1	**21.4**
Cost efficiency ratio	30.0	36.6	42.6	40.1	**35.8**

Unless otherwise stated, all tables in the 2023 Annual Report are presented on a reported basis. Financial results of 2023 and 2022 are prepared on HKFRS 17 basis and that of 2019/2020/2021 are prepared on HKFRS 4 basis and are not comparable.

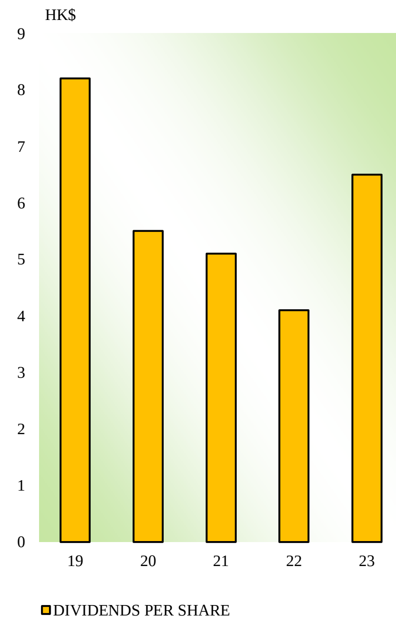
OPERATING PROFIT



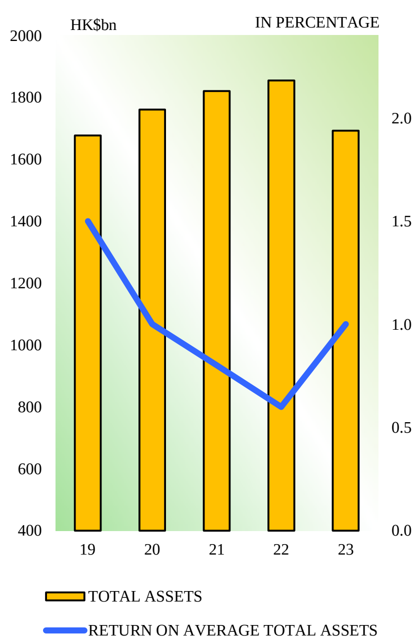
PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND EARNINGS PER SHARE



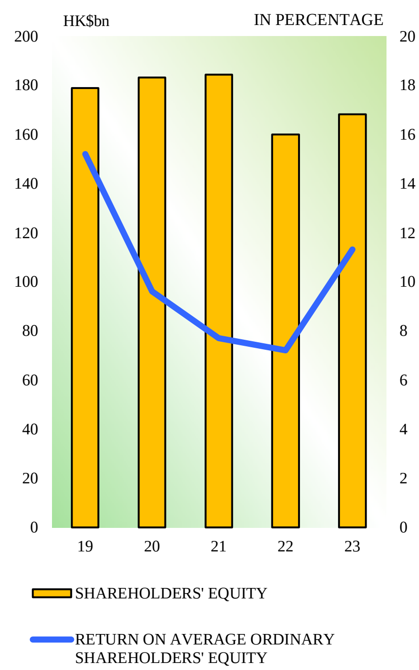
DIVIDENDS PER SHARE



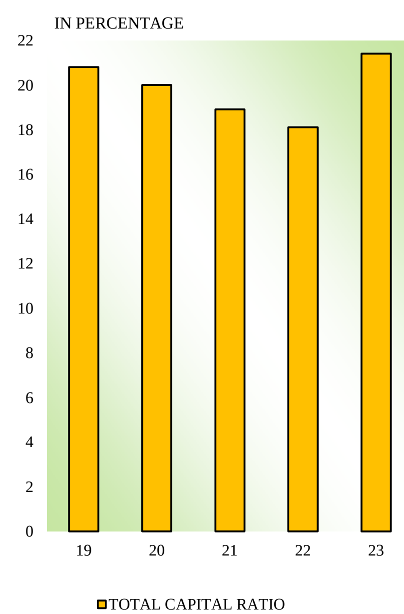
TOTAL ASSETS AND RETURN ON AVERAGE TOTAL ASSETS



SHAREHOLDERS' EQUITY AND RETRUN ON AVERAGE ORDINARY SHAREHOLDERS' EQUITY



TOTAL CAPITAL RATIO



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CHAIRMAN'S STATEMENT

Our 90th 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.

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 91st 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.

Irene Lee
Chairman
21 February 2024

CHIEF EXECUTIVE'S REPORT

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 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.

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 (TraHK), now under our exclusive management, achieved a record-high assets under management ('AUM') and unit issuance.

- 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 ('BSE') 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 ('WMC') 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.

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.

Wealth and Personal Banking

Wealth and Personal Banking's net operating income before change in ECL increased by 26% to HK$23.64bn, driven by a 34% rise in net interest income. Operating profit grew by 40% to HK$14.193bn, with profit before tax up 42% to HK$14.386bn.

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 for wealth and travel insurance products to enhance our ability to meet the diverse insurance needs of customers.

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.

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$10.702bn, with a 252% increase in both operating profit and profit before tax to HK$2.442bn. 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$2.977bn, with a 271% increase in both operating profit and profit before tax to HK$1.408bn. Interest income rose by 7%, driven by the addition of new accounts and enhanced cash management solutions.

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$2.413bn, with both operating and profits before tax down by 17% to HK$1.677bn. Net interest income declined by 24% to HK$1.162bn amid market challenges and rising interest rates impacting Market Treasury. That said, non-interest income improved by 10% to HK$1.251bn, driven by repo trading, equities and rates related structured products.

Financial Overview

Amid a high interest rate environment, net interest income rose by HK$6.744bn to HK$32.295bn, 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$11.33bn, reversing from a net loss of HK$21.455bn 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$10.805bn, diverging from the insurance finance income of HK$22.72bn 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$40.822bn.

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 and other credit impairment charges decreased by HK$1.446bn to HK$6.248bn, 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$20.105bn, while attributable profit rose by 58% to HK$17.848bn. 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.

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 90^{th} 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 believe 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 Hong Kong community and the GBA.

Diana Cesar
Executive Director and Chief Executive
21 February 2024

BUSINESS REVIEW

The past financial year, shaped by global economic uncertainties, saw us navigate a complex array of market conditions. The conservative sentiment across markets was counterbalanced by the Bank's agile response to fluctuating interest rates and investment behaviours.

Despite the challenging operating conditions, we experienced positive growth in important areas of our business and made significant advancements in our strategy for change. By taking steps to ensure the future success of our business, we are well-positioned to capitalise on our current advantages and establish a dominant market position in emerging and sustainable areas of growth.

Wealth and Personal Banking

Wealth and Personal Banking 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, is 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

Commercial Banking 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

Global Banking 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

Global Markets 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.

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

Income Analysis

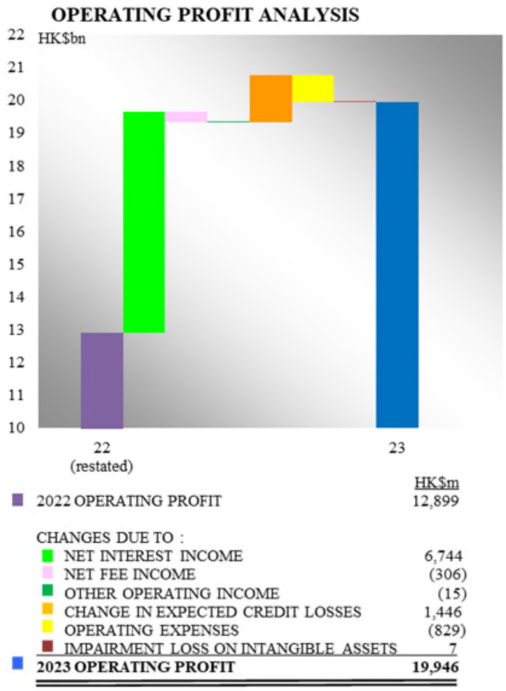
Summary of financial performance

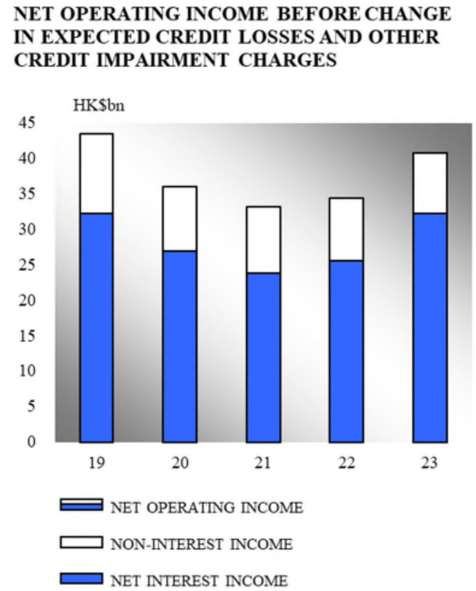
Figures in HK$m	***2023***	*2022 (restated)*
Net operating income before change in expected credit losses and other credit impairment charges	**40,822**	34,399
Operating expenses	**14,624**	13,795
Operating profit	**19,946**	12,899
Profit before tax	**20,105**	12,781
Profit attributable to shareholders	**17,848**	11,286
Earnings per share (in HK$)	**8.97**	5.53

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 the 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.





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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)*
Interest income arising from:		
- financial assets measured at amortised cost	**48,879**	30,650
- financial assets measured at 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
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.

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

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.

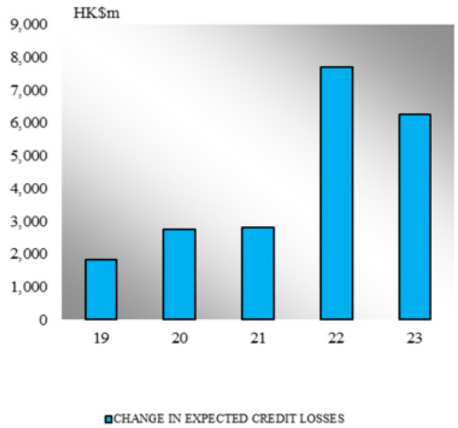
Change in ECL (Stage 1 to 3) for Wealth and Personal banking increased by HK$246m to HK$805m. Conversely, Commercial Banking and Global Banking recorded reduced change in ECL (Stages 1 to 3) by HK$1,683m to HK$5,447m.

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.

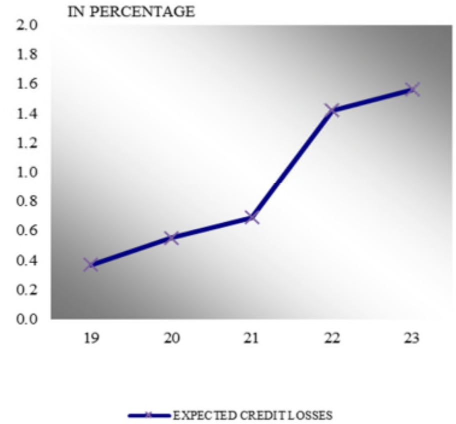
Expected credit losses and gross impaired loans and advances as a percentage of gross loans and advances to customers are as follow:

	At 31 December 2023	*At 31 December 2022*
Expected credit losses as a percentage of gross loans and advances to customers	**1.56**%	1.42%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**2.83**%	2.56%

CHANGE IN EXPECTED CREDIT LOSSES AND OTHER CREDIT IMPAIRMENT CHARGES



EXPECTED CREDIT LOSSES AS A PERCENTAGE OF GROSS LOANS AND ADVANCES TO CUSTOMERS



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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%.

	2023	*2022 (restated)*
Cost efficiency ratio	**35.8 %**	40.1 %

**Included depreciation of right-of-use assets of HK$470m in 2023 (2022: HK$514m)*

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.

Segmental Analysis

The table below sets out the profit before tax contributed by the business segments.

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%

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, 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.

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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.

Balance sheet Analysis

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.

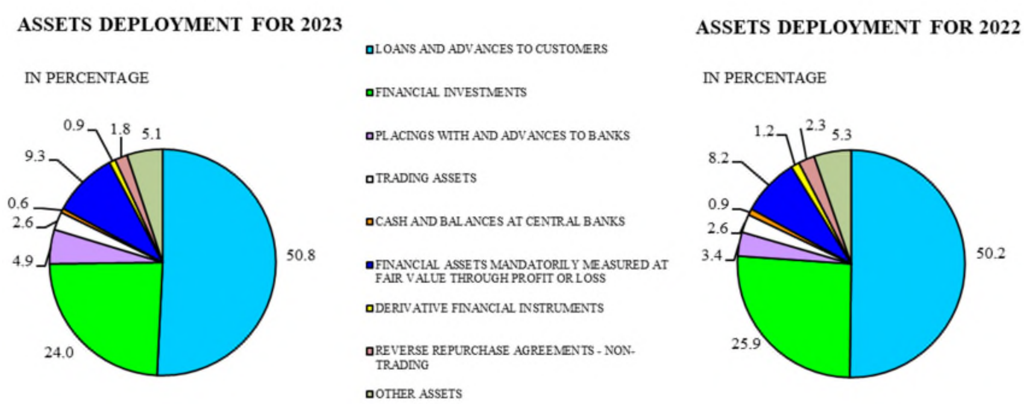
Trade finance lending decreased by 6%, due mainly to weak global trade performance as reflected in the sluggish logistics industry. It also impacted by increased loan repayment under the high interest rates environment.

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.

Assets Deployment

Figures in HK$m	***At 31 December* 2023**	**%**	At 31 December 2022 *(restated)*	%
Cash and balances at central banks	**10,564**	**0.6**	17,609	0.9
Trading assets	**44,018**	**2.6**	47,373	2.6
Derivative financial instruments	**14,959**	**0.9**	22,761	1.2
Financial assets mandatorily measured at at fair value through profit or loss	**156,872**	**9.3**	152,957	8.2
Reverse repurchase agreements – non-trading	**30,202**	**1.8**	42,364	2.3
Placings with and advances to banks	**83,756**	**4.9**	62,203	3.4
Loans and advances to customers	**860,406**	**50.8**	931,334	50.2
Financial investments	**405,792**	**24.0**	480,698	25.9
Other assets	**85,525**	**5.1**	97,147	5.3
Total assets	**1,692,094**	**100.0**	1,854,446	100.0
Return on average total assets	**1.0%**		0.6%	

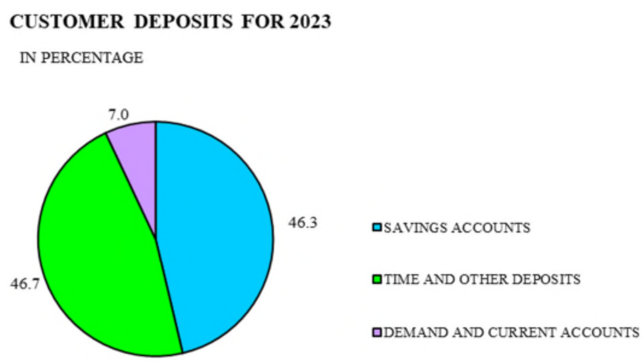


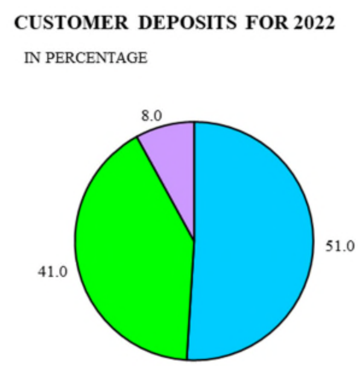
Liabilities and equity

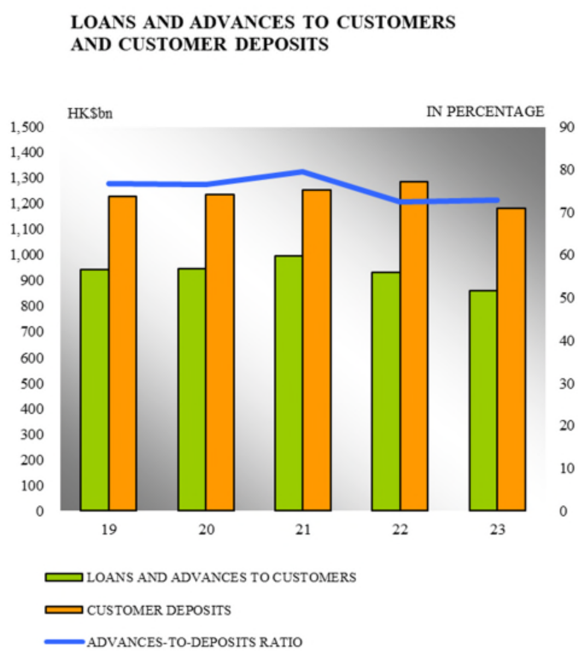
The Group has re-defined its customer deposits categorisation in 2023 to align with major peers and HSBC Group. Deposits are now categorised as demand and current accounts, savings accounts, time, and other deposits (including structured deposits). Customer deposits decreased by HK$106bn, or 8%, to HK$1,181bn 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 %







Shareholders' equity

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022 (restated)*
Share capital	**9,658**	9,658
Retained profits	**126,624**	118,717
Other equity instruments	**11,744**	11,744
Premises revaluation reserve	**18,525**	18,338
Cash flow hedging reserve	**(96)**	(816)
Financial assets at fair value through other comprehensive income reserve	**1,579**	1,737
Other reserves	**97**	555
Total reserves	**158,473**	150,275
Total shareholders' equity	**168,131**	159,933
Return on average ordinary shareholders' equity	**11.3%**	7.2%

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.

Management Discussion and Analysis
(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

Risk

Our approach to risk
(unaudited)

Our risk appetite

We recognise the importance of a strong risk culture, which refers to our shared attitudes, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. Our risk appetite defines the level and types of risk that we are willing to take, while informing the financial planning process and guiding strategic decision making.

The following principles guide the Group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

- We aim to maintain a strong capital position, defined by regulatory and internal capital ratios.
- We carry out liquidity and funding management for each operating entity, on a stand-alone basis.

Operating model

- We seek to generate returns in line with our risk appetite and strong risk management capability.
- We aim to deliver sustainable and diversified earnings and consistent returns for shareholders.

Business practice

- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any business.
- We are committed to managing the climate risks that have an impact on our financial position, and contributing to HSBC Group's net zero ambition.
- We consider and, where appropriate, mitigate reputational risk that may arise from our business activities and decisions.
- We monitor non-financial risk exposure against risk appetite, including exposure related to inadequate or failed internal processes, people and systems, or events that impact our customers or can lead to sub-optimal returns to shareholders, censure, or reputational damage.

Enterprise-wide application

Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is the risk to achieving our strategy or objectives as a result of failed internal processes, people and systems or from external events.

Our risk appetite is expressed in both quantitative and qualitative terms. It continues to evolve and expand its scope as part of our regular review process.

The Board reviews and approves the Group's risk appetite twice a year to make sure it remains fit for purpose. The risk appetite is considered, developed and enhanced through:

- an alignment with our strategy, purpose, values and customer needs;
- trends highlighted in other Group risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our risk appetite statement ('RAS'), which is approved by the Board on the recommendation of the Risk Committee ('RC'). Setting out our risk appetite helps ensure that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning, and remuneration.

Performance against the RAS is reported to the Risk Management Meeting ('RMM') regularly to support targeted insight and discussion on breaches of risk appetite and any associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

Risk Management

We recognise that the primary role of risk management is to help protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model.

The implementation of our business strategy remains a key focus. As we implement change initiatives, we actively manage the execution risks. We also perform periodic risk assessments, including against strategies to help ensure retention of key personnel for our continued effective operation.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages a sound operational and strategic decision making and escalation process. It also supports a consistent approach to identify, assess, manage and report the risks we accept and incur in our activities, with clear accountabilities. We continue to enhance our approach to manage risk, through our activities with regard to people and capabilities; governance; reporting and management information; credit risk management models; and data.

Our risk management framework

The following diagram and descriptions summarise key aspects of the risk management framework, including governance and structure, our risk management tools and our risk culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

Our Values and Risk Culture

Risk governance	Non-executive risk governance	The Board approves the risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the RC.
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Group.
Roles and responsibilities	Three lines of defence model	Our 'Three lines of defence' model defines roles and responsibilities for risk management. An independent Risk and Compliance function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite	The Group has processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
	Active risk management: identification / assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Non-financial risk stewards define the minimum control standards for managing non-financial risks.
	Systems and infrastructure	The Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Risk *(continued)*

Risk governance

The Board has ultimate responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the RC.

The Chief Risk and Compliance Officer, supported by the RMM, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account the Group's business and functional structures.

We use a defined executive risk governance structure to help ensure there is appropriate oversight and accountability of risk, which facilitates reporting and escalation to the RMM.

A Product Oversight Committee reporting to the RMM and comprising senior executives from Risk and Compliance, Legal, Finance, and Operations/IT, is responsible for reviewing and approving the launch of such new products and services. Each new service and product launch is also subject to an operational risk self-assessment process, which includes identification, evaluation and mitigation of risk arising from the new initiative. Internal Audit is consulted on the internal control aspect of new products and services in development prior to implementation.

Our roles and responsibilities

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structure.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. This model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities.

Risk *(continued)*

Our roles and responsibilities *(continued)*

Three lines of defence (continued)

The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence on effective risk management.
- The third line of defence is our Internal Audit function, which provides independent assurance that our risk management, governance and internal control processes are designed and operating effectively.

Independent risk and compliance function

The Group's Risk and Compliance function, headed by the Chief Risk and Compliance Officer, is responsible for the Group's risk management framework. This responsibility includes establishing and monitoring of risk profiles, and identifying and managing forward-looking risk. The Group's Risk and Compliance function is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Group's Risk and Compliance function is independent from the business, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/ return decisions.

Responsibility for minimising both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible.

We maintain adequate oversight of our risks through various specialist Risk Stewards and the collective accountability held by the Chief Risk and Compliance Officer and global businesses.

We have continued to strengthen the control environment and our approach to the management of non-financial risk, as set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risks that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk.

Risk management tools

(unaudited)

The Group uses a range of tools to identify, monitor and manage risk. The key tools are summarised below.

Risk appetite

Risk Appetite ('RA') is defined as the level and types of risks that the Group is willing to take to achieve our strategic objectives. RA is articulated through RAS, which consists of qualitative statements and quantitative metrics covering both financial and non-financial risks that are material to the Group.

RA supports senior management in allocating capital, funding, and liquidity optimally to finance strategic growth within acceptable risk levels, while monitoring exposure of non-financial risks which may impact our customers or lead to sub-optimal returns to shareholders, regulatory censure, or reputational damage. The RMM reviews the Group's actual risk appetite profile in which the quantitative metrics have pre-defined Risk Appetite and Risk Tolerance thresholds against which performance is measured and monitored. The actual risk appetite profile is also reported to the RC and the Board by Chief Risk and Compliance Officer including breach commentary.

Risk map

The Group uses a risk map to provide a point-in-time view of its residual risk profile across both financial and non-financial risks. This highlights the potential for these risks to materially affect our financial results, reputation or business sustainability. Risk stewards assign risk ratings, supported by commentary. Risks that have an 'Amber' or 'Red' risk rating require monitoring and mitigating action plans being either in place or initiated to manage the risk down to acceptable levels.

Top and emerging risks

We use a top and emerging risks process to provide a forward-looking view of issues with the potential to threaten the execution of our strategy or operations over the medium to long term.

We proactively assess the internal and external risk environment, as well as review the themes identified across our organisation and global businesses, for any risks that may require escalation, and update our top and emerging risks as necessary.

Risk *(continued)*

Risk management tools *(continued)*
(unaudited)

Stress testing and recovery planning

The Group operates a wide-ranging stress testing programme that is a key part of our risk management, capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the Group, and provides confidence to regulators on the Group's financial stability.

Our stress testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests, in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, as well as other potential events that are specific to the Group.

The selection of stress scenarios is based upon the output of our top and emerging risks identified and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities which the Group is exposed to. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, should be absorbed through capital and liquidity. This in turn informs decisions about preferred levels and allocations of capital and liquidity resources.

The Group also participate, as required, in the regulatory stress testing programmes of the jurisdictions in which they operate, including the stress tests of the HKMA. Functions and businesses also perform bespoke stress testing to inform their assessment of risks in potential scenarios.

We also conduct reverse stress tests each year at a group level and, where required, at subsidiary entity level to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans.

The Group stress testing programme is overseen by the RC and results are reported, where appropriate, to the RMM, RC and the Board.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Risk management tools *(continued)*
(unaudited)

Recovery and resolution plans

Recovery and resolution plans form an integral framework in the safeguarding of the Group's financial stability. The recovery plan, together with stress testing, helps us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate mitigating actions.

Key developments in 2023

We continued to actively manage the risks related to macroeconomic and geopolitical uncertainties, as well as the risks resulting from the China commercial real estate ('CRE') sector and other key risks described in this section.

In 2023, we enhanced our risk management in the following areas:

- We continued to enhance our risk governance decision making to ensure senior executives have appropriate oversight.
- We adapted our interest rate risk management strategy as market and official interest rates increased in reaction to inflationary pressures.
- We have continued to strengthen our third-party risk policy and have enhanced the way third party risk is overseen and managed across all non-financial risks. Our processes, framework and reporting capabilities have been enhanced to improve control and oversight of our material third parties to help maintain our operational resilience, and to meet new and evolving regulatory requirements.
- We continued to make progress with our comprehensive regulatory reporting programme to strengthen our processes, improve consistency, and enhance controls across regulatory reports.
- We continued to embed climate considerations throughout the organisation, including through risk policy updates and continued development of risk metrics to monitor and manage our exposure to climate risk.
- We deployed industry-leading technology and advanced analytics capabilities to improve our ability to identify suspicious activities and prevent financial crime.
- We continued to develop and enhance our electronic communication policies and standards, to help ensured we acted on substantive issues.
- We are embedding our suite of regulatory management systems following the Group-wide roll-out of regulatory horizon scanning capabilities and enhanced regulation mapping tooling.

Areas of special interest

During 2023, a number of areas were identified and considered as part of our top and emerging risks because of the effect they may have on the Group. We place particular focus in this section on geopolitical and macroeconomic risks, technology and cyber security risk, financial crime risk and climate related risks.

Geopolitical and macroeconomic risks
(unaudited)

The US-China relationship remains complex. To date, the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies and the countries' respective approaches to strategic competition with China continue to develop. Although sanctions and trade restrictions are difficult to predict, increases in diplomatic tensions between China and the US and other countries could result in further sanctions and trade restrictions that could negatively impact the Group, its customers and the markets in which the Group operates. For example, there is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology, and other issues which could create a more complex operating environment for the Group and its customers.

China has in turn announced a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals and companies. These, as well as certain law enforcement measures, have been imposed against certain Western consulting and data intelligence firms, defense companies, and public officials associated with the implementation of foreign sanctions against China.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. We maintain dialogue with our regulators in various jurisdictions on the impact of legal and regulatory obligations on our business and customers.

While it is the Group's policy to comply with all applicable laws and regulations of all jurisdictions in which it operates, geopolitical tensions, and potential ambiguities in the Group's compliance obligations will continue to present challenges and risk for the Group and could have a material adverse impact on the Group's business, financial condition, results of operations, prospects, strategy and reputation, as well as the Group's customers.

Geopolitical and macroeconomic risks (continued)
(unaudited)

China's expanding data privacy, national security and cybersecurity laws could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance obligations in respect of cross-border transfers of personal information, which may affect our ability to manage financial crime risks across markets. In Hong Kong, there is also an increasing focus by regulators on the use of big data and Artificial Intelligence.

The Russia-Ukraine war continues to have far-reaching geopolitical and economic implications beyond those two countries borders. There is also uncertainty about the scope, duration and potential escalation of the Israel-Hamas war. The Group is monitoring the impacts of these wars.

The Group continues to respond to evolving economic sanctions and trade restrictions, in particular significant sanctions and trade restrictions imposed against Russia by the UK, the US and the EU, as well as other countries. Such sanctions and restrictions have targeted certain Russian government officials, politically exposed persons, business people, Russian oil imports, energy products, financial institutions, and other major Russian companies and sanctions evasion networks. More generally applicable investment, export, and import bans and restrictions have also been implemented. In addition, US authorities have been granted significant and broad discretion to impose secondary sanctions on non-US banks engaged in certain transactions or services involving Russia's military-industrial base. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures including the expropriation of foreign assets.

Further sanctions, counter-sanctions, and trade restrictions across the markets in which the Group operates may adversely impact the Group, its customers and the markets by creating regulatory, reputational and market risks.

Global commodity markets have been significantly impacted by the Russia-Ukraine war, leading to continued supply chain disruptions. This has resulted in product shortages appearing across several regions, and increased prices for both energy and non-energy commodities, such as food. We do not expect these to ease significantly in the near term. In turn, this has had a significant impact on global inflation.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Areas of special interest *(continued)*

Geopolitical and macroeconomic risks (continued)
(unaudited)

China enacted policy measures in the third quarter of 2023 to support its flagging property sector. These measures are intended to encourage bank lending to developers, which could help accelerate the reduction in the stock of unfinished homes. Recovery in the underlying domestic residential demand and improved customer sentiment nevertheless remain necessary to support the ongoing health of the sector. We will continue to monitor the sector closely, notably the risk of further idiosyncratic real estate defaults and the potential associated impact on wider market, investor and consumer sentiment. Given that parts of the global economy remain weak, the demand for Chinese exports may also diminish.

Higher inflation and interest rate expectations around the world and the resulting economic uncertainty have had an impact on expected credit losses and other credit impairment charges ('ECL'). The combined pressure of higher inflation and interest rates may impact the ability of our customers to repay debt. There is uncertainty with respect to the relationship between the economic drivers and the historical loss experience, which may require adjustments to modelled ECL in cases where we determined that the model was unable to capture the material underlying risks.

Mitigating actions

- We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business.
- We closely monitor the geopolitical and economic developments in key markets and sectors and actively manage our credit portfolio through enhanced monitoring, thematic reviews, internal stress tests, etc.
- We continue to support our customers and manage risk and exposures as appropriate.
- We continue to manage sanctions and trade restrictions through the use of, testing and auditing of, and enhancements to, our existing controls.

Technology and cyber security risk
(unaudited)

We operate an extensive and complex technology landscape, which must remain resilient in order to support customers and the Group. Risks arise where technology is not understood, maintained, or developed appropriately. Together with other organisations, we continue to operate in an increasingly hostile cyber threat environment. These threats include potential unauthorised access to customer accounts, attacks on our systems or those of our third-party suppliers and require ongoing investment in business and technical controls to defend against them.

Mitigating actions

- We continue to invest in transforming how software solutions are developed, delivered and maintained. We invest both to improve system resilience and test service continuity. We continue to ensure security is built into our software development life cycle and improve our testing processes and tools.
- We continue to upgrade our IT systems, simplify our service provision and replace older IT infrastructure and publications.
- We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. To further protect the Group and our customers and help ensure the safe expansion of our global businesses, we continue to strengthen our controls to reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We continue to enhance our cybersecurity capabilities, including cloud security, identity and access management, metrics and data analytics, and third-party security reviews. An important part of our defence strategy is ensuring our colleagues remain aware of cybersecurity issues and know how to report incidents.
- We report and review cyber risk and control effectiveness at executive and non-executive Board level. We also report across our global businesses, functions and markets to help ensure appropriate visibility and governance of the risk and mitigating actions.
- We continue to obtain information about tactics employed by cybercrime groups and to collaborate in fighting, detecting and preventing cyber-attacks on financial organisations.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Areas of special interest *(continued)*

Financial Crime Risk
(unaudited)

Financial institutions remain under considerable regulatory scrutiny regarding their ability to detect and prevent financial crime. These risks were in 2023 exacerbated by rising geopolitical tensions and worsening macroeconomic factors. These challenges include managing conflicting laws and approaches to legal and regulatory regimes, and implementing increasingly complex and less predictable sanctions and trade restrictions.

Amid high levels of inflation and increasing cost of living pressures, we face increasing regulatory expectations with respect to managing internal and external fraud and protecting vulnerable customers. In addition, the accessibility and increasing sophistication of generative Artificial Intelligence ('AI') brings financial crime risks. While there is potential for the technology to support financial crime detection, there is also material risk that criminals use generative AI to perpetrate fraud, particularly scams.

The digitisation of financial services continues to have an impact on the payments ecosystem, with an increasing number of new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as banks. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus on the financial crimes linked to these types of assets.

Expectations continue to increase with respect to the intersection of environmental, social and governance ('ESG') issues and financial crime, as our organisation, customers and suppliers transition to net zero. These are particularly focused on potential 'greenwashing', human rights issues and environmental crimes. In addition, climate change itself could heighten risks linked to vulnerable migrant populations in countries where financial crime is already more prevalent.

We also continue to face increasing challenges presented by national data privacy requirements, which may affect our ability to manage financial crime risks across markets.

Financial Crime Risk (continued)
(unaudited)

Mitigating actions

- We continue to manage sanctions and trade restrictions through the use of, and enhancements to, our existing controls.
- We continue to develop our fraud controls, and invest in capabilities to fight financial crime through the application of advanced analytics and AI.
- We are looking at the impact of a rapidly changing payments ecosystem, as well as risks associated with direct and indirect exposure to digital assets and currencies, in an effort to maintain appropriate financial crime controls.
- We regularly review our existing policies and control framework so that developments relating to ESG are considered and the risks mitigated to the extent possible.
- We engage with regulators and policymakers, seeking to address data privacy challenges through international standards, guidance, and legislation.

Climate related risk
(unaudited)

We are exposed to several risks resulting from climate change and the move to a net zero economy:

- We may face credit losses if our customers find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather.
- We may face trading losses if we fail to accurately reflect the risks associated with climate risk within our trading book assets.
- We may face impacts from physical risk on our own operations, owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could affect our ability to conduct our day-to-day operations.
- We may face increased reputational, legal and regulatory risk if we fail to make sufficient progress towards our climate ambition, or if we fail to meet evolving regulatory expectations and requirements on climate risk management, or if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to stakeholders.

Climate related risk (continued)
(unaudited)

- We may face financial reporting risk in relation to our climate disclosures, as any data, methodologies and standards we have used may evolve over time in line with market practice, regulation or owing to developments in climate science. Any changes could result in revisions to our internal frameworks and reported data, and could mean that reported figures are not reconcilable or comparable year on year. We may also have to re-evaluate our progress towards our climate-related targets in future and this could result in reputational, legal and regulatory risks.
- We may face model risk, as the uncertain impacts of climate change and data and methodology limitations present challenges to creating reliable and accurate model outputs.
- We may be exposed to climate related litigation risks, either directly if stakeholders feel we are not adequately managing climate risks or indirectly if our clients and customers are themselves the subject of litigation, potentially resulting in the revaluation of client assets.

Mitigating actions

- We aim to deepen our understanding of the drivers of climate risk. During 4Q 2023, we have enhanced climate risk management oversight by including a new standing agenda item on sustainability and climate risk for first line of defence and second line of defence to provide update to the Risk Management Meeting.
- We continue to accelerate the development of our climate risk management capabilities across four key pillars – governance and risk appetite, risk management, stress testing and scenario analysis, and disclosures. We continue to enhance our approach and mitigation to the risk of greenwashing.
- In January 2024, energy policy has been updated to cover the broader energy system including upstream oil and gas, oil and gas power generation, coal, hydrogen, renewables and hydropower, nuclear, biomass and energy from waste. Thermal coal phase-out policy has also been updated, in which no new finance or advisory services to be provided for the specific purposes of new metallurgical coal mines.
- The scope of financial reporting risk was expanded to explicitly include oversight over accuracy and completeness of ESG and climate reporting. Aligned with HSBC Group, we also updated our risk taxonomy and control library to incorporate requirements for addressing the risk of misstatement in ESG and climate reporting.
- We continue to engage with our customers, investors and regulators proactively on the management of climate related risks.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks - banking operations

(unaudited)

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk		
Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: – measured as the amount which could be lost if a customer or counterparty fails to make repayments; – monitored within limits, approved by individuals within a framework of delegated authorities; and – managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.
Treasury risk		
Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historic and current provision of pensions and other post-employment benefits to staff and their dependents.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions, or pension plan fiduciary decisions. It also arises from the external environment, including changes to market parameters such as interest rates or foreign exchange rates, together with updates to the regulatory requirements.	Treasury risk is: – measured through risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; – monitored and projected against appetites and by using operating plans based on strategic objectives together with stress and scenario testing; and – managed through control of resources in conjunction with risk profiles, strategic objectives and cash flows.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Description of risks - banking operations *(continued)*

(unaudited)

Risks	Arising from	Measurement, monitoring and management of risk
Market risk		
Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: trading and non-trading. Market risk for non-trading portfolios is discussed in the 'Treasury risk' section. Market risk exposures arising from our insurance operations are discussed in 'Insurance manufacturing operation risk' section.	Market risk is: – measured using sensitivities, value at risk ('VaR') and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; – monitored using VaR, stress testing and other measures; and – managed using risk limits approved by Chief Risk and Compliance Officer. These limits are allocated across the Group's legal entities and business lines.
Climate risk		
Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.	Climate risk is likely to materialise through: – physical risk, which arises from the increased frequency and severity of weather events; – transition risk, which arises from the process of moving to a low-carbon economy; – net zero alignment risk, which arises from failing to meet its net zero commitments or to meet external expectations related to net zero because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in the external environment; and – risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders.	Climate risk is: – measured using risk metrics and stress testing; – monitored against risk appetite statements; and – managed through adherence to risk appetite thresholds through specific policies, and through enhancements to processes and development of tools including the development of product market controls to manage the risk of greenwashing and the development of portfolio steering capabilities to manage our net zero targets.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Description of risks - banking operations *(continued)*

(unaudited)

Risks	Arising from	Measurement, monitoring and management of risk
Resilience risk		
Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties as a result of sustained and significant operational disruption.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events.	Resilience risk is: – measured through a range of metrics with defined maximum acceptable impact tolerances, and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continual monitoring and thematic reviews.
Regulatory compliance risk		
Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe the relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Risk *(continued)*

Description of risks - banking operations *(continued)*
(unaudited)

Risks	Arising from	Measurement, monitoring and management of risk
Financial crime risk		
Financial crime risk is the risk that the Group's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.	Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.	Financial crime risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Model risk		
Model risk is the potential for adverse consequences from business decisions arising from the use of models that have been inadequately designed, implemented or used or that model does not perform in line with expectations and predictions.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: – measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; – monitored against model risk appetite statements, insight from the independent review function, feedback from internal audits, and regulatory reviews; and – managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

Description of risks - insurance manufacturing operations
(unaudited)

Our insurance manufacturing subsidiary is separately regulated from our banking operations. Risks in the insurance entities are managed using methodologies and processes appropriate to insurance manufacturing operations, but remain subject to oversight at Group level. Our insurance operations are also subject to some of the same risks as our banking operations, which are covered by the Group's respective risk management processes.

Risks	Arising from	Measurement, monitoring and management of risk
Insurance underwriting risk		
Insurance underwriting risk is the risk that, over time, the cost of acquiring and administering an insurance contract, and paying claims and benefits may exceed the total amount of premiums received and investment income.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance underwriting risk is: – measured in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; – monitored through a framework of approved limits and delegated authorities; and – managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.
Financial risk		
Our ability to effectively match the liabilities arising under insurance contracts with the asset portfolios that back them is contingent on the management of financial risks and the extent to which these risks are borne by the policyholders.	Exposure to financial risks arises from: – market risk of changes in the fair values of financial assets or their future cash flows; – credit risk; and – liquidity risk of entities being unable to make payments to policyholders as they fall due.	Financial risk is: – measured separately for each type of risk: - market risk is measured in terms of economic capital, internal metrics and fluctuations in key financial variables; - credit risk is measured in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; and - liquidity risk is measured in terms of internal metrics including stressed operational cash flow projections; – monitored through a framework of approved limits and delegated authorities; and – managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance. This includes using product design, asset liability matching and bonus rates.

Risk *(continued)*

The following information describes the Group's management and control of risks, in particular, those associated with its use of financial instruments ('financial risks'). Major types of risks to which the Group is exposed include credit risk, treasury risk, market risk, climate risk, resilience risk, regulatory compliance risk, financial crime risk, model risk, and insurance risk.

(a) Credit Risk

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and derivatives.

Credit risk management

Key developments in 2023
(unaudited)

There were no material changes to the policies and practices for the management of credit risk in 2023. We continued to apply the requirements of HKFRS 9 '*Financial Instruments*' within Credit Risk sub-function.

We actively managed the risks related to macroeconomic uncertainties, including fiscal and monetary policy and broader geopolitical uncertainties.

Governance and structure
(unaudited)

We have established credit risk management and related HKFRS 9 processes throughout the Group. We continue to assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

Credit risk sub-function
(audited)

With the delegation from the Board, credit approval authorities are delegated to the Executive Committee and to the Chief Executive together with the authority to sub-delegate them. The Credit Risk sub-function is responsible for the key policies and processes for managing credit risk, which include formulating the Group's credit policies and risk rating frameworks, guiding the Group’s appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- to maintain across the Group a strong culture of responsible lending, and robust risk policies and control frameworks;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their causes and their mitigation.

Key risk management processes

HKFRS 9 'Financial Instruments' process
(unaudited)

The HKFRS 9 process comprises three main areas: modelling and data; implementation; and governance.

Modelling and data
(unaudited)

We have established HKFRS 9 modelling and data processes in various geographies, which are subject to internal model risk governance including independent review of significant model developments.

We have a centralised process at the HSBC Group for generating unbiased and independent global economic scenarios. Scenarios are subject to a process of review and challenge by a dedicated team at the HSBC Group, as well as the Bank and regional groupings. Each quarter, the scenarios and probability weights are reviewed and checked for consistency with the economic conjuncture and current economic and financial risks. These are subject to final review and approval by senior management in our Impairment Committee.

Key risk management processes *(continued)*

Implementation
(unaudited)

A centralised impairment engine performs the expected credit losses ('ECL') calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner within HSBC Group.

Governance
(unaudited)

Management review forums are established in order to review and approve the impairment results. Management review forums have representatives from Business, Credit Risk and Finance. The approvals are subsequently reported up to the Impairment Committee for final approval of the Group's ECL for the period. Required members of the Impairment Committee are the Chief Risk and Compliance Officer, the Chief Financial Officer and the Chief Accounting Officer, as well as the Head of Wholesale Credit Risk Management and the Head of Wealth and Personal Banking Risk.

Concentration of exposure
(audited)

Concentrations of credit risk arise when a number of counterparties or exposures that have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors. As such that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Key risk management processes *(continued)*

Credit quality of financial instruments
(audited)

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group to support the calculation of our minimum credit regulatory capital requirement.

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and retail customers, and the external ratings attributed by external agencies to debt securities.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related customer risk rating ('CRR') to external credit rating.

Wholesale lending
(unaudited)

A CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All corporate customers are rated using the 10 or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

Retail lending
(unaudited)

Retail lending credit quality is based on a 12-month probability-weighted PD.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

Key risk management processes *(continued)*

Credit quality classification
(Unaudited)

	Sovereign debt securities and bills	**Other debt securities and bills**	**Wholesale lending**		**Retail lending**	
Credit quality classification[1,2]	**External credit rating**	**External credit rating**	**Internal credit rating**	**12-month Basel probability of default %**	**Internal credit rating**	**12-month probability-weighted PD %**
Strong	BBB and above	A- and above	CRR 1 to CRR 2	0-0.169	Band 1 and 2	0-0.500
Good	BBB- to BB	BBB+ to BBB-	CRR3	0.170-0.740	Band 3	0.501-1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR 4 to CRR 5	0.741-4.914	Band 4 and 5	1.501-20.000
Sub-standard	B- to C	B- to C	CRR 6 to CRR 8	4.915-99.999	Band 6	20.001-99.999
Credit-impaired	Default	Default	CRR 9 to CRR 10	100	Band 7	100

[1] *Customer risk rating ('CRR').*
[2] *12-month point-in-time ('PIT') probability-weighted probability of default ('PD').*

Quality classification definitions:

- Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- Good exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- Satisfactory exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.
- Sub-standard exposures require varying degrees of special attention and default risk is of greater concern.
- Credit-impaired exposures have been assessed as described on note 2(j) on the Consolidated Financial Statements.

Risk *(continued)*

(a) Credit Risk *(continued)*

Key risk management processes *(continued)*

Forborne loans and forbearance
(audited)

Forbearance measures consist of concessions towards an obligor that is experiencing or is about to experience difficulties in meeting its financial commitments.

We continue to classify loans as forborne when we modify the contractual payment terms due to having significant concerns about the borrowers' ability to meet contractual payments when they were due. Our definition of forborne captures non-payment-related concessions, such as covenant waivers.

For details of our policy on derecognition of forborne loans, see note 2(j) on the Consolidated Financial Statements.

Credit quality of forborne loans
(unaudited)

For wholesale lending, where payment-related forbearance measures result in a diminished financial obligation, or if there are other indicators of impairment, the loan will be classified as credit impaired if it is not already so classified. All facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a payment-related forborne loan.

For retail lending, where a material payment-related concession has been granted, the loan will be classified as credit impaired. In isolation, non-payment forbearance measures may not result in the loan being classified as credit impaired unless combined with other indicators of credit impairment. These are classed as performing forborne loans for both wholesale and retail lending.

Non-performing wholesale and retail lending forborne loans are classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Any forborne loans not considered credit-impaired will remain forborne for a minimum of two years from the date that credit impairment no longer applies.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

Key risk management processes *(continued)*

Forborne loans and recognition of expected credit losses
(audited)

Forborne loans expected credit loss assessments reflect the higher rates of losses typically experienced with these types of loans such that they are in stage 2 and stage 3. The higher rates are more pronounced in unsecured retail lending requiring further segmentation. For wholesale lending, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne loans.

Impairment assessment
(audited)

For details of our impairment policies on loans and advances and financial investments, see note 2(j) on the Consolidated Financial Statements.

Write-off of loans and advances
(audited)

For our policy on the write-off of loans and advances, see note 2(j) on the Consolidated Financial Statements.

Under the HKFRS 9 standard, write-off should occur when there is no reasonable expectation of recovering further cash flows from the financial asset. This principle does not prohibit early write-off which is defined in local policies to ensure effectiveness in the management of customers in the collections process.

Unsecured personal facilities, including credit cards, are generally written off at 180 days contractually delinquent. Write-off periods may be earlier, e.g. bankruptcy.

For secured personal facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

Any secured assets maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default or unsecured facilities that exceed 180 days require additional monitoring and review to assess the prospect of recovery. Collection procedures may continue after write-off.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

Key risk management processes *(continued)*

Write-off of loans and advances (continued)
(audited)

Wholesale facilities are to be fully written off when, after realisation of any available security, there is no realistic prospect of further recoveries. Partial write-offs may be made where appropriate. Any portion of an instrument that is not covered by security should be written off when there is no realistic prospect of further recovery, and final write-off should occur upon receipt of proceeds following the realisation of security. Recovery activity may continue after write-off.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

Summary of credit risk

The following tables analyse the financial instruments to which the impairment requirements of HKFRS 9 are applied and the related allowance for ECL.

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied
(audited)

	At 31 December 2023		At 31 December 2022 *(restated)*	
	Gross carrying/ nominal amount	**Allowance for ECL**[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
Loans and advances to customers at amortised cost	**874,039**	**(13,633)**	944,728	(13,394)
Placings with and advances to banks at amortised cost	**83,760**	**(4)**	62,206	(3)
Other financial assets measured at amortised costs:	**172,015**	**(59)**	216,802	(47)
– cash and balances at central banks	**10,564**	**-**	17,612	(3)
– reverse repurchase agreements – non-trading	**30,202**	**-**	42,364	-
– financial investments	**100,452**	**(14)**	119,721	(14)
– other assets[2]	**30,797**	**(45)**	37,105	(30)
Total gross carrying amount on balance sheet	**1,129,814**	**(13,696)**	1,223,736	(13,444)
Loans and other credit-related commitments	**345,932**	**(155)**	357,265	(169)
Financial guarantee and similar contracts	**1,882**	**(4)**	1,727	(2)
Total nominal amount off balance sheet[3]	**347,814**	**(159)**	358,992	(171)
Total	**1,477,628**	**(13,855)**	1,582,728	(13,615)

	Fair value	**Memorandum Allowance for ECL**	Fair value	Memorandum Allowance for ECL
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')[4]	**301,294**	**(3)**	356,058	(6)

[1] For retail unsecured revolving facilities, e.g. overdrafts and credit cards, the total ECL is recognised against the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised against the loan commitments.

[2] Includes only those financial instruments which are subject to the impairment requirements of HKFRS 9. 'Other assets' as presented within the Consolidated Balance Sheet includes both financial and non-financial assets.

[3] The figure does not include some loan commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amount does not agree with the figure shown in note 43 of the Consolidated Financial Statements, which represents the maximum amount at risk should the contracts be fully drawn upon and clients default.

[4] Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in Consolidated Income Statement.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

The following table provides an overview of the Group's credit risk by stage and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage
(audited)

	Gross carrying/ nominal amount[1]					**Allowance for ECL**					**ECL coverage %**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI[2]**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers at amortised cost	**713,524**	**135,766**	**24,632**	**117**	**874,039**	**(709)**	**(3,766)**	**(9,158)**	-	**(13,633)**	**0.10%**	**2.77%**	**37.18%**	**0.00%**	**1.56%**
- personal	378,928	20,150	829	-	**399,907**	(337)	(1,219)	(150)	-	**(1,706)**	0.09%	6.05%	18.09%	N/A	0.43%
- corporate and commercial	305,400	114,533	23,803	117	**443,853**	(335)	(2,542)	(9,008)	-	**(11,885)**	0.11%	2.22%	37.84%	0.00%	2.68%
- non-bank financial institutions	29,196	1,083	-	-	**30,279**	(37)	(5)	-	-	**(42)**	0.13%	0.46%	N/A	N/A	0.14%
Placings with and advances to banks at amortised cost	83,707	53	-	-	**83,760**	(4)	-	-	-	**(4)**	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	170,288	1,657	70	-	**172,015**	(41)	(3)	(15)	-	**(59)**	0.02%	0.18%	21.43%	N/A	0.03%
Loans and other credit-related commitments	**326,835**	**19,094**	**3**	-	**345,932**	**(84)**	**(71)**	-	-	**(155)**	**0.03%**	**0.37%**	**0.00%**	**N/A**	**0.04%**
- personal	237,408	7,678	3	-	**245,089**	(4)	-	-	-	**(4)**	0.00%	0.00%	0.00%	N/A	0.00%
- corporate and commercial	68,626	10,609	-	-	**79,235**	(70)	(69)	-	-	**(139)**	0.10%	0.65%	N/A	N/A	0.18%
- non-bank financial institutions	20,801	807	-	-	**21,608**	(10)	(2)	-	-	**(12)**	0.05%	0.25%	N/A	N/A	0.06%
Financial guarantee and similar contracts	**1,240**	**642**	-	-	**1,882**	**(1)**	**(3)**	-	-	**(4)**	**0.08%**	**0.47%**	**N/A**	**N/A**	**0.21%**
- personal	1	5	-	-	**6**	-	-	-	-	-	0.00%	0.00%	N/A	N/A	0.00%
- corporate and commercial	849	637	-	-	**1,486**	(1)	(3)	-	-	**(4)**	0.12%	0.47%	N/A	N/A	0.27%
- non-bank financial institutions	390	-	-	-	**390**	-	-	-	-	-	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2023	**1,295,594**	**157,212**	**24,705**	**117**	**1,477,628**	**(839)**	**(3,843)**	**(9,173)**	-	**(13,855)**	**0.06%**	**2.44%**	**37.13%**	**0.00%**	**0.94%**

[1] *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

[2] *Purchased or originated credit-impaired ('POCI').*

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The disclosure below presents the aging of stage 2 loans and advances to customers by those less than 30 and greater than 30 days past due and therefore presents those amounts classified as stage 2 due to aging (30 days past due) and those identified at an earlier stage (less than 30 days past due).

Stage 2 days past due analysis for loans and advances to customers
(audited)

	At 31 December 2023											
	Gross carrying amount				**Allowance for ECL**				**ECL coverage %**			
	Stage 2	***Of which: Up-to-date***	***Of which: 1 to29 DPD[1]***	***Of which: 30 and > DPD***	**Stage 2**	***Of which: Up-to-date***	***Of which: 1 to 29 DPD***	***Of which: 30 and > DPD***	**Stage 2**	***Of which: Up-to-date***	***Of which: 1 to 29 DPD***	***Of which: 30 and > DPD***
Loans and advances to customers at amortised cost												
- personal	20,150	17,055	2,042	1,053	(1,219)	(1,030)	(76)	(113)	6.05%	6.04%	3.72%	10.73%
- corporate and commercial	114,533	114,159	292	82	(2,542)	(2,536)	(5)	(1)	2.22%	2.22%	1.71%	1.22%
- non-bank financial institutions	1,083	1,083	-	-	(5)	(5)	-	-	0.46%	0.46%	N/A	N/A
	135,766	**132,297**	**2,334**	**1,135**	**(3,766)**	**(3,571)**	**(81)**	**(114)**	**2.77%**	**2.70%**	**3.47%**	**10.04%**

[1] *Days past due ('DPD').*

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage *(continued)*
(audited)
(restated)

	Gross carrying/ nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortised cost	759,642	160,874	23,911	301	944,728	(755)	(4,818)	(7,802)	(19)	(13,394)	0.10%	2.99%	32.63%	6.31%	1.42%
- personal	365,249	16,568	923	-	382,740	(203)	(1,029)	(141)	-	(1,373)	0.06%	6.21%	15.28%	N/A	0.36%
- corporate and commercial	362,629	142,378	22,988	301	528,296	(420)	(3,785)	(7,661)	(19)	(11,885)	0.12%	2.66%	33.33%	6.31%	2.25%
- non-bank financial institutions	31,764	1,928	-	-	33,692	(132)	(4)	-	-	(136)	0.42%	0.21%	N/A	N/A	0.40%
Placings with and advances to banks at amortised cost	62,012	194	-	-	62,206	(2)	(1)	-	-	(3)	0.00%	0.52%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	215,591	1,211	-	-	216,802	(38)	(9)	-	-	(47)	0.02%	0.74%	N/A	N/A	0.02%
Loans and other credit-related commitments	339,402	17,835	28	-	357,265	(70)	(99)	-	-	(169)	0.02%	0.56%	0.00%	N/A	0.05%
- personal	239,954	7,260	5	-	247,219	(4)	-	-	-	(4)	0.00%	0.00%	0.00%	N/A	0.00%
- corporate and commercial	86,843	10,071	23	-	96,937	(63)	(99)	-	-	(162)	0.07%	0.98%	0.00%	N/A	0.17%
- non-bank financial institutions	12,605	504	-	-	13,109	(3)	-	-	-	(3)	0.02%	0.00%	N/A	N/A	0.02%
Financial guarantee and similar contracts	1,029	694	4	-	1,727	-	(2)	-	-	(2)	0.00%	0.29%	0.00%	N/A	0.12%
- personal	2	5	-	-	7	-	-	-	-	-	0.00%	0.00%	N/A	N/A	0.00%
- corporate and commercial	637	689	4	-	1,330	-	(2)	-	-	(2)	0.00%	0.29%	0.00%	N/A	0.15%
- non-bank financial institutions	390	-	-	-	390	-	-	-	-	-	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2022	1,377,676	180,808	23,943	301	1,582,728	(865)	(4,929)	(7,802)	(19)	(13,615)	0.06%	2.73%	32.59%	6.31%	0.86%

[1] *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
[2] *Purchased or originated credit-impaired ('POCI').*

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The disclosure below presents the aging of stage 2 loans and advances to customers by those less than 30 and greater than 30 days past due and therefore presents those amounts classified as stage 2 due to aging (30 days past due) and those identified at an earlier stage (less than 30 days past due).

Stage 2 days past due analysis for loans and advances to customers
(audited)

	At 31 December 2022											
	Gross carrying amount				Allowance for ECL				ECL coverage %			
Loans and advances to customers at amortised cost	Stage 2	*Of which: Up-to-date*	*Of which: 1 to 29 DPD*[1]	*Of which: 30 and > DPD*	Stage 2	*Of which: Up-to-date*	*Of which: 1 to29 DPD*	*Of which: 30 and > DPD*	Stage 2	*Of which: Up-to-date*	*Of which: 1 to 29 DPD*	*Of which: 30 and > DPD*
- personal	16,568	14,210	1,614	744	(1,029)	(887)	(62)	(80)	6.21%	6.24%	3.84%	10.75%
- corporate and commercial	142,378	142,029	195	154	(3,785)	(3,774)	(10)	(1)	2.66%	2.66%	5.13%	0.65%
- non-bank financial institutions	1,928	1,928	-	-	(4)	(4)	-	-	0.21%	0.21%	N/A	N/A
	160,874	158,167	1,809	898	(4,818)	(4,665)	(72)	(81)	2.99%	2.95%	3.98%	9.02%

[1] *Days past due ('DPD').*

Risk *(continued)*

(a) Credit Risk *(continued)*

(i) Maximum exposure to credit risk before collateral held or other credit enhancements
(audited)

Our credit exposure is spread across a broad range of asset classes, including but not limited to derivatives, trading assets, loans and advances and financial investments.

The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

	2023	2022 *(restated)*
Cash and balances at central banks	**10,564**	17,609
Trading assets	**43,985**	47,330
Derivative financial instruments	**14,959**	22,761
Financial assets mandatorily measured at fair value through profit or loss	**119,784**	124,962
Reverse repurchase agreements - non-trading	**30,202**	42,364
Placings with and advances to banks	**83,756**	62,203
Loans and advances to customers	**860,406**	931,334
Financial investments	**401,732**	475,765
Other assets	**30,999**	37,292
Financial guarantees and other credit related contingent liabilities [1]	**22,969**	24,943
Loan commitments and other credit related commitments	**503,632**	518,838
	2,122,988	2,305,401

[1] *Performance and other guarantees were included.*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(audited)*

The recognition and measurement of ECL involve the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Management assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting the economic scenarios and their weightings.

Management judgemental adjustments are used to address late-breaking events, data, model limitations, model deficiencies and expert credit judgements. Scenarios were constructed to reflect the latest geopolitical risks and macroeconomic developments.

At 31 December 2023, management recognised an improvement of the economic outlook and a reduction in uncertainty in most markets which consequently reverted weightings of the Central scenario to the standard 75%.

Methodology

At 31 December 2023, four scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and estimates every quarter.

Three scenarios, the Upside, Central and Downside, are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. The fourth scenario, the Downside 2, represents management's view of severe downside risks.

The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. It is created using consensus forecasts, which is the average of a panel of external forecasts.

The outer scenarios represent the tails of the distribution and are less likely to occur. The Consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of economic outcomes. In the later years of those scenarios, projections revert to long-term consensus expectations. Reversion to trend expectations is done, with reference to historically observed quarterly changes in the values of macroeconomic variables.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Methodology (continued)

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. Consistent with HSBC Group globally, it is a narrative-driven scenario that explores a more extreme economic outcome than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations and may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends.

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed to a 5% probability. The Central scenario is assigned the remaining 75%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability-based scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

At 31 December 2023, the standard approach to scenario weightings was applied as key uncertainty and risk metrics were aligned to their historical averages. Economic forecasts for the Central scenario have remained stable in recent months and the dispersion within the consensus forecasts panels has remained low, even as the Israel-Hamas war escalated. Risks, including the economic consequences of war in the Middle East, are reflected in downside scenarios.

Scenarios produced to calculate ECL are aligned to the Group's top and emerging risks.

Description of Consensus Economic Scenarios

The economic assumptions presented in this section have been formed with reference to external forecasts and estimates, specifically for the purpose of calculating ECL.

Forecasts remain subject to a high degree of uncertainty. Outer scenarios are constructed so that they capture risks that could alter the trajectory of the economy and are designed to encompass the potential crystallisation of number of key macro-financial risks.

In our key markets, Central scenario forecasts remained broadly stable in Q4 2023, from the prior quarter. The key exception was monetary policy, where expectations for interest rate cuts were brought forward. The outlook for 2024 continues to be for a period of below trend growth.

At the end of 2023, risks to the economic outlook included a number of significant geopolitical uncertainties. Within our downside scenarios, the economic consequences from the crystallisation of those risks are captured in economic downturn and recession, higher commodity and goods prices, the re-acceleration of inflation and a further rise in interest rates.

The scenarios used to calculate ECL in the 2023 Annual Report are described below.

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Methodology (continued)

The consensus Central scenario

The Central scenario reflects expectations for a low growth and high interest rate environment across many of our key markets, where GDP growth is expected to be weaker in 2024, relative to 2023.

In mainland China and Hong Kong, growth is also expected to be moderately slower in 2024 relative to 2023. The economic boost from post-pandemic re-opening has faded and slower global growth and low trade volumes are expected to moderate activity. In mainland China, the continued fall in investment into the property sector acts as a further brake on the economy, while in Hong Kong, higher interest rates drive further declines in property valuations. Despite these headwinds, a steeper downturn is expected to be avoided as authorities in mainland China increase fiscal and monetary support to the economy. Substantial fiscal expansion is anticipated for 2024, alongside additional credit easing.

Hong Kong GDP is expected to grow by 2.6% in 2024 in the Central scenario, and the average rate of Hong Kong GDP growth is forecast to be 2.6% over the five-year forecast period. This is below the average growth rate over the five-year period prior to the onset of the pandemic.

The key features of our Central scenario are:

- An expected slowdown in GDP growth through 2024. The key driver of weaker growth in Hong Kong is high interest rates, which act to deter consumption and investment. Weaker global growth and lower trade volumes are also key drivers. Low levels of transactions and investment into property markets remain major headwinds amid higher financing costs.
- Hong Kong unemployment rises slightly, but is set to remain low by historical standards.
- Weak conditions in housing markets are expected to persist through 2024 and 2025 in Hong Kong and mainland China, as higher interest rates and, in many cases, declining prices, depress activity.
- Policy interest rate in Hong Kong has peaked and are projected to decline in 2024. In the longer-term, they are expected to remain at a higher level compared to the post-global financial crisis period.

The Central scenario was first created with forecasts available in November, and reviewed continually until late December.

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

The consensus Central scenario *(continued)*

The following table describes key macroeconomic variables assigned in the consensus Central scenario.

Central scenario

	Hong Kong %	Mainland China %
GDP (annual average growth rate)		
2024	2.6	4.5
2025	2.7	4.4
2026	2.6	4.3
2027	2.6	3.8
2028	2.6	3.9
5-year average[1]	2.6	4.2
Unemployment rate (annual average rate)		
2024	3.0	5.2
2025	3.0	5.1
2026	3.2	5.1
2027	3.2	5.1
2028	3.2	5.1
5-year average[1]	3.1	5.1
House price (annual average growth rate)		
2024	(6.6)	(0.6)
2025	(0.7)	1.1
2026	2.6	2.6
2027	2.8	4.0
2028	3.0	4.5
5-year average[1]	0.2	2.3
Probability	75	75

[1] *The five-year average is calculated over a projected period of 20 quarters from 1Q24 to 4Q28.*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations.

The scenario is consistent with a number of key upside risk themes. These include a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly; an easing in financial conditions; and de-escalation in geopolitical tensions, as the Israel-Hamas and Russia-Ukraine wars moves towards conclusions, and the US-China relationship improves.

The following table describes key macroeconomic variables assigned in the consensus Upside scenario.

Consensus Upside scenario best outcome

	Hong Kong	**Mainland China**
	%	**%**
GDP level (%, Start-to-peak)[1]	21.8 (4Q28)	30.4 (4Q28)
Unemployment rate (%, Min)[2]	2.4 (3Q24)	4.8 (4Q25)
House price index (%, Start-to-peak)[1]	17.9 (4Q28)	19.7 (4Q28)
Probability	10	10

[1] *Cumulative change to the highest level of the series during the 20-quarter projection. For GDP growth, it is based on seasonal adjusted series.*
[2] *The lowest projected unemployment in the scenario.*

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks, in which geopolitical tensions escalate and disrupt key commodity and goods markets.

This causes inflation and interest rates to rise again and results in global recession.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Downside scenarios *(continued)*

As the geopolitical environment remains volatile and complex, risks include:

- a broader and more prolonged conflict in the Middle East that undermines confidence, drives an increase in global energy costs and reduces trade and investment;
- a potential escalation in the Russia-Ukraine war, which expands beyond Ukraine's borders, and further disrupts energy, fertilizer and food supplies; and
- continued differences between the US and China, which could affect confidence, the global goods trade and supply chains for critical technologies.

High inflation and higher interest rates also remain key risks. Should geopolitical tensions escalate, energy and food prices could rise and increase pressure on household budgets and firms' costs.

The Consensus Downside scenario

In the consensus Downside scenario, economic activity is weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices fall. The scenario features a rise in inflation, triggered by supply chain constraints and higher energy prices, caused by an escalation of geopolitical tensions.

The following table describes key macroeconomic variables assigned in the consensus Downside scenario.

Consensus Downside scenario worst outcome

	Hong Kong	**Mainland China**
	%	**%**
GDP level (%, Start-to-trough)[1]	(1.6) (3Q25)	(1.5) (1Q24)
Unemployment rate (%, Max)[2]	4.7 (4Q25)	6.9 (4Q25)
House price index (%, Start-to-trough)[1]	(9.6) (4Q24)	(7.1) (3Q25)
Probability	10	10

[1] *Cumulative change to the lowest level of the series during the 20-quarter projection. For GDP growth, it is based on seasonal adjusted series.*
[2] *The highest projected unemployment in the scenario.*

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including a further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets. However, this impulse is expected to prove short-lived, as recession takes hold, causing commodity prices to correct sharply and global price inflation to fall.

The following table describes key macroeconomic variables assigned in the Downside 2 scenario.

Downside 2 scenario worst outcome

	Hong Kong	**Mainland China**
	%	**%**
GDP level (%, Start-to-trough)[1]	(8.2) (1Q25)	(6.4) (1Q25)
Unemployment rate (%, Max)[2]	6.4 (4Q24)	7.0 (4Q25)
House price index (%, Start-to-trough)[1]	(32.8) (3Q26)	(25.5) (4Q25)
Probability	5	5

[1] *Cumulative change to the lowest level of the series during the 20-quarter projection. For GDP growth, it is based on seasonal adjusted series.*
[2] *The highest projected unemployment in the scenario.*

Scenario weighting

In reviewing the economic environment, the level of risk and uncertainty, management has considered both global and country specific factors.

Key considerations in the fourth quarter around uncertainty attached to the Central scenario projections focused on:

- the risk that the Israel-Hamas war escalates and affects economic expectations;
- the lagged impact of elevated interest rates on household finances and businesses and the implications of recent changes to monetary policy expectations on growth and employment; and
- the outlook for real estate in our key markets, namely Hong Kong and mainland China.

Although these risk factors remain significant, management assessed that they were adequately reflected in scenarios, at the standard weighting. It was noted that despite the escalation of geopolitical risk in the Middle East, economic forecasts had remained stable, and dispersion of forecasts around the consensus were either stable, or have moved lower. Financial market measures of volatility also remained low through the fourth quarter of 2023.

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Scenario weighting *(continued)*

This has led management to assign scenario probabilities that are aligned to the standard scenario framework. This entailed assigning a 75% probability weighting to the Central scenario in our major markets. The consensus Upside is assigned a 10% weighting and the consensus Downside scenario is assigned 10%. The Downside 2 is assigned 5% weighting.

In support of the decision, it was noted that in mainland China recent policy announcements suggest fiscal and monetary stimulus will increase significantly through 2024. This suggests that there will be increased official support to economic headwinds, which would reduce the uncertainty attached to current forecasts.

Critical accounting estimates and judgements

The calculation of ECL under HKFRS 9 involves significant judgements, assumptions and estimates. These include:

- the selection of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts; and
- estimating the economic effects of those scenarios on ECL, particularly the effect of interest and inflationary pressures in specific sectors.

How economic scenarios are reflected in the calculation of ECL

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2023, and management judgemental adjustments were still required to support modelled outcomes.

The HSBC Group has developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. The Group has continued to follow the HSBC Group methodology. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2023.

For our wholesale portfolios, we estimate the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a market. For LGD calculations we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular market and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

How economic scenarios are reflected in the calculation of ECL*(continued)*

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, we incorporate forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

For retail, the models are predominantly based on historical observations and correlations with default rates and collateral values. For PD, the impact of economic scenarios is modelled for each portfolio, leveraging historical relationships between default rates and macroeconomic variables. These are included within HKFRS 9 ECL estimates using either economic response models or models which contain internal, external and macroeconomic variables. The macroeconomic impact on PD is modelled over the period equal to the remaining maturity of the underlying assets. For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, leveraging national level house price index forecast and applying the corresponding LGD expectation relative to the updated forecast collateral values. Management judgemental adjustments are described below.

Management judgemental adjustments

In the context of HKFRS 9, management judgemental adjustments are short-term increases or decreases to the modelled ECL at either a customer, segment or portfolio level, where management believes ECL results do not sufficiently reflect the credit risk/ expected credit losses at the reporting date. These can relate to risks or uncertainties which are not reflected in the models and/or to any late breaking events with significant uncertainty, subject to management review and challenge. This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher level quantitative analysis for impacts that are difficult to model. The effect of management judgemental adjustments are considered for balances and ECL, and will consider any changes to stage allocation where appropriate. This is in accordance with the internal adjustments framework.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued) (audited)*

Management judgemental adjustments *(continued)*

Management judgemental adjustments are reviewed under the governance process for HKFRS 9 (as detailed in the section Credit risk management). Review and challenge focus on the rationale and quantum of the adjustments with further review by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2023 are set out in the following table.

Management judgemental adjustments to ECL[1]:

	Retail	**Wholesale**	**Total**
		31 December 2023	
(HK$m)			
Corporate lending adjustments	-	243	243
Macroeconomic-related adjustments	271	-	271
Other lending adjustments	(21)	37	16
Total	250	280	530

	Retail	Wholesale	Total
		31 December 2022 *(restated)*	
(HK$m)			
Corporate lending adjustments	-	1,464	1,464
Macroeconomic-related adjustments	141	-	141
Other lending adjustments	3	44	47
Total	144	1,508	1,652

[1] *Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL, respectively.*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Management judgemental adjustments *(continued)*

Adjustments to corporate exposures principally reflected the outcome of management judgements for high-risk and vulnerable sectors through corporate lending adjustment in our key markets, supported by credit experts' input, quantitative analyses and benchmarks. Considerations included potential default suppression in some sectors due to continued government intervention. The corporate lending adjustments were HK$243m at 31 December 2023 (31 December 2022: HK$1,464m). The adjustment is lower than 31 December 2022 and reflects the greater alignment of the modelled ECL with management's expectation reflecting the latest macroeconomic variables forecast and the latest CRR downgrades.

In the retail portfolio, management judgement adjustments mainly relate to macroeconomic conditions and customer support programmes.

In the retail portfolio, management judgemental adjustments were an ECL increase of HK$250m at 31 December 2023 (31 December 2022: HK$144m increase).

- Macroeconomic-related adjustments increased ECL by HK$271m (31 December 2022: HK$141m increase). These adjustments were primarily in relation to risks related to future macroeconomic conditions which were not fully captured by modelled output.
- Other retail lending adjustments decreased ECL by HK$21m (31 December 2022: HK$3m increase) considering the release of addition provision with credit improvement of certain segments and other judgemental adjustments.

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*
(audited)

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the lower and upper limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss given default of a particular portfolio was sensitive to these changes.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors.

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario and scope of sensitivity. The results tables exclude portfolios held by the insurance business and small portfolios and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally, in both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are not directly comparable to the current period, because they reflect different risk profiles relative with the Consensus scenarios for the year end.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Wholesale and retail sensitivity *(continued)*

Wholesale analysis

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

	Hong Kong	**Mainland China**
ECL of financial instruments subject to significant measurement uncertainty[2]	**31 December 2023**	
Reported ECL	**2,533**	**602**
Central scenario	**2,362**	**530**
Upside scenario	**1,819**	**370**
Downside scenario	**3,317**	**896**
Downside 2 scenario	**5,412**	**1,847**

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

	Hong Kong	Mainland China
ECL of financial instruments subject to significant measurement uncertainty[2]	31 December 2022	
Reported ECL	3,753	776
Central scenario	3,447	661
Upside scenario	2,515	421
Downside scenario	5,410	1,054
Downside 2 scenario	8,883	3,258

[1] *Excludes ECL and financial instruments on defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*

[2] *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*

[3] *ECL sensitivity is calculated by applying a 100% weighting to each scenario described above, and then applying judgemental overlays where determined appropriate.*

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(ii) Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)* *(audited)*

Wholesale and retail sensitivity *(continued)*

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]	**Hong Kong**	**Mainland China**
	31 December 2023	
Reported ECL	**1,554**	**21**
Central scenario	**1,303**	**19**
Upside scenario	**1,153**	**19**
Downside scenario	**2,176**	**22**
Downside 2 scenario	**5,115**	**45**

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]	Hong Kong	Mainland China
	31 December 2022	
Reported ECL	1,284	23
Central scenario	1,112	22
Upside scenario	863	21
Downside scenario	1,987	23
Downside 2 scenario	3,211	44

[1] *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

[2] *ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.*

At 31 December 2023, the most significant level of ECL sensitivity was observed in Hong Kong driven by the relative size of the portfolio. Hong Kong mortgages had low levels of reported ECL due to secured nature. Credit cards and other unsecured lending are more sensitive to economic forecasts, and therefore reflected the highest level of ECL sensitivity during 2023.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iii) Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers *(unaudited)*

The following disclosure provides a reconciliation by stage of the Group's 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. Movements are calculated on a year-to-date basis and therefore reflect the opening and closing position of the financial instruments.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying CRR/PD movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'changes in risk parameters - credit quality' line item.

Changes in 'New financial assets originated and purchased', 'assets derecognised (including final repayments)' and 'changes to risk parameters – further lending/repayments' represent the impact from volume movements within the Group's lending portfolio.

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
(audited)

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance 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 in 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
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)

Risk *(continued)*

(a) Credit Risk *(continued)*

(iii) Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers *(continued)*
(unaudited)
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 *(continued)*
(audited)

	Total
Change in 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	**(6,213)**

	At 31 December 2023		**For the year ended 31 December 2023**
	Gross carrying/ nominal amount	**Allowance for ECL**	**ECL (charge)/ release**
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	**1,305,613**	**(13,796)**	**(6,213)**
Other financial assets measured at amortised cost	**172,015**	**(59)**	**(12)**
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	**1,477,628**	**(13,855)**	**(6,225)**
Debt instruments measured at FVOCI[3]	**302,013**	**(3)**	**3**
Performance and other guarantees	**21,086**	**(28)**	**(26)**
Total allowance for ECL/ total consolidated income statement ECL charge for the year	**1,800,727**	**(13,886)**	**(6,248)**

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

[2] *Includes the new financial assets originated and purchased during the period, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2023.*

[3] *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 Consolidated Balance Sheet as it excludes fair value gains and losses.*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iii) Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers *(continued)*

(unaudited)

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 *(continued)*

(audited)

(restated)

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
At 1 January 2022	1,283,518	(822)	150,116	(3,572)	9,457	(2,700)	972	-	1,444,063	(7,094)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(108,899)	208	108,899	(208)	-	-	-	-	-	-
- transfers from Stage 2 to Stage 1	17,916	(263)	(17,916)	263	-	-	-	-	-	-
- transfers to Stage 3	(2,803)	5	(16,608)	1,385	19,411	(1,390)	-	-	-	-
- transfers from Stage 3	16	(3)	23	-	(39)	3	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	105	-	(361)	-	(18)	-	-	-	(274)
New financial assets originated and purchased[2]	316,455	(232)	18,990	(413)	199	(114)	203	(19)	335,847	(778)
Assets derecognised (including final repayments)	(475,393)	89	(53,559)	298	(1,570)	115	(764)	-	(531,286)	502
Changes to risk parameters - further lending/(repayment)	142,888	76	(9,118)	14	(2,355)	(628)	(109)	-	131,306	(538)
Changes in risk parameters - credit quality	-	8	-	(2,343)	-	(4,055)	-	-	-	(6,390)
Changes to model used for ECL calculation	-	-	-	(2)	-	-	-	-	-	(2)
Assets written off	-	-	-	-	(899)	899	-	-	(899)	899
Credit related modifications that resulted in derecognition	-	-	-	-	(155)	-	-	-	(155)	-
Foreign exchange and others	(11,613)	2	(1,230)	19	(106)	86	(1)	-	(12,950)	107
At 31 December 2022	1,162,085	(827)	179,597	(4,920)	23,943	(7,802)	301	(19)	1,365,926	(13,568)

(iii) Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers *(continued)*

(unaudited)

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 *(continued)*

(audited)

(restated)

	Total
Change in ECL in income statement (charge)/release for the year	(7,480)
Add: Recoveries	131
Add/(less): Others	(313)
Total ECL (charge)/release for the year	(7,662)

	At 31 December 2022		For the year ended 31 December 2022
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,365,926	(13,568)	(7,662)
Other financial assets measured at amortised cost	216,802	(47)	(34)
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,582,728	(13,615)	(7,696)
Debt instruments measured at FVOCI[3]	357,641	(6)	1
Performance and other guarantees	23,216	(2)	1
Total allowance for ECL / consolidated income statement ECL charge for the year	1,963,585	(13,623)	(7,694)

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

[2] *Includes the new financial assets originated and purchased during the period, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2022.*

[3] *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 Consolidated Balance Sheet as it excludes fair value gains and losses.*

(iv) Credit quality of financial instruments

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of the probability of default of financial instruments, whereas HKFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessments and HKFRS 9 stages 1 and 2, though typically the lowered credit quality bands exhibit a higher proportion in stage 2.

Distribution of financial instruments by credit quality at 31 December 2023
(audited)

	Gross carrying / notional amount[3]							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
In-scope for HKFRS 9 impairment								
Loans and advances to customers at amortised cost	463,501	135,307	215,875	34,607	24,749	874,039	(13,633)	860,406
– personal	365,758	15,348	16,851	1,121	829	399,907	(1,706)	398,201
– corporate and commercial	83,473	114,959	188,015	33,486	23,920	443,853	(11,885)	431,968
– non-bank financial institutions	14,270	5,000	11,009	-	-	30,279	(42)	30,237
Placings with and advances to banks at amortised cost	83,476	258	26	-	-	83,760	(4)	83,756
Cash and balances at central banks	10,564	-	-	-	-	10,564	-	10,564
Reverse repurchase agreements - non-trading	24,062	6,140	-	-	-	30,202	-	30,202
Financial investments measured at amortised cost	100,060	392	-	-	-	100,452	(14)	100,438
Other assets	18,387	5,950	6,174	216	70	30,797	(45)	30,752
Debt instruments measured at fair value through other comprehensive income [1]	302,011	2	-	-	-	302,013	(3)	302,010
	1,002,061	148,049	222,075	34,823	24,819	1,431,827	(13,699)	1,418,128
Out-of-scope for HKFRS 9 impairment								
Trading assets	43,679	113	189	-	4	43,985	-	43,985
Other financial assets mandatorily measured at fair value through profit or loss	91,144	26,127	2,468	-	45	119,784	-	119,784
Derivative financial instruments	14,502	289	110	58	-	14,959	-	14,959
	149,325	26,529	2,767	58	49	178,728	-	178,728
	1,151,386	174,578	224,842	34,881	24,868	1,610,555	(13,699)	1,596,856
Percentage of total credit quality	71%	11%	14%	2%	2%	100%		
Loan and other credit related commitments[2]	250,585	51,099	43,362	883	3	345,932	(155)	345,777
Financial guarantee and similar contracts[2]	444	797	509	132	-	1,882	(4)	1,878

[1] *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 Consolidated Balance Sheet as it excludes fair value gains and losses.*

[2] *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 43 on the Consolidated Financial Statements.*

[3] *For financial assets under 'In-scope for HKFRS 9 impairment', gross carrying amount is disclosed; for financial assets under 'Out-of-scope for HKFRS 9 impairment', carrying amount (i.e. fair value) is disclosed; for off-balance credit commitments, notional amount is disclosed.*

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iv) Credit quality of financial instruments *(continued)*

Distribution of financial instruments by credit quality at 31 December 2022
(audited)
(restated)

	Gross carrying / notional amount[3]							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
In-scope for HKFRS 9 impairment								
Loans and advances to customers at amortised cost	457,044	167,123	256,457	39,892	24,212	944,728	(13,394)	931,334
– personal	353,312	16,917	11,172	416	923	382,740	(1,373)	381,367
– corporate and commercial	95,808	143,049	226,674	39,476	23,289	528,296	(11,885)	516,411
– non-bank financial institutions	7,924	7,157	18,611	-	-	33,692	(136)	33,556
Placings with and advances to banks at amortised cost	61,975	203	28	-	-	62,206	(3)	62,203
Cash and balances at central banks	17,612	-	-	-	-	17,612	(3)	17,609
Reverse repurchase agreements - non-trading	38,438	3,926	-	-	-	42,364	-	42,364
Financial investments measured at amortised cost	119,284	437	-	-	-	119,721	(14)	119,707
Other assets	21,706	8,276	7,036	87	-	37,105	(30)	37,075
Debt instruments measured at fair value through other comprehensive income[1]	357,407	234	-	-	-	357,641	(6)	357,635
	1,073,466	180,199	263,521	39,979	24,212	1,581,377	(13,450)	1,567,927
Out-of-scope for HKFRS 9 impairment								
Trading assets	46,936	126	268	-	-	47,330	-	47,330
Other financial assets mandatorily measured at fair value through profit or loss	96,605	26,347	2,010	-	-	124,962	-	124,962
Derivative financial instruments	22,183	470	18	90	-	22,761	-	22,761
	165,724	26,943	2,296	90	-	195,053	-	195,053
	1,239,190	207,142	265,817	40,069	24,212	1,776,430	(13,450)	1,762,980
Percentage of total credit quality	70%	12%	15%	2%	1%	100%		
Loan and other credit related commitments[2]	263,697	53,415	38,414	1,711	28	357,265	(169)	357,096
Financial guarantee and similar contracts[2]	399	627	556	141	4	1,727	(2)	1,725

[1] 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 Consolidated Balance Sheet as it excludes fair value gains and losses.

[2] Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 43 on the Consolidated Financial Statements.

[3] For financial assets under 'In-scope for HKFRS 9 impairment', gross carrying amount is disclosed; for financial assets under 'Out-of-scope for HKFRS 9 impairment', carrying amount (i.e. fair value) is disclosed; for off-balance credit commitments, notional amount is disclosed.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iv) Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution at 31 December 2023
(audited)

	Gross carrying / notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
Loans and advances to customers at amortised cost	463,501	135,307	215,875	34,607	24,749	874,039	(13,633)	860,406
– stage 1	460,946	120,509	130,717	1,352	-	713,524	(709)	712,815
– stage 2	2,555	14,798	85,158	33,255	-	135,766	(3,766)	132,000
– stage 3	-	-	-	-	24,632	24,632	(9,158)	15,474
– POCI	-	-	-	-	117	117	-	117
Placings with and advances to banks at amortised cost	83,476	258	26	-	-	83,760	(4)	83,756
– stage 1	83,440	241	26	-	-	83,707	(4)	83,703
– stage 2	36	17	-	-	-	53	-	53
– stage 3	-	-	-	-	-	-	-	-
– POCI	-	-	-	-	-	-	-	-
Other financial assets measured at amortised cost	153,073	12,482	6,174	216	70	172,015	(59)	171,956
– stage 1	153,066	12,145	5,077	-	-	170,288	(41)	170,247
– stage 2	7	337	1,097	216	-	1,657	(3)	1,654
– stage 3	-	-	-	-	70	70	(15)	55
– POCI	-	-	-	-	-	-	-	-
Loan and other credit-related commitments [2]	250,585	51,099	43,362	883	3	345,932	(155)	345,777
– stage 1	250,131	44,382	32,225	97	-	326,835	(84)	326,751
– stage 2	454	6,717	11,137	786	-	19,094	(71)	19,023
– stage 3	-	-	-	-	3	3	-	3
– POCI	-	-	-	-	-	-	-	-
Financial guarantees and similar contracts [2]	444	797	509	132	-	1,882	(4)	1,878
– stage 1	444	604	191	1	-	1,240	(1)	1,239
– stage 2	-	193	318	131	-	642	(3)	639
– stage 3	-	-	-	-	-	-	-	-
– POCI	-	-	-	-	-	-	-	-
	951,079	199,943	265,946	35,838	24,822	1,477,628	(13,855)	1,463,773
Debt instruments at FVOCI [1]								
– stage 1	302,011	2	-	-	-	302,013	(3)	302,010
– stage 2	-	-	-	-	-	-	-	-
– stage 3	-	-	-	-	-	-	-	-
– POCI	-	-	-	-	-	-	-	-
	302,011	2	-	-	-	302,013	(3)	302,010

[1] *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 Consolidated Balance Sheet as it excludes fair value gains and losses.*

[2] *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 43 on the Consolidated Financial Statements.*

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iv) Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution at 31 December 2022

(audited)

(restated)

	Gross carrying / notional amount							
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit-impaired**	**Total**	**Allowance for ECL**	**Net**
Loans and advances to customers at amortised cost	457,044	167,123	256,457	39,892	24,212	944,728	(13,394)	931,334
– stage 1	453,000	148,598	156,787	1,257	-	759,642	(755)	758,887
– stage 2	4,044	18,525	99,670	38,635	-	160,874	(4,818)	156,056
– stage 3	-	-	-	-	23,911	23,911	(7,802)	16,109
– POCI	-	-	-	-	301	301	(19)	282
Placings with and advances to banks at amortised cost	61,975	203	28	-	-	62,206	(3)	62,203
– stage 1	61,854	158	-	-	-	62,012	(2)	62,010
– stage 2	121	45	28	-	-	194	(1)	193
– stage 3	-	-	-	-	-	-	-	-
– POCI	-	-	-	-	-	-	-	-
Other financial assets measured at amortised cost	197,040	12,639	7,036	87	-	216,802	(47)	216,755
– stage 1	196,852	12,533	6,196	10	-	215,591	(38)	215,553
– stage 2	188	106	840	77	-	1,211	(9)	1,202
– stage 3	-	-	-	-	-	-	-	-
– POCI	-	-	-	-	-	-	-	-
Loan and other credit-related commitments[2]	263,697	53,415	38,414	1,711	28	357,265	(169)	357,096
– stage 1	262,015	46,581	30,460	346	-	339,402	(70)	339,332
– stage 2	1,682	6,834	7,954	1,365	-	17,835	(99)	17,736
– stage 3	-	-	-	-	28	28	-	28
– POCI	-	-	-	-	-	-	-	-
Financial guarantees and similar contracts[2]	399	627	556	141	4	1,727	(2)	1,725
– stage 1	399	502	128	-	-	1,029	-	1,029
– stage 2	-	125	428	141	-	694	(2)	692
– stage 3	-	-	-	-	4	4	-	4
– POCI	-	-	-	-	-	-	-	-
	980,155	234,007	302,491	41,831	24,244	1,582,728	(13,615)	1,569,113
Debt instruments at FVOCI[1]								
– stage 1	357,407	234	-	-	-	357,641	(6)	357,635
– stage 2	-	-	-	-	-	-	-	-
– stage 3	-	-	-	-	-	-	-	-
– POCI	-	-	-	-	-	-	-	-
	357,407	234	-	-	-	357,641	(6)	357,635

[1] *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 Consolidated Balance Sheet as it excludes fair value gains and losses.*

[2] *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 43 on the Consolidated Financial Statements.*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iv) Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate
(unaudited)

The following table presents the Group's total exposure to borrowers classified in the mainland China commercial real estate ('CRE') sector where the ultimate parent is based in mainland China, as well as all CRE exposures booked on mainland China balance sheets. The exposures at 31 December 2023 are split by country/territory and credit quality including allowances for ECL by stage.

	At 31 December 2023		
	Hong Kong	**Mainland China**	**Total**
Loans and advances to customers[1]	**22,453**	**12,041**	**34,494**
Guarantees issued and others[2]	**205**	**-**	**205**
Total mainland China CRE exposure	**22,658**	**12,041**	**34,699**
Distribution of mainland China CRE exposure by credit quality			
- Strong	**1,151**	**392**	**1,543**
- Good	**1,807**	**3,157**	**4,964**
- Satisfactory	**2,690**	**6,276**	**8,966**
- Sub-standard	**4,169**	**683**	**4,852**
- Credit-impaired	**12,841**	**1,533**	**14,374**
	22,658	**12,041**	**34,699**
Allowance for ECL by credit quality			
- Strong	**-**	**1**	**1**
- Good	**1**	**17**	**18**
- Satisfactory	**14**	**66**	**80**
- Sub-standard	**224**	**239**	**463**
- Credit-impaired	**6,407**	**479**	**6,886**
	6,646	**802**	**7,448**
Allownance for ECL by stage			
- Stage 1	**2**	**47**	**49**
- Stage 2	**237**	**276**	**513**
- Stage 3	**6,407**	**479**	**6,886**
	6,646	**802**	**7,448**
ECL coverage %	**29.3**	**6.7**	**21.5**

[1] *Amounts represent gross carrying amount.*

[2] *Amounts represent nominal amount.*

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iv) Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate *(continued)*
(unaudited)

	At 31 December 2022		
	Hong Kong	Mainland China	Total
Loans and advances to customers[1]	37,524	11,821	49,345
Guarantees issued and others[2]	180	2,379	2,559
Total mainland China CRE exposure	37,704	14,200	51,904
Distribution of mainland China CRE exposure by credit quality			
- Strong	3,307	2,304	5,611
- Good	2,300	3,076	5,376
- Satisfactory	5,429	6,888	12,317
- Sub-standard	11,834	952	12,786
- Credit-impaired	14,834	980	15,814
	37,704	14,200	51,904
Allowance for ECL by credit quality			
- Strong	-	4	4
- Good	1	14	15
- Satisfactory	13	80	93
- Sub-standard	1,987	247	2,234
- Credit-impaired	4,973	578	5,551
	6,974	923	7,897
Allownance for ECL by stage			
- Stage 1	4	30	34
- Stage 2	1,997	315	2,312
- Stage 3	4,973	578	5,551
	6,974	923	7,897
ECL coverage %	18.5	6.5	15.2

[1] *Amounts represent gross carrying amount.*
[2] *Amounts represent nominal amount.*

Risk *(continued)*

(a) Credit Risk *(continued)*

(iv) Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate *(continued)*
(unaudited)

CRE financing refers to lending that focuses on commercial development and investment in real estate, and covers commercial, residential and industrial assets. The exposures in the table are related to companies whose primary activities are focused on these activities. Lending is generally focused on tier 1 and 2 cities. The table also includes financing provided to a corporate or financial entity for the purchase or financing of a property which supports the overall operations of the business. Such exposures are outside of our normal definition of Commercial Real Estate, as applied elsewhere in this report, but are provided here for a more comprehensive view of our mainland property exposure.

The table above shows 45% of total exposure with a credit quality of 'satisfactory' or above, which was unchanged compared with 31 December 2022.

Total 'credit impaired' exposures increased to 41% of total exposure (31 December 2022: 30%) at HK$14,374m (31 December 2022: HK$15,814m), reflecting sustained stress in the China commercial real estate market, including weakness in both property market fundamentals and financing conditions for borrowers operating in this sector.

Allowances for ECL are substantially against unsecured exposures. For secured exposures, allowances for ECL are minimal, reflecting the nature and value of the security held.

Facilities booked in Hong Kong continued to represent the largest proportion of mainland China commercial real estate exposures, although total exposures reduced to HK$22,658m, down HK$15,046m since 31 December 2022, as a result of de-risking measures, repayments and write-offs. This portfolio remains relatively higher risk, with 25% (31 December 2022: 29%) of exposure booked with a credit quality of 'satisfactory' or above and 57% 'credit impaired' (31 December 2022: 39%). At 31 December 2023, the Group had allowances for ECL of HK$6,646m (31 December 2022: HK$6,974m) held against mainland China commercial real estate exposures booked in Hong Kong. ECL coverage increased to 29% (31 December 2022: 18%), reflecting a further credit deterioration during the year.

In the Hong Kong portfolio, approximately 40% of the unimpaired exposure is lending to state-owned enterprises and relatively strong private-owned enterprises. This is reflected in the relatively low ECL allowance in this part of the portfolio.

Market conditions are likely to remain subdued with a protracted recovery as sentiment and domestic residential demand remain weak, with ongoing refinancing and liquidity risk for corporates operating in this market. The divergence between Privately Owned Enterprises ('POE') and State Owned Enterprises ('SOE') is likely to continue, with SOEs achieving above market sales performance and benefitting from market share gains and better access to funding.

(v) Collateral and other credit enhancements
(audited)

Although collateral can be an important mitigant of credit risk, it is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for certain lending decisions a charge over collateral is usually obtained, and is important for the credit decision and pricing, and it is the Group's practice to obtain that collateral and sell it in the event of default as a source of repayment.

Such collateral has a significant financial effect in mitigating our exposure to credit risk and the objective of the disclosure below is to quantify these forms. We may also manage our risk by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified in the loans shown below.

We have quantified below the value of fixed charges we hold over a specific asset (or assets) of a borrower for which we have a practical ability and history of enforcing in satisfying a debt in the event of a borrower failing to meet their contractual obligations and where the asset is cash or can be realised in the form of cash by sale in an established market.

Personal lending
(audited)

For personal lending, the collateral held has been analysed below separately for residential mortgages and other personal lending due to the different nature of collateral held on the portfolios.

(v) Collateral and other credit enhancements *(continued)*
(audited)

Residential mortgages
(audited)

The following table shows residential mortgage lending including off-balance sheet loan commitments by level of collateralisation.
Residential mortgages including loan commitments by level of collateral

	At 31 December 2023			At 31 December 2022		
	Gross carrying/ nominal amount	**ECL**	**ECL coverage %**	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Fully collateralised	293,293	(4)	0.00	291,992	(4)	0.00
LTV ratio:						
– Less than 70%	216,125	(4)	0.00	228,553	(4)	0.00
– 71% to 90%	39,790	-	-	32,766	-	-
– 91% to 100%	37,378	-	-	30,673	-	-
Partially collateralised (A)	28,796	(1)	0.00	20,819	-	-
Total	**322,089**	**(5)**	**0.00**	312,811	(4)	0.00
– Collateral value on A	27,519			19,978		
Stage 2						
Fully collateralised	8,322	-	-	4,718	-	-
LTV ratio:						
– Less than 70%	7,412	-	-	4,194	-	-
– 71% to 90%	543	-	-	344	-	-
– 91% to 100%	367	-	-	180	-	-
Partially collateralised (B)	347	-	-	187	-	-
Total	**8,669**	-	-	4,905	-	-
– Collateral value on B	327			180		
Stage 3						
Fully collateralised	558	(16)	2.87	505	(17)	3.37
LTV ratio:						
– Less than 70%	509	(15)	2.95	485	(17)	3.51
– 71% to 90%	35	(1)	2.86	20	-	-
– 91% to 100%	14	-	-	-	-	-
Partially collateralised (C)	22	(1)	4.55	-	-	-
Total	**580**	**(17)**	**2.93**	505	(17)	3.37
– Collateral value on C	20			-		
	331,338	**(22)**	**0.01**	318,221	(21)	0.01

The ECL coverage represents the actual ECL divided by gross carrying/nominal amount.
The collateral included in the table above consists of fixed first charges on residential real estate.

Risk *(continued)*

(a) Credit Risk *(continued)*

(v) Collateral and other credit enhancements *(continued)*
(audited)

The loan-to-value ('LTV') ratio in the table above is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date as a percentage of the current value of collateral. The current value of collateral is determined through a combination of professional valuations, physical inspections or house price indices. Valuations are updated on a regular basis and more frequently when market conditions or portfolio performance are subject to significant change or where a loan is identified and assessed as impaired. The collateral valuation excludes any adjustments for obtaining and selling the collateral.

Other personal lending
(audited)

Other personal lending consists primarily of personal loans, overdrafts and credit cards, all of which are generally unsecured, except lending to private banking customers which are generally secured.

Corporate and commercial and financial (non-bank) lending
(audited)

For corporate and commercial and financial (non-bank) lending, the collateral held has been analysed below separately for commercial real estate and other corporate and commercial and financial (non-bank) lending due to the different nature of collateral held on the portfolios.

Risk *(continued)*

(a) Credit Risk *(continued)*

(v) Collateral and other credit enhancements *(continued)*
(audited)

Commercial real estate
(audited)

Commercial real estate lending includes the financing of corporate and institutional customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development.

The following table shows commercial real estate lending including off-balance sheet loan commitments by level of collateralisation.

	At 31 December 2023			At 31 December 2022		
	Gross carrying/ nominal amount	**ECL**	**ECL coverage %**	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Not collateralised	50,544	(14)	0.03	62,767	(17)	0.03
Fully collateralised	64,453	(70)	0.11	92,736	(72)	0.08
Partially collateralised (A)	12,270	(6)	0.05	4,789	-	-
Total	**127,267**	**(90)**	**0.07**	160,292	(89)	0.06
– Collateral value on A	11,641			4,099		
Stage 2						
Not collateralised	9,134	(745)	8.16	17,384	(2,010)	11.56
Fully collateralised	49,472	(842)	1.70	42,635	(661)	1.55
Partially collateralised (B)	4,792	(38)	0.79	2,881	(87)	3.02
Total	**63,398**	**(1,625)**	**2.56**	62,900	(2,758)	4.38
– Collateral value on B	4,102			1,810		
Stage 3						
Not collateralised	8,109	(6,181)	76.22	8,497	(4,642)	54.63
Fully collateralised	5,059	(630)	12.45	5,857	(881)	15.04
Partially collateralised (C)	221	(84)	38.01	310	(47)	15.16
Total	**13,389**	**(6,895)**	**51.50**	14,664	(5,570)	37.98
– Collateral value on C	200			298		
POCI						
Not collateralised	-	-	-	-	-	-
Fully collateralised	-	-	-	-	-	-
Partially collateralised (D)	117	-	-	145	-	-
Total	**117**	**-**	**-**	145	-	-
– Collateral value on D	65			65		
	204,171	**(8,610)**	**4.22**	238,001	(8,417)	3.54

The collateral included in the table above consists of fixed first charges on real estate and charges over cash for the commercial real estate sector. The table includes lending to major property developers which is typically secured by guarantees or is unsecured.

(v) Collateral and other credit enhancements *(continued)*
(audited)

Commercial real estate *(continued)*
(audited)

The value of commercial real estate collateral is determined through a combination of professional and internal valuations and physical inspection. Due to the complexity of collateral valuations for commercial real estate, local valuation policies determine the frequency of review based on local market conditions. Revaluations are sought with greater frequency where, as part of the regular credit assessment of the obligor, material concerns arise in relation to the transaction which may reflect on the underlying performance of the collateral, or in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation (i.e. the obligor's credit quality classification indicates it is at the lower end e.g. sub-standard, or approaching impaired).

Commercial real estate lending includes the financing of corporate, institutional and high net worth customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development.

Other corporate and commercial and financial (non-bank) lending
(audited)

The following table shows corporate, commercial and financial (non-bank) lending including off-balance sheet loan commitments by level of collateralisation.

	At 31 December 2023			At 31 December 2022		
	Gross carrying/ nominal amount	**ECL**	**ECL coverage %**	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Not collateralised	284,386	(222)	0.08	282,001	(317)	0.11
Fully collateralised	87,126	(110)	0.13	120,657	(170)	0.14
Partially collateralised (A)	33,211	(30)	0.09	41,339	(42)	0.10
Total	**404,723**	**(362)**	**0.09**	443,997	(529)	0.12
– Collateral value on A	14,725			18,852		
Stage 2						
Not collateralised	40,792	(182)	0.45	45,063	(240)	0.53
Fully collateralised	46,230	(711)	1.54	69,599	(740)	1.06
Partially collateralised (B)	11,258	(100)	0.89	16,620	(150)	0.90
Total	**98,280**	**(993)**	**1.01**	131,282	(1,130)	0.86
– Collateral value on B	5,954			8,111		
Stage 3						
Not collateralised	1,730	(900)	52.02	1,916	(1,112)	58.04
Fully collateralised	5,290	(380)	7.18	3,231	(154)	4.77
Partially collateralised (C)	3,394	(833)	24.54	3,200	(825)	25.78
Total	**10,414**	**(2,113)**	**20.29**	8,347	(2,091)	25.05
– Collateral value on C	1,617			1,879		
POCI						
Not collateralised	-	-	-	-	-	-
Fully collateralised	-	-	-	-	-	-
Partially collateralised (D)	-	-	-	156	(19)	12.18
Total	-	-	-	156	(19)	12.18
– Collateral value on D	-			125		
	513,417	**(3,468)**	**0.68**	583,782	(3,769)	0.65

Risk *(continued)*

(a) Credit Risk *(continued)*

(v) Collateral and other credit enhancements *(continued)*
(audited)

Other corporate and commercial and financial (non-bank) lending *(continued)*
(audited)

The collateral used in the assessment of the above primarily includes first legal charges over real estate and charges over cash in the commercial and industrial sector and charges over cash and marketable financial instruments in the financial sector.

It should be noted that the table above excludes other types of collateral which are commonly taken for corporate and commercial lending such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable value is insufficiently certain. They are assigned no value for disclosure purposes.

As with commercial real estate the value of real estate collateral included in the table above is generally determined through a combination of professional and internal valuations and physical inspection. The frequency of revaluation is undertaken on a similar basis to commercial real estate loans and advances; however, for financing activities in corporate and commercial lending that are not predominantly commercial real estate-oriented, collateral value is not as strongly correlated to principal repayment performance. Collateral values will generally be refreshed when an obligor's general credit performance deteriorates and it is necessary to assess the likely performance of secondary sources of repayment should reliance upon them prove necessary. For the purposes of the table above, cash is valued at its nominal value and marketable securities at their fair value.

Placings with and advances to banks
(audited)

Placings with and advances to banks are typically unsecured. At 31 December 2023, HK$83,756m (2022: HK$62,203m) of placings with and advances to banks rated CRR 1 to 5, including loan commitments, are uncollateralised.

Derivatives
(audited)

The ISDA Master Agreement is our preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter ('OTC') products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Group's preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of our CSAs are with financial institutional clients. Please refer to note 45 'Offsetting of financial assets and financial liabilities' for further details.

Risk *(continued)*

(a) Credit Risk *(continued)*

(v) Collateral and other credit enhancements *(continued)*
(audited)

Other credit risk exposures
(audited)

In addition to collateralised lending described above, other credit enhancements are employed and methods used to mitigate credit risk arising from financial assets. These are described in more detail below.

Government, bank and other financial institution-issued securities may benefit from additional credit enhancement, notably through government guarantees that reference these assets. Corporate-issued debt securities are primarily unsecured. Debt securities issued by banks and financial institutions include asset-backed securities ('ABS') and similar instruments, which are supported by underlying pools of financial assets. Credit risk associated with ABS is reduced through the purchase of credit default swap ('CDS') protection.

The Group’s maximum exposure to credit risk includes financial guarantees and similar arrangements that it issues or enters into, and loan commitments to which it is irrevocably committed. Depending on the terms of the arrangement, the Group may have recourse to additional credit mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults. The risks and exposures from these are captured and managed in accordance with the Group’s overall credit risk management policies and procedures.

Collateral and other credit enhancements obtained
(audited)

The Group obtained assets by taking possession of collateral held as security, or calling other credit enhancement. The nature of these assets held as at 31 December 2023 are residential properties with carrying amount of HK$118m (2022: residential properties of HK$87m) and vehicle of HK$1m (2022: nil).

(b) Treasury Risk

Overview
(unaudited)

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural or transactional foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy
(unaudited)

Main objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support business strategy, and meet regulatory and stress testing-related requirements.

The approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory requirements at all times.

Our policy is underpinned by our risk management framework. The risk management framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes. These risks include credit, market, operational, pensions, structural and transactional foreign exchange risk, and interest rate risk in the banking book.

Treasury risk management

Key developments in 2023
(unaudited)

- The implementation of hold-to-collect business model has been completed, which involves our portfolio of hold-to-collect assets forming a material part of the liquid asset buffer as well as a hedge to our structural interest rate risk. This allows us more flexibility in managing the hold-to-collect-and-sell portfolio to optimise returns from market movements while safeguarding capital and future earnings.

- Following high-profile US and Swiss banking failures in the first quarter of 2023, the existing risk management practices including stress testing and limit setting were validated. Additionally, liquidity monitoring and metric assumptions as part of the internal liquidity adequacy assessment process ('ILAAP') cycle were reviewed to ensure they continued to cover observed and emerging risks.

- Continued to improve our analysis and understanding of the drivers of capital volatility and the underlying sensitivities, ensuring these are actively considered in our risk appetite and limit setting processes.

- Continued to increase the stabilisation of our net interest income ('NII') as interest rate expectations fluctuated, driven by central bank rate increases and a reassessment of the trajectory of inflation in major economies.

Risk *(continued)*

(b) Treasury Risk *(continued)*

Treasury risk management (continued)

Governance and structure
(unaudited)

The Board approves the policy and risk appetite for capital risk, liquidity and funding risk, and IRRBB. It is supported and advised by the RC.

The Asset, Liability and Capital Management ('ALCM') team actively manages capital, liquidity risk and funding risk and structural foreign exchange risk on an on-going basis and provides support to the Asset and Liability Management Committee ('ALCO') with risk appetites overseen by the Risk Management Meeting ('RMM'). Markets Treasury has the responsibility for cash and liquidity management.

The ALCM team further manages interest rate risk in the non-trading banking book, maintaining the transfer pricing framework and informing the ALCO the overall banking book interest rate exposure. Banking book interest rate positions may be transferred to be managed by Markets Treasury, within the market risk limits approved by the RMM.

Treasury Risk Management function carries out independent review, challenge and assurance of the appropriateness of the capital, liquidity and IRRBB risk management activities undertaken by ALCM and Markets Treasury.

Internal Audit provides independent assurance that risk is managed effectively.

Capital Risk

Overview
(audited)

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group recognises the impact of different level of equity capital on shareholder returns and seeks to maintain a prudent balance between advantages and flexibility provided by a strong capital position and higher returns on equity through greater leverage.

Framework

The policy on capital management sets out the Group's capital management framework. The framework sets out our approach to determining key capital risk appetites for Common Equity Tier 1 ('CET1'), Tier 1 ('T1'), Total capital, loss-absorbing capacity ('LAC') and leverage ratio, which enables us to manage our capital in a consistent manner. Regulatory capital and economic capital are the two primary measures used for the management and control of capital.

Capital measures:
- regulatory capital is the capital which we are required to hold in accordance with the rules established by regulator; and
- economic capital is the internally calculated capital requirement to support risks to which the Group is exposed to and forms a core part of the internal capital adequacy assessment process ('ICAAP').

ICAAP is an assessment of the Group's capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile, performance and planning, and the implications of stress testing. ICAAP is driven by an assessment of risks, including credit, market, operational, pensions, insurance, structural foreign exchange, interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and the Group is continuing to develop the approach for climate risk management. The ICAAP supports the determination of the capital risk appetites, as well as enables the assessment and determination of capital requirements by regulator.

An annual Group capital plan is prepared and approved by the Board with the objectives of maintaining an optimal amount of capital and a suitable mix between different components of capital. The Group manages its own capital within the context of the approved annual capital plan, which determines the level of risk-weighted asset ('RWA') growth as well as the optimal amount and components of capital required to support planned business growth. Capital and RWA are monitored and managed against the plan, with capital forecasts reported to relevant governance committees. As part of the Group's capital management objectives, subsidiary with capital generated in excess of planned requirement will return to the Bank, normally by way of dividends. The Group also raised subordinated debt in accordance with HSBC Group's guidelines regarding market and investor concentration, cost, market conditions, timing and maturity profile.

The Bank is primarily a provider of equity capital to its subsidiaries. These investments are substantially funded by the Bank's own capital and profit. The Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the Consolidated Balance Sheet: share capital, retained profits, other equity instruments and other reserves. Capital also includes impairment allowances and regulatory reserve for general banking risks as allowed under Banking (Capital) Rules.

Externally imposed capital requirements
(audited)

The HKMA supervises the Group on a consolidated and solo-consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

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 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.

During the year, the Group complied with all of the externally imposed capital requirements by the HKMA.

Basel III
(unaudited)

The Basel III capital rules set out the minimum CET1 capital requirement of 4.5% and total capital requirement of 8%.

At 31 December 2023, the capital buffers applicable to the Group include the Capital Conservation Buffer ('CCB'), the Countercyclical Capital Buffer ('CCyB') and the Higher Loss Absorbency ('HLA') requirements for Domestic Systemically Important Banks ('D-SIB'). The CCB is 2.5% and is designed to ensure banks build up capital outside periods of stress. The CCyB is set on an individual country/territory basis and is built up during periods of excess credit growth to protect against future losses. The CCyB for Hong Kong and the list of D-SIB are regularly reviewed and last announced by the HKMA on 3 November 2023 and 29 December 2023 respectively. In its latest announcement, the HKMA maintained the CCyB for Hong Kong at 1.0% and maintained the D-SIB designation as well as HLA requirement at 1.0% for the Group.

Risk *(continued)*

(b) Treasury Risk *(continued)*

Loss-absorbing capacity requirements
(unaudited)

The HKMA classified the Bank as a material subsidiary of HSBC's Asian resolution group in 2019 and required the Bank to comply with internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules.

Leverage ratio
(unaudited)

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Tier 1 capital divided by total on-balance sheet and off-balance sheet exposures. The minimum leverage ratio requirement in Hong Kong is 3%.

Capital base
(unaudited)

The following tables show the capital base, RWAs and capital ratios as contained in the 'Capital Adequacy Ratio' return required to be submitted to the HKMA by the Bank on consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules. The basis is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of our website www.hangseng.com.

The Bank and its subsidiaries may need to maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 31 December 2023, the Group is not required to restrict any reserves which can be distributed to shareholders (31 December 2022: nil) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the required regulatory reserve balance.

We closely monitor and consider future regulatory change and continue to evaluate the impact upon our capital requirements of regulatory developments. This includes the Basel III final reform package, which is scheduled for implementation by the HKMA on 1 January 2025. We continue to monitor progress on the implementation. Based on the results of the final HKMA rules, we foresee a positive impact on our capital ratios on initial application. The RWA output floor under the Basel III final reform package will be phased in over five years from initial implementation. Any impact from the output floor would be towards the end of the phase in period.

Capital base *(continued)*
(unaudited)

The following table sets out the composition of the Group's capital base under Basel III at 31 December 2023 and 31 December 2022. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

	2023	2022 *(restated)*
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 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.*

Risk *(continued)*

(b) Treasury Risk *(continued)*

Risk-weighted assets by risk type
(unaudited)

	2023	2022
Credit risk	**592,283**	687,532
Market risk	**19,898**	19,883
Operational risk	**62,088**	57,311
Total	**674,269**	764,726

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

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

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

Leverage ratio
(unaudited)

	2023	2022
Leverage ratio	**8.5%**	7.3%
T1 capital	**134,003**	128,166
Exposure measure	**1,568,958**	1,752,201

Detailed breakdown of the Group's leverage exposure measure and a summary comparison table reconciling the assets of the Group's accounting balance sheet with the leverage exposure measure using the standard templates as specified by the HKMA can be viewed in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

Risk *(continued)*

(b) Treasury Risk *(continued)*

Dividend policy
(unaudited)

Objective

The Bank's medium to long term dividend objective is to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation.

Considerations

The declaration of dividends is made at the discretion of the Board, which will take into account all relevant factors including the following:

- regulatory requirements;
- financial results;
- level of distributable reserves;
- general business conditions and strategies;
- strategic business plan and capital plan;
- statutory and regulatory restrictions on dividend payment; and
- any other factors the Board may deem relevant.

Phasing and Timing

Under normal circumstances and if the Board determines to declare a dividend at its discretion, dividends would be declared on a quarterly basis. The phasing of dividends would be planned on a prudent basis to allow for any unforeseen events, which might arise towards the end of an accounting period. Phasing of dividends would also take account of the volatility of the Bank's profits.

Other financial information

Other financial information required under the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules can be viewed in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of our website www.hangseng.com.

Non-trading book foreign exchange exposures

Structural foreign exchange exposures
(unaudited)

Structural foreign exchange exposures arise from net assets or capital investments in foreign operations together with any associated hedging. A foreign operation is defined as a subsidiary, branch, where the activities are conducted in a currency other than that of the reporting entity. An entity's functional reporting currency is normally that of the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recognised in other comprehensive income ('OCI'). The Group uses Hong Kong dollar as our presentation currency in our consolidated financial statements. Therefore, our consolidated balance sheet is affected by exchange differences between Hong Kong dollar and all the non-Hong Kong dollar functional currencies of underlying foreign operations.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of foreign operations subject to minimum regulatory capital requirements are largely protected from the effect of changes in exchange rates.

The Group’s foreign exchange exposures are prepared in accordance with the HKMA 'Return of Foreign Currency Position - (MA(BS)6)'.

For details of the Group's non-structural and structural foreign currency positions, please refer to the Banking Disclosure Statement that is available in the 'Regulatory Disclosures' section of the Bank's website.

Transactional foreign exchange exposures
(unaudited)

Transactional foreign exchange exposures arise from transactions in the banking book generating profit and loss or OCI reserves in a currency other than the reporting currency of the operating entity. Transactional foreign exchange exposure generated through profit and loss is periodically transferred to Global Markets and managed within limits. Transactional foreign exchange exposure generated through OCI reserves is managed within an agreed limit framework.

Liquidity and funding risk

Overview
(audited)

Liquidity risk is the risk that an entity does not have sufficient resources to meet its financial obligations when they fall due, or can only secure them at excessive cost. This may cause potential breaches in regulatory or internal metrics such as the Liquidity Coverage Ratio ('LCR') or the Internal Liquidity Metrics ('ILM'). Funding risk is the risk that an entity does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. This may cause potential breaches in regulatory or internal metrics such as the Net Stable Funding Ratio ('NSFR').

Liquidity and funding risk profile
(audited)

The Group adopt HSBC Group's policies, metrics and controls to manage liquidity and funding risk. The global policies are designed to be adaptable to changing business models, markets and regulations. They are designed to ensure that Group and entity management have oversight of our liquidity and funding risks in order to manage them appropriately. We manage liquidity and funding risk at an operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group.

Operating entities are required to meet internal and applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, processes and systems for the identification, measurement, management and monitoring of liquidity and funding risk over an appropriate set of time horizons, including risk appetite and also assesses the capability to manage liquidity and funding effectively in each major entity. Liquidity and funding risk metrics are set and managed at entity level but are subject to global review and challenge to ensure consistency of approach and application of the HSBC Group's policies and controls.

Structure and organisation
(audited)

ALCM teams are responsible for the application of policies and controls at a local operating entity level. The elements of the Group's policies and controls are underpinned by a robust governance framework, the two major elements of which are:

- ALCOs at the Group and entity level; and
- annual ILAAP support determination of risk appetite. All operating entities are required to prepare an ILAAP document at appropriate frequency

The Board is ultimately responsible for determining the types and magnitude of liquidity risk that the Group is able to take and ensuring that there is an appropriate organisation structure for managing this risk. Under authorities delegated by the Executive Committee, the Group ALCO is responsible for managing all Asset, Liability and Capital Management issues including liquidity and funding risk management.

The Group ALCO delegates to the Group Tactical Asset and Liability Management Committee ('TALCO') the task of reviewing various analysis of the Group pertaining to liquidity and funding.

Compliance with liquidity and funding requirements is monitored by the ALCO and is reported to the RMM, Executive Committee, RC and the Board of Directors on a regular basis. This process includes:

- maintaining compliance with relevant regulatory requirements of the reporting entity;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- managing contingent liquidity commitment exposures within pre-determined limits;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken during stress, while minimising adverse long-term implications for the business.

Liquidity and funding risk *(continued)*

Governance
(audited)

ALCM teams apply the Group's policies and controls at both an individual entity and Group level, and are responsible for the implementation of Group-wide and local regulatory policy at a legal entity level. Markets Treasury has responsibility for cash and liquidity management.

Treasury Risk Management carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury. Their work includes setting control standards, advising on policy implementation, and reviewing and challenging of reporting.

Internal Audit provide independent assurance that risk is managed effectively.

The management of liquidity and funding risk
(audited)

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The critical Board risk appetite measures are the LCR, ILM and NSFR. An appropriate funding and liquidity profile is managed through a wider set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement or other appropriate metric;
- an ILM requirement;
- a depositor concentration limit;
- cumulative term funding maturity concentration limit;
- liquidity metrics to monitor minimum requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Liquidity coverage ratio
(unaudited)

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario.

At 31 December 2023, the LCR of all the Group’s principal operating entities were well above regulatory minimums and above the internally expected levels established by the Board.

Net stable funding ratio
(unaudited)

The Group uses the NSFR as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR requires institutions to maintain minimum amount of stable funding based on assumptions of asset liquidity.

At 31 December 2023, the NSFR of all the Group’s principal operating entities were above the internally expected levels established by the Board.

The management of liquidity and funding risk *(continued)*

Depositor concentration and term funding maturity concentration
(unaudited)

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is challenged if the portfolio of depositors is not large enough to avoid depositor concentration. Operating entities are exposed to term refinancing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 31 December 2023, the depositor concentration and term funding maturity concentration of all the Group's principal operating entities were within the internally expected levels established by the Board.

Sources of funding
(unaudited)

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

Currency mismatch
(unaudited)

HSBC Group policy requires all operating entities to manage currency mismatch risks for material currencies. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the FX swap markets.

Additional contractual obligations
(unaudited)

Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant CSA contracts), the additional collateral required to post in the event of downgrade in credit ratings is nil.

Liquidity and funding risk in 2023
(unaudited)

The Group is required to calculate its LCR and NSFR on a consolidated basis in accordance with rule 11(1) of The Banking (Liquidity) Rules ('BLR') and is required to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the periods are as follows:

	Quarter ended							
	31 Dec 2023	**30 Sep 2023**	**30 Jun 2023**	**31 Mar 2023**	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
Average LCR	**260.6%**	**240.1%**	**245.0%**	**276.7%**	275.3%	230.5%	206.8%	188.9%

The liquidity position of the Group remained strong and above the statutory requirement of 100%. The average LCR increased from 240.1% for the quarter ended 30 September 2023 to 260.6% for the quarter ended 31 December 2023, mainly reflecting the increase in holding of HQLA as a result of the increase in commercial surplus.

The composition of the Group's HQLA as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(b) Treasury Risk *(continued)*

Liquidity and funding risk *(continued)*

The management of liquidity and funding risk *(continued)*

Liquidity and funding risk in 2023 (continued)
(Unaudited)

	Weighted amount (average value) for the quarter ended							
	31 Dec 2023	**30 Sep 2023**	**30 Jun 2023**	**31 Mar 2023**	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
Level 1 assets	**369,952**	**348,096**	**402,508**	**454,223**	400,658	381,314	353,034	344,686
Level 2A assets	**10,920**	**10,566**	**12,182**	**12,928**	12,385	13,549	15,579	17,109
Level 2B assets	**2,996**	**2,420**	**3,293**	**4,044**	2,827	3,423	3,742	3,099
Total	**383,868**	**361,082**	**417,983**	**471,195**	415,870	398,286	372,355	364,894

In accordance with the Banking (Liquidity) Rules, the Net Stable Funding Ratio ('NSFR') was implemented in Hong Kong with effect from 1 January 2018. The Group is required to calculate NSFR on a consolidated basis and maintain a NSFR of not less than 100%.

The NSFR for the reportable periods are as follows:

	At quarter ended							
	31 Dec 2023	**30 Sep 2023**	**30 Jun 2023**	**31 Mar 2023**	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
NSFR	**168.4%**	**165.8%**	**161.4%**	**163.6%**	163.8%	155.2%	155.0%	151.3%

The funding position of the Group remained strong and stable in 2023. The NSFR was 168.4% at the quarter ended 31 December 2023 (163.8% as at 31 December 2022), highlighting a surplus of available stable funding relative to the required stable funding requirement.

To comply with the Banking (Disclosure) Rules, the details of liquidity information can be found in the Regulatory Disclosures section of our website www.hangseng.com.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(b) Treasury Risk *(continued)*

Liquidity and funding risk *(continued)*

Analysis of cash flows payable under financial liabilities by remaining contractual maturities
(audited)

	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
At 31 December 2023						
Deposits from banks	**19,699**	**17**	**-**	**-**	**-**	**19,716**
Current, savings and other deposit accounts	**813,754**	**187,169**	**146,553**	**14,234**	**-**	**1,161,710**
Repurchase agreements – non-trading	**11,819**	**969**	**-**	**-**	**-**	**12,788**
Trading liabilities	**35,227**	**-**	**-**	**-**	**-**	**35,227**
Derivative financial instruments	**13,803**	**39**	**(40)**	**269**	**-**	**14,071**
Financial liabilities designated at fair value	**14,077**	**14,106**	**14,412**	**3,716**	**261**	**46,572**
Certificates of deposit in issue	**118**	**2,607**	**7,273**	**-**	**-**	**9,998**
Other financial liabilities	**14,423**	**6,122**	**4,516**	**830**	**99**	**25,990**
Subordinated liabilities	**-**	**475**	**1,531**	**28,627**	**3,221**	**33,854**
	922,920	**211,504**	**174,245**	**47,676**	**3,581**	**1,359,926**
Loan commitments	**503,632**	**-**	**-**	**-**	**-**	**503,632**
Contingent liabilities and financial guarantee contracts	**22,973**	**-**	**-**	**-**	**-**	**22,973**
	526,605	**-**	**-**	**-**	**-**	**526,605**
(restated) At 31 December 2022						
Deposits from banks	4,978	1	229	-	-	5,208
Current, savings and other deposit accounts	910,602	169,288	163,287	12,266	-	1,255,443
Repurchase agreements – non-trading	8,525	1,074	1,722	-	-	11,321
Trading liabilities	46,323	-	-	-	-	46,323
Derivative financial instruments	20,587	140	146	113	-	20,986
Financial liabilities designated at fair value	13,972	13,979	11,744	7,024	330	47,049
Certificates of deposit in issue	7,220	31,158	56,758	-	-	95,136
Other financial liabilities	16,118	6,383	7,743	1,108	205	31,557
Subordinated liabilities	-	404	1,556	25,359	8,259	35,578
	1,028,325	222,427	243,185	45,870	8,794	1,548,601
Loan commitments	518,838	-	-	-	-	518,838
Contingent liabilities and financial guarantee contracts	24,959	-	-	-	-	24,959
	543,797	-	-	-	-	543,797

The balances in the above tables incorporate all cash flows relating to principal and future coupon payments on an undiscounted basis. Trading liabilities and trading derivatives have been included in the 'Within one month' time bucket as they are typically held for short periods of time. The undiscounted cash flows payable under hedging derivative liabilities are classified according to their contractual maturity. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket. The undiscounted cash flows potentially payable under loan commitments and financial guarantee contracts are classified on the basis of the earliest date they can be called. Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice.

Interest Rate Risk in the Banking Book

Assessment and risk appetite
(unaudited)

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

The ALCM and Markets Treasury functions use a number of measures to monitor and control interest rate risk in the banking book, including:
• net interest income sensitivity;
• economic value of equity sensitivity;
• hold-to-collect-and-sell value at risk ('VaR'); and
• hold-to-collect-and-sell present value of a basis point ('PVBP').

Net interest income sensitivity
(audited)

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income ('NII') under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. This monitoring is undertaken at an entity level by local ALCOs, where entities calculate both one-year and five-year NII sensitivities across a range of interest rate scenarios.

The table below sets out the effect on future net interest income of 100 basis points parallel rises or falls in all yield curves at the beginning of year from 1 January 2024 and 25 basis points parallel rises or falls in all yield curves at the beginning of year from 1 January 2024.

Assuming no management actions and all other non-interest rate risk variables remain constant, such a series of parallel rises in all yield curves would increase expected net interest income for the year ended 31 December 2024 by HK$1,787m for 100 basis points case and by HK$467m for 25 basis points case, while such a series of parallel falls in all-in yield curves would decrease expected net interest income by HK$2,206m for 100 basis points case and by HK$508m for 25 basis points case.

Interest Rate Risk in the Banking Book *(continued)*

Net interest income sensitivity (continued)
(audited)

The expected net interest income sensitivity is described as follows:

	100bp parallel increase	**100bp parallel decrease**	**25bp parallel increase**	**25bp parallel decrease**
Change in 2024 expected net interest income				
- HKD	**895**	**(1,038)**	**233**	**(252)**
- USD	**191**	**(213)**	**48**	**(50)**
- other	**701**	**(955)**	**186**	**(206)**
Total	**1,787**	**(2,206)**	**467**	**(508)**
Change in 2023 expected net interest income				
- HKD	1,024	(1,366)	285	(330)
- USD	493	(518)	123	(128)
- other	1,142	(1,334)	288	(318)
Total	2,659	(3,218)	696	(776)

NII sensitivity figures set out in the table above represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. The exception to this is where the size of the balances or repricing is deemed interest rate sensitive, for example, early prepayment of mortgages. These sensitivity calculations do not incorporate actions that would be taken by Markets Treasury or in the business that originates the risk to mitigate the effect of interest rate movements.

The NII sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. The sensitivity calculations in the ‘down-shock’ scenarios reflect no floors to the shocked market rates. However, customer product-specific interest rate floors are recognised where applicable.

Economic value of equity sensitivity
(unaudited)

Economic value of equity ('EVE') represents the present value of the future banking book cash flows that could be distributed to equity holders under a managed run-off scenario. This equates to the current book value of equity plus the present value of future NII in this scenario. EVE can be used to assess the economic capital required to support interest rate risk in the banking book. An EVE sensitivity represents the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant. Operating entities are required to monitor EVE sensitivities as a percentage of capital resources.

The Group's EVE sensitivity is prepared in accordance with the HKMA 'Return of Interest Rate Risk Exposure - (MA(BS)12A)'. For details of the Group's EVE sensitivity, please refer to the Banking Disclosure Statement that will be available in the 'Regulatory Disclosures' section of the Bank's website.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(b) Treasury Risk *(continued)*

Interest Rate Risk in the Banking Book *(continued)*

Sensitivity of reserves
(audited)

The Group monitors the sensitivity of reported cash flow hedge reserves to interest rate movements on a quarterly basis by assessing the expected reduction in valuation of cash flow hedge due to parallel movements of plus or minus 100bps in all yield curves. These particular exposures form only a part of the Group's overall interest rate risk exposures.

The following table describes the sensitivity of reported cash flow hedge reserves to the stipulated movements in yield curves. The sensitivities are indicative and based on simplified scenarios.

	At 31 December 2023	**Maximum impact**	**Minimum impact**
+ 100 basis points parallel move in all yield curves	**(240)**	**(253)**	**(212)**
As a percentage of shareholders' equity at 31 December 2023 (%)	**(0.14)**	**(0.15)**	**(0.13)**
- 100 basis points parallel move in all yield curves	**318**	**318**	**266**
As a percentage of shareholders' equity at 31 December 2023 (%)	**0.19**	**0.19**	**0.16**
	At 31 December 2022	Maximum impact	Minimum impact
+ 100 basis points parallel move in all yield curves	(364)	(372)	(134)
As a percentage of shareholders' equity at 31 December 2022 (%)	(0.20)	(0.20)	(0.07)
- 100 basis points parallel move in all yield curves	420	445	177
As a percentage of shareholders' equity at 31 December 2022 (%)	0.23	0.24	0.10

Risk *(continued)*

(c) Market risk

Overview

Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.

Key developments in 2023

(unaudited)

There were no material changes to our policies and practices for the management of market risk in 2023.

Governance and structure

(unaudited)

The following diagram summarises the main business areas where trading market risks reside and the market risk measures used to monitor and limit exposures.

	Trading Risk
Risk Type	- Foreign exchange & commodities - Interest rates - Credit spreads - Equities
Risk Measure	Value at risk / Sensitivity / Stress testing

The objective of the Group's risk management policies and measurement techniques is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with the established risk appetite.

Market risk governance

(audited)

Market risk is managed and controlled through limits approved by the Group's Board of Directors. These limits are allocated across business lines and to the Group's legal entities.

The Group has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. Each operating entity is required to assess the market risks arising in its business and to transfer them either to its Global Markets for management, or to separate books managed under the supervision of the local ALCO.

The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. Traded Risk also restricts trading in the more complex derivatives products to offices with appropriate levels of product expertise and robust control systems.

Key risk management processes

Monitoring and limiting market risk exposures

(unaudited)

The Group's objective is to manage and control market risk exposures while maintaining a market profile consistent with the Group's risk appetite. The Group uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ('VaR') and stress testing.

Sensitivity analysis

(audited)

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices. The Group uses sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

Key risk management processes *(continued)*

Value at risk ('VaR')
(audited)

VaR is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading positions regardless of how the Group capitalises them. Where VaR is not calculated explicitly, the Group uses alternative tools as summarised in the 'Stress testing' section below.

The VaR models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements that are calculated with reference to data from the past two years;
- Standard VaR is calculated to a 99% confidence level and using a one-day holding period; and
- Stressed VaR uses a 10-day holding period and a 99% confidence interval based on a continuous one-year historical significant stress period.

The models also incorporate the effect of the option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations
(audited)

Although a valuable guide to risk, VaR is used with awareness of its limitations. For example:

- the use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime;
- the use of a one-day holding period for risk management purposes of trading books assumes that this short period is sufficient to hedge or liquidate all positions;
- the use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

Key risk management processes *(continued)*

Risk not in VaR ('RNIV') framework
(audited)

The risks not in VaR ('RNIV') framework captures and capitalises material market risks that are not adequately covered in the VaR model.

Risk factors are reviewed on a regular basis and are either incorporated directly in the VaR models, where possible, or quantified through either the VaR-based RNIV approach or a stress test approach within the RNIV framework. While VaR-based RNIVs are calculated by using historical scenarios, stress-type RNIVs are estimated on the basis of stress scenarios whose severity is calibrated to be in line with the capital adequacy requirements.

Stress testing
(audited)

Stress testing is an important procedure that is integrated into the Group's market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at legal entity and overall Group levels. A scoring framework is in place for management to effectively assess the severity of the potential stress losses and the likelihood of occurrence of the stress scenarios. The risk appetite around potential stress losses for the Group is set and monitored against a referral limit.

Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be quite local or idiosyncratic in nature, and complement the systematic top-down stress testing.

Stress testing and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR, for which risk appetite is limited.

Trading portfolios
(unaudited)

Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

Market risk in 2023

(unaudited)

During 2023, global financial markets were mainly driven by the inflation outlook, interest rates expectations and recession risks, coupled with banking distress in March and rising geopolitical tensions in the Middle East from October. Major central banks maintained restrictive monetary policies and bond markets experienced a volatile year. After rising significantly in the second and third quarter, US treasury bond yields fell during 4Q23, as lower inflation pressures led markets to expect that key rates would be cut in 2024. The interest rates outlook was also a major driver of global equity markets performance, alongside resilient corporate earnings and positive sentiment in the technology sector. Developed markets equities advanced significantly amid low volatility, while emerging markets performance was more subdued. In foreign exchange markets, the US dollar fluctuated against other major currencies, mostly in line with the Federal Reserve policy and bond yields expectations. Investor sentiment remained resilient in credit markets. High-yield and investment-grade credit spreads narrow in general, as fears of contagion in the banking sector in 1Q23 abated and economic growth remained resilient throughout 2023.

We continued to manage market risk prudently during 2023. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Market risk was managed using a complementary set of risk measures and limits, including stress testing and scenario analysis.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(c) Market risk *(continued)*

Trading portfolios
(unaudited)

Value at risk of the trading portfolios

Trading VaR predominantly resides within Global Markets. Interest rate risks were the main drivers of trading VaR. The VaR for trading activity on 31 December 2023 was higher comparing to that on 31 December 2022, mainly driven by interest rate trading portfolio.

The Group's trading VaR for the year is shown in the table below.

Trading value at risk, 99% 1 day
(audited)

	At 31 December 2023	**Maximum during the year**	**Average for the year**
VaR			
Total	38	57	42
Foreign exchange trading	8	11	5
Interest rate trading	34	57	43
Portfolio diversification	(4)	N/A	N/A

	At 31 December 2022	Maximum during the year	Average for the year
VaR			
Total	32	43	34
Foreign exchange trading	2	13	3
Interest rate trading	31	42	34
Portfolio diversification	(1)	N/A	N/A

[1] *Trading portfolios comprise positions arising from the market-making and warehousing of customer-derived positions.*

[2] *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures.*

Risk *(continued)*

(c) Market risk *(continued)*

Trading portfolios *(continued)*
(unaudited)

Backtesting
(unaudited)

The Group routinely validates the accuracy of the VaR models by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions. The hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessary indicative of the actual performance of the business.

The number of hypothetical loss back-testing exceptions, together with a number of other indicators, are used to assess model performance and to consider whether enhanced internal monitoring of a VaR model is required.

Equities exposures
(audited)

The Group's equities exposures in 2023 and 2022 are reported as 'Financial assets mandatorily measured at fair value through profit or loss', 'Financial investments' and 'Trading assets' in the consolidated financial statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Climate risk
(unaudited)

Overview

We adopted HSBC Group's climate risk approach which aligned to the framework outlined by the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD'), and two primary drivers of climate risk have been identified:

- physical risk, which arises from the increased frequency and severity of extreme weather events, such as typhoons and floods, or chronic shifts in weather patterns or sea level risk; and
- transition risk, which arises from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market-demand and reputational implications triggered by a change in stakeholder expectations, actions or inaction.

In addition, the following thematic issues have been identified in relation to climate risk which are most likely to materialise in the form of reputational and litigation risks.

- net zero alignment risk - which arises from failure to meet the net zero commitments or failing to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in external environment; and
- the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to the stakeholders.

Approach

It has been recognised that the physical impacts of climate change and the transition to net zero economy can create significant financial risks for the companies, investors and the financial systems. The Group may be affected by the financial or non-financial impacts of climate risks either directly or indirectly through its relationships with customers and through macro impacts on the economies the Group serves.

The climate risk approach has been developed which aims to effectively manage the material climate risks that could impact bank operations, financial performance, stability and reputation. The approach is informed by the evolving expectations of the regulators. Climate considerations and the thematic issues of net zero alignment risk and the risk of greenwashing are incorporated within the Group's traditional risk types in line with HSBC Group-wide risk management framework.

The table below provide an overview of the climate risk drivers considered with the climate risk approach. Primary risk drivers refer to risk drivers aligned to the TCFD, which sets a framework to help public companies and other organisations disclose climate-related risks and opportunities.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(d) Climate risk *(continued)*
(unaudited)

Overview *(continued)*

Approach (continued)

Climate Risk - Primary Risk Drivers		**Details**	**Potential Impacts**
Physical	**Acute**	Increased frequency and severity of weather events causing disruption to business operations	• Decreased real estate values or stranded assets • Decreased household income and wealth • Increased costs of legal and compliance • Increased public scrutiny • Decreased profitability • Lower asset performance
	Chronic	Longer-term shifts in climate patterns (e.g. sea level rise or shifting monsoons etc.)	
Transition	**Policy and legal**	Mandates on, and regulation of products and services and/or policy support for low carbon alternatives. Litigation from parties who have suffered loss and damage from climate impacts	
	Technology	Replacement of existing products with lower emission options	
	End-demand (market)	Changing consumer demand from individuals and corporates	
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction	

(d) Climate risk *(continued)*
(unaudited)

Climate risk management

Key developments in 2023

The following outlines our key developments in 2023:

- Climate risk approach has been updated to incorporate net zero alignment risk and information on how climate related litigation risk should be managed.
- Climate-related training has been provided to Board and senior management, and sponsored nominated staff to take climate risk related professional certifications.
- Climate risk metrics have been expanded beyond Hong Kong to assess the impact of physical risk on the Group's retail mortgage portfolio in mainland China and Macau.

While we have made progress in enhancing our climate risk management capabilities, further work remains. This includes the need to develop additional metrics and tools to measure the Group's exposures to climate-related risks and to incorporate these tools within decision making.

Governance and structure

The Board takes overall responsibility for the Group's climate strategy, overseeing executive management in developing the approach, execution and associated reporting.

The Chief Risk and Compliance Officer is responsible for the management of climate-related risks.

The Risk Management Meeting and Risk Committee receive regular updates on the climate risk profile and progress of the climate risk management.

Risk appetite

The Group's climate risk appetite forms part of the Group's risk appetite statement ('RAS') and supports the business in delivering the Group's climate strategy effectively and sustainably.

The Group's climate RAS is approved and overseen by the Board. It is supported by risk appetite metrics and tolerance thresholds. The Group has also defined additional Key Risk Management Information ('KRMI') metrics.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(d) Climate risk *(continued)*
(unaudited)

Climate risk management *(continued)*

Policies, processes and controls

Climate risk has been integrated into policies, processes and controls across many areas of the organisation, and they will continue to be updated as the climate risk management capabilities mature over time.

Embedding climate risk within existing risk taxonomy

The table below provides further details on how climate risk has been integrated across key risk types.

Risk type	Details
Wholesale credit risk	The Group considers physical and transition risks to be the key climate risks impacting wholesale credit risk. For transition risk, the Group has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors. The Group's relationship managers engage with their wholesale clients through a transition and physical risk questionnaire and recently introduced an updated questionnaire, the transition engagement questionnaire. The questionnaire is used to gather and assess information about the alignment of clients' business models to net zero economy and their exposure to physical & transition risk. Responses from the questionnaire are utilised to create a climate risk score for its key wholesale customers. The credit policies require relationship managers to comment on climate risk factors in credit applications for new money requests and annual credit reviews. The policies require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating. Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts to the Group's clients.

(d) Climate risk *(continued)*
(unaudited)

Embedding climate risk within existing risk taxonomy *(continued)*

Risk type	Details
Retail Credit Risk	Climate risk identification and assessment within the retail mortgage portfolio remains a key priority and the Group has implemented risk policies, tools and guidelines to manage this risk across all markets. The Group's retail credit risk management policy requires each mortgage market to conduct an annual review of their climate risk framework including perils and data sources, to ensure they remain fit for purpose. In 2023, the Group introduced soft trigger monitoring process for physical risk exposure which requires review of the underlying risk exposure drivers to identify whether any mitigating actions are required if a market reaches or exceeds a set threshold. This ensures markets are actively considering their balance sheet risk exposure to peril events. The Group continues to proactively manage and monitor potential physical climate risk on the balance sheet in retail mortgage markets. Properties or areas with potentially heightened physical risk are identified, assessed, and monitored through climate metrics at least on quarterly basis. The Group has implemented Physical Climate RAS for Hong Kong and key climate risk metrics for mainland China and Macau to assess the impact of physical risk on the Group's retail mortgage portfolios. Significant progress has been made to develop infrastructure to monitor the direct impact of climate events on our portfolio besides ensuring adequate customer support measures are available for customers impacted by climate events. In 2023, the Group undertook a stress test of climate risk for retail portfolios at the behest of the Hong Kong Monetary Authority. In addition, the Group participated in the annual HSBC Group internal climate scenario analysis exercise to further strengthen its understanding of the potential impacts that physical risk could have on its mortgage portfolios. The internal climate models have been enhanced to refine flood and wind, introduce affordability metrics and to consider the impact of un-insurable properties in Hong Kong. However, availability of physical and transition risk data of different markets to facilitate ongoing climate risk management remains a key challenge.

(d) Climate risk *(continued)*
(unaudited)

Embedding climate risk within existing risk taxonomy *(continued)*

Risk type	Details
Treasury Risk	Treasury Risk The Group considers both physical and transition risk to be relevant for Treasury Risk. From a Capital perspective, Climate Risk is considered as part of our ICAAP in 2023, and the Group is continuing to develop its approach for climate risk management. From a Liquidity perspective, an initial analysis has been conducted to understand the potential climate risk exposures that may exist across key liquidity risk drivers and documented the analyses in ILAAP. The Group has updated the Treasury Risk policies to ensure that the impact of climate risk is considered when assessing applicable Treasury risk functions. Treasury portfolios are included within scope of the Internal Climate Scenario Analysis and the Hong Kong Monetary Authority's Climate Risk Stress Test, with potential quantitative impacts on relevant Hold to Collect and Sell ('HTC&S') positions estimated. Pension Risk HSBC Group is conducting an annual exercise to monitor HSBC Group’s largest pension plans’ (including the Group) exposure to climate risk. The Group adopts HSBC Group pension policies which has been updated to explicitly reflect climate considerations.
Traded Risk	In 2023 the Group participated in the internal climate scenario analysis ('ICSA') and refined Traded Risk internal scenarios to reflect sub-sector differences within high transition risk sectors. Two scenarios (e.g. delayed transition and downside physical) were expanded for the Traded Risk portfolio. During the expansion, all risk factors (interest rates, exchange rates, corporate bonds and corporate stocks) receive shocks that reflect the impact of abrupt increases in carbon prices and the resulting structural economic impact on productivity for high-risk sectors.

Embedding climate risk within existing risk taxonomy *(continued)*

Risk type	Details
Reputational Risk	Reputational impact of climate risk has been managed through its broader reputational risk framework supported by sustainability risk policies. The sustainability risk policies set out its appetite for financing activities in certain sectors. In 2021, the thermal coal phase-out policy has been published, and in 2022, the energy policy has been updated. Both policies aim to drive down greenhouse emissions while supporting a just transition.
Regulatory compliance risk	Regulatory Compliance continues to prioritise the identification, assessment and management of compliance risks that may arise from climate risk. Regulatory Compliance's particular focus is on mitigating climate risks inherent to the product lifecycle, through the continuous review, monitoring and enhancement of product-related controls and policies, where relevant. Another key focus of Regulatory Compliance is the ongoing development and capability of its people through training, communications and dedicated guidance, with a particular focus on keeping up to date with emerging risks as a result of changes in the evolving regulatory landscape. To support the ongoing management and mitigation of climate risk, key developments in 2023 included the enhancement of Group level product marketing framework and procedures. Regulatory Compliance worked with all business lines to enhance product-related marketing controls designed to ensure that marketing of climate and ESG-related products is clear, fair and not misleading and that the approval processes for such materials are reviewed and overseen by Regulatory Compliance. This has improved the ability to identify, assess and manage product-related greenwashing risks throughout the product marketing approval process. Examples of ongoing enhancements include: • Ensuring Regulatory Compliance provides risk oversight and review of new product marketing materials with any reference to sustainability and ESG; • Developing the Group's product marketing controls to ensure climate claims are robustly evidence and substantiated within product marketing materials; and

(d) Climate risk *(continued)*
(unaudited)

Embedding climate risk within existing risk taxonomy *(continued)*

Risk type	Details
Regulatory compliance risk *(continued)*	• Clarifying and improving the product marketing framework, procedures and associated guidance, to ensure product-related marketing materials comply with both internal and external standards, and are subject to robust governance. The HSBC Group's policies set the standards that are required to manage the risk of breaches of regulatory duty to customers, including those related to climate risk, ensuring fair customer outcomes are achieved. To make sure responsibilities are met in this regard, the HSBC Group's policies are subject to continuous review and enhancement. Regulatory Compliance continues to operate an ESG and Climate Risk Working Group at HSBC Group level to track and monitor the integration and embedding of climate risk management in the function's activities. While monitoring regulatory and legislative changes across the ESG and climate risk agenda, the ongoing development and improvement of the HSBC Group's monitoring capabilities remains a priority, ensuring appropriate alignment to the broader focus on regulatory compliance risks. In Asia-Pacific, a dedicated working team of HSBC Group continues to coordinate the regional implementation of climate risk-related enhancements across the regulatory compliance function of the Group and the wider HSBC Group.
Resilience Risk	Operational and Resilience Risk is responsible for overseeing the identification and assessment of physical and transition climate risks that may impact on the organisation's operational and resilience capabilities. Resilience risk policies are subject to continuous improvement to remain relevant to evolving climate risks. Ongoing new developments relevant to our own operations are reviewed to ensure climate risk considerations are effectively captured.
Model Risk	In 2023, HSBC Group approved a new Climate Risk and ESG Model Category Standard for adoption globally (including the Group) which sets out minimum control requirements for identifying, measuring and managing model risk for climate-related models.

(e) Resilience risk

(unaudited)

Overview

Resilience risk is the risk of sustained and significant business disruption, execution, delivery or physical security or safety events, causing the inability to provide critical services to our customer, affiliates, and counterparties. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Resilience risk management

Key developments in 2023

The Operational and Resilience Risk sub-function provides robust Risk Steward oversight of the management of risk by the Group businesses, functions and legal entities. This includes effective and timely independent challenge and expert advice. During the year, we carried out a number of initiatives to keep pace with geopolitical, regulatory and technology changes and to strengthen the management of resilience risk:

- We focused on enhancing our understanding of our risk and control environment, by updating our risk taxonomy and control libraries, and refreshing risk and control assessments.
- We implemented heightened monitoring and reporting of cyber, third party, business continuity and payment/sanctions risks resulting from the Russia/ Ukraine war and enhanced controls and key processes where needed.
- We provided analysis and reporting of non-financial risks providing easy-to-access risk and control information and metrics that enable management to focus on non-financial in their decision-making and appetite setting.
- We further strengthened our non-financial risk governance and senior leadership, and improved our coverage and Risk Steward Oversight for data privacy and change execution.
- We prioritize our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Risk *(continued)*

(e) Resilience risk *(continued)*
(unaudited)

Governance and structure

The Operational and Resilience Risk target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across nine sub-risk types related to: failure to manage third parties; technology and cybersecurity; transaction processing; failure to protect people and places from physical malevolent acts; business interruption and incident risk; data risk; change execution risk; building unavailability; and workplace safety.

Risk appetite and key escalations for resilience risk are reported to the Risk Management Meeting, chaired by the Chief Risk and Compliance Officer, with an escalation path to the Risk Committee.

Key risk management processes

Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from operational disruption while minimising customer and market impact. Resilience is determined by assessing whether we are able to continue to provide our most important services, within an agreed level. This is achieved via day-to-day oversight, periodic and ongoing assurance, such as deep dive reviews and controls testing, which may result in challenges being raised to the business by Risk Stewards. Further challenge is also raised in the form of risk steward opinion papers to formal governance. We accept that we will not be able to prevent all disruption but we prioritise investment to continually improve the response and recovery strategies for our most important business services.

(f) Regulatory Compliance Risk
(unaudited)

Overview

Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards. Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.

Key developments in 2023

The dedicated programme to embed our updated purpose-led Conduct Approach has concluded. Work to map applicable regulations to our risks and controls continued in 2023 alongside adoption of new tooling to support enterprise-wide horizon scanning for new regulatory obligations and to manage our regulatory reporting inventories. Climate risk has been integrated into regulatory compliance policies and processes, with enhancements made to the product governance framework and controls in order to ensure the effective consideration of climate - and in particular greenwashing - risks.

Governance and structure

The Compliance function has been restructured and integrated into a combined Risk and Compliance function. The Head of Regulatory Compliance and the Head of Financial Crime and Money Laundering Officer report directly to the Chief Risk and Compliance Officer ('CRCO'). The Regulatory Compliance capability and the Financial Crime capability both continue to work closely with the CRCO and her respective teams to identify and manage regulatory and financial crime compliance risks.

Regulatory Compliance and Financial Crime teams work together and with relevant stakeholders to achieve good conduct outcomes and provide enterprise-wide support on the Compliance risk agenda in close collaboration with colleagues from the Risk and Compliance function.

Key risk management processes

The HSBC Group's Regulatory Compliance capability is responsible for setting global policies, standards and risk appetite to guide the Group's management of regulatory compliance risk. It also devises the required frameworks, support processes and tooling to protect against regulatory compliance risks. The HSBC Group capability provides oversight, review and challenge of the global market, regional and line of business teams to help them identify, assess and mitigate regulatory compliance risks, where required. The HSBC Group's regulatory compliance risk policies are regularly reviewed. HSBC Global policies and procedures require the identification and escalation of any actual or potential regulatory breaches, and relevant events and issues of the Bank are escalated to the RMM and the Risk Committee, as appropriate.

(g) Financial Crime Risk
(unaudited)

Overview

Financial crime risk is the risk that the Group's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Financial crime risk management

Key developments in 2023

We regularly review the effectiveness of our financial crime risk management framework, which includes continued consideration of the complex and dynamic nature of sanctions compliance and export control risk. We continued to respond to the economic sanctions and trade restrictions imposed on Russia, including methods used to limit sanctions evasion.

We continued to make progress with several key financial crime risk management initiatives, including:

- We deployed our intelligence-led, dynamic risk assessment capability for customer account monitoring in Wealth and Private Banking ('WPB') and Commercial Banking ('CMB').
- We successfully introduced the required changes to our transaction screening capability to accommodate the global change to payment systems formatting under ISO20022 requirements.
- We made enhancements in response to the rapidly evolving and complex global payments landscape and refined our digital assets and currencies strategy.

Governance and structure

The Compliance function has been restructured and integrated into a combined Risk and Compliance function. The Head of Regulatory Compliance and the Head of Financial Crime and Money Laundering Reporting Officer report directly to the Chief Risk and Compliance Officer, while the Risk Committee retains oversight of matters relating to fraud, bribery and corruption, tax evasion, sanctions and export control breaches, money laundering, terrorist financing and proliferation financing.

Risk *(continued)*

(g) Financial Crime Risk *(continued)*
(unaudited)

Financial crime risk management *(continued)*

Key risk management processes

We will not tolerate knowingly conducting business with individuals or entities believed to be engaged in criminal activity. We require everybody in the Bank to play their role in maintaining effective systems and controls to prevent and detect financial crime. Where we believe we have identified suspected criminal activity or vulnerabilities in our control framework, we will take appropriate mitigating action.

We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We operate in a highly regulated industry in which these same policy goals are codified in laws and regulations. We are committed to complying with the law and regulation of all the markets in which we operate and applying a consistently high financial crime standard globally.

We continue to assess the effectiveness of our end-to-end financial crime risk management framework on an ongoing basis, and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have simplified our framework by streamlining and de-duplicating policy requirements. We also strengthened our financial crime risk taxonomy and control libraries, improved our investigative and monitoring capabilities through technology deployments, as well as developed more targeted metrics. We have also enhanced governance and reporting.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk and we participate in numerous public-private partnerships and information-sharing initiatives. In 2023, our focus remained on measures to improve the overall effectiveness of the financial crime framework.

(h) Model risk
(unaudited)

Overview

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.

Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2023

Received regulatory feedback on a number of submissions across internal ratings-based ('IRB') models for credit risk. A programme of work has been initiated to address feedback from the Prudential Regulation Authority ('PRA') and HKMA on the IRB models for Wholesale and Retail Credit.

Made changes to the Value at Risk ('VaR') model in response to the interest rate changes by central banks across major markets to curb inflationary pressures.

Following the changes to address gaps in the control framework that emerged as a result of increases in adjustments during the COVID-19 pandemic; the dependency on adjustments being applied to model outputs has reduced.

The PRA published Supervisory Statement (SS1/23) which sets out guiding principles for how model risks should be managed across the industry. The principles set out the core disciplines necessary for a robust Model Risk Management ('MRM') framework to manage model risk effectively. A programme of work has been initiated to uplift MRM Framework to meet the enhanced model risk management requirements.

Enhanced our frameworks and controls as more Climate Risk and Artificial Intelligence ('AI') and Machine Learning ('ML') models are being embedded in business processes. Focused also on Generative AI due to the pace of technological changes where applicable model risks need to be managed.

Continued to carry out regular review on model inventory completeness and accuracy, and increased awareness of model landscape and model limitations across the Group.

Risk *(continued)*

(h) Model risk *(continued)*
(unaudited)

Governance

Model oversight forums provide oversight of models used in the Group to oversee model risk management activities based on associated model categories and focus on local delivery and requirements.

Key risk management processes

A variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications are used. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting.

Model risk management policies and procedures are regularly reviewed, and required the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls.

We report on model risk to senior management on a regular basis through the use of the risk map, risk appetite and regular key updates.

The effectiveness of model oversight structure is regularly reviewed to ensure appropriate understanding and ownership of model risk continued to be embedded in the businesses and functions.

Risk *(continued)*

(i) Insurance manufacturing operation risk

Overview
(unaudited)

The majority of the risk in the insurance business derives from manufacturing activities and can be categorised as insurance underwriting risk and financial risk. Financial risk includes the risk of not being able to match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible, exposure of which arises from market risk, credit risk and liquidity risk. Insurance underwriting risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received.

Group's bancassurance model
(unaudited)

The majority of sales are through an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship. For the insurance products we manufacture, the majority of sales are savings and protection contracts.

We choose to manufacture these insurance products through a Group's subsidiary based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the Group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a handful of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and a share of profits. We distribute insurance products in Hong Kong, China and Macau.

Insurance products are sold through all global businesses, but predominantly by WPB and CMB through our branches and direct channels.

Key developments in 2023
(unaudited)

Specific policies and practices relating to the risk management of insurance contracts have not changed materially over 2023. During the year, there was continued market volatility observed across interest rates, equity and credit markets and foreign exchange rates. One area of key risk management focus was the implementation of the new accounting standard, HKFRS 17, which became effective on 1 January 2023. Given the fundamental nature of the impact of the accounting standard on insurance accounting, this presents additional financial reporting and model risks for our insurance business.

Governance
(unaudited)

Insurance underwriting risks are managed to a defined risk appetite, which is aligned to the Group's risk appetite and risk management framework (including the three lines of defence model). The Insurance Risk Management Meeting oversees the control framework and is accountable to the Group's Risk Management Meeting on risk matters relating to insurance business.

The monitoring of the risks within the insurance operations is carried out by the Insurance Risk teams. Specific risk functions, including wholesale credit & market risk, operational risk, information security risk and compliance, support Insurance Risk teams in their respective areas of expertise.

In addition, our insurance manufacturing subsidiary performs annually an Own Risk and Solvency Assessment ('ORSA') to assess its risk profile, the adequacy of risk management and also its current, and likely future, solvency and liquidity positions according to local regulation.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(i) Insurance manufacturing operation risk *(continued)*

Measurement
(audited)

The following table shows the composition of the Group's insurance manufacturing subsidiary's assets and liabilities by contract type.

Balance sheet of insurance manufacturing subsidiary by type of contract [5,6]
(audited)

2023	Life direct participating contracts[1]	Life other[2]	Other contracts[3]	Shareholders' assets and liabilities	Total
Financial assets:					
- financial assets mandatorily measured at fair value through profit or loss	148,205	8,377	47	-	156,629
- derivative	46	3	-	-	49
- financial investments	-	-	191	8,150	8,341
- other financial assets[4]	4,230	239	45	986	5,500
Total financial assets	152,481	8,619	283	9,136	170,519
Insurance contract assets	-	10	-	-	10
Reinsurance contract assets	-	5,378	-	-	5,378
Other assets and investment properties	6,168	338	2	2,923	9,431
Total assets	158,649	14,345	285	12,059	185,338
Liabilities under investment contracts designated at fair value	-	-	264	-	264
Insurance contract liabilities	158,595	8,614	-	-	167,209
Reinsurance contract liabilities	-	1,111	-	-	1,111
Deferred tax	-	-	-	10	10
Derivative financial instruments	145	8	-	2	155
Other liabilities	3,393	191	11	2,102	5,697
Total liabilities	162,133	9,924	275	2,114	174,446
Total equity	-	-	-	10,892	10,892
Total liabilities and equity	162,133	9,924	275	13,006	185,338

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(i) Insurance manufacturing operation risk *(continued)*

Measurement *(continued)*
(audited)

Balance sheet of insurance manufacturing subsidiary by type of contract *(continued)* [5,6]
(audited)

2022	Life direct participating contracts[1]	Life other[2]	Other contracts[3]	Shareholders' assets and liabilities	Total
Financial assets:					
- financial assets mandatorily measured at fair value through profit or loss	143,618	9,120	80	-	152,818
- derivative	257	16	-	5	278
- financial investments	-	-	224	6,126	6,350
- other financial assets[4]	2,553	324	42	458	3,377
Total financial assets	146,428	9,460	346	6,589	162,823
Insurance contract assets	-	4	-	-	4
Reinsurance contract assets	-	5,663	-	-	5,663
Other assets and investment properties	6,588	320	2	1,927	8,837
Total assets	153,016	15,447	348	8,516	177,327
Liabilities under investment contracts designated at fair value	-	-	333	-	333
Insurance contract liabilities	143,836	8,530	-	-	152,366
Reinsurance contract liabilities	-	1,112	-	-	1,112
Deferred tax	-	-	-	10	10
Derivative financial instruments	73	11	-	-	84
Other liabilities	11,957	412	-	467	12,836
Total liabilities	155,866	10,065	333	477	166,741
Total equity	-	-	-	10,586	10,586
Total liabilities and equity	155,866	10,065	333	11,063	177,327

[1] *Life direct participating contracts are measured under the variable fee approach measurement model.*

[2] *Life other contracts are measured under the general measurement model. Life other contracts mainly include protection type contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating contracts.*

[3] *Other contracts includes investment contracts for which the Group does not bear significant insurance risk.*

[4] *Comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.*

[5] *Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with The Bank's non-insurance operations.*

[6] *From 1 January 2023, we adopted HKFRS 17 'Insurance Contracts', which replaced HKFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*

Stress and Scenario Testing
(audited)

Stress testing forms a key part of the risk management framework for our insurance business. The Group's insurance manufacturing subsidiary participates in regulatory stress tests, as well as internally developed stress and scenario tests. The results of these stress tests and the adequacy of management action plans to mitigate these risks are considered in our insurance manufacturing subsidiary's regulatory ORSA as required under HKRBC.

Key Risk Types

The key risks for the insurance operations are market risks (in particular interest rate and equity), and credit risks, followed by insurance underwriting risk and operational risks. Liquidity risk, while more significant for the banking business, is minor for our insurance manufacturing subsidiary.

Market risk (insurance)
(audited)

Market risk is the risk of changes in market factors affecting the Group’s manufacturing subsidiary's capital or profit. Market factors include interest rates, equity and growth assets, spread risk and foreign exchange rates.

Exposure of our insurance business varies depending on the type of contract issued. Most significant life insurance products of our insurance business are contracts with discretionary participating features ('DPF') issued in Hong Kong. These products typically include some form of capital guarantee or guaranteed return, on the sums invested by the policyholders, to which bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in bonds with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns. Contracts with DPF are further classified into Life direct participating contracts and Life other contracts under HKFRS 17.

DPF products expose our insurance business to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the Group's insurance manufacturing subsidiary. Allowances are made against the cost of such guarantees, calculated by stochastic modelling.

The cost of such guarantees are generally not material as it is absorbed by the CSM.

For unit-linked contracts, market risk is substantially borne by the policyholders, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Risk *(continued)*

(i) Insurance manufacturing operation risk *(continued)*

Market risk (insurance) (continued)
(audited)

Our insurance manufacturing subsidiary has market risk mandates which specify the investment instruments in which it is permitted to invest and the maximum quantum of market risk which they may retain. It manages market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- for products with DPF, adjusting bonus rates to manage the liabilities to policyholders and the effect is that a significant portion of the market risk is borne by the policyholders;
- asset and liability matching where asset portfolios are structured to support projected liability cash flows. Our insurance manufacturing subsidiary manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. It is not always possible to match asset and liability durations due to uncertainty over the receipt of all future premiums and the timing of claims; and the forecast payment dates of liabilities may exceed the duration of the longest dated investments available. Our insurance manufacturing subsidiary uses models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities and the ALCO employs the outcomes in determining how to best structure asset holdings to support liabilities;
- using derivatives and other financial instruments to protect against adverse market movements; and
- designing new products to mitigate market risk, such as changing the investment return sharing portion between policyholders and the shareholder.

Sensitivity of the Group's insurance manufacturing subsidiaries to market risk factors
(audited)

	2023			2022		
	Effect on CSM	**Effect on profit after tax**	**Effect on total equity**	Effect on CSM	Effect on profit after tax	Effect on total equity
+100 basis point parallel shift in yield curves [1]	**112**	**(3)**	**(3)**	(113)	(215)	(215)
-100 basis point parallel shift in yield curves [1]	**(697)**	**(10)**	**(10)**	(76)	(76)	(76)
+100 basis point shift in credit spreads[1]	**(1,284)**	**(285)**	**(285)**	(1,287)	(573)	(573)
-100 basis point shift in credit spreads[1]	**1,231**	**365**	**365**	2,050	365	365
10% increase in growth assets[2]	**603**	**93**	**93**	383	50	50
10% decrease in growth assets[2]	**(632)**	**(96)**	**(96)**	(525)	(64)	(64)
10% appreciation in US dollar exchange rate against local functional currency[2]	**274**	**3**	**3**	265	20	20
10% depreciation in US dollar exchange rate against local functional currency[2]	**(274)**	**(3)**	**(3)**	(265)	(20)	(20)

[1] For the sensitivity to parallel shift in yield curves and shift in credit spreads, an absolute +/- 100 basis points of the discount rate is used.

[2] For the sensitivity to growth assets and USD exchange rate, a relative +/- 10% (i.e. multiply the assumption by 110% or 90%) is used.

Growth assets primarily comprise equities securities, collective investment schemes, derivatives (other than exchange rate contracts) and investment properties, variability in growth asset fair value constitutes a market risk to the Group's insurance manufacturing subsidiary.

The relationship between the profit and total equity and the risk factors is non-linear and nonsymmetrical, therefore the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities reflect the established risk sharing mechanism with policyholders for participating products, and are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented do not allow for adverse changes in policyholders' behaviour that may arise in response to changes in market rates.

Risk *(continued)*

(i) Insurance manufacturing operation risk *(continued)*

Credit risk (insurance)
(audited)

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract. It arises in two main areas for our insurance manufacturing subsidiary:

- risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

The amounts outstanding at the balance sheet date in respect of these items are mainly reflected as 'Financial investments' and 'Reinsurance contract assets' in the table of 'Balance sheet of insurance manufacturing subsidiary by type of contract' under 'Insurance manufacturing operation risk' section.

Our insurance manufacturing subsidiary has credit risk mandates and limits within which it is permitted to operate, which consider the credit risk exposure quality and performance of its investment portfolios. Assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information. Stress testing is performed on the investment credit exposures using credit spread sensitivities and default probabilities.

Our insurance manufacturing subsidiary uses tools to manage and monitor credit risk. These include a credit report which contains a watch-list of investments with current credit concerns to identify investments which may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. Sensitivities to credit spread risk are assessed and monitored regularly.

Impairment for debt securities measured at amortised cost and FVOCI is calculated in three stages and financial assets are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase in credit risk between its first recognition and the relevant reporting period. After the allocation, the measurement of ECL, which is the product of PD, LGD and EAD, will reflect the change in risk of default occurring over the remaining life of the instruments. Note 2(j) of the financial statements set out the details on related accounting policy.

Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholders; therefore exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds.

The credit quality of the reinsurance contract assets is assessed as 'strong' (as defined on 'Credit quality classification' under 'Credit risk' section), with Nil exposure being past due or impaired (2022: Nil). The credit quality of financial assets is included under the Credit Risk section. The risk associated with credit spread volatility is to a large extent migrated by holding debt securities to maturity, and sharing a degree of credit spread experience with policyholders.

Management Discussion and Analysis *(continued)*

Risk *(continued)*

(i) Insurance manufacturing operation risk *(continued)*

Liquidity risk (insurance)
(audited)

Liquidity risk is the risk that the Group's insurance manufacturing subsidiary, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost. Liquidity risk may be able to be shared with policyholders for products with DPF.

Liquidity risk is managed by cashflow matching and maintaining sufficient cash resources; investing in high-credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate and establishing committed contingency borrowing facilities.

Our insurance manufacturing subsidiary completes quarterly liquidity risk reports and an annual review of the liquidity risks to which it is exposed.

The amounts of insurance contract liabilities that are payable on demand are set out by the product grouping below:

Amounts Payable on Demand
(audited)

	2023		2022	
	Amounts Payable on Demand	**Carrying Amount for these Contracts**	Amounts Payable on Demand	Carrying Amount for these Contracts
Life direct participating contracts	**147,593**	**158,655**	132,181	143,845
Life other contracts	**6,384**	**8,609**	6,338	8,529
At 31 December	**153,977**	**167,264**	138,519	152,374

Insurance underwriting risk
(audited)

Insurance underwriting risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapses and expense rates. The principal risk our insurance manufacturing subsidiary faces is that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.

The Group's insurance manufacturing subsidiary primarily uses the following framework and processes to manage and mitigate insurance underwriting risk:

- a formal approval process for launching new products or making changes to products;
- a product pricing and profitability framework, which requires initial and ongoing assessment of the adequacy of premiums charged on new insurance contracts to meet the risks associated with them;
- a framework for customer underwriting;
- reinsurance which cedes risks to third-party to keep risks within risk appetite, reduce volatility and improve capital efficiency; and
- oversight of expense and reserve risks by our insurance manufacturing subsidiary's Financial Reporting Committee.

Risk *(continued)*

(i) Insurance manufacturing operation risk *(continued)*

Insurance underwriting risk (continued)
(audited)

The following table shows the sensitivity of profit and total equity to reasonably possible changes in non-economic assumptions for our insurance manufacturing subsidiary. These sensitivities are prepared in accordance with current HKFRSs.

Sensitivity of the Group's insurance manufacturing subsidiaries to insurance underwriting risk factors
(audited)

	Effect on CSM (gross)[1]	Effect on profit after tax (gross)[1]	Effect on profit after tax (net)[2]	Effect on total equity (gross)[1]	Effect on total equity (net)[2]
At 31 December 2023					
10% increase in mortality and/or morbidity rates	**(350)**	**(26)**	**(45)**	**(26)**	**(45)**
10% decrease in mortality and/or morbidity rates	**361**	**27**	**47**	**27**	**47**
10% increase in lapse rates	**(238)**	**(30)**	**(40)**	**(30)**	**(40)**
10% decrease in lapse rates	**252**	**31**	**41**	**31**	**41**
10% increase in expense rates	**(21)**	**(0)**	**(0)**	**(0)**	**(0)**
10% decrease in expense rates	**22**	**1**	**1**	**1**	**1**
At 31 December 2022					
10% increase in mortality and/or morbidity rates	(358)	(20)	(50)	(20)	(50)
10% decrease in mortality and/or morbidity rates	361	19	51	19	51
10% increase in lapse rates	(166)	(16)	(24)	(16)	(24)
10% decrease in lapse rates	150	15	24	15	24
10% increase in expense rates	(26)	(1)	(1)	(1)	(1)
10% decrease in expense rates	19	0	0	0	0

[1] *The gross sensitivities impacts are provided before considering the impacts of reinsurance contracts held as risk mitigation.*

[2] *The net sensitivities impacts are provided after considering the impacts of reinsurance contracts held as risk mitigation.*

For the above sensitivity, a relative +/- 10% (i.e. multiply the assumption by 110% or 90%) is used.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on CSM (and therefore expected future profits) due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The Board

Irene LEE Yun Lien
Independent Non-executive Chairman

Aged 70

Joined the Board since May 2014

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** –
Chairman of Nomination Committee; Member of Audit Committee; Member of Risk Committee; Member of Remuneration Committee

Other major appointments
^ **Alibaba Group Holding Limited** –
Independent Director; Chairwoman of Compliance and Risk Committee; Chairwoman of Nominating and Corporate Governance Committee
Hong Kong Monetary Authority –
Member of The Exchange Fund Advisory Committee
^ **Hysan Development Company Limited –**
Executive Chairman; Chairman of Nomination Committee
The Hongkong and Shanghai Banking Corporation Limited –
Independent Non-executive Director; Chairman of Remuneration Committee; Member of Audit Committee; Member of Risk Committee
30% Club HK – Chairman

Past major appointments
^ **HSBC Holdings plc** –
Independent Non-executive Director (2015 – 2022)
Member of Chairman's Committee; Member of Nomination & Corporate Governance Committee (2018 – 2022)
Member of Group Remuneration Committee (2018 – 2021)
^ **Cathay Pacific Airways Limited** –
Independent Non-executive Director (2010 – 2019)
Chairman of Audit Committee (2015 – 2019)
Chairman of Remuneration Committee (2012 – 2019)
^ **CLP Holdings Limited –**
Independent Non-executive Director; Member of Audit Committee; Member of Finance and General Committee (2012 – 2018)
Member of Sustainability Committee (2014 – 2018)
^ **Noble Group Limited** –
Independent Non-executive Director; Member of Audit Committee; Member of Investment and Capital Markets Committee (2012 – 2017)
Member of Nominating Committee (2013 – 2017)
Member of Risk Committee (2014 – 2017)
JP Morgan Australia – Member of Advisory Council (2005 – 2013)
^ **QBE Insurance Group Limited** – Non-executive Director (2002 – 2013)
ING Bank (Australia) Limited – Non-executive Director (2005 – 2011)
Australian Government Takeovers Panel – Member (2001 – 2010)
^ **Commonwealth Bank of Australia –** Head of Corporate Finance (1993 – 1998)
Citicorp Investment Bank Limited in New York, London and Sydney –
Executive Director (1977 – 1987)

Qualifications
Degree of Doctor of Social Science, honoris causa – The Chinese University of Hong Kong
Bachelor of Arts Degree – Smith College, USA
Barrister-at-Law in England and Wales
Member – The Honourable Society of Gray's Inn, UK

Diana Ferreira CESAR JP
Executive Director and Chief Executive

Aged 55

Joined the Board since September 2021

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** –
Chairman of Executive Committee; Member of Nomination Committee
Hang Seng Bank (China) Limited –
Chairman and Non-executive Director; Member of Nomination Committee
Hang Seng Indexes Company Limited –
Chairman of Hang Seng Index Advisory Committee
Hang Seng Insurance Company Limited – Chairman and Non-executive Director

Other major appointments
Justice of the Peace
CLAP@JC – Convenor of the Advisory Committee
Financial Services Development Council –
Member of Board of Directors; Convenor of Human Capital Committee
^ **Great Eagle Holdings Limited –** Independent Non-executive Director
Hang Seng School of Commerce – Chairman of the Board of Directors
Ho Leung Ho Lee Foundation – Member of Board of Trustees
Hong Kong Monetary Authority –
Member of Financial Infrastructure and Market Development Subcommittee
^ **HSBC Holdings plc** – General Manager
The Community Chest of Hong Kong –
Board Member; Campaign Committee Co-Chairman; Chairman of Corporate and Employee Contribution Programme Organising Committee; Member of Executive Committee
The Hang Seng University of Hong Kong – Chairman of the Board of Governors
The Hong Kong Institute of Bankers – Vice President
Treasury Markets Association – Council Member
University Grants Committee – Member

Past major appointments
The Hongkong and Shanghai Banking Corporation Limited –
Chief Executive Officer, Hong Kong; Member of Executive Committee; Manager under s.72B of Banking Ordinance (2015 – 2021)
Head of Retail Banking and Wealth Management, Hong Kong (2011 – 2015)
Head of Marketing and Customer Propositions, Retail Banking and Wealth Management, Asia-Pacific (2009 – 2011)
The Hong Kong Association of Banks –
Chairman representing The Hongkong and Shanghai Banking Corporation Limited (2018, 2021)
Hong Kong Trade Development Council – Council Member (2018, 2021)
EPS Company (Hong Kong) Limited – Chairman of the Board (2011 – 2016)
HSBC Broking Services (Asia) Limited – Director (2011 – 2016)
HSBC Insurance (Asia) Limited – Director (2011 – 2016)
HSBC Life (International) Limited – Director (2011 – 2016)
Hubei Suizhou Cengdu HSBC Rural Bank Company Limited – Director (2014 – 2015)

Qualifications
Bachelor of Arts in Commerce and Social Sciences – University of Toronto
Honorary Certified Banker – The Hong Kong Institute of Bankers

Cordelia CHUNG
Independent Non-executive Director

Aged 64

Joined the Board since February 2022

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited –**
Chairman of Remuneration Committee; Member of Nomination Committee

Other major appointments
Arup Group Limited –
Independent Non-executive Director; Member of Assurance Committee; Member of Leadership Appointments Committee; Member of Risk Committee
City University of Hong Kong – Member of the Court
^ **HKBN Ltd.** *(Note 1)* –
Independent Non-executive Director; Member of Nomination Committee; Member of Remuneration Committee
Human Resources Planning Commission of HKSAR Government – Member
^ **Hysan Development Company Limited –**
Independent Non-executive Director; Member of Nomination Committee; Member of Remuneration Committee
Maryknoll Convent School Foundation Limited – Chairman
Raymond T. Y. Chan, Victoria Chan & Co. – Consultant

Past major appointments
Hong Kong Science and Technology Parks Corporation –
Non-executive Director; Chairman of Investment Committee; Vice Chairman of Business Development and Admission Committee; Member of Projects and Facilities Committee; Member of Senior Staff Administration Committee; Member of Re-industrialisation Advisory Committee (2017 – 2023)
Research Grants Council of HKSAR Government – Member (2017 – 2023)
Grosvenor Asia Pacific Limited – Non-executive Director (2020 – 2022)
Arup Group Limited – Member of Nomination Committee (2020 – 2022)
Dalian Committee of the Chinese People's Political Consultative Conference –
Member (2008 – 2021)
Office of the Privacy Commissioner for Personal Data, Hong Kong –
Member of Personal Data (Privacy) Advisory Committee (2015 – 2021)
Singapore University of Technology and Design –
Trustee of the Board; Chairman of Promotion and Development Committee; Member of Audit and Risk Committee (2012 – 2021)
^ **LIXIL Corporation** – Managing Director, Corporate Strategy (2015 – 2019)
IBM China/ Hong Kong Limited –
Various senior positions including Regional General Manager of IBM ASEAN; General Manager of IBM Hong Kong and Macau; Member of Global Strategy Committee (1991 – 2015)

Qualifications
Bachelor of Laws (Hons) – The University of Hong Kong

Kathleen GAN Chieh Huey
Non-executive Director

Aged 49

Joined the Board since May 2019

Other major appointments
^ **HSBC Holdings plc** –
General Manager; Head of Finance, Global Businesses, DBS and Functions *(Note 1)*

Past major appointments
^ **HSBC Holdings plc** – Head of Finance (2019 – 2023) *(Note 1)*
HSBC INSN (Non Operating) Pte. Ltd. (formerly known as HSBC Insurance (Singapore) Pte. Limited) –
Non-executive Director; Chairman of Risk Committee; Member of Audit Committee (2022 – 2023)
HSBC Life (Singapore) Pte. Ltd. (formerly known as AXA Insurance Pte. Ltd.) –
Non-executive Director; Chairman of Risk Committee; Member of Audit Committee (2022 – 2023)
HSBC Bank (China) Company Limited – Supervisor (2017 – 2022)
HSBC Global Services Limited – Director (2019 – 2022)
HSBC Asia Holdings Limited – Director (2018 – 2020)
The Hongkong and Shanghai Banking Corporation Limited –
Alternate Chief Executive (2016 – 2020)
Chief Financial Officer, Asia Pacific (2015 – 2019)
Global Chief Financial Officer, Global Commercial Banking (2010 – 2015)
Global Chief Risk Officer, Global Commercial Banking (2011 – 2014)
HSBC Asia Pacific Holdings (UK) Limited – Director (2015 – 2019)
HSBC Insurance (Asia) Limited – Director (2015 – 2019)
HSBC Insurance (Asia-Pacific) Holdings Limited – Director (2016 – 2019)
HSBC Life (International) Limited – Director (2015 – 2019)
HSBC Securities Investments (Asia) Limited – Director (2015 – 2019)
HSBC North America Holdings Inc –
Executive Vice President, Chief Operating Officer – North America Finance (2008 – 2010)

Qualifications
Bachelor's Degree (Honors) in Business **–** Nanyang Technological University, Singapore
Henry Crown Fellow – The Aspen Institute, USA

Clement KWOK King Man
Independent Non-executive Director

Aged 64

Joined the Board since May 2021

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Chairman of Audit Committee

Other major appointments
Faculty of Business and Economics of The University of Hong Kong –
Member of International Advisory Council
^ **The Hongkong and Shanghai Hotels, Limited** – Managing Director and Chief Executive Officer
World Travel & Tourism Council – Council Member

Past major appointments
Financial Reporting Council – Honorary Adviser (2017 – 2021)
^ **Orient Overseas (International) Limited** – Independent Non-executive Director (2015 – 2018)
^ **Swire Pacific Limited** – Independent Non-executive Director (2002 – 2015)
Harbourfront Commission – Non-official member (Individuals) (2010 – 2013)
Securities and Futures Appeals Tribunal – Member (2003 – 2009)
Securities and Futures Commission – Member of Takeovers and Mergers Panel (2003 – 2009)
International Accounting Standards Board – Member of Interpretations Committee (2002 – 2007)
^ **MTR Corporation Limited** – Finance Director (1996 – 2002)
Hang Seng Indexes Company Limited –
Member of Hang Seng Index Advisory Committee (1997 – 2000)
The Stock Exchange of Hong Kong Limited – Member of Listing Committee (1994 – 1996)
Schroders Asia – Director and Head of Corporate Finance (1986 – 1996)
Barclays de Zoete Wedd Limited, United Kingdom –
Manager, Corporate Finance Division (1984 – 1986)
PricewaterhouseCoopers, United Kingdom – Chartered Accountant (1980 – 1984)

Qualifications
Fellow – The Hong Kong Management Association
Member – Institute of Chartered Accountants in England and Wales
Member – Hong Kong Institute of Certified Public Accountants
Bachelor of Science in Economics – The London School of Economics, UK

Major awards
Chevalier de l'Ordre National de la Légion d'Honneur (2015)

Patricia LAM Sze Wan
Independent Non-executive Director

Aged 57

Joined the Board since July 2022

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Member of Nomination Committee; Member of Remuneration Committee

Other major appointments
^ **Dickson Concepts (International) Limited** –
Independent Non-executive Director; Member of Nomination Committee
Hang Seng School of Commerce – Director
^ **MGM China Holdings Limited** –
Independent Non-executive Director; Chairperson of Remuneration Committee; Member of Nomination, Environmental, Social and Governance Committee
Patti Wong & Associates Limited – Co-Founder and Partner; Director
The Hang Seng University of Hong Kong – Governor

Past major appointments
Sotheby's Inc. – Senior International Chairman (March 2022 – January 2023)
Sotheby's Hong Kong Limited –
Chairman of Sotheby's Asia (2004 – 2022)
Chairman of Sotheby's Diamonds (2005 – 2022)
Various positions including Head of Private Client Services Department (1991 – 2005)

Qualifications
Post Graduate Diploma in Asian Arts –
Sotheby's School of Oriental and African Studies, The University of London, UK
Bachelor's Degree in Monetary Economics – The London School of Economics, UK

David LIAO Yi Chien
Non-executive Director

Aged 51

Joined the Board since September 2021

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Member of Nomination Committee

Other major appointments
^ **Bank of Communications Co., Ltd. –**
Non-executive Director; Member of Personnel and Remuneration Committee
Hong Kong General Chamber of Commerce – Member of General Committee
Hong Kong Monetary Authority – Member of The Exchange Fund Advisory Committee
^ **HSBC Holdings plc –**
Group Executive; Member of Group Executive Committee; Member of Group People Committee; Member of Group Risk Management Meeting; Member of Holdings Asset and Liability Committee
The Hongkong and Shanghai Banking Corporation Limited –
Executive Director; Co-CEO; Co-Chair of Executive Committee; Member of Asset, Liability and Capital Management Committee; Member of Chairman's Committee; Member of Risk Management Meeting

Past major appointments
HSBC Global Asset Management Limited – Director (2021 – 2022)
HSBC Jintrust Fund Management Company Limited – Supervisor (2017 – 2022)
The Hongkong and Shanghai Banking Corporation Limited –
Alternate Chief Executive (2020 – 2021)
HSBC Bank (China) Company Limited –
Director; Chief Executive Officer; Member of Nomination Committee; Chairman of Executive Committee (2015 – 2020)
HSBC Bank (Taiwan) Limited – Advisor (2015 – 2018)
Hubei Suizhou Cengdu HSBC Rural Bank Company Limited – Chairman (2015 – 2016)

Qualifications
Bachelor's Degree (Honours) in Arts **–** The University of London, UK

LIN Huey Ru
Independent Non-executive Director

Aged 48

Joined the Board since July 2022

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Member of Risk Committee

Other major appointments
GGV Capital Pte. Ltd. – Venture Partner
Nium Pte. Ltd. – Independent Non-executive Director
^ **Singapore Exchange Limited** –
Non-Executive and Independent Director; Member of Risk Management Committee
Terraformation Inc. – Special Project Advisor

Past major appointments
PayU Payments Private Limited, the Payments and Fintech Division of **^Prosus** –
Member of FinTech Advisory Board (2019 – 2023)
Monetary Authority of Singapore –
Member of International Technology Advisory Panel (2021 – 2023)
Grabtaxi Holdings Private Limited, a subsidiary of **^Grab Holdings Limited –**
Advisor to Senior Management (2021 – 2022)
Flexport, Inc. – President, Flexport Asia Ltd. (2018 – 2020)
^ **Affirm, Inc.** – Chief Operating Officer (2012 – 2018)
Children's Council of San Francisco – Member of Board of Directors (2016 – 2018)
^ **PayPal Holdings, Inc.** –
Various positions including China Site General Manager, Asia Pacific Operations (2001 – 2012)

Qualifications
Masters in Administration, Policy Analysis and Evaluation – Stanford University, USA
Bachelors in Biological Science and Psychology – Carnegie Mellon University, USA

Kenneth NG Sing Yip
Independent Non-executive Director

Aged 73

Joined the Board since March 2014

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Chairman of Risk Committee; Member of Nomination Committee

Other major appointments
Hong Kong General Chamber of Commerce – Vice Chairman of Legal Committee
HSBC Bank Australia Limited –
Independent Non-executive Director; Member of Audit Committee; Member of Nomination Committee
HSBC Bank (Vietnam) Ltd. – Chairman of Board of Supervision
^ **Ping An Insurance (Group) Company of China, Ltd. –** Independent Non-executive Director
The University of Hong Kong –
Member of Asian Institute of International Financial Law Advisory Board of the Faculty of Law

Past major appointments
^ **Hang Seng Bank Limited** – Non-executive Director (2014 – 2022)
HSBC Bank (China) Company Limited – Non-executive Director (2011 – 2018)
Competition Tribunal Users' Committee of HKSAR Government – Member (2014 – 2017)
Standing Committee on Company Law Reform – Member (2011 – 2017)
The Law Society of Hong Kong – Council Member (2002 – 2016)
The Hongkong and Shanghai Banking Corporation Limited –
General Counsel, Asia Pacific (1998 – 2016)
Deputy Head of Legal and Compliance Department (1993 – 1998)
Assistant Group Legal Adviser (1987 – 1993)
Board of Review of Inland Revenue Ordinance of HKSAR Government – Member (2008 – 2014)
^ **Ping An Insurance (Group) Company of China, Ltd. –** Non-executive Director (2006 – 2013)

Qualifications
Bachelor's Degree and Master's Degree in Laws (L.L.B. and L.L.M.) – The University of London, UK
Bachelor's Degree in Laws (L.L.B.) – Beijing University, PRC

SAW Say Pin
Executive Director and Chief Financial Officer

Aged 56

Joined the Board since November 2022

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Member of Executive Committee
Hang Seng Bank (China) Limited –
Non-executive Director; Chairman of Risk and Consumer Rights/Interests Protection Committee; Member of Audit Committee; Member of Remuneration Committee
Hang Seng Insurance Company Limited – Director
Hang Seng Investment Management Limited – Chairman
Hang Seng Investment Services Limited – Director
Hang Seng Real Estate Management Limited – Director
Hang Seng Securities Limited – Director
Imenson Limited – Director

Other major appointments
Hang Seng School of Commerce – Director
HSBC Asia Holdings Limited – Director
The Hang Seng University of Hong Kong – Governor

Past major appointments
HSBC Bank (China) Company Limited – Chief Financial Officer (2019 – 2022)
Hubei Suizhou Cengdu HSBC Rural Bank Company Limited – Supervisor (2020 – 2022)
HSBC Bank Malaysia Berhad –
Various positions including Chief Financial Officer; Chief Accounting Officer; Senior Finance Manager; Head of Treasury Services; Head of Management Information; Financial Accountant (1995 – 2019)
HSBC Electronic Data Processing (Malaysia) Sdn Bhd – Non-executive Director (2015 – 2019)
HSBC Software Development (Malaysia) Sdn Bhd – Non-executive Director (2015 – 2019)
HSBC Amanah Malaysia Berhad – Chief Financial Officer (Double-hat) (2011 – 2015)

Qualifications
Chartered Banker – Asian Institute of Chartered Banker
Fellow – CPA Australia
Master of Finance – Royal Melbourne Institute of Technology, Australia

WANG Xiao Bin
Independent Non-executive Director

Aged 56

Joined the Board since February 2022

Other positions held within Hang Seng Group
^ **Hang Seng Bank Limited** – Member of Audit Committee; Member of Risk Committee

Other major appointments
^ **Worley Limited** –
Independent Non-executive Director; Member of Audit and Risk Committee; Member of Nominations Committee

Past major appointments

^ **China Resources Power Holdings Company Limited** –
Executive Director (2006 – 2023)
Senior Vice President (2020 – 2023)
Company Secretary (2003 – 2023)
Chief Financial Officer (2003 – 2020)

^ **Angang Steel Company Limited** – Independent Non-executive Director (2005 – 2009)

ING Bank N.V. –
Various positions including director of corporate finance in the investment bank division (1995 – 2003)

PriceWaterhouse, Australia –
Various positions in the audit and business advisory division (1990 – 1995)

Qualifications

Chartered Accountant, Australia
Member – CPA Australia (formerly known as Australian Society of Certified Practising Accountants)
Graduate diploma in Applied Finance and Investment –
The Financial Services Institute of Australasia (formerly known as Securities Institute of Australia)
Bachelor's Degree in Commerce – Murdoch University, Australia

^ The securities of these companies are listed on a securities market in Hong Kong or overseas.

Notes:

1 New appointments or cessation of appointments since the date of the Bank's 2023 Interim Report.

2 The interests of Directors in shares of the Bank, if any, within the meaning of Part XV of the Securities and Futures Ordinance ('SFO') as at 31 December 2023 are disclosed in the section 'Directors' and Alternate Chief Executives' Interests' of the Report of the Directors attached to this Annual Report.

3 Some Directors (as disclosed in the section 'Biographical Details of Directors and Senior Management – The Board' of this Annual Report) are also Directors of HSBC Holdings plc ('HSBC') and/or its subsidiaries. HSBC, through its wholly owned subsidiaries, has an interest in the shares of the Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO, the details of which are disclosed in the section 'Substantial Interests in Share Capital' of the Report of the Directors attached to this Annual Report.

4 Save as disclosed in the section 'Biographical Details of Directors and Senior Management – The Board' of this Annual Report, the Directors (a) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last 3 years; (b) do not hold any other positions in the Bank and its subsidiaries; and (c) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Bank.

5 All Directors (except those Directors who are full time employees of the Bank or its subsidiaries) will receive Directors' fees in the amounts approved from time to time by shareholders at the Annual General Meetings of the Bank. The current amounts of Directors' fees have been determined with reference to market rates, directors' workload and required commitment. A Director will also receive a fee for duties assigned to and services provided by him/her as Chairman or member of various Committees of the Bank. Such fees have been determined with reference to the remuneration policy of the Bank.

6 No Directors' fees are payable to those Directors who are full time employees of the Bank or its subsidiaries. The salary packages of such Directors have been determined with reference to the remuneration policy of the Bank. Such Directors are also entitled to discretionary bonus.

7 The details of the emoluments of the Directors on a named basis are disclosed in Note 14 of the Bank's Financial Statements as contained in this Annual Report.

8 Biographical details of Directors of the Bank are also available on our website (www.hangseng.com/en-hk/about-us/directors-organisation/board-of-directors/).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Diana Ferreira CESAR JP
Executive Director and Chief Executive

(Biographical details are set out on pages 145 to 146)

SAW Say Pin
Executive Director and Chief Financial Officer

(Biographical details are set out on page 151)

Jordan CHEUNG Wang Chun
Chief Marketing Officer

Aged 40

Joined the Bank since December 2022

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Chief Marketing Officer; Member of Executive Committee

Past major positions
DFI Retail Group Holdings – Vice President, CRM & Performance Marketing, yuu (2022)
Regal Hotels International Holdings Limited –
Vice President – Head of Group Marketing and Head of Innovation and Digital Transformation (2020 – 2022)
Manulife Hong Kong –
Director, Digital Marketing / Customer Experience and Strategic Marketing (2019 – 2020)
Hong Kong Airlines Limited – Deputy General Manager, Global Marketing (2012 – 2019)

Qualifications
Bachelor of Integrated Business Administration with Concentration in Marketing –
The Chinese University of Hong Kong

Kathy CHEUNG Ka Wai
Chief Risk and Compliance Officer

Aged 54

Joined the Bank since March 2022

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Chief Risk and Compliance Officer; Member of Executive Committee
Hang Seng Data Services Limited – Director
Hang Seng Indexes Company Limited – Director
Hang Seng Investment Management Limited – Director
Hang Seng Investment Services Limited – Director
Hang Seng Securities Limited – Director
Hang Seng Security Management Limited – Director

Other major appointments
Hang Seng School of Commerce – Director
The Hang Seng University of Hong Kong – Governor

Past major positions
Hang Seng Bank Limited – Chief Risk Officer (2022 – 2023)
HSBC Asia Holdings Limited – Director (August to November 2022)
The Hongkong and Shanghai Banking Corporation Limited –
Chief Risk Officer, Hong Kong and Macau (2015 – 2022)
Head of Retail Banking and Wealth Management Risk, Greater China (2015)
Head of Retail Banking and Wealth Management Risk (2013 – 2015)
Head of Credit & Risk (2012 – 2013)
Head of Consumer Credit Risk (2011)
Various roles in relation to Risk Management (2000 – 2010)

Qualifications
Bachelor of Arts in Business Administration – Accounting – University of Washington, USA
Member – American Institute of Certified Public Accountant

Maggie CHEUNG Ka Ki
Company Secretary and Head of Corporate Governance

Aged 46

Joined the Bank since April 2023

Major positions held within Hang Seng Group
Hang Seng Bank Limited –
Company Secretary and Head of Corporate Governance; Member of Executive Committee

Past major positions
Kerry Properties Limited –
Company Secretary; Senior Director, Company Secretariat and Legal (PRC) (2021 – 2023)
Hysan Development Company Limited –
Company Secretary (2015 – 2021)
General Counsel (2017 – 2021)
Legal Counsel (2014 – 2017)
Mayer Brown – Solicitor (2007 – 2014)
King & Wood Mallesons – Solicitor (2005 – 2007)

Qualifications
Solicitor – High Court of Hong Kong; Supreme Court of England and Wales
Fellow – Hong Kong Chartered Governance Institute
General Mediator – Hong Kong
Master of Laws – University College London, UK
Bachelor of Laws – The University of Hong Kong

Vivien CHIU Wai Man
Chief Operating Officer

Aged 59

Joined the Bank since January 2022

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Chief Operating Officer; Member of Executive Committee
Hang Seng Data Services Limited – Director
Hang Seng Indexes Company Limited – Director
Hang Seng Investment Management Limited – Director
Hang Seng Investment Services Limited – Director
Hang Seng (Nominee) Limited – Director
Hang Seng Real Estate Management Limited – Director
Hang Seng Securities Limited – Director
Hang Seng Security Management Limited – Director

Other major appointments
Barrowgate Limited – Director

Past major positions
The Hongkong and Shanghai Banking Corporation Limited –
Interim Chief Operating Officer Hong Kong (2021)
Head of Operations Hong Kong (2017 – 2021)
Regional Head Asia Pacific – Banking Operations & CDD, Operations (2013 – 2017)
Senior Programme Manager, Transformation (2010 – 2013)
Various roles in Technology, Digital Business Services (1989 – 2010)
Hong Kong Interbank Clearing Limited – Alternate Director (2017 – 2021)
HKICL Services Limited – Alternate Director (2017 – 2021)
Hong Kong Trade Finance Platform Company Limited – Alternate Director (2018 – 2021)

Qualifications
Bachelor of Engineering – University of Melbourne, Australia

Rose CHO Mui
Head of Global Banking

Aged 52

Joined the Bank since June 2003

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Head of Global Banking; Member of Executive Committee

Other major appointments
The Community Chest of Hong Kong –
Dress Casual Day Organising Committee Co-Chairman; Member of Campaign Committee
The Hainan Province Committee of the Chinese People's Political Consultative Conference –
Member

Past major positions
Hang Seng Bank Limited –
Head of Corporate Banking, Commercial Banking Division (2015 – 2021)
Head of Business Banking, Commercial Banking Division (2011 – 2015)
Deputy Head of Commercial Banking, Commercial Banking Division (2007 – 2011)
Department Head, Commercial Banking (2004 – 2007)
Team Head, Commercial Banking Division (2003)
Rabobank, N.A. – Senior Relationship Manager, Corporate Banking (1997 – 2003)
BankBoston, N.A. – Relationship Manager, Corporate Banking (1996 – 1997)
Citibank, N.A. – Relationship Manager, Corporate Banking (1993 – 1996)

Qualifications
Master of Business Administration – The Hong Kong University of Science and Technology
Bachelor of Business Administration (Honors) in Business Studies –
The Hong Kong Polytechnic University

Liz CHOW Tan Ling
Head of Global Markets

Aged 50

Joined the Bank since October 2006

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Head of Global Markets; Member of Executive Committee
Hang Seng Bullion Company Limited – Director

Other major appointments
Treasury Markets Association – Member of Executive Board

Past major positions
Hang Seng Bank Limited –
Head of Global Markets Corporate Treasury and Business Management (2011 – 2015)
Head of Corporate Treasury Services Greater China (2011)
Various positions in the area of corporate treasury in Treasury Division (2006 – 2011)
DBS Bank Limited, Hong Kong – VP Treasury & Markets (2002 – 2006)
Commonwealth Bank of Australia, Hong Kong – Executive Capital Markets (2000 – 2002)

Qualifications
Bachelor of Business Administration – The Chinese University of Hong Kong
Bachelor of Laws – The University of London, UK

Gloria HO Lok Sze
Head of Human Resources

Aged 45

Joined the Bank since April 2022

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Head of Human Resources; Member of Executive Committee
Hang Seng Security Management Limited – Director

Other major appointments
Employers' Federation of Hong Kong – Member of People Strategies Committee
The Community Chest of Hong Kong –
Co-Chairman of Corporate and Employee Contribution Programme Organising Committee; Member of Campaign Committee

Past major positions
Kerry Properties Limited – Chief Human Resources Officer (2017 – 2022)
Christie's –
Vice President, HR Business Partner / Head of Human Resources, Asia (2014 – 2017)
Shangri-La Group –
Director of Human Resources Operations, Development / Corporate Director of Talent Acquisition (2012 – 2014)

Qualifications
Bachelor of Commerce, Management – University of Auckland, New Zealand

Betty LAW Shuk Man
Head of Corporate Communications and Community Investments

Aged 51

Joined the Bank since July 2022

Major positions held within Hang Seng Group
Hang Seng Bank Limited –
Head of Corporate Communications and Community Investments; Member of Executive Committee

Other major appointments
Hang Seng School of Commerce – Director
The Hang Seng University of Hong Kong – Governor

Past major positions
Hang Seng Bank Limited –
Head of Communications and Corporate Sustainability (2022 – 2023)
Senior Corporate Communications Manager (2006 – 2010)
The Hong Kong Jockey Club –
Executive Manager, Public Affairs (Corporate & Media Services) (2019 – 2022)
Hang Lung Properties Limited – General Manager – Corporate Communications (2011 – 2019)
AIA Group Limited – Assistant Vice President Group Communications (2010 – 2011)

Qualifications
Master of Comparative and Public History – The Chinese University of Hong Kong
Master of International and Public Affairs – The University of Hong Kong
Bachelor of Arts in English and Translation – The Chinese University of Hong Kong

Gilbert LEE Man Lung
Head of Strategy & Planning and Chief of Staff to CE

Aged 46

Joined the Bank since August 2014

Major positions held within Hang Seng Group
Hang Seng Bank Limited –
Head of Strategy & Planning and Chief of Staff to CE; Member of Executive Committee
Hang Seng Data Services Limited – Director
Hang Seng Indexes Company Limited – Chairman

Past major positions
Yantai Bank Co., Ltd. –
Director; Member of Audit Committee; Member of Connected Party Transaction Committee (2019 – 2022)
Hang Seng Bank Limited – Head of Strategy & Planning (2014 – 2018)
Wells Fargo Bank, N.A. –
Senior Vice President, Cross-Border Governance & Strategic Initiatives Leader – Asia (2013 – 2014)
Booz & Company –
Senior Associate, Co-Lead of Financial Services Practice, Greater China (2007 – 2013)
Bank of America, N.A. – Assistant Vice President, Special Assets Group, Asia (2006)
Citibank, N.A. –
Various positions in the areas of Corporate Banking and Risk Management (2000 – 2005)

Qualifications
Chartered Financial Analyst
Chartered Global Management Accountant
Fellow – The Chartered Institute of Management Accountants
Certified Chief Innovation Officer – Global Innovation Institute
Associate – Life Management Institute
Certified Fintech Professional (Management)
Member – The Hong Kong Institute of Directors
Master of Business Administration – INSEAD, France
Master of Science in Business Economics – The Chinese University of Hong Kong
Bachelor of Finance – The University of Hong Kong
Fellow of Asia Pacific Leadership Programme – East-West Centre, The University of Hawaii, USA

Rannie LEE Wah Lun
Head of Wealth and Personal Banking

Aged 56

Joined the Bank since January 2022

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Head of Wealth and Personal Banking; Member of Executive Committee
Hang Seng Bank (Trustee) Limited – Director
Hang Seng Credit Limited – Director
Hang Seng Finance Limited – Director
Hang Seng Indexes Company Limited – Member of Hang Seng Index Advisory Committee
Hang Seng Insurance Company Limited – Director
Hang Seng Investment Management Limited – Director
Hang Seng Securities Limited – Chairman
Hang Seng Security Management Limited – Director
HASE Wealth Limited – Director
Haseba Investment Company Limited – Director

Other major appointments
Employers' Federation of Hong Kong – Elected Member of General Committee
The Hong Kong Institute of Bankers –
Member of Executive Committee; Chairperson of Membership and Professional Development Committee
The Hong Kong Jockey Club Trusted-initiated Project – Urban Graduation Approach to Uplift Poor Households out of Poverty –
Member of Advisory Committee

Past major positions
The Hongkong and Shanghai Banking Corporation Limited –
Head of Special Project, Retail Banking and Wealth Management (2021)
Co-CEO and Head of Retail Banking and Wealth Management / Wealth and Personal Banking, Pearl River Delta (Assignment based in Shenzhen, China) (2018 – 2021)
Various positions in Personal Financial Services Division, including Country Head of Customer Value Management (1997 – 2018)

Qualifications
Master of Management – Macquarie University, Australia
Bachelor of Law – Manchester Metropolitan University, UK
Bachelor of Social Science – The University of Hong Kong

Regina LEE Sau Yee
Head of Commercial Banking

Aged 49

Joined the Bank since October 2023

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Head of Commercial Banking; Member of Executive Committee

Past major positions
The Hongkong and Shanghai Banking Corporation Limited –
- Managing Director and Head of Commercial Banking, Singapore (2021 – 2023)
- Managing Director, Commercial Banking, Hong Kong (2018 – 2021)
- Chief Operating Officer, Commercial Banking, Hong Kong (2015 – 2018)
- Regional Head of Business Risk and Control Management, Commercial Banking (2014 – 2015)
- Head of Business Development, Global Trade and Receivables Finance, Commercial Banking, Hong Kong (2012 – 2014)
- Senior Vice President and Head of Wholesale Risk Management, Taiwan (2011 – 2012)
- Head of Corporate Banking, Macau (2009 – 2011)
- Senior Vice President, Team Head, Commercial Banking, Hong Kong (2005 – 2009)
- Various positions in Relationship Management, Commercial Banking, Hong Kong (2000 – 2005)

Qualifications
Bachelor of Laws – University of London, UK
Bachelor of Business Administration – The Chinese University of Hong Kong
Chartered Financial Analyst
Fellow – The Association of Chartered Certified Accountants

Godwin LI Chi Chung
General Counsel

Aged 59

Joined the Bank since May 1995

Major positions held within Hang Seng Group
Hang Seng Bank Limited – General Counsel; Member of Executive Committee
Hang Seng Bank (Trustee) Limited – Director
Hang Seng Bullion Company Limited – Director
Hang Seng (Nominee) Limited – Director
HASE Wealth Limited – Director

Past major positions
Hang Seng Bank Limited –
Company Secretary (2005 – 2023)
Assistant Company Secretary, Senior Manager and Legal Advisor (1995 – 2005)
Guoco Group Limited – Assistant Legal Counsel (1993 – 1995)

Qualifications
Bachelor of Laws – The University of Hong Kong

Ryan SONG Yue Sheng
Vice-Chairman and Chief Executive of Hang Seng Bank (China) Limited

Aged 50

Joined the Bank since May 2018

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Member of Executive Committee
Hang Seng Bank (China) Limited –
Vice-Chairman and Chief Executive; Chairman of Executive Committee; Member of Connected Transactions Control Committee; Member of Nomination Committee

Past major positions
HSBC Bank (China) Company Limited –
Executive Vice President (2016 – 2018)
Head of Global Markets; Member of Executive Committee (2013 – 2018)
Head of Trading; Deputy Head of Global Markets (2005 – 2013)
Head of Sales, Global Markets (2000 – 2005)

Qualifications
Master of Business Administration – China Europe International Business School

Shelley ZHOU Wenwen
Head of Corporate Sustainability

Aged 48

Joined the Bank since May 2023

Major positions held within Hang Seng Group
Hang Seng Bank Limited – Head of Corporate Sustainability; Member of Executive Committee

Other major appointments
Hong Kong Association of Energy Engineers Limited – Director
The Hong Kong University of Science and Technology –
Adjunct Professor of Department of Civil and Environmental Engineering; Adjunct Associate Professor of Department of Finance
The Hong Kong Polytechnic University –
Adjunct Associate Professor of Department of Civil and Environmental Engineering

Past major appointments
The Capital Markets Company Limited – Managing Principal / APAC ESG Lead (2021 – 2023)
Hong Kong Centre for Carbon Innovation Limited – Chief Executive; Director (2016 – 2019)
The Hong Kong Jockey Club – Manager, Sustainability (2011 – 2016)

Qualifications
PhD in Environmental Engineering – National University of Singapore
MPhil in Civil Engineering – The Hong Kong University of Science and Technology
Bachelor of Engineering in Environmental Engineering – Shanghai Tongji University, China

Note:

Definition of senior management is set out in the 'Corporate Governance Report' section in this Annual Report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

Hang Seng Bank Limited **(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" **("CG-1")** under the Supervisory Policy Manual **("SPM")** issued by the Hong Kong Monetary Authority **("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 **("Listing Rules")** on The Stock Exchange of Hong Kong Limited **("HKEx")** throughout the year of 2023.

We aim to achieve governance excellence in all respects and to be in line with international and local corporate governance best practices. We have been constantly reviewing and enhancing our corporate governance framework by referring to market trend as well as guidelines and requirements issued by regulatory authorities. Throughout 2023, the Bank has implemented several governance initiatives within the Group to streamline the oversight framework of the parent/subsidiaries for reporting efficiency and quality enhancement.

CULTURE

Purpose and Values

The Bank's actions are guided by our purpose and our values.

Our values and organisational culture help us make the right choices in a variety of day-to-day business situations and work environment, uphold our conduct and behaviours on how we treat our customers, employees, and other stakeholders, judge when and how to intervene and speak up, foster an inclusive work environment that supports the well-being of our staff, and stretch and unleash our potential to shape a bank fit for the future.

We are dedicated to cultivating an agile and dynamic culture and workplace that supports the development of our people, with the aim of helping the Bank in achieving its broader ambitions of providing excellent experiences for customers and creating a better future for the community.

GOVERNANCE HIGHLIGHTS IN 2023

Board Structure	• Around 64% of the Board of Directors are independent • The Bank has an independent Board Chairman • 100% of the Audit Committee are independent directors (including the Committee Chairman) • 100% of the Risk Committee are independent directors (including the Committee Chairman) • 100% of the Remuneration Committee are independent directors (including the Committee Chairman) • The Chairman of the Nomination Committee is an independent director • The Board maintained a high level of female representation, which exceeded the target of maintaining a minimum of 40% female representation as set out in the Board Diversity Policy
Governance Process	• Annual review of the Board and Senior Management Succession Plans • Embedded the risk and compliance culture throughout the Bank • Annual thorough evaluation of the Board and its committees via digital board portal, followed by timely and meaningful analysis and discussion of the Directors' feedback and action plan • Enhanced and published the Terms of Reference of the Board Committees: Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee • Separate meetings by the Board Chairman with Independent Non-executive Directors were held without the presence of Executive Directors and Senior Management • Separate meetings by the Audit Committee and Risk Committee jointly with the external auditor and Head of Audit respectively were held without the presence of Executive Directors and Senior Management • Separate meetings by the Risk Committee with Chief Risk and Compliance Officer were held without the presence of Executive Directors and Senior Management
Disclosure and Transparency	• More than 20 business days' notice is given for Annual General Meeting **("AGM")** • Early announcement of audited financial results and publication of Annual Report (within two months and within 2.5 months after the financial year-end respectively) • Maintained an on-going dialogue with shareholders and effective two-way communication between the Bank and its shareholders including holding hybrid AGM and the timely disclosures of balanced information on websites of the Bank and HKEx • Held group or one-on-one meetings with analysts and investors to facilitate effective communication between the Bank and the investment community • Published the Banking Disclosure Statement on a quarterly basis pursuant to HKMA's requirements, which provides additional financial information to the public

BOARD OF DIRECTORS

Board's Roles

The Board, led by the Chairman, plays a leadership role under prudent and effective controls framework. Committed to high standards of integrity and ethics, the Board has collective responsibilities for promoting the long-term business sustainability and creating sustainable value to stakeholders.

The roles and responsibilities of the respective Board members are designated with clear division of responsibilities to ensure a balance of power and authority, illustrated as follows:

Roles	AGM	Board Meetings	Responsibilities
Independent Non-executive Chairman Irene Y L Lee	1/1	6/6	• Takes on the role of leading and guiding the Board members in their decision-making process • Ensures that the decisions made by the Board are based on solid reasoning, thorough analysis, and accurate information • Ensures that the decisions made by the Board are aligned with the best interests of the Bank, considering its long-term sustainability and success
Executive Director – Chief Executive Diana Cesar	1/1	6/6	• Takes charge of guiding and directing the Senior Management team in their roles and responsibilities • Be responsible for executing and putting into action the strategic plans and policies of the Bank • Oversees and manages the daily activities and operations of the Bank, ensuring smooth functioning and efficient performance
Executive Director – Chief Financial Officer Say Pin Saw	1/1	6/6	• Plays a crucial role in the Bank's management, strategy, and efficiency and collaborates with the executive team to align financial strategies with the Bank's long-term vision • Contributes to efficient operations by optimizing financial resources and implementing cost-effective measures • Provides valuable insights and analysis to support informed decision-making across various departments, ensuring that financial considerations are taken into account
Independent Non-executive Directors Cordelia Chung	1/1	6/6	• Provides impartial advice and counsel and exercises an independent judgement, ensuring fairness and adherence to best practices in the decision-making process • Scrutinises the Bank's performance in achieving agreed goals and objectives, and monitors performance reporting • Promotes the highest standards of corporate governance • Supports Senior Management team in their leadership of the business
Clement K M Kwok	1/1	6/6	
Patricia S W Lam	1/1	6/6	
Huey Ru Lin	1/1	6/6	
Kenneth S Y Ng [1]	1/1	6/6	
Xiao Bin Wang	1/1	6/6	
Michael W K Wu [2]	1/1	2/2	
Non-executive Directors Kathleen C H Gan	1/1	5/6	• Be responsible for monitoring and evaluating the Bank's governance framework, ensuring that the Bank operates in accordance with best practices and ethical standards • Assesses and monitors the Bank's performance, understanding and managing risks • Assists the Board to address concerns and feedback to shareholders
David Y C Liao	1/1	6/6	
Average attendance rate	**100%**	**99%**	

1 As announced on 1 February 2024, Kenneth S Y Ng will step down as Independent Non-executive Director and cease to be Risk Committee Chairman and Nomination Committee member after the conclusion of the Bank's 2024 AGM. Xiao Bin Wang will succeed Kenneth S Y Ng as the Chairman of the Risk Committee with effect from the conclusion of the Bank's 2024 AGM.

2 Michael W K Wu stepped down as Independent Non-executive Director and ceased as Remuneration Committee Chairman and member of the Nomination Committee and Risk Committee, all with effect from the conclusion of the Bank's AGM on 4 May 2023. L Y Chiang stepped down as Independent Non-executive Director and ceased as member of the Audit Committee and Remuneration Committee, with effect from 1 January 2023.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive of the Bank are separate with a clear and well-established division of responsibilities. The Chairman of the Board, who is an Independent Non-executive Director **("INED")** is responsible for the leadership and effective running of the Board. The Chairman ensures that the decisions of the Board are considered and taken on a sound basis and in the best interest of the Bank. The Chief Executive, who is an Executive Director **("ED")**, is responsible for the day-to-day management of the Bank's business and operations. Details of their respective roles are set out in the Board's terms of reference available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

The Bank's Chairman, the Chief Executive and other Directors do not have any financial, business, family, material or other relevant relationships with each other.

Key Matters Reserved to the Board for Decision

The Board's responsibilities are set out in the schedule of key matters reserved within its terms of reference. It is adopted to provide a clear division of roles between the Board and the Senior Management. The key matters reserved for the Board's consideration and decision, among other matters, are:

Corporate Strategy/Acquisition/Disposal:

- strategic plans and objectives
- corporate culture, values and standards
- significant policies and plans and subsequent changes
- acquisitions, disposals and purchases above predetermined thresholds

Corporate Governance/Sustainability /Board and Senior Management Composition:

- policies, practices and disclosure on corporate governance and remuneration
- environmental, social and governance **("ESG")** / climate strategy, and relevant governance framework and climate-related risk strategies
- appointment and oversight of Senior Management, and succession plans for the Board and Senior Management

Risk and Compliance:

- risk appetite statement and profile update
- internal control and risk management
- whistleblowing policy and mechanism

Financial/Audit:

- financial resource planning and performance targets
- capital plans and management
- annual and interim financial reporting
- effective audit functions

The Board's powers are governed by relevant laws, regulations, supervisory standards and the Board's terms of reference and the Bank's Articles of Association, which are available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

Board Composition

The Board comprises 11 Directors: two are EDs, two are Non-executive Directors **("NEDs")** and seven INEDs. Around 64% of the Board of Directors are independent, which far exceeds the Listing Rules requirement. Above 80% of the directors' tenure had been refreshed and are under five years. We also have a high level of female representation. The strong independent element on the Board ensures the independence and objectivity of the Board's decision-making process, as well as the impartiality of the Board's oversight of the Management.

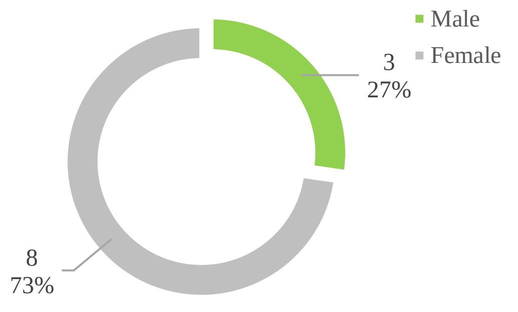
Designation

2
Executive Directors

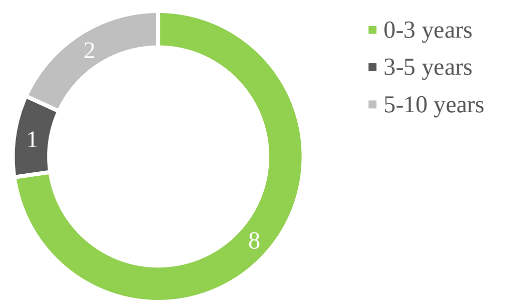
2
Non-executive Directors

7
Independent Non-executive Directors

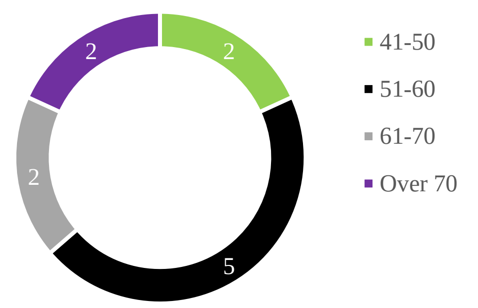
Gender



Tenure



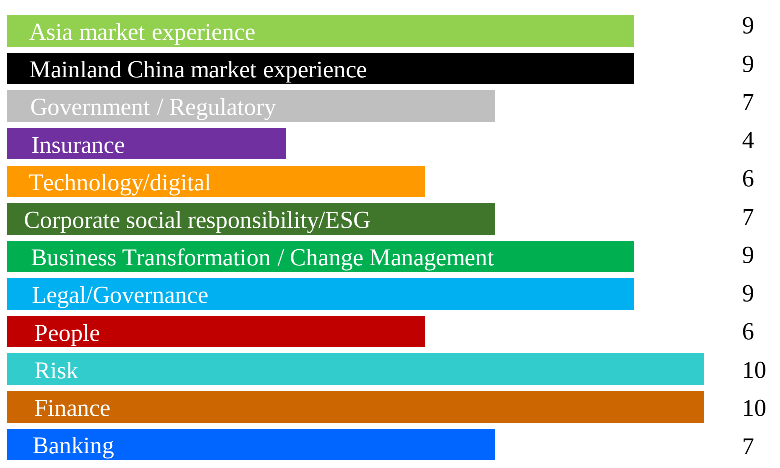
Age



Skills and Experience

The Board possesses diverse and appropriate experience, competencies, professional expertise and personal qualities to each of the material business activities that the Bank pursues. The Board has adopted a comprehensive directors' skill matrix as a key tool to comprehend the skills and experience it requires for Board refreshment. The Board, through its Nomination Committee, reviewed the skills and experience it requires to effectively discharge its responsibilities at least annually. Biographical details of the Directors are set out in the section "Biographical Details of Directors and Senior Management" in this Annual Report.

An extract of the skill matrix, showing the selection of the current skills and experience of the Board, is shown below.



Board Succession

The Bank remains committed to meritocracy in the Boardroom. Board appointments are based on merit and candidates are considered against objective criteria including, diversity of characteristics, such as gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and any other factors that the Board may consider relevant and applicable from time to time. The Board will continuously identify potential candidates for future appointments in consideration of their skills, competencies, experience and diversity, and also the Bank's strategic objectives and organisational structure, to ensure the Board has a pipeline of successors for leadership transition.

Board Diversity

The Board recognises the importance of diversity and the contributions it brings to Board effectiveness. Diversity provides the Board with a wider knowledge base and bring in new insights and perspectives, which improve decision-making and create long-term success of the Bank.

The Board has adopted a Board Diversity Policy, which sets out our approach for achieving diversity and inclusivity at Board level and across the Senior Management team. The Nomination Committee annually reviews and reports to the Board on the following: the succession planning, selection, nomination, operation and evaluation of the Board.

During the year, the Board Diversity Policy was reviewed by the Board and updated to include measurable objectives for implementing the policy and progress on achieving those objectives (in particular, gender diversity at Board level and across the workforce) in accordance with the Corporate Governance Code. The latest version of the Policy is available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

The Board considers that its diversity, including gender-diverse leadership, is a vital for a broader perspective to business decision-making process which eventually lead to higher corporate performance and competitiveness. To reinforce our commitment to gender diversity, the Board has set the aspirational target to achieve a minimum of 40% female representation on the Board of Directors by the end of 2023.

As of the date of this Annual Report, the female representation on the Board was around 73%, which exceeds the Board's aspirational target of a minimum of 40% female representation on the Board. The Bank maintains a high level of female board representation among Hong Kong listed companies. The Bank was also recognised for having representation of women on the executive team: 75% of Senior Management are female and 50% of senior leaders (global career band three or above) are female. The female representation of senior leaders in the Group included operations in Hong Kong, mainland China, and overseas representative offices.

Independence

Independence is a vital component of good corporate governance. As of the date of this Annual Report, seven out of our 11 Directors were INEDs, exceeding the Listing Rules requirement that at least one-third of the Board (and not less than three Directors) shall be INEDs.

As required under the Listing Rules and the HKMA guidelines, the Bank received written annual confirmation from each of the INEDs of his/her independence and that of his/her immediate family members. All INEDs of the Bank have indicated that there are not any factors that may affect their independence.

The Nomination Committee has carried out a detailed review of the Directors' independence and considered each of the seven INEDs to have been independent throughout the year under review.

The Nomination Committee also considered the INEDs' tenure, noting that Irene Y L Lee has served as INED for more than nine years and her re-appointment is subject to a separate resolution to be approved by the Shareholders at the AGM. After considering the relevant independence assessment requirements set out in Rule 3.13 of the Listing Rules, the Nomination Committee formed the view that, notwithstanding that she has served on the Board for over nine years, she remains independent, taking into account her impartial views and comments expressed during the Board and Board Committee meetings, her positive and significant contributions, dedication and professionalism , deep insights in and guidance for the Bank's business development and strategies. In addition, her unique expertise in banking and business development, all of which are relevant to the Bank's business, enables her to provide invaluable and objective guidance for the Bank's business.

The Board and the Nomination Committee are of the view that Irene Y L Lee has exercised independent judgement and consistently demonstrated a healthy level of professional scepticism and have not refrained from asking probing questions and challenging the Bank's management's views and recommendations. She has not been involved in any management role in the Bank nor in any relationships which will interfere with the exercise of her independent mindset and judgement. There is no evidence to suggest that her tenure has had any impact on her independence.

Following the robust assessment of the independence of its INEDs, it has affirmed that, all INEDs of the Bank (including any of them who has served on the Board for more than nine years), continue to be considered as independent in character and judgement.

Cordelia Chung holds a cross-directorship with Irene Y L Lee, since they both serve on the boards of the Bank and Hysan Development Company Limited. However, given that Cordelia Chung and Irene Y L Lee both play a non-executive role and both do not hold any shares in the Bank, the Bank believes that this cross-directorship would not undermine the independence of Cordelia Chung and Irene Y L Lee with respect to their directorships in the Bank. For other Directors' interest in competing businesses, please refer to the "Report of the Directors" section of this Annual Report.

Board Meeting Process

The Board meets about six times a year and at least once every quarter, exceeding the minimum number of board meeting required under the Corporate Governance Code. Additional ad hoc Board meetings or meetings of a Board committee established by the Board can be convened when necessary to discuss and approve specific matters. The Board Committees also met regularly during the year.

To allow Directors to plan their schedule ahead of time, board schedule and calendar for the regular Board and Board Committee meetings during the year are made available to all Directors before the end of the preceding year. To facilitate Directors' participation and engagement, all the standing agenda for Board and Board Committee meetings are available to the Directors for advance review and comment before the end of the preceding year as well.

Notice of meeting will be given to all Directors at least 14 days before each regular Board and Board Committee meeting. Draft agenda for the Board and Board Committee meetings are circulated to all Directors at least 3 weeks before each meeting to provide an opportunity for the Directors to include any other matters in the agenda. Agenda and meeting papers are circulated via digital board portal at least 7 days in advance of the intended date for regular meetings and at a time as agreed for ad hoc meetings. Draft minutes of meetings of the Board and Board Committees are circulated for comment as soon as practicable post meetings. Minutes of Board meetings with details of the matters discussed by the Board and decisions made, including any concerns or views of the Directors, are kept by the Company Secretary and are open for inspection by Directors. Senior Management and other department heads are invited to make presentations to the Board on operational topics during the year and to engage in open and in-depth discussions with the Board.

The Chairman meets with INEDs without the presence of the EDs and the Senior Management at least once a year to facilitate an open and frank discussion among the INEDs on any issues relating to the Bank. The Chairman also has regular gathering with other Directors occasionally, without the presence of the EDs, to consider issues in an informal setting. The Audit Committee and Risk Committee jointly hold separate closed sessions with the external auditor and internal auditor respectively twice a year; and the Risk Committee also holds separate closed sessions with the Chief Risk and Compliance Officer in the absence of the EDs and the Senior Management. Head of Human Resources organises annual talent sharing session between the Board and the Bank's talents from key businesses and functions. This reflects the continuous effort in supporting the progression of diverse talent pipeline for succession of senior executive roles in the Bank.

The Board maintains regular communications with HKMA through various means. In November 2023, the Board met with HKMA to exchange views and update itself on HKMA's supervisory assessment of the Bank and supervisory focuses on the banking industry in general.

Throughout 2023, the Bank has continued to embed HSBC Group's governance requirements, including the Subsidiary Accountability Framework (that aims to enhance the clarity and consistency of governance practices adopted across all entities within the HSBC Group), to enhance meeting efficiency and reporting quality. Such enhanced governance requirements have proved to achieve remarkable changes in the quality and consistency of reporting, resulting in a more effective use of the time of the Board and Senior Management while making simplification of board and committee processes possible.

Directors make their best effort to contribute to the formulation of strategies, policies and decision-making by attending the Board meetings in person or via telephone or video-conferencing facilities. During 2023, the Board and Board Committees had mostly met in person with Directors having the option to join by zoom, where necessary. For meeting efficiency, all meeting agenda, papers and minutes are circulated and made available on a digital board portal for timely access by the Directors.

In addition to the regular financial and business performance reports presented to the Board at its regular meetings, the Board also receives monthly financial and business updates on the Bank's latest financial performance and any material variance from the Bank's financial resource planning. Directors can therefore have a balanced and comprehensive assessment of the Bank's performance, business operations, financial position and prospects throughout the year.

Board Evaluation

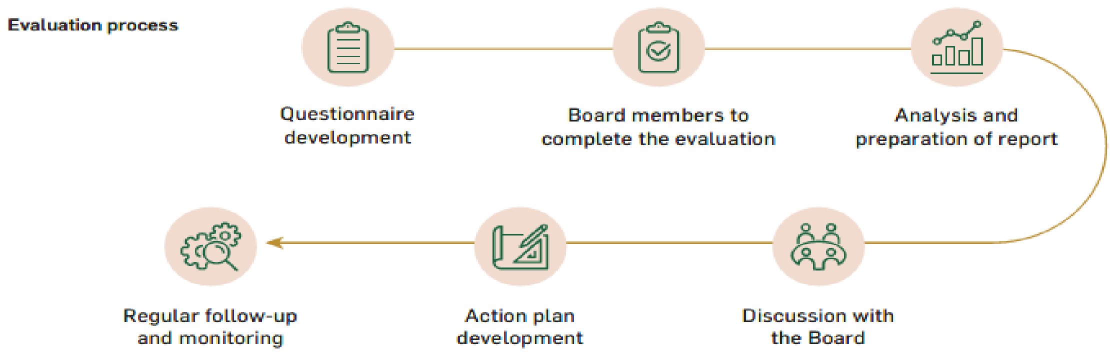
The Board reviews and evaluates its work process and effectiveness annually, with a view to identifying areas for improvement and further enhancement, while promoting board effectiveness and accountability through best practices, standardised guidance, common tools and resources.

Evaluation Process and Parameters

The Board evaluation process consists of an anonymous online questionnaire which includes quantitative part on ratings and a qualitative part which seeks the Directors' written responses, and based on the Directors' views on the following five evaluation parameters affecting the effectiveness and performance of the Board:

1. **The Board –** investigates the role, composition and skills of the Board;
2. **The Board Committees –** seeks feedback on the responsibilities and communication flows between the Board and the Board Committees;
3. **Procedures and process –** seeks feedback on the quality of agenda, meeting papers, informed material between the Board and the Board Committee, Directors' induction programme, and the digital board portal;
4. **Cultures and boardroom behaviour –** looks into the Board's open culture and inclusion; and
5. **Sustainability and Climate –** seeks feedback on Directors' awareness of the Bank's climate strategy and consequences.

Being anonymous, Directors are encouraged to share comments, provide suggestions and raise any concerns.



All Directors had completed the online Board evaluation questionnaire for 2023, which consists of both ratings and open-ended questions for annual evaluation of the Board's performance in 2023.

Findings of 2023 Board Evaluation

Overview: Directors favourably perceived their board leadership as highly effective. The Board and the Board Committees were able to duly discharge their responsibilities. The Chairman of the Board and/or the Chairmen of Board Committees also promoted and facilitated the effective contribution and communication of all Directors/members. The Board and Board Committees had both embraced an open and inclusive culture where dialogues were exchanged in a constructive manner.

The Board: The Board had a clear understanding of its roles and responsibilities and had a balanced, mix of geographical and industry experience, gender, and skills. The Chairman of the Board and/or the Chairmen of the Board Committees encouraged Directors/members with different views to voice their concerns and allowed sufficient time for thorough discussion prior to making any decision. The Board was well constructed and can continue to strengthen the dynamic and the momentum for innovation.

The Board Committees: The Bank's Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee discharged their responsibilities effectively and coordinated swiftly between the Board Committees. The Board and Board Committee meetings were very interactive, and members were generally very vocal, which made the meetings very productive and fit for purposes. The reporting/communication from the Board Committees allowed adequate information provided to Board.

Procedures and process: The Board received training and orientation on the Bank's business and its key issues, including developments in the banking sector and relevant regulatory requirements, which were considered as adequate and effective. The Board was also kept abreast of material matters discussed during the Board Committee meetings. The Board had a good awareness of connectivity and information flow (including escalation and cascade) with the Bank and its subsidiary boards and committees. Areas for continuous strengthening will be the Board's oversight of cyber risks and cybersecurity, including third party risks.

Cultures and boardroom behaviour: The Board and the Board Committees operated with a culture of openness and inclusion to allow plain-spoken discussions. The engagement between the Directors and the Bank's Management was constructive, open and positive. The Board had set the right challenges to the Bank's Management whilst, without the least hesitation, extended support when needed. INED were very approachable for two-way conversations.

Sustainability and Climate: The Board acknowledged the linkage between the Bank's strategy on sustainability and climate could be further enhanced with business supports to clients. The Board continued to stay abreast of the Bank's sustainability roadmap and continues to clarify and cascade the need to manage the Bank's potential exposure to climate risks effectively as it continues to evolve.

Quality of meeting papers and minutes: The Board and the Board Committees were supplied with meeting papers, along with other supplementary information including monthly reports and updates provided by the Bank's Management, to facilitate a balanced and comprehensive overview of the Bank's performance. The meeting minutes concisely summarised keynote of the subject matter.

Board's Training: More trainings, in particular, on risk and compliance, artificial intelligence, Greater Bay Area opportunities and collaboration with parent company should be arranged.

Senior executive succession planning: The Directors acknowledged the succession plan is always a key focus and more work should be done in grooming and identifying home-grown talent. The Board has been overseeing the Bank's senior executive succession planning and will continuously involved in the forward planning of succession.

Actions corresponding to Directors' feedback

In addressing the Directors' responses to the evaluation, the Bank will continue coordinating with relevant businesses and functions to prioritise the Board and Board Committees' meeting agendas with topics relevant to the Directors' feedback.

In addition to the annual board evaluation, there is also a regular process for the Bank to evaluate the performance of its Directors, which involves the Board's regular reviews of the time commitment required from NEDs and INEDs, independence of INEDs, structure, size and composition of the Board and the Non-executive Board Committees, as well as trainings that the Directors received during the year.

To allow HKMA to assess whether the Bank has a robust evaluation process, the Bank also disclosed and submitted to HKMA annually (a) all outside mandates including directorships and other commitments held by each Director and the Chief Executive; (b) an affirmation signed by the Board Chairman to confirm the annual performance evaluation of each Director and the Chief Executive.

All Directors have access to the EDs and the Senior Management team as and when they consider necessary. They also have access to the Company Secretary who is responsible for ensuring that Board procedures, and related rules and regulations, are followed.

Conflict of Interest Management

The Board has a compliance process in place to regularly review and resolve situations where a Director may have a conflict of interest. The Board has adopted a Policy on Conflicts of Interest which serves to provide guidance to the Directors for avoiding conflicts of interest and on the circumstances under which appropriate action(s) shall be taken by the Directors in conflict. The Policy identifies the relationships, services, activities or transactions in respect of which conflicts of interest may arise and sets out measures for prevention or management of such conflicts. The Policy sets out the compliance process with notification by a Director of conflicts or potential conflicts, a review/approval process and the Board's approach for dealing with any non-compliance with the Policy. The Policy was last updated in 2023 in alignment with the updated corporate practice, which is available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

Under the Articles of Association of the Bank, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement, transaction or other proposal in which he/she or his/her associate(s), is/are materially interested.

Board Activities during 2023

During the year, the Board held six meetings (including one meeting with HKMA) and the important matters discussed at Board meetings included, but not limited to the following:

STRATEGIC PLANNING

- strategy update of the Bank with ambition for 2023 to 2027
- progress update of Hang Seng Bank (China) Limited **("HACN")** (2022-2024)
- progress updates of Hang Seng Indexes business
- 2022 ESG Report and regular ESG progress updates for 2023 (including net zero commitment)
- outlook and priorities of Wealth and Personal Banking and Commercial Banking businesses
- engagement model between the Bank and The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**")
- launch of the RMB Counter for trading listed shares of the Bank under the HKD-RMB Dual Counter Model of HKEx
- discussion on Hong Kong in China's Economy

FINANCIAL AND BUSINESS PERFORMANCE, AND CAPITAL PLANNING

- financial statements for the year ended 31 December 2022
- interim financial statements for the six months ended 30 June 2023
- declaration of the fourth interim dividend for year 2022 and first three interim dividends for year 2023
- financial resource planning and capital plan for year 2023
- reports on financial and business performance
- internal capital adequacy assessment process
- review/update on financial policies, plans and frameworks
- review of Investor Relations Strategy
- review of regulatory and internal stress testing results, approach and approval process
- update of the Bank's distribution of general insurance products

RISK MANAGEMENT AND TECHNOLOGY

- 2023 yearly and mid-year review of risk appetite statement and framework, with quarterly risk appetite profile updates
- risk management framework refresh and risk governance structure
- update of internal control system assessment
- reviews of connected lending, large credit exposures and risk concentrations
- progress of climate risk management and regulatory climate risk stress test results
- reviews or updates of significant risk and operational policies, plans and frameworks, including, but not limited to, Whistleblowing Policy, Anti-Corruption Policy, Risk and Compliance Culture Plan and Awareness Programme, Single Name Concentration Framework, business continuity plans of the Bank and HACN, Corporate Real Estate Credit Exit Portfolio Framework, Cybersecurity and Cyber Resilience Assessment Framework
- updates of current and emerging risk issues including thematic or independent reviews of corporate credit risk management, customer notification process, and property mortgage loan dashboard
- annual review of credit approval authority limits of the Senior Management Team
- technology and data updates (including information security review) and IT incident overview
- review of Digital Assets and Currencies Strategy
- updates of operational resilience programme, and third party risk management and outsourcing implementation

GOVERNANCE AND CULTURE

- review of Subsidiary Accountability Framework
- review of the effectiveness of the Board and Board Committees, including approval of the revised terms of references of the Board and all Board Committees
- evaluation of Board effectiveness
- review of the structure, size and composition of the Board and the Board Committees
- review of new and revised Supervisory Policy Manuals or Guidelines issued by HKMA from time to time
- annual review of the Bank's Culture Statement
- conduct review including the implementation of the revised Conduct Framework
- review or updates of significant corporate governance policies/framework including, Board Diversity Policy, Shareholders Communication Policy, Delegation of Authority Framework, the Framework for disclosure of inside information and Corporate Governance Framework.

PEOPLE AND REMUNERATION

- review of the remuneration policy and remuneration system
- review of alignment of risk and remuneration
- pay review for 2023 and variable pay for 2022
- annual update of the Defined Benefit and Defined Contribution Schemes
- review of fees payable to Directors (excluding EDs) and the Board Committee Chairmen/Members of the Bank and its subsidiaries
- annual review of the remuneration of EDs, Senior Management, Key Personnels and Heads of Control Functions
- appointment of Board Committee Chairman and members
- appointments and remuneration packages of the Senior Management and Key Personnel(s)
- succession planning for the Board and the Senior Management
- performance management relating to the Senior Management
- changes of Board Composition
- re-election/election of Directors
- terms of appointment of NEDs and INEDs and independence of INEDs
- review of Employee Snapshot Survey results of 2023

Other key matters considered by the Board in early 2024

The Board held its first regular meeting on 1 February 2024 to discuss key matters including, but not limited to the following:

- Commercial Banking Strategy
- 2023 annual results and fourth interim dividend, 2024 Financial Resource Planning and Capital Plan and 2023 Annual Report
- 2023 ESG Report and Climate Strategy with Net Zero Transition Plan
- 2024 AGM Circular to shareholders (including re-election of Director and re-appointment of external auditor at the Bank's 2024 AGM)
- 2024 fee proposals for Directors (excluding EDs) and Board Committees
- Pay review for 2024 and variable pay for 2023 (including 2023 year end pay review outcomes and update on the effectiveness of current variable pay deferral arrangement)
- Changes to Board and Board Committee Compositions of the Bank and its subsidiaries, as appropriate
- appointment of a senior executive (also member of the Executive Committee)
- Board effectiveness evaluation for 2023 and the review of the Nomination Policy
- 2024 review of risk appetite statement and framework, with quarterly risk appetite profile update as at 31 December 2023
- Connected Transaction in relation to the Limited Partnership Agreement between the Bank and the HSBC Group companies
- 2023 review of the remuneration of EDs, Senior Management, Key Personnels and Heads of Control Functions of the Bank
- Annual review of internal liquidity adequacy assessment process

Appointment and Re-election of Directors

The Board has adopted a Nomination Policy. During the year, the Nomination Policy was reviewed by the Nomination Committee and the Board in February 2024 and updated to include to emphasis on the Bank's commitment on transparent nomination process in the selection of candidates for Board appointment in accordance with the Corporate Governance Code. The latest version of the Policy is available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

The Nomination Policy sets a formal, considered and transparent procedure for the appointment of new Directors.

Before a prospective Director's name is formally proposed, opinions of the existing Directors (including the INEDs) will be solicited. The proposed appointment will first be reviewed by the Nomination Committee, taking into account the balance of skills, knowledge and experience on the Board. Upon recommendation of the Nomination Committee, the proposed appointment will then be reviewed and, if thought fit, approved by the Board after due deliberation. The Board may also engage external search firm to assist in the sourcing and identification of appropriate candidates for Board appointments.

The Bank will also consider the prospective Director's time commitment to the role being applied for and any potential conflicts of interest identified, if he/she has outside mandates.

Pursuant to the Group policy, the Bank will conduct enhanced vetting including qualification, experience, etc. for INEDs before his/her appointment and thereafter once every three years, as one of the measures to verify the continual fitness and propriety of the INEDs.

In accordance with the requirement under the Banking Ordinance, prior approval from HKMA will be obtained for appointment of new Directors.

The Bank issues appointment letters to each of the Directors, setting out the terms and conditions of their appointment, including the time commitment requirement. Additional time commitment is necessary if the Directors also serve on committee(s) of the Board.

All new Directors are subject to election by shareholders at the next AGM after their appointments have become effective. Further, the Bank's Articles of Association provide that all Directors shall be subject to retirement by rotation at least once every three years. Retiring Directors are eligible for re-election at AGMs of the Bank.

According to the Bank's requirement, the term of appointment of each INED is three years and INEDs should serve no more than two three-year terms with any extension subject to rigorous governance process. In renewing the term of appointment of each INED, the Board reviews whether such INED remains qualified for his/her position.

Irene Y L Lee will retire at the forthcoming AGM to be held in May 2024. Being eligible for re-election, she will offer herself for re-election at the AGM in accordance with Article 99 of the Articles of Association of the Bank. Details of the candidate standing for re-election will be set out in the 2024 AGM Circular to the shareholders. Irene Y L Lee does not have a service contract with the Bank or any of its subsidiaries that is not determinable by the Group within one year without payment of compensation (other than statutory compensation). The proposed re-election of Irene Y L Lee will be considered by separate resolutions. The Board, in accordance with the recommendation of the Nomination Committee, has determined that the size of the Board is adequate and effective for discharging its duties and responsibilities, and recommends the re-election of Irene Y L Lee, as a Director at the forthcoming 2024 AGM. As announced on 1 February 2024, Kenneth S Y Ng will step down as INED after the conclusion of the Bank's 2024 AGM. Xiao Bin Wang will succeed Kenneth S Y Ng as the Chairman of the Risk Committee with effect from the conclusion of the Bank's 2024 AGM.

Responsibilities of Directors

The Directors are encouraged to engage with the Bank's management at all levels regularly. The Directors have full and timely access to all relevant information about the Bank so that they can discharge their duties and responsibilities as Directors effectively. Through regular Board meetings and regular financial and business updates, all Directors are kept abreast of the Bank's conduct, business activities and development and regulatory updates applicable to the Bank.

The Bank recognises that the independence of the Board is a key element of good corporate governance. The Bank has established effective mechanisms entitling the Directors and Board Committee members to seek independent professional advice on matters relating to the Bank where appropriate at the Bank's expense, to ensure independent views and input are available to the Board. These mechanisms in place are subject to annual review by the Board.

The Bank has adopted a Code for Securities Transactions by Directors on terms no less than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix C3 to the Listing Rules) with periodic review. Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the year 2023.

The Directors' interests in securities of the Bank and HSBC Group as at 31 December 2023 have been disclosed in the "Report of the Directors" section in this Annual Report.

Appropriate Directors' liability insurance cover has also been arranged to indemnify the Directors against liabilities arising out of the discharge of their duties and responsibilities as the Bank's Directors. The coverage and the sum insured under the policy are reviewed annually. Further, the Bank's Articles of Association provide that Directors are entitled to be indemnified out of the Bank's assets against claims from third parties in respect of certain liabilities.

Board Induction and Training

The Company Secretary works with the Chairman to ensure that all Board members receive appropriate training, both individually and collectively, throughout their time on the Board. On appointment, new Directors are provided with comprehensive induction programme which covers the following key areas:

- directors' duties and responsibilities
- business operations and financial position
- risk management and internal control
- governance structure and practices
- control and support functions

The induction programme is delivered through formal briefings and introductory sessions with other Board members and the Senior Management, as appropriate to provide a clear understanding of the Bank's culture and way of operation.

Further, all Directors participate in continuous professional development to develop and refresh their knowledge and skills. They are provided with briefings and trainings on an on-going basis at the Bank's expense as necessary to ensure that they have a proper understanding of the Bank's operations and business, and are fully aware of their responsibilities under the applicable laws, rules and regulations. The Company Secretary also makes appropriate arrangements for any additional training needs identified using internal resources, or otherwise, at the Bank's expense. The Bank maintains proper records of the briefings and trainings provided to and received by its Directors from time to time.

In addition, all Directors are provided with a "Memorandum of Directors" through the digital board portal, which sets out the scope and nature of Directors' duties and liabilities, particulars of Group policies and local regulatory and statutory requirements of which the Directors must be aware. Such memorandum is updated from time to time so as to reflect the latest internal policies, guidelines, regulatory/statutory requirements and best practices.

The following table shows a summary of key training areas received by the Directors during 2023:

Directors	**Strategy and Business**[1]	**Risk and Control**[2]	**Corporate Governance and ESG**[3]	**Digital and Technology**[4]	**Global Mandatory Training**[5]	**Director Forum**[6]
INEDs						
Irene Y L Lee	●	●	●	●	●	●
Cordelia Chung	●	●	●	●	●	●
Clement K M Kwok	●	●	●	●	●	●
Patricia S W Lam	●	●	●	●	●	●
Huey Ru Lin	●	●	●	●	●	●
Kenneth S Y Ng	●	●	●	●	●	●
Xiao Bin Wang	●	●	●	●	●	●
NEDs						
Kathleen C H Gan	●	●	●	●	●	●
David Y C Liao	●	●	●	●	●	●
EDs						
Diana Cesar	●	●	●	●	●	●
Say Pin Saw	●	●	●	●	●	●

1 *The Directors received trainings and briefings on topic such as: "Hong Kong in China's Economy" and "Future Banking' Service Concept".*

2 *The Directors received risk and control trainings and readings on topics such as "Guidance on Role as INED and Insights on Current Business Issues", "HKFRS 17" and "The new ISSB standards – implications for Hong Kong".*

3 *The Directors received trainings and readings on topics such as "Climate Related Global and Regional Developments", "Deep dive sessions on Financed Emissions and Decarbonisation Solutions", "Pathways towards sustainable cities: The progress of Hong Kong SAR and Shanghai", "2023 Regulatory Environment and Focus", "INEDs' Roles and Responsibilities" and "A Snapshot of INED's Roles and Responsibilities".*

4 *The Directors received trainings on topics such as "Cloud computing and digital assets – opportunities and challenges" and "Artificial Intelligence and ChatGPT – impact on jobs, sectors, and the future".*

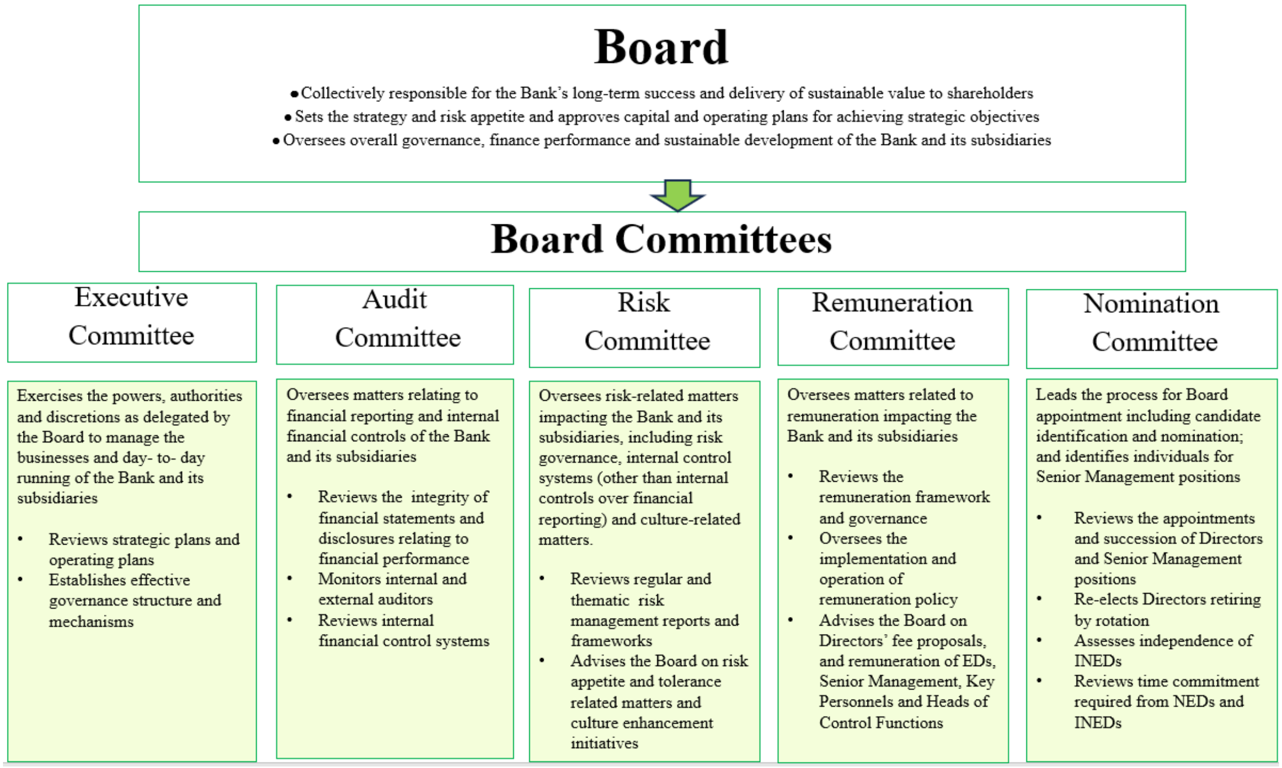
5 *Global Mandatory Training, issued to all Directors, mirrored training undertaken by all employees, including Senior Management. This included: health, safety and wellbeing; risk management; cyber security; sustainability; financial crime, including anti-bribery and corruption, anti-money laundering, terrorist financing, sanctions, fraud and tax transparency; and our values, including data literacy, workplace harassment and data privacy.*

6 *This included a Director Summit covering: Financial Results and Strategy Update; Fireside Chat – Asia-Pacific; Governance Update and Subsidiary Chairs Panel Session; Sustainability; People: Diversity & Inclusion; Macroeconomic focus; Technology; Governance Focus; Finance, Risk or Technology session: deep dive on Finance session - Balance Sheet Management including Capital and Liquidity; Risk session - Risk Frameworks and Risk Culture; and Technology session - Opportunities and Risks with Generative AI.*

DELEGATION BY THE BOARD

Board Committees

The Board has set up five Committees, namely, Executive Committee, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee, to assist it in carrying out its responsibilities.



Details of the work carried by each of the Board Committees can be found in the respective committee sessions under this Corporate Governance Report.

Each of these Committees has specific written terms of reference, which set out in detail their respective authorities and responsibilities. Each Committee reviews its terms of reference and effectiveness annually. The terms of reference of all the Non-executive Board Committees are available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

All Committees adopt the same governance processes as the Board as far as possible and report back to the Board on their decisions and recommendations on a regular basis.

Company Secretary

The Company Secretary advises the Board on all corporate governance matters, maintains strong and consistent governance practices at Board level, facilitates induction and professional development of Directors, and ensures good information flows and communications within the Board and its committees and between the Bank's Management and the Directors. During the year, the Company Secretary undertook no less than 15 hours of relevant professional training.

Executive Committee

Membership

	Member since	Meeting attendance in 2023[1]
Diana Cesar (Chairman)	**Sep 2021**	***10/10***
Jordan W C Cheung	**Dec 2022**	***10/10***
Kathy K W Cheung	**Mar 2022**	***10/10***
Maggie K K Cheung [2]	**Apr 2023**	***7/7***
Vivien W M Chiu	**Jan 2022**	***9/10***
Rose M Cho	**Jan 2021**	***9/10***
Liz T L Chow	**Jul 2017**	***10/10***
Gloria L S Ho	**May 2022**	***7/10***
Donald Y S Lam [3]	**Sep 2011**	***7/8***
Betty S M Law	**Aug 2022**	***10/10***
Gilbert M L Lee	**Feb 2018**	***10/10***
Rannie W L Lee	**Jan 2022**	***10/10***
Regina S Y Lee [4]	**Oct 2023**	***1/1***
Godwin C C Li	**Sep 2015**	***9/10***
Say Pin Saw	**Sep 2022**	***10/10***
Ryan Y S Song	**Jun 2018**	***10/10***
Christopher H K Tsang [5]	**May 2020**	***5/5***
Shelley W W Zhou [6]	**May 2023**	***5/5***
Average attendance rate		**96%**

1 *These included ten regular meetings.*
2 *Maggie K K Cheung was appointed as Executive Committee member with effect from 17 April 2023.*
3 *Donald Y S Lam ceased as Executive Committee member with effect from 14 October 2023.*
4 *Regina S Y Lee was appointed as Executive Committee member with effect from 14 October 2023.*
5 *Christopher H K Tsang ceased as Executive Committee member with effect from 1 June 2023.*
6 *Shelley W W Zhou was appointed as Executive Committee member with effect from 25 May 2023.*

Meeting Process

The Executive Committee meets approximately monthly and operates as a general management committee under the direct authority of the Board.

Roles and Authorities

The Executive Committee exercises the powers, authorities and discretions as delegated by the Board in so far as they concern the management and day-to-day running of the Bank in accordance with its terms of reference and such other policies and directives as the Board may determine from time to time. The Executive Committee also sub-delegates credit, investment and capital expenditure authorities to its members and the Bank's senior executives.

Sub-committees under the Executive Committee

To support the Bank's strong governance framework and its business and operational needs, the following four formal governance-related management level committees accountable to the Executive Committee have been established:

Risk Management Meeting **("RMM")**	• provides recommendations and advice to the Bank's Chief Risk and Compliance Officer on enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Group. • meetings are held six times each year.

Asset and Liability Management Committee **("ALCO")**	• provides recommendations and advice to the Chief Financial Officer on asset, liability and capital management related issues. • CFO may consider that issues should be escalated to, or further advice to be sought from RMM or the Executive Committee. • meetings are held eight times a year.
Recovery and Resolution Planning Steering Committee **("RRPSC")**	• provides advice to the Executive Committee, the Board and other relevant governance committees of key recovery and resolution planning issues. • meetings are held on a quarterly basis.
Culture & Conduct Committee **("CCC")**	• focuses on entity-wide activities that allow the Bank to oversee the development of the Bank's Culture and Conduct agenda, implementation and effective management/communication of the Bank's Culture Plan and Code of Conduct. • responsible to opine and make decisions related to the items within its scope of duties, and to escalate significant culture and conduct-related matters to the Executive Committee or RMM for attention and/or guidance. • meetings are held eight times a year.

Audit Committee

Membership

	Member since	Meeting attendance in 2023[1]
Clement K M Kwok (Chairman)	**May 2021**	*5/5*
Irene Y L Lee	**Aug 2014**	*5/5*
Xiao Bin Wang	**Mar 2022**	*5/5*
Average attendance rate		**100%**

1 *These included four regular meetings (including joint sessions with the Risk Committee) and an ad hoc full meeting with the Risk Committee.*

Meeting Process

The Audit Committee meets at least four times a year. The Bank's executives including the Chief Financial Officer, Chief Risk and Compliance Officer and Head of Audit are invited to present updates and/or answer relevant questions in order to facilitate the decision-making process. The Bank's external auditor will also attend the Audit Committee meeting. The Audit Committee meets at least twice annually with the representatives of the Bank's Head of Audit and external auditor without the presence of the Management in accordance with its terms of reference and Listing Rules.

Pre-meeting with the Audit Committee Chairman will be held before the regular meeting to allow the Audit Committee Chairman to make enquiries and ask for supplemental information. Audit Committee meetings usually take place a couple of days before Board meetings to allow the Audit Committee to report its findings and recommendations in a timely and orderly manner. The Audit Committee also reports to the Board following each Audit Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

The Audit Committee Chairman also holds regular meetings with the Senior Management, and internal and external auditors to discuss specific issues as arisen during the year outside the formal meetings.

The participation of the Bank’s senior business leader, Chief Executive, who attended two regular meetings in 2023 for presentation and answering questions, reaffirmed the ownership and accountability of financial and accounting in the first line of defence.

Roles and Authorities

The Board has delegated to the Audit Committee the oversight of matters relating to financial reporting and internal financial controls, in particular, reviewing:

- the integrity of the financial statements, formal announcements and disclosures relating to financial performance;
- the effectiveness of Internal Audit and the external audit process; and
- the effectiveness of internal financial control systems.

The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the Bank’s external auditor. In addition, the Bank’s whistleblowing policy, which is aligned with the Group, whereby all staff members may report incidents of improprieties in confidence and anonymity so that the same can be timely and thoroughly investigated and appropriate actions can be taken promptly.

The responsibilities of the Audit Committee are set out in its terms of reference, which are available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/) and on the website of HKEx (www.hkexnews.hk) .

Matters considered during 2023

During the year, the Audit Committee held five meetings and the major work performed by the Committee was as follows:

- reviewed the financial statements for the year ended 31 December 2022 and the related documents, and internal control recommendations and audit issues noted by the Bank’s external auditor
- reviewed the interim financial statements for the six months ended 30 June 2023 and the related documents, and the issues noted by the Bank’s external auditor
- reviewed and approved the quarterly banking disclosure statements for reporting periods ended 31 December 2022, 31 March 2023, 30 June 2023 and 30 September 2023
- reviewed the Financial Resource Planning and capital plan for year 2023
- reviewed the quarterly financial performance and balance sheet management positions
- reviewed the Bank’s current liquidity ratios and the make-up of and current pricing/liquidity of financial assets in the Bank’s balance sheet following the banking failures in the United States and Credit Suisse
- reviewed and discussed the update of expected credit losses
- reviewed the financial reporting risk updates, which included the effectiveness of the Bank’s internal control systems relating to financial reporting and the Bank’s financial and accounting policies and practices, as well as the revised accounting standards and prospective changes to accounting standards
- reviewed the internal and regulatory stress testing approach / scenarios and results (including those of climate risk related stress tests, as appropriate)

- reviewed the significant policies and plans including, but not limited to, the Bank's Recovery Plan and internal capital adequacy assessment process

- reviewed the internal audit reports and discussed the same with the Management and Head of Audit

- adopted the Internal Audit Plan and Internal Audit Charter for 2023, and reviewed the resources arrangements, audit statistics, internal audit reports and key themes, and the progress update of the Internal Audit Planning for 2024

- reviewed the update on Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2022 and 30 June 2023

- reviewed the adequacies of resources, qualifications and experience of staff of the Accounting and Financial Reporting function (including those of ESG team) and Internal Audit function, and their training programmes and budgets

- reviewed the re-appointment, remuneration and engagement letter of the Bank's external auditor, its independence and objectivity, and the effectiveness of the audit process

- reviewed the report on whistleblowing cases in 2023 and the operation and effectiveness of the whistleblowing arrangements; and the Bank's Whistleblowing Policy and Anti-Corruption Policy

- reviewed the Audit Committee's independence and effectiveness in discharging its role and responsibilities, and its terms of reference

- approved and reviewed the Audit Committee Certificates of the Bank and its subsidiaries

- reviewed the composition of the Audit Committees of the Bank's subsidiaries

- reviewed the information cascaded from and escalated significant issues to the Audit Committee of HSBC, as appropriate

Other key matters considered by the Audit Committee in early 2024

The Audit Committee held its first regular meeting on 31 January 2024 to discuss key matters including, but not limited to the following:

- 2023 annual results and fourth interim dividend, 2024 Financial Resource Planning and Capital Plan, and 2023 Annual Report and 2023 ESG Report
- Re-appointment of external auditor at the Bank's 2024 AGM
- External auditor's report on 2023 annual audit
- Changes to Audit Committee Composition of the Bank's subsidiaries, as appropriate
- Internal Audit Charter and Internal Audit Planning for 2024 and resources requirement with audit statistics, internal audit annual report for 2023 and key themes
- Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2023
- Connected Transaction in relation to the Limited Partnership Agreement between the Bank and the HSBC Group companies
- Annual review of internal liquidity adequacy assessment process

During the year, the Bank's Head of Audit also had regular monthly meetings with the Audit Committee Chairman on the Bank's internal audit matters.

Risk Committee

Membership

	Member since	Meeting attendance in 2023[1]
Kenneth S Y Ng (Chairman)[2]	**Jan 2019**	***5/5***
Irene Y L Lee	**May 2014**	***5/5***
Huey Ru Lin	**Nov 2022**	***5/5***
Xiao Bin Wang[2]	**Aug 2023**	***1/1***
Michael W K Wu[3]	**Jul 2018**	***2/2***
Average attendance rate		**100%**

1 *These included four regular meetings (including joint sessions with the Audit Committee) and an ad hoc full meeting with the Audit Committee.*
2 *Xiao Bin Wang was appointed as Risk Committee member with effect from 1 August 2023. As announced on 1 February 2024, Xiao Bin Wang will succeed Kenneth S Y Ng as the Chairman of the Risk Committee, with effect from the conclusion of the Bank's 2024 AGM.*
3 *Michael W K Wu stepped down as INED and ceased as member of Risk Committee with effect from the conclusion of the Bank's AGM held on 4 May 2023.*

Meeting Process

The Risk Committee meets at least four times a year. The Bank's executives including the Chief Financial Officer, Chief Risk and Compliance Officer, Head of Audit and General Counsel are invited to present updates and/or answer relevant questions in order to facilitate the decision-making process. The Bank's external auditor also joins the Risk Committee meeting. The Risk Committee also meets at least twice annually with the Bank's Chief Risk and Compliance Officer, Head of Audit and external auditor separately without the presence of the Management in accordance with its terms of reference and Listing Rules.

Pre-meeting with the Risk Committee Chairman will be held before the regular meeting to allow the Risk Committee Chairman to make enquiries and ask for supplemental information. Risk Committee meetings usually take place a couple of days before Board meetings to allow the Committee to report its findings and recommendations in a timely and orderly manner. The Risk Committee also reports to the Board following each Risk Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

The Risk Committee Chairman meets regularly with Chief Risk and Compliance Officer and the Senior Management to discuss specific risk matters that have arisen outside formal meetings.

The participation of the Bank's senior business leader, Chief Executive, who attended a regular meeting in 2023, reaffirmed the ownership and accountability of risks in the first line of defence.

Roles and Authorities

The Board has delegated to the Risk Committee oversight of risk-related matters impacting the Bank and its subsidiaries, including risk governance, internal control systems (other than internal controls over financial reporting) and culture-related matters.

Pursuant to HKMA's Circular on "Bank Culture Reform", the Board has also delegated to the Risk Committee to encompass culture-related responsibilities. Such responsibilities include actions to approve, review and assess, at least annually, the adequacy of any relevant statement which sets out the Bank's culture and behavioural standards.

The Risk Committee is responsible for, among other things, the Bank's high level risk related matters, risk appetite and tolerance, risks associated with proposed strategic acquisitions or disposals, risk management reports from the Management, effectiveness of the risk management framework and systems of internal control and compliance (other than that regarding financial reporting), and appointment and removal of the Chief Risk and Compliance Officer.

The responsibilities of the Risk Committee are set out in its terms of reference, which are available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/) and on the website of HKEx (www.hkexnews.hk) .

Matters considered during 2023

During the year, the Risk Committee held five meetings and the major work performed by the Committee was as follows:

- reviewed the Bank's Culture Statement and culture dashboards
- reviewed the first line of defence reports of all lines of businesses
- reviewed the regular risk reports submitted by the Management including, but not limited to, risk management framework refresh, risk governance structure, risk appetite statement and framework and profile update, risk and compliance profile papers (including risk maps and top and emerging risks), annual plan and progress update relating to compliance, enterprise-wide risk assessment report and internal capital adequacy assessment process
- reviewed the regulatory and internal stress testing approach/scenarios and results (including those of climate risk related stress tests, as appropriate)
- endorsed the credit approval authority limits, and other significant risk policies, plans and frameworks including Recovery Plan, Risk and Compliance Culture Plan and Awareness Programme and Corporate Real Estates Credit Exit Portfolio Framework
- reviewed the Bank's current liquidity ratios and the make-up of and current pricing/liquidity of financial assets in the Bank's balance sheet following the banking failures in the United States and Credit Suisse
- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for the pay review of performance year 2022
- reviewed the Internal Audit Plan and the Internal Audit Charter for 2023, and the resources arrangements, audit statistics, internal audit reports and key themes, and the progress update of the Internal Audit Planning for 2024
- reviewed the update on Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2022 and 30 June 2023
- reviewed the adequacy of resources, qualifications and experience of staff of the Risk and Compliance functions, and their training programmes and budgets
- reviewed the report on whistle-blowing cases in 2023 and the operation and effectiveness of the whistleblowing arrangements; and the Bank's Whistleblowing policy and Anti-corruption Policy
- reviewed other risk related reports in relation to progress update of climate risk management, risk appetite metric limit update, China and Hong Kong commercial real estate portfolios, corporate credit risk management, and property mortgage loan dashboard
- reviewed other operations related reports in relation to operational resilience programme and scenario testing strategy, non-financial risk first line reports, update on business continuity plans of the Bank and HACN, and IT incident overview, third party risk management and outsourcing status updates, independent review on customer notification process, technology and cyber security risk update, and digital assets and currencies strategy
- reviewed the Risk Committee's independence and effectiveness in discharging its role and responsibilities, and its terms of reference

- approved and reviewed the Risk Committee Certificates of the Bank and its subsidiaries

- reviewed the integration of the Risk and Compliance functions and endorsed the appointment of Chief Risk and Compliance Officer for the Board's approval

- approved and endorsed the appointment of a Risk Committee Member of the Bank

- reviewed the composition of the Risk Committees of the Bank's subsidiaries

- reviewed the information cascaded from and escalated significant issues to the Risk Committee of HSBC, as appropriate

Other key matters considered by the Risk Committee in early 2024

The Risk Committee held its first regular meeting on 31 January 2024 to discuss key matters including, but not limited to the following :

- Climate Strategy with Net Zero Transition Plan
- Risk-related issues arising from external auditor's report on 2023 Annual Report
- Changes to Risk Committee Composition of the Bank and its subsidiaries, as appropriate
- Internal Audit Charter and Internal Audit Planning for 2024 and resources requirement with audit statistics, internal audit annual report for 2023 and key themes
- Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2023
- Annual review of internal liquidity adequacy assessment process
- First line of defence report from Wealth and Personal Banking business
- 2024 review of risk appetite statement and framework, with quarterly risk appetite profile update as at 31 December 2023
- Alignment of risk and remuneration and outcome of incentivising compliance for performance year 2023 variable pay
- Update on Data Risk and progress update of 2023 Annual Compliance Plan

Remuneration Committee

Membership

	Member since	Meeting attendance in 2023[1]
Cordelia Chung (Chairman)[2]	**Mar 2022**	***3/3***
Patricia S W Lam[3]	**May 2023**	***2/2***
Irene Y L Lee	**May 2021**	***3/3***
Michael W K Wu[4]	**Mar 2022**	***1/1***
Average attendance rate		**100%**

1 *These included three regular meetings.*
2 *Cordelia Chung was appointed as Remuneration Committee Chairman with effect from the conclusion of the Bank's AGM held on 4 May 2023.*
3 *Patricia S W Lam was appointed as Remuneration Committee member with effect from the conclusion of the Bank's AGM held on 4 May 2023.*
4 *Michael W K Wu stepped down as INED and ceased as Remuneration Committee Chairman with effect from the conclusion of the Bank's AGM held on 4 May 2023.*

Meeting Process

The Remuneration Committee meets at least twice a year to consider and provide advice to the Board on the remuneration policy and structure in order to underpin the Bank's people strategy.

In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Bank's business objective, people strategy, short-term and long-term performance, business and economic conditions, market practices, conduct, compliance and risk control, in order to ensure that the remuneration aligns with business and individual performance, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market. The Remuneration Committee may invite any Director, executive, consultant or other relevant party to provide advice in this respect, if necessary. In 2023, the Remuneration Committee engaged an external consultant to undertake an independent review of the Bank's remuneration policy and its implementation for year 2023.

The Remuneration Committee reports to the Board following each Committee meeting, and draws to the Board's attention any significant issues, identify any action or improvement required, and makes relevant recommendations.

The Remuneration Committee Chairman also meets regularly with Senior Management to discuss agenda planning.

Roles and Authorities

The Board has delegated to the Remuneration Committee the oversight of matters related to remuneration impacting the Bank and its subsidiaries, in particular for:

- satisfying itself that the remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the Bank
- overseeing the implementation and operation of the remuneration policy of the Bank, which is aligned with the Group's remuneration framework
- satisfying itself that the remuneration framework complies with any relevant local law, rule or regulation
- satisfying itself that the remuneration framework is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Bank

The Remuneration Committee also considers and proposes for the Board's approval the remuneration packages of all EDs, Senior Management, Key Personnels and Heads of Control Functions. In addition, it reviews at least annually and independently of the Management, the adequacy and effectiveness of the Bank's remuneration policy and its implementation, to ensure that the Bank's remuneration practices are consistent with relevant regulatory requirements and promotes effective risk management.

The responsibilities of the Remuneration Committee are set out in its terms of reference, which are available on our website(www.hangseng.com/en-hk/about-us/corporate-governance/) and on the website of HKEx (www.hkexnews.hk).

Matters considered during 2023

During the year, the Remuneration Committee held three meetings and the major work performed by the Committee was as follows:

- endorsed the remuneration packages of EDs, Senior Management, Key Personnels and Heads of Control Functions of the Bank and recommended to the Board for approval

- endorsed the proposed variable pay for 2022 and pay review proposal for 2023 (including 2022 year end pay review outcomes) and reviewed 2022 performance year pay review survey results and actions

- reviewed on the 2023 performance year pay review cycle and other 2023 priorities including the refreshed reward strategy and principles into framework

- reviewed the update of the 2023 performance year pay review, fixed pay and variable pay pool consideration, and 2024 performance year pay changes

- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for performance year 2022 variable pay

- reviewed the enhanced staff medical benefits for Hong Kong and Macau, and the enhancements made to the benefits offering across the Bank's entities from 2024

- reviewed the fees payable to Directors (excluding EDs) and Committee Chairmen/Members of the Bank and its subsidiaries

- reviewed the remuneration policy of the Bank and approved the appointment of independent reviewer for the annual review of the Bank's remuneration policy and its implementation

- reviewed the outcome of the independent review by an external reviewer of the Bank's remuneration policy and remuneration system, and the adequacy and effectiveness of its implementation

- reviewed the update of Group Material Risk Takers review outcome and relevant regulatory developments

- reviewed the Remuneration Committee's effectiveness in discharging its role and responsibilities, and its terms of reference

- approved and reviewed the Remuneration Committee Certificates of the Bank and its subsidiaries

- approved and endorsed the appointment of Remuneration Committee Chairman and Member of the Bank, and the changes to Remuneration Committee composition of the Bank's subsidiaries, as appropriate

- endorsed the remuneration packages and severance payment for Senior Management and the fixed term contract of a Key Personnel for recommendation to the Board for approval

- reviewed the composition of the Remuneration Committees of the Bank's subsidiaries

- reviewed the information cascaded from and escalated significant issues to the Remuneration Committee of HSBC, as appropriate

Other key matters considered by the Remuneration Committee in early 2024

The Remuneration Committee held its first regular meeting on 1 February 2024 to discuss key matters including, but not limited to the following:

- Alignment of risk and remuneration and incentivising compliance for performance year 2023 variable pay
- Pay review for 2024 and variable pay for 2023 (including 2023 year end pay review outcomes and update on the effectiveness of current variable pay deferral arrangement)
- 2023 review of the remuneration of EDs, Senior Management, Key Personnels and Head of Control Functions of the Bank
- 2024 fee proposals for Directors (excluding EDs) and Board Committees
- Remuneration package of a Senior Management (also member of the Executive Committee) to take effect from 22 February 2024
- Changes to Remuneration Committee Composition of the Bank's subsidiaries, as appropriate

Nomination Committee

Membership

	Member since	Meeting attendance in 2023[1]
Irene Y L Lee (Chairman)	**Dec 2020**	***2/2***
Diana Cesar	**Sep 2021**	***2/2***
Cordelia Chung[2]	**Aug 2023**	***1/1***
Patricia S W Lam	**July 2022**	***2/2***
David Y C Liao	**Sep 2021**	***2/2***
Kenneth S Y Ng[3]	**May 2022**	***2/2***
Michael W K Wu[4]	**May 2013**	***1/1***
Average attendance rate		**100%**

1 *These included two regular meetings.*
2 *Cordelia Chung was appointed as Nomination Committee member with effect from 1 August 2023.*
3 *As announced on 1 February 2024, Kenneth S Y Ng will step down as INED of the Bank and a member of the Nomination Committee, with effect from the conclusion of the Bank's 2024 AGM.*
4 *Michael W K Wu stepped down as INED and ceased as a member of the Nomination Committee with effect from the conclusion of the Bank's AGM held on 4 May 2023.*

Meeting Process

The Nomination Committee meets at least twice a year. It leads the process for Board appointments and identifies and nominates candidates for appointment to the Board, for the Board's approval.

The Nomination Committee reports to the Board following each Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

Roles and Authorities

The Nomination Committee shall be responsible to the Board for leading the process for Board appointments by identifying and nominating suitable candidates for the approval by the Board to complement the Bank's corporate strategy. The Nomination Committee shall also have responsibility for identifying individuals suitably qualified to become members of senior management and selecting, or making recommendations to the Board on the selection of, individuals nominated for senior management positions (based on the role and its responsibilities and the knowledge, experience and competence which the role requires).

The Nomination Committee also considers, among other things, the structure, size and composition of the Board and Non-executive Board Committees, independence of INEDs, re-election of Directors, succession planning of Directors, term of appointment of NEDs, time commitment required from NEDs and INEDs, appointment to Board Committees, and approves the appointment to the position of "manager" as defined under the Banking Ordinance.

The responsibilities of the Nomination Committee are set out in its terms of reference, which are available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/) and on the website of HKEx (www.hkexnews.hk).

Nomination Policy

The Bank has adopted its Nomination Policy to ensure that proper selection and nomination processes are in place for Board appointments. The Nomination Committee shall consider the candidates based on merit having regard to the balance of skills, knowledge and experience on the Board as well as the overall Board diversity and shall undertake adequate due diligence in respect of the proposed candidates and make recommendations based on the selection criteria and such other factors that it considers appropriate for the Board's consideration and, if thought fit, approval. If necessary, the Bank may also engage external search firm to assist in the sourcing and identification of appropriate candidates for Board appointments. The Nomination Policy is also available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/). The Bank will from time to time review the Nomination Policy and monitor its implementation to ensure its compliance with regulatory requirements and good corporate governance practices.

Matters considered during 2023

During the year, the Nomination Committee held two meetings and the major work performed by the Committee was as follows:

- endorsed the appointment of Board Committee Chairman and members of the Bank for the Board's approval
- endorsed / approved the appointment of the Senior Management and a Key Personnel
- approved the process change on regulatory notification on appointment, cessation and change in personal particulars of "managers" as defined under the Banking Ordinance; and reviewed the relevant changes "managers' list" of the Bank
- reviewed the Board Succession Plans of the Bank and its subsidiaries, and succession planning for Senior Management of the Bank
- endorsed the Board Diversity Policy for the Board's approval
- reviewed the structure, size and composition of the Board and Non-executive Board Committees
- reviewed the independence of INEDs
- reviewed the time commitment required from NEDs and INEDs
- endorsed the renewal of terms of appointment of NEDs and INEDs
- reviewed/endorsed the re-election/election of Directors
- reviewed the Nomination Committee's effectiveness in discharging its role and responsibilities, and its terms of reference
- escalated significant issues to the Nomination Committee of HSBC, as appropriate

Other key matters considered by the Nomination Committee in early 2024

The Nomination Committee held its first regular meeting on 1 February 2024 to discuss key matters including, but not limited to the following:

- Changes to Board and Board Committee composition of the Bank and its subsidiaries, as appropriate
- Annual review of independence of INEDs, time commitment of NEDs and INEDs, and re-election of Director at the Bank's 2024 AGM
- Appointment of a Senior Management (also member of the Executive Committee) to take effect from 22 February 2024
- Review of the Nomination Policy

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND KEY PERSONNEL

Our performance and pay framework is underpinned by our Group’s Remuneration Strategy and principles. The refreshed reward strategy and wider employee proposition centred on our purpose and values. The refreshed principles and supporting commitments articulate the experience for employees and provide a clear framework to create a dynamic culture where the best talent is motivated to deliver high performance. These principles are:

(1) **We will reward you responsibly** through fixed pay security and protection through core benefits, a competitive total compensation opportunity, and pay equity with a more inclusive and sustainable benefits proposition over time

(2) **We will recognise your success** through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities

(3) **We will support you to grow** through our proposition beyond pay, with a focus on future skills and development, your mental, physical, social and financial well-being, and flexibility in working practices

Remuneration of Directors

The remuneration paid to NEDs and EDs is subject to annual review in accordance with the remuneration framework of the Bank.

The level of fees paid to NEDs is determined with reference to the Directors’ responsibilities and commitment, and fees paid by comparable institutions. No equity-based remuneration with performance-related elements is granted to INEDs by the Bank to ensure their objectivity and independence.

As regards EDs, the following factors are considered with reference to the Remuneration Policy of the Bank when determining their remuneration packages:

- balanced scorecard of relevant financial and non-financial objectives including appropriate risk and compliance objectives, differentiated by performance
- general business and economic conditions
- changes in appropriate markets such as supply/demand fluctuations and changes in competitive conditions
- individual contributions to the Bank
- right behaviours aligned with the Group values, culture and conduct expectation
- retention consideration and individual potential

No individual Director is involved in deciding his/her own remuneration.

The current scale of Director’s fees, and fees for chairmen and members of the Non-executive Board Committees, namely, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee, are set out below:

	(HK$)
Board of Directors [1]	
Chairman	860,000
NEDs	660,000
Audit Committee	
Chairman	610,000
Members	290,000
Risk Committee	
Chairman	610,000
Members	290,000
Remuneration Committee	
Chairman	340,000
Members	200,000
Nomination Committee	
Chairman	450,000
Members	200,000

[1] In line with the remuneration policy of the HSBC Group, no Director's fee is payable to those Directors who are full time employees of the Bank and its subsidiaries.

Information relating to the remuneration of Directors on a named basis for the year ended 31 December 2023 is set out in Note 14 to the Bank's 2023 Financial Statements.

Remuneration of Senior Management and Key Personnel

According to HKMA's SPM CG-5 "Guideline on a Sound Remuneration System", authorised institutions are required to make disclosures in relation to their remuneration systems as appropriate. The Bank has fully complied with HKMA's disclosure requirements set out in Part 3 of the said Guideline.

There are 18 Senior Management members [1] and 6 Key Personnel [2] in 2023. The aggregate amount of remuneration [3] of the Senior Management and Key Personnel during the year, split into fixed and variable remuneration, is set out below:

	Remuneration amount and quantitative information	**2023**	**2022**
	Fixed remuneration		
1	Number of employees	24	28
2	Total fixed remuneration (HK$ '000)	82,687	78,366
3	Of which: cash-based	82,687	78,366
	Variable remuneration		
4	Number of employees [4]	24	28
5	Total variable remuneration (HK$ '000) [5]	51,453	51,989
6	Of which: cash-based	28,367	28,469
7	*Of which: deferred*	*9,040*	*9,178*
8	Of which: shares or other share-linked instruments	23,086	23,520
9	*Of which: deferred*	*12,557*	*12,529*
10	**Total remuneration (HK$ '000)**	**134,140**	**130,555**

1 Senior management refers to those executives who are (a) EDs of the Bank; (b) Alternate Chief Executives of the Bank; (c) Members of the Executive Committee of the Bank; and (d) Head(s) of the Bank's principal subsidiary/subsidiaries with offshore operations and with total assets representing more than 5% of the Bank's total assets. Among the senior colleagues mentioned above, 18 of them are Executive Committee members (including new joiners and leavers) of the Bank in 2023.

2 Key Personnel refers to employees classified as "Identified Staff and Material Risk Takers" (collectively referred as "Material Risk Takers" or "MRTs") under the UK Prudential Regulation Authority Remuneration Rules.

3 Remuneration refers to all remuneration payable to employees during the year with reference to their tenure as Senior Management and Key Personnel. The forms of variable remuneration and the proportion deferred are based on the seniority, role and responsibilities of employees and their level of total variable compensation. As the total number of Senior Management and Key Personnel involved is relatively small, to avoid individual figures being deduced from the disclosure, aggregate figures are disclosed in this section.

4 Number of employees disclosed above includes leavers who may have zero variable pay.
5 No deferred variable remuneration had been reduced through performance adjustments in 2023 and 2022.

The emoluments of 18 Senior Management members by total remuneration bands for 2023 are set out below:

Hong Kong dollars	Number of Senior Management
Below $5,000,000	9
$5,000,001 - $10,000,000	7
$10,000,001 - $15,000,000	1
$15,000,001 - $20,000,000	-
$20,000,001 - $25,000,000	1

The aggregate amount of special payments of the Senior Management and Key Personnel awarded during the year is set out below:

	Special payments	2023		2022	
		Number of employees	Total amount (HK$ '000)	Number of employees	Total amount (HK$ '000)
1	Guaranteed bonuses	-	-	-	-
2	Severance payments	3	2,640	-	-

The aggregate amount of deferred and retained variable remuneration of Senior Management and Key Personnel is set out below:

		2023		2022	
	Deferred and retained remuneration (HK$ '000)	**Cash**	**Shares**	**Cash**	**Shares**
1	Total amount of outstanding deferred remuneration [6 & 8]	20,486	31,709	20,527	27,615
2	*Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment*	*20,486*	*31,709*	*20,527*	*27,615*
3	Total amount of amendment during the year due to ex post implicit adjustments [9]	-	4,610	-	2,033
4	Total amount of deferred remuneration paid out in the financial year [7 & 8]	7,882	17,964	9,826	18,898

6 Outstanding, unvested, deferred remuneration is exposed to ex post explicit adjustments via malus.
7 Paid and vested variable pay made to Material Risk Takers is subject to clawback.
8 There is no reduction of deferred remuneration and retained remuneration due to ex post explicit adjustments during 2023 and 2022 via the application of malus and/or clawback.
9 Outstanding, unvested, deferred shares are exposed to ex post implicit adjustments. The total value of these shares was calculated based on the closing market share price of HSBC Holding plc (London) as at 31 December of the respective financial years. HSBC's share price was 23.23% higher as at 29 December 2023 when compared to that of 30 December 2022.

Other relevant remuneration disclosures are set out in Notes 14, 15 and 48(b) to the Bank's 2023 Financial Statements.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims at making a balanced, clear and comprehensive assessment of the Bank's performance, position and prospects. A financial resource planning is reviewed and approved by the Board on an annual basis. Reports on financial results, business performance and variances against the approved financial resource planning are made available to the Board for review and monitoring on a monthly basis.

The Board oversees and reviews from time to time the Bank's strategic plan (covering a period of three to five years) and the implementation of the plan.

The annual and interim results of the Bank are announced in a timely manner within two months after the end of the relevant year or period. Further, the Bank also publishes the Banking Disclosure Statement on a quarterly basis pursuant to HKMA's requirements, which provides additional financial information to the public.

The Directors acknowledge their responsibilities for preparing the accounts of the Bank. As at 31 December 2023, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Bank's ability to continue as a going concern. Accordingly, the Bank's Directors have prepared the financial statements of the Bank on a going-concern basis.

The responsibilities of the external auditor with respect to financial reporting are set out in the "Independent Auditor's Report" attached to the Bank's 2023 Financial Statements.

Internal Controls

System and Procedures

The Board is responsible for internal control of the Bank and its subsidiaries and for reviewing its effectiveness.

The Bank's internal control system comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities for each business and functional unit are clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place in the Bank to identify, control and report on the major types of risks the Bank encounters. Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibilities, the management of the risks in accordance with risk management procedures and the reporting on risk management. The Bank maintains an effective risk management framework through the setting up of specialised management committees for the oversight and monitoring of major risk areas and the establishment of risk and compliance management departments under the relevant control functions of the Bank. Relevant risk management reports are submitted to ALCO, Risk Management Meeting, Executive Committee, and Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risk. The Bank's key risk management policies and major control limits are approved by the Board or its delegated committees, and are monitored and reviewed regularly according to established policies and procedures.

More detailed discussion on the policies and procedures for management of each of the major types of risk the Bank encounters is set out in the section "Risk" of the "Management Discussion and Analysis" in this Annual Report.

Annual Assessment

A review of the effectiveness of the Bank's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2023 was conducted with reference to the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework, which assesses the Bank's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The review results have been reported to the Audit Committee, the Risk Committee and the Board. The Board has received a confirmation from the Management on the effectiveness of the Bank's risk management and internal control systems. The Board is satisfied that such system is effective and adequate.

In addition, the Bank through the Audit Committee, has also reviewed the adequacy of resources, qualifications and experience of staff of Finance function (including ESG team) as well as their succession planning, training programmes and budget.

Framework for Disclosure of Inside Information

The Bank has put in place a robust framework for the disclosure of inside information in compliance with the Securities and Futures Ordinance. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Bank and its subsidiaries. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

The Bank has a Disclosure and Controls Committee to support and discharge the Bank's obligations under applicable legislations and regulations relating to external disclosure obligations in Hong Kong. The memberships are Chief Financial Officer, Chief Risk and Compliance Officer, and Company Secretary and Head of Corporate Governance. The Disclosure and Controls Committee has the discretion to decide whether a matter should be referred to the Board of Directors, the Chairman of the Board or a Committee of the Board or to the HSBC Group.

Internal Audit

The primary role of the Internal Audit function is to help the Board and the Management to protect the assets, reputation and sustainability of the Bank. The Internal Audit function provides independent and objective assurance as to whether the design and operational effectiveness of the Bank's framework of risk management, control and governance processes, as designed and represented by the Management, is adequate.

The Bank has adopted a risk management and internal control structure, referred to as the "Three Lines of Defence", to ensure it achieves its commercial aims while meeting regulatory and legal requirements, and its responsibilities to shareholders, customers and staff. The Internal Audit function's role as the third line of defence is independent of the first and second lines of defence. The Bank's Head of Audit reports to the Chairman and the Audit Committee.

An Internal Audit Charter is reviewed and approved by the Audit Committee periodically which has detailed the purpose, organisation, authority, independence and objectivity, accountabilities and scope of work, and standards of audit practices to govern the work of the Internal Audit function. Further, the Internal Audit function also maintains a quality assurance and improvement programme that covers all aspects of internal audit activity, including conformance with The Institute of Internal Auditors (IIA) Standards, applicable regulatory guidance and internal audit policies and procedures.

Results of audit work together with an assessment of the overall risk management and control framework are reported to the Audit Committee and the Risk Committee as appropriate. The Internal Audit function also reviews the Management's action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issue.

External Auditor

PricewaterhouseCoopers, Certified Public Accountants and a Registered Public Interest Entity Auditor, is the Bank's external auditor. The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor. The external auditor's independence and objectivity, and the effectiveness of the audit process are also reviewed and monitored by the Audit Committee on a regular basis.

During 2023, fees paid to the Bank's external auditor for audit services amounted to HK$35 million, compared with HK$28 million in 2022. For non-audit services, the fees paid to the Bank's external auditor amounted to HK$15 million, compared with HK$16 million in 2022. In 2023, the non-audit service assignments covered by these fees included HK$2 million for other assurance services.

Audit Committee

The Audit Committee assists the Board in meeting its responsibilities for ensuring effective systems of internal control and compliance relating to financial reporting, and in meeting its financial reporting obligations, as well as overseeing the implementation and effectiveness of whistleblowing policies and arrangements.

Risk Committee

The Risk Committee assists the Board in meeting its responsibilities for ensuring effective systems of risk management, internal control and compliance (other than that relating to financial reporting), in meeting its risk governance obligations. The Risk Committee also advises and assists in the Board's review of the effectiveness of culture enhancement initiatives.

ENGAGEMENT WITH SHAREHOLDERS

The Bank trusts continued communication and engagement are keys to build trust and understanding between the Bank and its stakeholders. We attach great importance to engaging our stakeholders, including shareholders, employees and investors, as well as the wider community and keeping our stakeholders communicated about our business strategies and outlook and reciprocally the Bank to understand their views and to address their concerns.

Shareholders Communication

The Bank maintains open and constructive dialogue with its shareholders and provides them with the information necessary to make sound investment decisions. The Bank has established a Shareholders Communication Policy which sets out the Bank's processes to provide shareholders and the investment community with ready, equal and timely information on the Bank for them to make informed assessments of the Bank's strategy, operations and financial performance, and to engage actively with the Bank and exercise their rights as shareholders in an informed manner. The most recent review of the policy was undertaken and approved by the Board in November 2023 and the effectiveness of the Policy was confirmed considering multiple channels were in place and adopted to reflect the current best practice in communications with shareholders and the investment community. The said policy, which is subject to annual review, is available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

Dividend Policy

The Bank is committed to providing our shareholders with sustainable and outstanding returns. All shareholders are entitled to receive dividends according to our Dividend Policy. The Bank has formulated a Dividend Policy to set out the Bank's medium to long term dividend objective to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation. Dividend payment shall, in general, take into consideration factors including regulatory requirements, financial results, level of distributable reserves, general business conditions and strategies, strategic business plan and capital plan, statutory and regulatory restrictions on dividend payment and other factors the Board may deem relevant.

The latest version of the Policy is available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/). The financial calendar and the dividend-related dates for the year ended 31 December 2023 are set out in "Shareholder Information" section under the "Corporate Information and Other Information" of this Annual Report.

Annual General Meeting

The AGM provides a useful forum for shareholders to exchange views with the Board. The Bank's Chairman, EDs, Chairmen of the Board Committees and NEDs are available at the AGM to answer questions from shareholders about the business and performance of the Bank. In addition, the Bank's external auditor is also invited to attend the AGM to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election and election (as the case may be) of individual Directors. An explanation of the detailed procedures of conducting a poll will be provided to shareholders at the AGM, to ensure that shareholders are familiar with such procedures.

In light of gradually relaxed social distancing measures following the local epidemic situation continuing to subside, the Bank's last AGM was held in a hybrid format on Thursday, 4 May 2023 **("2023 AGM")** with physical attendance at Hang Seng Bank Headquarters and online participation through which shareholders were allowed to view the live webcast of the 2023 AGM, submit questions and cast their votes, and were counted towards the quorum of the meeting. Shareholders were also encouraged to express their views before the 2023 AGM by submitting their questions to a designated email account.

All resolutions at the 2023 AGM were decided on a poll. All the resolutions proposed at that meeting were approved by poll. Details of the poll results are available under the section "Investor Relations" of our website (www.hangseng.com) .

New Articles of Association of the Bank was also adopted at the 2023 AGM with a view to bringing the Articles of Association in line with the Companies (Amendment) Ordinance 2023 which comes into operation with effect from 28 April 2023 and to give the Bank greater flexibility to align with technological advances or to accommodate particular circumstances, such that the Bank may convene general meetings by virtual meetings, as an alternative to physical meetings or hybrid meetings. Details of the key changes to the Articles of Association are set out in the circular of the Bank to shareholders dated 24 March 2023.

The next AGM will be held in May 2024. Shareholders may refer to the "Corporate Information and Other Information" section in this Annual Report for information on other important dates for shareholders.

To facilitate shareholders' understanding of the current corporate information of the Bank, details of the substantial interests in share capital and the public float information of the Bank are set out in the "Report of the Directors" section of this Annual Report; details of the types and aggregate shareholders, and important shareholders' dates in the financial year are set out in the "Corporate Information and Other Information" section of this Annual Report.

Investor Relations

The Bank attaches great importance to communication with shareholders. To this end, a number of means are used to promote greater understanding and dialogue with the investment community. The Bank holds group meetings with analysts in connection with the Bank's annual and interim results. The results announcements are also broadcast live via webcast. Apart from the above, designated senior executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Bank's development, subject to compliance with the applicable laws and regulations. In addition, the Bank's Chief Executive and Chief Financial Officer also make presentations and hold group meetings with investors at investor forums.

Our website (www.hangseng.com) offers timely access to the Bank's financial information, announcements, circulars to shareholders and information on the Bank's corporate governance structure and practices. For efficient communication with shareholders and in the interest of environmental preservation, shareholders are encouraged to browse the Bank's corporate communications on our website, instead of receiving printed copies.

Stakeholders Engagement

The Board is committed to engaging and maintaining high standards of corporate governance with key stakeholders, including customers, employees, investors, communities, regulators and government, suppliers, and other relevant stakeholders as well as aligning with HSBC Group strategy.

HASE's stakeholders	How we engage	Material topics highlighted by the engagement
Customers	Customers' voices are heard through the interactions with them, surveys and by listening to their complaints	- Customer advocacy - Cybersecurity
Employees	Colleagues' voices are heard through employee Snapshot survey, exchange meetings, and "speak-up' channels, including the global whistleblowing platform, *HSBC Confidential*	- Employee training - Diversity and inclusion - Employee engagement
Investors	The Bank engages with its stakeholders through the Bank's AGMs, virtual and in-person meetings, conferences and surveys.	- Thermal coal policies - Energy policies - Net Zero Commitment
Communities	The Bank welcomes dialogue with external stakeholders including non-governmental organisations and other civil societies groups.	- Financial inclusion and community investment
Regulators and governments	The Bank proactively engages regulators and governments to facilitate strong relationships through virtual and in-person meetings and by responding to consultations individually and jointly via industry bodies	- Anti-bribery and corruption - Conduct and product responsibility
Suppliers	The Bank's code of conduct for suppliers of goods and services sets out how we engage our suppliers on ethical and environmental performance	- Human rights - Supply chain management

The Bank would continue to strengthen the governance and practices to ensure that the Bank creates sustainable value to all stakeholders.

Calling an Extraordinary General Meeting

Shareholder(s) holding not less than five percent of the total voting rights of all the members having a right to vote may request to call an Extraordinary General Meeting **("EGM")** of the Bank.

The requisition (a) must state the general nature of the business to be dealt with at the meeting, (b) must be signed by the requisitionist(s), and (c) may either be deposited at the Bank's registered office at 83 Des Voeux Road Central, Hong Kong in hard copy form or sent by email to egmrequisition@hangseng.com. If the resolution is to be proposed as a special resolution, the requisition should include the text of the resolution and specify the intention to propose the resolution as a special resolution. The requisition may consist of several documents in like form, each signed by one or more requisitionist(s).

The requisition must also state (a) the name(s) of the requisitionist(s), (b) the contact details of the requisitionist(s), and (c) the number of ordinary shares of the Bank held by the requisitionist(s).

The Directors must proceed to convene an EGM within 21 days from the date of receipt of the requisition. Such meeting should be held on a date not more than 28 days after the date on which the notice convening the meeting is given.

If the Directors fail to convene the EGM as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

A meeting so convened by the requisitionist(s) shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Directors to convene a meeting shall be reimbursed to the requisitionist(s) by the Bank.

Putting Forward Proposals at General Meetings

Shareholders representing at least 2.5 percent of the total voting rights of all the members having a right to vote, or at least 50 shareholders who have a relevant right to vote, may:

- put forward proposal at general meeting
- circulate to other shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting

For further details on shareholder qualifications, and the procedures and timeline, in connection with the above, shareholders are kindly requested to refer to Sections 580 and 615 of the Companies Ordinance (Cap 622, Laws of Hong Kong).

Further, a shareholder may propose a person other than a retiring Director of the Bank for election as a Director of the Bank at a general meeting. For such purpose, the shareholder must send to the Bank's registered address (for the attention of the Bank's Company Secretary) a written notice which identifies the candidate and includes a notice in writing by that candidate of his/her willingness to be so elected. Such notice must be sent within the seven-day period commencing on the day after the despatch of the notice of the meeting, or such other period as may be determined by the Directors from time to time, and ending no later than seven days prior to the date appointed for such meeting. Procedures for shareholders to propose candidates for election as Director of the Bank are also available on our website (www.hangseng.com/en-hk/about-us/corporate-governance/).

Putting Enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Bank's Company Secretary at the Bank's registered address. Questions about the procedures for convening or putting forward proposals at an AGM or EGM may also be put to the Company Secretary by the same means.

MATERIAL RELATED PARTY TRANSACTIONS

Material Related Party Transactions and Contracts of Significance

The Bank's material related party transactions are set out in Note 48 to the 2023 Financial Statements. These transactions include those that the Bank has entered into with The Hongkong and Shanghai Banking Corporation Limited **("its immediate holding company")** and its subsidiaries as well as its fellow subsidiaries in the ordinary course of its interbank activities, including the acceptance and placement of interbank deposits, corresponding banking transactions, off-balance sheet transactions, and the provision of other banking and financial services.

The Bank uses the information technology services of, and shares an automated teller machine network with its immediate holding company. The Bank also shares the cost of information technology projects and uses certain processing services of fellow subsidiaries. In 2023, the Bank's share of the costs included HK$2,168 million for system development, HK$940 million for data processing, and HK$1,450 million for administrative services.

The Bank maintains a staff retirement benefit scheme for which a fellow subsidiary company acts as trustee and custodian and its immediate holding company act as administrator.

The Bank acts as agent for promoting Mandatory Provident Fund products administered by its immediate holding company with a fee income of HK$138 million and distributed retail investment funds for a fellow subsidiary company with a fee income of HK$45 million during the year of 2023.

During 2023, the Bank has paid coupons on additional tier 1 (AT1) capital instruments of HK$708 million to its immediate holding company (2022: HK$710 million).

These transactions were entered into by the Bank in the ordinary and usual course of business on normal commercial terms, and in relation to those which constituted connected transactions under the Listing Rules, they also complied with applicable requirements under the Listing Rules. The Bank regards its usage of the information technology services of The Hongkong and Shanghai Banking Corporation Limited (amount of information technology services cost incurred for 2023: HK$2 million) as contracts of significance for 2023.

Continuing Connected Transactions

(a) On 21 June 2022, Hang Seng Insurance Company Limited **("HSIC")**, a wholly-owned subsidiary of the Bank, renewed or amended and entered into the following agreements:

(i) A new management services agreement **("New Management Services Agreement")** with HSBC Life (International) Limited **("INHK")** for a term of three years following the expiry of a previous management services agreement on 21 June 2022.

Pursuant to the New Management Services Agreement, INHK, directly or through one or more of its affiliates, provides certain management services to HSIC. INHK, on a quarterly basis, charges HSIC a fee for provision of the services on a fully absorbed cost basis plus a mark-up of 6%. These charges, which are subject to an annual cap, were determined following negotiation on an arm's length basis and in accordance with the policy of the HSBC Group, which took into account the Economic Co-operation and Development transfer pricing guidelines.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the annual caps for the New Management Services Agreement exceed 0.1% but are less than 5%, the New Management Services Agreement is therefore only subject to the reporting, announcement and annual review requirements under the Listing Rules.

(ii) A new investment management agreement **("New Investment Management Agreement")** with HSBC Global Asset Management (Hong Kong) Limited **("AMHK")** for a term of three years following the expiry of a previous investment management agreement on 21 June 2022.

Pursuant to the New Investment Management Agreement, AMHK acts as investment manager in respect of certain of HSIC's assets held from time to time. On 12 June 2023, some amendments were made to the New Investment Management Agreement for the purposes of providing guidance on better management of the portfolio and of adjusting downward the annual management fee rates for some asset classes **(the "2023 Amendment Agreement")**.

HSIC has agreed to pay AMHK, on a quarterly basis, a fee of between 0.05% and 0.5% per annum of the mean value of the assets under management before the 2023 Amendment Agreement became effective. Under the 2023 Amendment Agreement, a fee of between 0.02% to 0.5% per annum (the "reduced rate") of the mean value of the assets under management is payable. The above fee (or that under the reduced rate), which is subject to an annual cap, was determined on an arm's length basis.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the annual caps for the New Investment Management Agreement exceed 0.1% but are less than 5%, the New Investment Management Agreement is therefore only subject to the reporting, announcement and annual review requirements under the Listing Rules.

Details of the terms of the New Management Services Agreement and the New Investment Management Agreement, and the relevant annual caps were announced by the Bank on 21 June 2022.

(b) On 21 June 2016, HSIC entered into a private equity investment management agreement **("PE Investment Management Agreement")** with HSBC Alternative Investments Limited **("HAIL")** for a term of 11 years, pursuant to which HAIL acts as investment manager in respect of certain private equity fund investments made by HAIL on behalf of HSIC.

 (i) Certain minor amendments had been made to the PE Investment Management Agreement on 4 May 2018, 10 May 2018, and on 21 June 2019, the PE Investment Management Agreement was amended and restated to remove the retainer fee and increase the management fee cap.

 (ii) HSIC has agreed to pay HAIL between 0.35% and 0.75% per annum of the aggregate value of assets under management as an annual management fee on an aggregate basis, and in order to ensure full alignment of interests between the two parties, a performance fee of 15% carried interest if certain hurdle rates of return are achieved for HSIC in respect of the investments made in each year of the investment period under the PE Investment Management Agreement. The above fees, which are subject to certain fee caps, were determined on an arm's length basis.

 (iii) Pursuant to Rule 14A.52 of the Listing Rules, the term of an agreement for a continuing connected transaction of a listed company must not exceed three years except in special circumstances. As the term of the PE Investment Management Agreement is 11 years, the Bank, in compliance with Rule 14A.52 of the Listing Rules, appointed an independent financial adviser to explain why the PE Investment Management Agreement requires a term that is longer than three years and to confirm that it is normal business practice for investment management agreements relating to private equity investments to be of such duration. The explanation and confirmation by the independent financial adviser were set out in the Bank's announcement on 21 June 2016.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the fee caps for the PE Investment Management Agreement exceed 0.1% but are less than 5%, PE Investment Management Agreement is therefore only subject to the reporting, announcement and annual review requirements under the Listing Rules.

Details of the terms of the PE Investment Management Agreement and the relevant fee caps were announced by the Bank on 21 June 2019.

INHK, AMHK and HAIL are all indirect wholly-owned subsidiaries of the HSBC Group, the ultimate controlling shareholder of the Bank, and therefore are connected persons of the Bank. Accordingly, all of the aforesaid agreements constitute continuing connected transactions of the Bank. The Bank has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2023, the aggregate amount paid and payable under the New Management Services Agreement was approximately HK$33 million whereas the aggregate amount paid and payable under the New Investment Management Agreement was approximately HK$42 million, both of which were within the respective caps for the year ended 31 December 2023 of HK$195 million and HK$95 million respectively. The management fee of approximately US$2,674,163 (equivalent to HK$20,909,579) was paid and payable under the PE Investment Management Agreement for the year ended 31 December 2023, which was within the annual cap on management fee of US$8,000,000 (approximately HK$62,400,000). No performance fee was payable under the PE Investment Management Agreement for 2023.

In respect of all the aforesaid agreements which constitute the Bank's continuing connected transactions, all the INEDs of the Bank have reviewed the said transactions and confirmed that the said transactions have been entered into:

(a) in the ordinary and usual course of business of the Bank and its subsidiaries;
(b) on normal commercial terms or better; and
(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

Further, the Bank engaged its external auditor to report on the continuing connected transactions of the Bank and its subsidiaries in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Directors confirmed that the external auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out in the preceding paragraphs in accordance with Rule 14A.56 of the Listing Rules.

CORPORATE VALUE

Principles and Values

The Bank has a set of clear business principles and corporate values to guide the Bank in the decisions it takes and how it operates. "Courageous Integrity" is the guiding principle for staff to speak up and to do the right thing when upholding the Bank's ethical standard and integrity. The Bank strives for an inclusive culture that enables employees to unleash their potentials.

Aspiring to be the preferred international financial partner for our clients, the Bank's refreshed purpose as an organisation is to open up a world of opportunity. Our actions are guided by four redefined core values, namely, "We values difference, We succeed together, We take responsibility, and We get it done". Employees are encouraged to embrace different perspectives and collaborate across boundaries. We should hold ourselves accountable and take the long view to achieve accomplishments. Leaders and managers are expected to bring to life the corporate values in everyday work through (a) driving a tone from the top; (b) strengthening people management capability to build the desired ethical culture; and (c) incentivising and demonstrating professional behaviours.

In line with the Bank's corporate values and business principles, a behavioural led culture change programme "RIGHT Together" with five behavioural foci was launched since 2019 to propel the Bank to "Serving Customers RIGHT and Serving the RIGHT Customers" for sustainable business growth.

Under the Purpose-led Conduct Approach Embedding Programme, the Bank will continue to assess our success against five conduct outcomes, namely (a) We understand our customers' needs, (b) We provide products and services that offer exchange of value, (c) We service customers' ongoing needs, and will put things right if we make a mistake, (d) We act with integrity in financial markets we operate in, and (e) We operate resiliently and securely to avoid harm to customers and markets.

Anti-Bribery & Corruption Policy and Whistleblowing Policy

The Bank has established an anti-bribery & corruption policy which observes the HSBC Group's Global policy and supports local anti-bribery & corruption laws and regulations with periodic review in place to ensure its effectiveness and compliance with the prevailing regulatory requirements. The Bank also adopted the HSBC Group's whistleblowing channel called "*HSBC Confidential*" which offers a safe, simple and globally consistent ways to raise concerns across various channels including contact centre, electronic form and email which are operating 7x24.

Staff Code of Conduct

To ensure the Bank operates to the highest standards of ethical conduct and professional competence, all staff are required to strictly follow the HSBC Group's Global Policy: Code of Conduct and the HASE Supplementary Code of Conduct. The HSBC Group's Global Code of Conduct sets out values, standards and general requirements that the Group expects of all staff, and the HASE Supplementary Code of Conduct provides additional information, guidance, rules and regulations according to local and regulatory requirements. These two Codes together set out the whole context of the global and local requirements, including ethical standard and values, and various legal and regulatory matters, for the Bank. Topics including, but not limited to, the legal and regulatory obligations, use of information, personal account dealings, conflicts of interest, expectations for personal relationship in the workplace, outside activities, diversity and inclusion, alcohol and drugs, and behaviour expectations at work related (including corporate and social) events are covered in the Codes. The two Codes are reviewed on an annual basis and as when required to reflect the latest regulatory requirements and the Bank's internal policies.

The Bank uses various communication channels to periodically remind staff of the requirement to adhere to the rules and ethical standards set out in the two Codes. To ensure their understanding on the rules and regulations set out in the Codes, an online curriculum was launched since 2022 and all staff are required to complete it.

Avoidance of Conflicts of Interest

The Bank has established policies and procedures to manage actual or potential conflicts of interest of its staff. Robust organisational structure has been designed to ensure adequate segregation of duties. Staff working in sensitive or high-risk areas are required to adhere to job-specific as well as staff dealing rules and undergo training on the avoidance of conflicts of interest in carrying out their duties.

HUMAN RESOURCES

The human resources policies of the Bank are designed to attract high calibre talents at all levels of the Bank, develop and motivate them to fulfil their potential and excel in their careers. The Bank is committed to building awareness and encouraging an open and inclusive culture, ensuring all employees would have fair and equal access to opportunities.

Employee Statistics

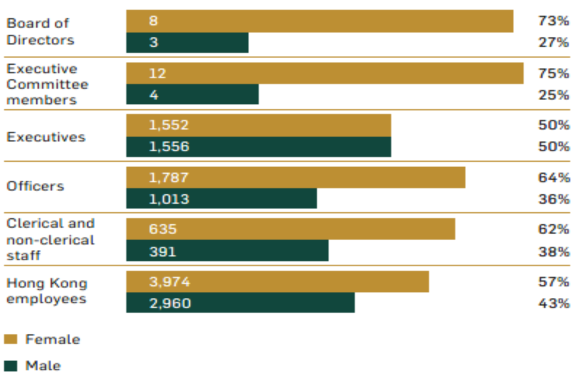
As at 31 December 2023, the Bank's total headcount was 6,932* representing a decrease of 100 or -1.4%, compared with a year earlier. The total headcount comprised 3,106* executives (50% are male and 50% are female), 2,800* officers (36% are male and 64% are female) and 1,026 clerical and non-clerical staff (38% are male and 62% are female). The female representation of senior leaders* (Global Career Band 3 or above) in the Hang Seng Group (including operations in Hong Kong, China, and overseas representative offices) was targeted at 41% for 2023. As at 31 December 2023, we have achieved 50%*.

In 2023, the Bank has achieved a gender balance at all four levels (50%-75% women), including our Board, executive, Senior Management and workforce as follow:

- 73% of Board of Directors are female
- 75% of Executive Committee members* are female
- 50% of senior leaders* are female
- 57% of our employees* in Hong Kong are female

In 2024, the Bank will continue to sustain its inclusive culture where everyone has the opportunity to grow and achieve their career objectives in the Bank, thereby improve and sustain the Bank's female representation at the senior level.

Gender Diversity Data*



*Include employees seconded from HSBC

Our female representation is driven by three factors: hiring, promotion and attrition (as of the end of 2023).

- 50% of the Bank's external senior hires are female
- 62% of the Bank's promotion into senior leaders are female
- 27% of the Bank's voluntary attrition of senior leaders are female

To build a diverse and inclusive workforce, all hiring managers are required to complete a learning programme on hiring and selection. The programme prepares hiring managers with interviewing skills and raises their awareness of unconscious bias in the selection of candidates.

Employee Remuneration

The Bank aims to attract, motivate and retain the people we need. The Bank's reward strategy supports this objective through rewarding those who are committed to a long-term career with the Bank with demonstrated sustainable performance, strong alignment to corporate values and adherence to risk and compliance standards.

The Remuneration Committee oversees the Bank's overall remuneration strategy and ensures it is compliant with local laws, rules or regulations; is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Bank; and is appropriate to attract, retain and motivate employees to support the success of the Bank. The fundamental principles, philosophies and processes are documented in the Bank's remuneration policy.

Fixed pay is determined by taking into account relevant level of the role, skills and experience required by the Business and composition of pay in the markets in which the Bank operates and in support of the Bank's people strategy. Salaries are reviewed in the context of business performance, individual potential and performance, market practice, internal relativities and regulatory requirements.

Bank-wide variable pay budgets are determined based on the Bank's business performance, people strategy, risk appetite statement and risk metrics including conduct risks. The variable pay budget is shaped by risk considerations and the Bank's performance is sustainable in the long-term. The ex-ante risk adjustment of remuneration within the Bank is achieved in the way that the Risk Committee of the Bank will advise the Board and/or the Remuneration Committee, as appropriate, on the alignment of risk appetite with performance objectives set in the context of variable incentive and on whether any adjustments for risk need to be applied when considering performance objectives and actual performance. In addition, the overall variable pay funding proposal is refined with reference to the advice of Chief Financial Officer and Chief Risk and Compliance Officer in respect of the Bank's financial position and performance against its risk appetite profile.

Variable pay plans takes into account a combination of corporate and/or business results as well as the individual's performance. They reward financial quantitative measures and non-financial qualitative measures including adherence to corporate values, management of risks, service standards, ethical behaviour and responsible selling. To embed a values-led, high-performance culture, the variable pay plans are designed to recognise and reward positive behaviours while discourage negative behaviours that put the Bank under unnecessary financial, regulatory or reputational risk with the application of consequence management, malus and clawback policies.

Variable pay consists of deferred and non-deferred components in the forms of cash and share award. The Bank adopts a progressive deferral mechanism with higher deferral rates and different forms of deferral by reference to (a) the employee's seniority, role, responsibilities and the potential risks that their activities may create for the Bank; and (b) the total amount of variable remuneration exceeding the prescribed thresholds. The deferred award has a vesting period of three to seven years and is subject to malus and clawback. In some instances, retention periods of up to one year may be implemented on vested share awards.

The principles of the remuneration policy are applicable to the Bank and its subsidiaries, subject to the local legislative requirements and market practices, and are proportionate to the scope and complexity of the local business.

Employee Engagement

At our Bank, we place high importance on creating an environment that supports employee engagement, cherishes diversity, and promotes inclusivity. We offer comprehensive training for career progression and create opportunities for career development. We align roles with individual skills and abilities, leading to job satisfaction and increased capability in reaching career objectives.

Our recent Snapshot survey, aimed at gauging our people's thoughts and inputs, has led to the implementation of measures and organised activities to meet staff-suggestions and needs. In response to the collective feedback, we have revamped our staff benefits package to include enhanced medical protection, extended parental leave, and additional personal time off, all of which was introduced in 2024.

We also launched various activities to support career development for our people. With the "Career in Your Hand" initiative, we have achieved a significant increase in internal mobility. In 2023, up till the end of October, over 700 roles were filled by internal employees, representing 37% of open positions - an improvement compared to 2022.

Colleagues are encouraged to take on short-term projects via the "Talent Marketplace" to broaden their professional experiences across different areas of our business. Going forward, we will continue to enhance the skills of our people managers to engage in effective dialogues with their teams about performance, career growth and well-being.

Open dialogue is central to our Bank's ethos, as demonstrated by initiatives like the '2023 CE Townhall' and the 'Summer Thank You Festival.' These events create conversations around our values and vision. The 'Leader Connect' campaign, launched in May 2023, has strengthened ties between staff and our Executive Committee. This has contributed to a notable enhancement in overall confidence and alignment with our core values and trust in leadership, ensuring we are moving together towards a shared vision for the future.

We continue to implement a hybrid work model that promotes work-life balance and resilience. This model offers flexibility and encourages employees to connect, collaborate, and deliver effectively. The alignment between our work and the Bank's strategic objective has deepened, leading to an improvement in our Employee Focus Index.

We actively promote physical and mental wellness among our employees. For example, at the UFIT Carnival, an event to raise awareness on future skills, inclusion, and talent development, over 500 staff joined sessions on resilience and sustainability, and were introduced to the Data Literacy Programme, an award-winning programme to equip staff with critical data skills. We are committed to the continuous development of our workforce and are making good progress towards our training goals for 2024.

The Financial Well-being Seminar saw an impressive attendance, with an average of 150-200 staff per seminar series. We use the financial well-being snapshot score as one of the indicators to quantify the results of these seminars.

Our employees have dedicated significant time to community service, delivering a wide array of programmes that focus on skills development, financial education, environmental sustainability, and community support. These initiatives had a meaningful impact on diverse groups, including the elderly, youth, and individuals with disabilities.

We value our employee's feedback and use it to drive improvement. Through annual surveys, exchange sessions, and thematic focus groups, we gather invaluable insights. This year, we were pleased with the high level of engagement from our staff, which reflects a positive direction in our internal feedback metrics and overall employee sentiment.

While we celebrate these successes, we are also attentive to the feedback suggesting the need to further support our employees' well-being and work experience. These areas are our focus as we aim to provide an environment where our employees can thrive.

Growth and Development

The Bank is committed to the development of competence and ethical behaviour of staff members with due regard to the principles set out in HKMA's SPM CG-6 on "Competence and Ethical Behaviour". The Bank has established policies and procedures for monitoring, developing and maintaining the competence level and ethical behaviour of staff members.

These include clear guidance as set out in various policy manuals, robust performance management system, training and development solutions provided on a regular and need basis.

The Bank offers a full spectrum of learning resources on wide-ranging banking, technical and management subjects, e-Learning, Classroom Training (both virtual and physical), mobile learning, and VR training etc, to support staff learning and development. To start with, all new joiners are provided with a comprehensive induction programme of the Bank's history, vision, culture, values, risk management and corporate governance. The Bank also offers a series of anti-money laundering, conduct, anti-bribery and corruption training programmes to strengthen the financial crime risk management culture. A wider range of on-the-job role based specific training programmes are also available for each critical role, in the areas of people manager capabilities, relationship management, sales, products, operations, compliance, credit and risk, etc. On average, each staff member of the Bank in Hong Kong undertook 3.6 days of learning and development programme (excluding those arranged by individual department) in 2023. In addition, the Bank offers education subsidy to support staff to pursue professional or academic qualifications and/ or acquire job-related knowledge.

The Bank invests in the development of its leadership pipeline and supports the personal growth of staff by providing a broad range of leadership and management development solutions. To ensure sustainability, the Bank has strategies, measures and analytics to plan and manage succession to leadership roles, and to prepare high-potential talents for their succession to critical roles. Businesses/functions supported by the Human Resources take actions to accelerate the development of successors and high potential talents through feedback and coaching, planned job moves for development including cross fertilisation between businesses/functions, and implementing individual development plans.

Recruitment and Retention

The Bank pursues external recruitment of fresh graduates, experienced professionals and functional specialists to support planning and execution of business strategy. New hires are offered well-structured on-boarding and development programmes. At the same time, the Bank promotes opportunities for internal mobility and career development for internal staff. The Bank sponsors internships and student placements to build pipeline for future hires.

The Bank sponsors intake through the Fintech Internship programme co-launched by HKMA and the Applied Science and Technology Research Institute and launched Youth Placement Programme. Management Trainee Programmes in different lines of business and functional areas are in place to build future talents for key roles. People managers focus on staff engagement and retention through their roles in everyday performance management and development coaching of their staff, offer of career development opportunities and market competitive remuneration.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our Approach to ESG

In 2023, our ESG strategy remained focusing on the following areas:

Environmental: Reduce the environmental impact of our daily operations and offer customers a wide range of green solutions;

Social: Enable younger generations to reach their full potentials, promote well-beings and professional development;

Governance: Maintain and uphold high standards of corporate governance by adopting ESG governance policy and risk management policy to be in line with international and local corporate governance best practices.

In designing our six implementation pillars for ESG strategy, we have referenced to the principles of the United Nations' Sustainable Development Goals.

- Environmental Targets
- Sustainable Finance
- Youth
- Climate Risk Management
- Advocacy and Awareness
- Disclosure

Our Approach to the Transition

We aim to reduce carbon emissions from our own operations to net zero by 2030. We are also contributing to the HSBC Group's ambition of becoming net zero in its supply chain by 2030 and aligning the financed emissions in its portfolio of customers to net zero by 2050.

Conserving Environment Through The Bank's Services

In March 2023, we launched the Hang Seng Stock Connect China A Low Carbon Index ETF (3038.HK) on the Hong Kong Stock Exchange. This low-carbon themed A-share ETF in Hong Kong provides investors an opportunity to invest in Chinese companies with low carbon exposure via China A-shares.

In an effort to assist corporate customers to deal with climate changes, we continued to offer green loans to finance customers' eligible green projects that generate environmental benefits. We also provide sustainability-linked loans to encourage customers in achieving their sustainability performance targets **("SPTs")** by linking the loans' interest rates to whether the borrowers satisfy the predetermined SPTs.

Supporting Society Through Our Services

Aligned with our efforts to facilitate social development, we arranged our first social loan for our commercial customers in 2023. This loan is earmarked to finance or refinance three social projects: i) the construction of a primary school in Fo Tan, ii) two special schools in Kowloon Tong for children with intellectual disabilities, iii) the construction of transitional housing for low-income families in Yuen Long.

These projects will advance social equity by providing affordable housing and education access for children and individuals with special needs.

In July 2023, our new branch in Festival Walk debuted the innovative 'Future Banking' service concept featuring 'Smart Teller'. This combines a personalised service model with advanced digital technologies. Demonstrating our strategic priority of sustainability, the new branch incorporates eco-friendly designs, including a unique 'CO2 Reduction System' which lowers carbon dioxide levels via an aquatic microalgae reactor.

To complement the 'Future Banking' concept, we launched a Simple Mode of the Hang Seng Mobile App. This features a more intuitive interface for conducting basic digital banking services, promoting digital service inclusivity by catering to different customer preferences, needs, and digital knowledge levels. The Simple Mode also includes a function enabling customers to directly contact our staff in case of suspicious bank or credit card activity. These initiatives reflect our dedication to customer protection and fighting financial fraud, in collaboration with regulators and law enforcement agencies.

Community Investment

We are strong advocates for actions that can create a sustainable and positive impact on our community. Our community investment strategy revolves around four pillars: Future Skills, Promoting Sustainable Finance and Financial Literacy, Addressing Climate Change, and Care for the Community.

We believe equipping young people with the necessary skills for success enlivens our community and brings about lasting positive changes for both society and the environment. Therefore, a significant part of our focus lies in motivating and nurturing the youth in Hong Kong by developing their knowledge, skills and resilience to be future-proof.

The Hang Seng Table Tennis Academy **("HSTTA")**, established in 2001, provides comprehensive and specialised training to nurture young talents in table tennis. Over a hundred of HSTTA graduates have joined the Hong Kong Table Tennis Team or Hong Kong Table Tennis Youth Team.

Promoting financial literacy, especially among the future generation, is a social responsibility to the Bank. In 2023, we partnered with the Hong Kong Family Welfare Society to launch the Hang Seng Financial Literacy Academy. This financial literacy education programme offers a school-based, structured and continuous learning model for both primary and secondary school students, as well as their parents, teachers and social workers.

In partnership with 'Walk in Hong Kong', we curated educational tours focusing on Hong Kong's financial and banking history. We also funded the Elder-Youth-Transgenerational Financial Education Programme, organised by the Hang

Seng University of Hong Kong. This initiative was designed to address the financial education needs of both the elderly and young adult populations in Hong Kong.

The integrated training sessions educated students on personal finance management, principles of investments, retirement planning, the benefits and risks of various investment and financial products, banking and finance innovations, as well as financial and investment scams. Cross-generation training was also provided to enhance students' understanding of the aging population and to improve their transgenerational communications skills.

A series of inter-generation financial literacy workshops were provided for the elderly by the trained student ambassadors at elderly centres.

This year, we were proud to support the 'Cinema Quintet: Film with the 5 Directors' project. In partnership with the Community Chest, the initiative offered tertiary students a unique opportunity to showcase their filmmaking talent and creativity. The selected students were guided by seasoned directors to produce five micro-films, each designed to have a social impact.

The Bank also supported the 'FutureGEN Girls Leadership Summit 2023', organised by the JYC Girls Impact Foundation. Through these initiatives, participating students were given special opportunities to learn about leadership development and STEM, empowering them to take a leap forward, to explore opportunities in their education and career pathways.

Moreover, our staff members have made contributions to the community this year. These efforts were directed towards a wide range of groups in need, including the elderly, children and youth, as well as people with disabilities. We also participated in various green campaigns, such as tree planting and caring activities in country parks and a university.

For more details about our community investment initiatives, please refer to the ESG section of our website.

Health and Safety

We are dedicated to providing a healthy and safe business environment that meets high standards. To achieve this, we have maintained our accredited management system - Occupational Health and Safety Management System **("ISO 45001:2018")** in 2023. This was accomplished via a prescribed surveillance visit conducted by an independent external certification body. Our goal is to minimise health and safety associated risks for all stakeholders including staff, customers and contractors within the Bank's premises.

Our proactive strategies aim to enhance health and safety, as well as the well-being of all stakeholders. The Bank is fully dedicated to:

- Continuously reviewing the effectiveness of our health and safety management system with the participation of an appointed certification body at designated intervals;
- Taking all reasonably practicable measures to eliminate or minimise risks that may impact the physical and mental health, safety and well-being of our staff members and other stakeholders through comprehensive risk assessments;
- Cultivating and maintaining a safety-first workplace culture and creating an exemplary 'activity-based' working environment, where safety is prioritised among all staff members;
- Fostering a collaborative and cooperative relationship with our staff members and other stakeholders through effective consultations regarding health, safety and wellbeing activities at work;
- Encouraging effective early intervention practices to better identify risks and minimise their impact on the physical and mental health of our staff;
- Taking care of vulnerable employees via well-established policies and measures;
- Promoting industry best practices to drive our continuous development in Occupational Health and Safety; and
- Providing sufficient information, instructions, supervision and training for our staff members to carry out their work safely.

By always prioritising safety, every staff member plays a vital role in creating and maintaining a physically and mentally healthy work environment. To achieve our strategic outcome, engaging in meaningful, respectful and open consultations about health and safety matters is equally important.

The Bank appreciates the vital role that staff play in carrying out their work safely and avoiding dangerous situations at work. Beyond their general duties as employees, our staff are obliged to follow all health and safety policies, guidelines, and practices established by the Bank. We believe that through continuous commitment, communication, and a safety-first mindset, we can foster a strong safety culture throughout the Bank, thereby minimising the number of accidents and subsequent injuries.

For more details of our ESG disclosures in 2023, please refer to our ESG Report 2023 published on our website (www.hangseng.com).

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2023.

Principal Place of Business

The Bank is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 83 Des Voeux Road Central, Hong Kong.

Principal Activities

The Bank and its subsidiaries (the 'Hang Seng Group') are engaged in the provision of banking and related financial services.

Business Review

Discussions on the Hang Seng Group's businesses and performance as required by Schedule 5 to the Hong Kong Companies Ordinance can be found throughout this Annual Report, particularly in the following separate sections, which form part of this Directors' Report:

(a) Fair review of the Hang Seng Group's businesses and a discussion and an analysis of the Hang Seng Group's performance during the financial year 2023 – 'Five-Year Financial Summary', 'Chairman's Statement', 'Chief Executive's Report', 'Management Discussion and Analysis'
(b) Discussion of the principal risks and uncertainties facing the Hang Seng Group – 'Management Discussion and Analysis'
(c) Particulars of important events affecting the Hang Seng Group that have occurred since the end of the financial year 2023 – 'Management Discussion and Analysis'
(d) Indication of likely future development in the Hang Seng Group's business – 'Chief Executive's Report', 'Management Discussion and Analysis'
(e) Discussion of the Hang Seng Group's environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Hang Seng Group – 'Management Discussion and Analysis', 'Corporate Governance Report'
(f) Account of the Hang Seng Group's key relationships with its employees, customers and suppliers that have a significant impact on the Hang Seng Group – 'Corporate Governance Report'

Profits and Dividends

The consolidated profit of the Bank and its subsidiaries and associates for the year is set out under the consolidated income statement of this Annual Report.

The Directors declared and paid the first to third interim dividends of HK$3.30 (2022: HK$2.10) per share totalling HK$6,309m (2022: HK$4,014m) during the year. The Directors also declared the fourth interim dividend of HK$3.20 per share totalling HK$6,118m (2022: HK$2.00 per share totalling HK$3,824m), which will be paid on 21 March 2024.

Major Customers

The Directors believe that the five largest customers of the Bank accounted for less than 30% of the total interest income and other operating income of the Bank for the year.

Subsidiaries

Particulars of the Bank's principal subsidiaries as at 31 December 2023 are set out in note 29 to the financial statements for the year ended 31 December 2023.

Share Capital

Details of share capital of the Bank during the year are set out in note 41 to the financial statements for the year ended 31 December 2023.

Equity-linked Agreements

For the year ended 31 December 2023, the Bank has not entered into any equity-linked agreement.

Purchase, Sale or Redemption of the Bank's Listed Securities

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year.

Reserves

Distributable reserve of the Bank as at 31 December 2023, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to HK$108,316m (2022: HK$101,000m). Movements in other reserves are set out in the consolidated statement of changes in equity of this Annual Report.

Donations

Charitable donations made by the Bank and its subsidiaries during the year amounted to HK$28m. For further details of the Bank's corporate social responsibility activities and expenditures, please refer to the section 'Environmental, Social and Governance' in the 'Corporate Governance Report' of this Annual Report.

Directors

The Directors of the Bank, who were in office on the date of this report, were Irene Y L Lee, Diana Cesar, 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.

Michael W K Wu retired from the Board with effect from the conclusion of the Bank's 2023 Annual General Meeting held on 4 May 2023.

All the Directors, who were in office on the date of this report, had served on the Board of the Bank throughout the year.

As announced by the Bank on 1 February 2024, Kenneth S Y Ng will step down as an Independent Non-executive Director of the Bank and will cease to be the Chairman of the Risk Committee and a member of the Nomination Committee, all with effect from the conclusion of the Bank's 2024 Annual General Meeting ('2024 AGM') to be held in May 2024, in order to devote more time to his other commitments and areas of interest. The Board has resolved to appoint Xiao Bin Wang, currently an Independent Non-executive Director of the Bank, to succeed Mr Ng as the Chairman of the Risk Committee with effect from the conclusion of the 2024 AGM.

The Director who is required to retire by rotation pursuant to the Bank's Articles of Association at the 2024 AGM is Irene Y L Lee.

No Director proposed for re-election at the 2024 AGM has a service contract with the Bank which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

The biographical details of the Directors of the Bank are set out in the section 'Biographical Details of Directors and Senior Management' of this Annual Report.

Directors of Subsidiaries

The names of all Directors who have served on the boards of the Bank's subsidiaries during the period from 1 January 2023 to the date of this report (unless otherwise stated) are provided in the section 'Directors of Subsidiaries' in the 'Corporate Information and Other Information' of this Annual Report.

Status of Independent Non-executive Directors

The Bank has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Listing Rules' and the 'Stock Exchange' respectively). The Bank considers all the Independent Non-executive Directors to be independent.

Directors' and Alternate Chief Executives' Interests

As at 31 December 2023, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/ issued share capital
Number of ordinary shares in the Bank						
Director:						
Kathleen C H Gan	2,500	-	-	-	2,500	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Diana Cesar	450,839	-	-	113,680[(1)]	564,519	0.00
Kathleen C H Gan	339,313	-	-	141,470[(1)]	480,783	0.00
Patricia S W Lam	367,270	-	-	-	367,270	0.00
Irene Y L Lee	15,000	-	-	-	15,000	0.00
David Y C Liao	662,248	-	-	466,693[(1)]	1,128,941	0.00
Kenneth S Y Ng	440,723	-	-	-	440,723	0.00
Say Pin Saw	34,433	-	-	35,916[(1)]	70,349	0.00
Alternate Chief Executives:						
Kathy K W Cheung	88,741	-	-	18,621[(1)]	107,362	0.00
Vivien W M Chiu	30,862[(2)]	79,570[(3)]	-	5,506[(1)]	115,938	0.00
Rannie W L Lee	21,572	-	-	15,493[(1)]	37,065	0.00

Interests in debentures of associated corporation of the Bank

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
Perpetual subordinated contingent convertible securities issued by HSBC Holdings plc					
Alternate Chief Executive:					
Vivien W M Chiu	-	US$300,000[3]	-	-	US$300,000

Notes:

(1) These included interests in conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives.

(2) These included 1,933 shares in HSBC Holdings plc jointly held by Vivien W M Chiu and her family member.

(3) Vivien W M Chiu's spouse had interests in the total amount of US$300,000 of perpetual subordinated contingent convertible securities issued by HSBC Holdings plc. These perpetual subordinated contingent convertible securities would be converted into 79,570 ordinary shares in HSBC Holdings plc upon the occurrence of capital adequacy trigger event. Ms Chiu's family interests set out in the table under 'Interests in shares' and the table under 'Interests in debentures of associated corporation of the Bank' represented the same interests.

Conditional Awards of Shares

During the year, the Directors and Alternate Chief Executives as set out below were eligible to be granted conditional awards over ordinary shares of US$0.50 each in HSBC Holdings plc by that company (being the ultimate holding company of the Bank) under various HSBC Share Plans. The details of the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares in HSBC Holdings plc under the HSBC Share Plans, as at 31 December 2023, were as follows:

	Awards held as at 1 January 2023	Awards made during the Director's/ Alternate Chief Executive's term of office in 2023	Awards released during the Director's/ Alternate Chief Executive's term of office in 2023	Awards held as at 31 December 2023[1]
Directors:				
Diana Cesar	111,835	80,768	78,923	113,680
Kathleen C H Gan	122,320	93,054	73,904	141,470
David Y C Liao	343,819	259,961	137,087	466,693
Say Pin Saw	26,921	18,424	9,915	35,916

	Awards held as at 1 January 2023	Awards made during the Director's/ Alternate Chief Executive's term of office in 2023	Awards released during the Director's/ Alternate Chief Executive's term of office in 2023	Awards held as at 31 December 2023[(1)]
Alternate Chief Executives:				
Kathy K W Cheung	17,211	21,069	19,659	18,621
Vivien W M Chiu	5,346	2,671	2,625	5,506
Rannie W L Lee	8,696	22,176	15,379	15,493

Notes:
(1) This included additional shares arising from scrip dividends, if any.

During the year, Kathy K W Cheung, Vivien W M Chiu, Kathleen C H Gan and Say Pin Saw also acquired and were awarded ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan. Their interests in ordinary shares of HSBC Holdings plc under this plan have been included in their 'Personal Interests' disclosed in the table under 'Interests in shares'.

All the interests stated above represented long positions. As at 31 December 2023, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Save as disclosed in the preceding paragraphs, neither the Bank nor any of its holding companies or its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate as at the end of the year or at any time during the year.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the year ended 31 December 2023.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director had, directly or indirectly, a material interest, subsisted as at the end of the year or at any time during the year.

Management Contracts

Save for service contracts, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

Directors' Interests in Competing Businesses

Pursuant to Rule 8.10 of the Listing Rules, as at the date of this report, the following Directors had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Bank:

Diana Cesar is a General Manager of HSBC Holdings plc.

Kathleen C H Gan is a General Manager and Head of Finance, Global Businesses, DBS and Functions of HSBC Holdings plc. She was also a Non-executive Director of both HSBC Life (Singapore) Pte. Ltd. (formerly known as AXA Insurance Pte. Ltd.) and HSBC INSN (Non Operating) Pte. Ltd. (formerly known as HSBC Insurance (Singapore) Pte. Limited) until 31 May 2023 and 21 May 2023 respectively, both of which are indirect wholly-owned subsidiaries of The Hongkong and Shanghai Banking Corporation Limited.

David Y C Liao is a Group Executive and a Member of the Group Executive Committee of HSBC Holdings plc. He is also an Executive Director and Co-CEO of The Hongkong and Shanghai Banking Corporation Limited. In addition, he is a Non-executive Director of Bank of Communications Co., Ltd., which conducts general banking business.

Kenneth S Y Ng is an Independent Non-executive Director of HSBC Bank Australia Limited and the Chairman of the Board of Supervision of HSBC Bank (Vietnam) Ltd, both of which are wholly-owned subsidiaries, directly or indirectly, of The Hongkong and Shanghai Banking Corporation Limited.

Say Pin Saw is a Director of HSBC Asia Holdings Limited, the immediate holding company of The Hongkong and Shanghai Banking Corporation Limited.

HSBC Holdings plc, through its subsidiaries and associated undertakings, including The Hongkong and Shanghai Banking Corporation Limited, the immediate holding company of the Bank, is engaged in providing a comprehensive range of banking, insurance and related financial services.

The entities in which the Directors have declared interests are managed by separate boards of directors and management, which are accountable to their respective shareholders.

The Board of the Bank includes seven Independent Non-executive Directors whose views carry significant weight in the Board's decisions. The Audit Committee (comprising of three Independent Non-executive Directors) and Risk Committee (comprising of four Independent Non-executive Directors) of the Bank meet regularly to assist the Board of Directors in reviewing the financial performance, internal control and risk management systems of the Bank and its subsidiaries. The Bank is, therefore, capable of carrying on its businesses in the best interests of all shareholders as a whole and has put in place adequate mechanisms to ensure that the Directors discharge their duties vis-a-vis all shareholders, including in respect of the Bank's dealings with the businesses in which Directors have declared interests.

Directors' Emoluments

The emoluments of the Directors of the Bank on a named basis are set out in note 14 to the financial statements for the year ended 31 December 2023.

Indemnity Provision

Details of the Bank's permitted indemnity provision are set out in the section 'Corporate Governance Report' of this Annual Report.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 31 December 2023, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings Limited and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 31 December 2023, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Public Float

As at the date of this report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

Corporate Governance Principles and Practices

Details of the Bank's corporate governance practices are set out in the section 'Corporate Governance Report' in this Annual Report.

Auditor

The financial statements for the year ended 31 December 2023 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Bank will be proposed at the 2024 AGM.

On behalf of the Board

Irene Lee
Chairman
Hong Kong, 21 February 2024

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2023

(Expressed in millions of Hong Kong dollars)

	note	**2023**	2022 *(restated)*
Interest income[1]	4	**59,439**	34,782
Interest expense	4	**(27,144)**	(9,231)
Net interest income		**32,295**	25,551
Fee income		**7,829**	7,506
Fee expense		**(2,909)**	(2,280)
Net fee income	5	**4,920**	5,226
Net income/(loss) from financial instruments measured at fair value through profit or loss	6	**11,330**	(21,455)
Gains less losses from financial investments	7	**(3)**	85
Dividend income	8	**253**	225
Insurance finance income/(expenses)	9	**(10,805)**	22,720
Insurance service results	9	**2,049**	1,660
- Insurance revenue		**2,913**	2,766
- Insurance service expense		**(864)**	(1,106)
Other operating income/(loss)	10	**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	11	**(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	12	**(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	16	**(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)
(Figures in HK$)			
Earnings per share - basic and diluted	17	**8.97**	5.53

[1] 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.

The notes on pages 225 to 308 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

	2023	2022 *(restated)*
Profit for the year	**17,838**	11,272
Other comprehensive income		
Items 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'):		
- fair value gains/(losses) taken to equity	**814**	(1,298)
- fair value (gains)/losses transferred to the 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 hedges:		
- fair value gains/(losses) taken to equity	**944**	2,213
- fair value (gains)/losses transferred to the 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 instruments 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

The notes on pages 225 to 308 form part of these Financial Statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2023

(Expressed in millions of Hong Kong dollars)

	note	**At 31 December 2023**	At 31 December 2022 *(restated)*	At 1 January 2022 *(restated)*
ASSETS				
Cash and balances at central banks	21	**10,564**	17,609	16,896
Trading assets	22	**44,018**	47,373	47,433
Derivative financial instruments	23	**14,959**	22,761	13,224
Financial assets mandatorily measured at fair value through profit or loss	24	**156,872**	152,957	160,479
Reverse repurchase agreements – non-trading		**30,202**	42,364	18,821
Placings with and advances to banks	25	**83,756**	62,203	72,252
Loans and advances to customers	26	**860,406**	931,334	997,397
Financial investments	27	**405,792**	480,698	377,972
Interest in associates	30	**2,363**	2,256	2,341
Investment properties	31	**12,000**	11,998	9,545
Premises, plant and equipment	31	**27,075**	27,498	31,205
Intangible assets	32	**4,335**	3,894	3,123
Other assets	33	**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	34	**1,153,062**	1,249,486	1,230,216
Repurchase agreements - non-trading		**12,767**	11,304	16,592
Trading liabilities	35	**35,227**	46,323	44,291
Derivative financial instruments	23	**14,478**	20,992	12,252
Financial liabilities designated at fair value	36	**45,633**	46,309	27,399
Certificates of deposit in issue		**9,857**	93,379	81,567
Other liabilities	37	**33,759**	38,040	33,745
Insurance contract liabilities	38	**167,264**	152,374	164,899
Current tax liabilities	39	**990**	389	603
Deferred tax liabilities	39	**3,675**	3,168	3,547
Subordinated liabilities	40	**27,491**	27,479	24,484
Total liabilities		**1,523,910**	1,694,448	1,644,928
Equity				
Share capital	41	**9,658**	9,658	9,658
Retained profits		**126,624**	118,717	114,886
Other equity instruments	42	**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

Irene Y L Lee *Independent Non-executive Chairman*

Diana Cesar *Executive Director and Chief Executive*

Say Pin Saw *Executive Director and Chief Financial Officer*

The notes on pages 225 to 308 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

(Expressed in millions of Hong Kong dollars)

				Other reserves							
	Share capital	Other equity instruments	Retained profits[1]	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	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 gains 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)
Others	-	-	-	-	-	-	-	-	-	(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**
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, as restated	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
Others	-	-	-	-	-	-	-	-	-	(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] 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

(Expressed in millions of Hong Kong dollars)

	2023	2022 *(restated)* [1]
Profit before tax	**20,105**	12,781
Adjustments for non-cash items:		
Depreciation and amortisation	**2,849**	2,676
Net interest income	**(32,295)**	(25,551)
Dividend income	**(253)**	(225)
Gains less losses from financial investment	**3**	(85)
Share of (profits)/losses in associates	**(193)**	10
Net (surplus)/deficit on property revaluation	**34**	108
Change in expected credit losses and other credit impairment charges	**6,248**	7,694
Impairment loss on intangible assets	**4**	11
Loans and advances written off net of recoveries	**(5,371)**	(768)
Elimination of exchange differences and other non-cash items	**(8,753)**	9,487
Changes in operating assets and liabilities		
Change in trading assets	**3,355**	60
Change in derivative financial instruments	**1,288**	(797)
Change in financial assets mandatorily measured at fair value through profit or loss	**(3,869)**	7,134
Change in reverse repurchase agreements - non-trading maturing after one month	**2,009**	(10,189)
Change in placings with and advances to banks maturing after one month	**(15,171)**	(9,170)
Change in loans and advances to customers	**70,689**	59,597
Change in financial investments of insurance business	**(306)**	1,907
Change in other assets	**16,441**	991
Change in repurchase agreements - non trading	**1,463**	(5,288)
Change in deposits from banks	**14,502**	(128)
Change in current, savings and other deposit accounts	**(96,424)**	19,270
Change in trading liabilities	**(11,096)**	2,032
Change in financial liabilities designated at fair value	**(676)**	18,910
Change in certificates of deposit in issue	**(83,522)**	11,812
Change in other liabilities	**(2,317)**	4,485
Change in insurance contract liabilities	**14,890**	(12,525)
Interest received	**49,842**	32,712
Interest paid	**(26,058)**	(7,415)
Dividends received from financial investments	**247**	229
Tax paid	**(2,129)**	(2,225)
Net cash from/(used in) operating activities	**(84,464)**	117,540
Purchase of financial investments	**(783,419)**	(815,941)
Proceeds from sale or redemption of financial investments	**825,715**	750,855
Repayment of shareholders' loan to an associated company	**10**	-
Purchase of property, plant and equipment and intangible assets	**(1,750)**	(1,887)
Net cash from/(used in) investing activities	**40,556**	(66,973)
Interest paid for subordinated liabilities	**(1,700)**	(691)
Principal and interest elements of lease payments	**(515)**	(547)
Dividends paid	**(10,133)**	(7,455)
Coupons paid on AT1 capital instruments	**(708)**	(710)
Proceeds from issuance of subordinated liabilities	**-**	3,000
Net cash from/(used in) financing activities	**(13,056)**	(6,403)
Net (decrease)/increase in cash and cash equivalents	**(56,964)**	44,164
Cash and cash equivalents at 1 January	**152,818**	111,134
Exchange differences in respect of cash and cash equivalents	**1,337**	(2,480)
Cash and cash equivalents at 31 December	**97,191**	152,818

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

	2023	2022 *(restated)* [1]
Cash and cash equivalents comprise[2]:		
- Cash and balances at central banks	**10,564**	17,609
- Balances with banks	**4,012**	8,605
- Items in the course of collection from other banks	**3,748**	5,598
- Placings with and advances to banks maturing within one month	**26,433**	15,458
- Reverse repurchase agreements with banks maturing within one month	**13,876**	24,028
- Treasury bills	**37,985**	78,220
- Net settlement accounts and cash collateral to banks within one month	**5,109**	8,932
- less: items in the course of transmission to other banks	**(4,536)**	(5,632)
	97,191	152,818

[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. In addition, the cash flow statement has also been restated to reclassify the change in financial investments of insurance business from investing activities to operating activities in view of the nature of the insurance business.

[2] At 31 December 2023, the amount of cash and cash equivalents that was not available for use by the Group was HK$10,561 m (31 December 2022: HK$11,902m), of which HK$4,333m (31 December 2022: HK$7,024m) was related to mandatory deposits at central banks.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023
(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

1. Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards

Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') are engaged in the provision of banking and related financial services. The Bank is a limited liability company incorporated in Hong Kong. The address of its registered office and principal place of business is 83 Des Voeux Road Central, Hong Kong.

The consolidated financial statements comprise the financial statements of the Group made up to 31 December 2023. The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ('HKFRS'), the provisions of the Hong Kong Companies Ordinance and accounting principles generally accepted in Hong Kong. HKFRS comprises Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ('HKAS'), and interpretations issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). In addition, these financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the material accounting policies adopted by the Group is set out in note 2.

Standards adopted during the year ended 31 December 2023

HKFRS 17 *'Insurance Contracts'*
On 1 January 2023, the Group adopted the requirements of HKFRS 17 *'Insurance Contracts'* retrospectively with comparatives restated from the transition date, 1 January 2022. This include comparative data presented in the primary financial statements and all impacted Notes to the Financial Statements. At transition, the Group's total equity reduced by HK$25.2bn. For further details, see note 3 'Effect of adoption of HKFRS 17'.

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 or loss, with comparatives restated from the transition date.

1. Basis of preparation *(continued)*
(a) Compliance with Hong Kong Financial Reporting Standards *(continued)*

The key differences between HKFRS 4 and HKFRS 17 are summarized in the following table:

	HKFRS 4	HKFRS 17
Balance sheet	• Insurance contract liabilities for non-linked life insurance contracts are calculated based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulations. • An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in force insurance contracts.	• Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. • The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk. • The CSM represents the unearned profit.
Profit emergence / recognition	• The value of new business is reported as revenue on Day 1 as an increase in PVIF. • The impact of the majority of assumption changes is recognised immediately in the income statement. • Variances between actual and expected cash flows are recognised in the period they arise.	• The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). • Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the Group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the Group's share of the investment volatility is recorded in profit or loss as it arises. • Losses from onerous contracts are recognised in the income statement immediately.
Investment return assumptions (discount rate)	• PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	• Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities.
Expenses	• Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. • Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those costs released from the PVIF simultaneously.	• Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. • Non-attributable costs are reported in operating expenses.

1. Basis of preparation *(continued)*

(a) Compliance with Hong Kong Financial Reporting Standards *(continued)*

Transition

In applying HKFRS 17 for insurance contracts retrospectively, the full retrospective approach (‘FRA’) has been used unless it is impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach (‘MRA’) or the fair value approach (‘FVA’). The Group has applied the FRA for new business from 2019 at the earliest, subject to practicability, and the FVA for which the FRA is impracticable.

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

In determining the fair value, the Group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of ‘matching’ between the Group’s assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

Amendments to HKAS 12 *‘International Tax Reform - Pillar Two Model Rules’*

In July 2023, the HKICPA issued amendments to HKAS 12 *‘International Tax Reform—Pillar Two Model Rules’*, which became effective immediately. The Hong Kong Qualified Domestic Minimum Top-up Tax is expected to be effective from 1 January 2025. Information about the Group's exposure to Pillar Two income taxes is described in Note 16(a).

(b) Presentation of information

The following have been included in the audited sections of the ‘Management Discussion and Analysis’ (‘MD&A’):

- Certain disclosures under HKFRS 17 *‘Insurance Contracts’* concerning the nature and extent of risks relating to insurance activities are included under Insurance Manufacturing Operation Risk in ‘Risk’ section as specified as ‘Audited’.

- Certain disclosures under HKFRS 7 *‘Financial Instruments: Disclosures’* concerning the nature and extent of risks relating to financial instruments under Credit Risk, Treasury Risk and Market Risk in ‘Risk’ section as specified as ‘Audited’.

- Certain capital disclosures under HKAS 1 *‘Presentation of Financial Statement’* in ‘Capital Risk’ under Treasury Risk in ‘Risk’ section as specified as ‘Audited’.

1. Basis of preparation *(continued)*

(b) Presentation of information*(continued)*

In accordance with the Group's policy to provide disclosures that help stakeholders to understand the Group's performance, financial position and changes thereto, the information provided in the Notes to the Financial Statements and the Risk disclosures in the MD&A goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

(c) Consolidation

The Group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup.

Where an entity is governed by voting rights, the Group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over relevant activities or holding the power as agent or principal.

All intra-group transactions are eliminated on consolidation.

The consolidated financial statements also include the attributable share of the results and reserves of associates based on the financial statements prepared at dates not earlier than three months prior to 31 December 2023.

(d) Future Accounting Developments

No other new standards are 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.

(e) Critical estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical estimates and judgements in note 2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purpose of 2023 consolidated financial statements. Management's selection of the Group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on the Group's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 we do not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term.

2. Material accounting policies

(a) Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the Group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

On 1 January 2023, the Group has adopted HKFRS 17 retrospectively with comparative figures restated. The restatement includes reclassification of interest income arising from trading assets, 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 further details of the impact of the updated accounting policies, please refer to note 4 'Net interest income'.

(b) Non-interest income

(i) Fee income

The Group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Group delivers a specific transaction at a point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the Group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The Group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The Group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the Group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

2. Material accounting policies *(continued)*

(b) Non-interest income *(continued)*

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

(a) Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest and dividend. Gains or losses arising from changes in fair value of derivatives are recognised in 'Net trading income' to the extent as described in the accounting policy set out in note 2(i). Gains and losses on foreign exchange trading are also reported as net trading income except for those gains and losses on translation of foreign currencies recognised in other comprehensive income and accumulated subsequently in equity in the foreign exchange reserve or financial assets at FVOCI reserve.

(b) Net income/ (expenses) from financial instruments designated at fair value through profit or loss

Net income/(expenses) from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value, including derivatives managed in conjunction with the financial assets and liabilities designated at fair value. Interest and dividend arising on those financial instruments are also included.

(c) Net income from assets and liabilities of insurance businesses measured at fair value

Net income from assets and liabilities of insurance businesses, including derivatives, measured at fair value through profit or loss comprises of all gains and losses from changes in the fair value, together with relevant interest income, expense and dividends in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.

(iii) Dividend income

Dividend income from equity investments measured at fair value through other comprehensive income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

(iv) Rental income from operating lease

Rental income, net of incentives, under an operating lease is recognised in 'Other operating income' in equal instalments over the reporting periods covered by the lease term.

The accounting policies for insurance service result and insurance finance income / (expense) are disclosed in note 2(t).

(c) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash and balances at central banks, placings with and advances to banks maturing within one month, treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition and items in the course of collection from or in transmission to other banks.

2. Material accounting policies *(continued)*

(d) Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is the fair value of the consideration given or received). However, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the Group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the Group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the HKFRS offsetting criteria.

Critical estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs.

- 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The Group's details of valuation of financial instruments are depicted in note 49 'Fair value of financial instruments'.

(e) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial instruments at initial recognition includes the directly attributed transactions costs.

2. Material accounting policies *(continued)*

(e) Financial instruments measured at amortised cost *(continued)*

The Group may commit to underwrite loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group intends to hold the loan, the loan commitment is included in the impairment calculations set out in note 2(j) below.

(f) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets managed within for a business model that is achieved by both selling and collecting contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on trade date when the Group enters into contractual arrangements to purchase and are generally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value with changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'. Financial assets measured at FVOCI are included in the impairment calculations set out in note 2(j) below and impairment is recognised in profit or loss.

(g) Equity securities measured at fair value with fair value movement presented in OCI

The equity securities for which fair value movements are shown in OCI are for business facilitation and other similar investments where the Group holds the investments other than to generate a capital return. Dividends from such investments are recognised in profit or loss. Gains or losses on derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(h) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch; and
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Designated financial assets are recognised when the Group enters into contracts with counterparties, which is generally on trade date, and are normally derecognized when the rights to the cash flows expire or are transferred.

Designated financial liabilities are recognised when the Group enters into contracts with counterparties, and are normally derecognised when extinguished. Subsequent changes in fair value are recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

2. Material accounting policies *(continued)*

(h) Financial instruments designated at fair value *(continued)*

Under the above criterion, the main classes of financial instruments designated at fair value by the Group are:

- **Debt instruments for funding purposes that are designated to reduce an accounting mismatch**
  The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

- **Financial assets and financial liabilities under unit-linked and non-linked investment contracts**
  A contract under which the Group does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiary are determined based on the fair value of the assets held in the linked funds or valuation model. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation of the financial assets and related liabilities at fair value allows changes in fair values to be recorded in the income statement and presented in the same line.

- **Financial liabilities that contain both deposit and derivative components**
  These financial liabilities are managed and their performance evaluated on at fair value basis.

(i) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying item such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Where the derivatives are managed with debt securities issued by the Group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

The Group designates certain derivatives as either (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge').

At the inception of a hedging relationship, the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

2. Material accounting policies *(continued)*
(i) Derivatives *(continued)*
Hedge accounting *(continued)*
(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments are recorded in the income statement within 'Net income from financial instruments measured at fair value through profit or loss', along with changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued. The cumulative adjustment to the carrying amount of a hedged item is amortised to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated separately in equity. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement within 'Net income from financial instruments measured at fair value through profit or loss'.

The accumulated gains and losses recognised in other comprehensive income are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

(iii) Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by the Group to assess hedge effectiveness depends on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression as effectiveness testing methodology. For cash flow hedge relationships, the Group utilises the change in variable cash flow method, capacity test or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For retrospective effectiveness, the change in fair value or cash flows must offset each other in the range of 80% to 125%. Hedge ineffectiveness is recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

2. Material accounting policies *(continued)*

(i) Derivatives *(continued)*

Hedge accounting *(continued)*

(iv) Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are economic hedges entered into as part of documented interest rate management strategies for which hedge accounting is not applied. Changes in fair value of non-qualifying hedges do not alter the cash flows expected as part of the documented management strategies for both the non-qualifying hedge instruments and the related assets and liabilities. All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

(j) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are 90 days past due or above;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; or
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less allowance for ECL.

2. Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when we modify the contractual payment terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructuring is at market rates and no payment related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

2. Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly considers if the financial instrument has experienced a significant increase in credit risk, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument, the borrower and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRR up to 3.3, significant increase in credit risk is measured by comparing the average probability of default ('PD') for the remaining term estimated at origination with the equivalent estimation at reporting date.

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30bps
Greater than 3.3 and not impaired	2x

2. Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Significant increase in credit risk (stage 2) *(continued)*

For loans originated prior to the implementation of HKFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notches
8.3	0 notches

A CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD').

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit history which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are divided into account level and homogeneous segment level measurement. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments. These enhancements resulted in significant migrations of gross carrying amounts of loans to customers from stage 1 to stage 2, but did not have a significant impact on the overall ECL for these portfolios in 2023 due to low loan-to-value ratios.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

2. Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Purchased or originated credit-impaired ('POCI')

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different stages (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

In general, the Group calculates ECL using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

2. Material accounting policies *(continued)*
(j) Impairment of amortised cost and FVOCI financial assets *(continued)*
Measurement of ECL *(continued)*
The Group leverages the Basel framework where possible, with recalibration to meet the differing HKFRS 9 requirements as follows:

Model	Regulatory capital	HKFRS 9
PD	- Through the cycle (represents long-run average PD throughout a full economic cycle) - The definition of default includes a backstop of 90+ days past due	- Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) - An obligor/an account being 90 days past due or above is considered as defaulted
EAD	- Cannot be lower than current balance	- Amortisation captured for term products
LGD	- Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) - Regulatory floors may apply according to regulatory requirements - Discounted using cost of capital - All collection costs included	- Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) - No floors is required under HKFRS 9 - Discounted using the effective interest rate of the loan - Only costs associated with obtaining/selling collateral included
Other		- Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

2. Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Measurement of ECL *(continued)*

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail revolving loan, overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL in excess of the carrying amount of the financial asset is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis subject to certain extension criteria.

Forward-looking economic forecast

The Group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit loss in most economic environments. In certain economic environments, additional analysis may be necessary and result in additional scenarios or adjustments, to reflect a range of possible economic outcomes for an unbiased expected credit loss estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' of Credit Risk in 'Risk' section.

Critical estimates and judgements

In determining ECL, the Group is required to make a number of judgements, assumptions and estimates which are set out below:

- Defining what is considered to be a significant increase in credit risk.
- Determining the lifetime and point of initial recognition of revolving facilities.
- Selecting and calibrating the PD, LGD and EAD models which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.
- Making management adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.
- Selecting applicable recovery strategies for certain wholesale credit-impaired loans.

2. Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Critical estimates and judgements *(continued)*

The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' marked as audited, set out the assumptions used in determining ECL and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(k) Sale and repurchase agreements

Where securities are sold subject to commitment to repurchase them at a pre-determined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received in 'Repurchase agreements-non-trading'. Conversely, securities purchased under analogous commitments to resell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded in 'Reverse repurchase agreements-non-trading'. The difference between the sale and repurchase price is treated as interest income and recognised over the life of the agreement.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties under these agreements is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

(l) Subsidiaries and associates

The Group classifies investments in entities which it controls as subsidiaries. The Group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangement, as associates.

The Group's investments in subsidiaries and associates are stated at cost less any impairment losses. Investment in associates is recognised using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the Group's share of net assets less any impairment losses. An impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount of the investment since the last impairment loss was recognised.

(m) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment properties are stated at fair value with changes in fair value being recognised in the income statement. Fair values are determined by independent professional valuers, primarily on the basis of capitalisation of net incomes with due allowance for outgoings and reversionary income potential.

(n) Premises, plant and equipment

(i) Land and buildings

The following land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses:

2. Material accounting policies *(continued)*

(n) Premises, plant and equipment *(continued)*

(i) Land and buildings (continued)

- leasehold land and buildings where the fair value of the land cannot be reliably separated from the value of the building at inception of the lease and the premises are not clearly held under an operating lease; and
- leasehold land and buildings where the value of the land can be reliably separated from the value of the building at inception of the lease and the term of the lease is not less than 50 years.

Revaluations are performed by professionally qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value at the reporting date. Surpluses arising on revaluation are credited firstly to the income statement to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same land and buildings, and are thereafter taken to other comprehensive income and are accumulated separately in the ‘Premises revaluation reserve’. Deficits arising on revaluation, are firstly set off against any previous revaluation surpluses included in the ‘Premises revaluation reserve’ in respect of the same land and buildings, and are thereafter recognised in the income statement.

Depreciation is calculated to write off the valuation of the land and buildings over their estimated useful lives as follows:

- freehold land is not depreciated;
- leasehold land is depreciated over the unexpired terms of the leases; and
- buildings and improvements thereto are depreciated on straight-line basis or over the shorter of the unexpired terms of the leases or the remaining estimated useful lives of the buildings.

On revaluation of the land and buildings, depreciation accumulated during the year will be eliminated. Depreciation charged on revaluation surplus of the land and buildings is transferred from ‘Premises revaluation reserve’ to ‘Retained profits’.

On disposal of the land and buildings, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount and recognised in the income statement. Surpluses relating to the land and buildings disposed of included in the ‘Premises revaluation reserve’ are transferred as movements in reserves to ‘Retained profits’.

The land owned by Hong Kong Government permits its use under leasehold arrangements. Similar arrangements exist in mainland China. The Group accounts for its interests in own use leasehold land and land rights in accordance with HKFRS 16 but discloses these as owned assets when the right of use are considered sufficient to constitute control.

(ii) Other plant and equipment

Furniture, plant and equipment, are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 3 and 20 years. On disposal, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount.

Plant and equipment are subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

2. Material accounting policies *(continued)*

(o) Goodwill and intangible assets

(i) Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries or associates when the cost of acquisition exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired and is reported in the consolidated balance sheet. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost of acquisition, the excess is recognised immediately in the income statement. Goodwill on acquisitions of associates is included in 'Interest in associates' and is not tested separately for impairment.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that the CGU may be impaired, by comparing the recoverable amount of a CGU with the carrying value of its net assets, including attributable goodwill. The recoverable amount of an asset is the higher of, its fair value less cost to sell, and its value in use. Value in use is the present value of the expected future cash flows from a CGU. If the recoverable amount of the CGU is less than the carrying value, an impairment loss is charged to the income statement. Any write-off in excess of the carrying value of goodwill is limited to the fair value of the individual assets and liabilities of the CGU. Goodwill is stated at cost less any accumulated impairment losses, if any.

At the date of disposal of a business, attributable goodwill is included in the Group's share of net assets in the calculation of the gain or loss on disposal.

(ii) Intangible assets

Intangible assets include acquired software licences and capitalised development costs of computer software programmes.

Computer software acquired is stated at cost less amortisation and impairment allowances. Amortisation of computer software is charged to the income statement over its estimated useful life. Costs incurred in the development phase of a project to produce application software for internal use are capitalised and amortised over the software's estimated useful life, usually five years.

Intangible assets that have an indefinite estimated useful life or are not yet ready for use are tested for impairment annually. Intangible assets that have a finite estimated useful life are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

2. Material accounting policies *(continued)*

(p) Income tax *(continued)*

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are settled on an individual taxable entity basis.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised at each reporting date.

Deferred tax is calculated using the tax rates that are expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

(q) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Provision is made in respect of paid leave entitlement accumulated during the year, which can be carried forward into future periods for compensated absence or payment in lieu if the employee leaves employment.

(ii) The Group provides retirement benefits for staff members and operates defined benefit and defined contribution schemes and participates in mandatory provident fund schemes in accordance with the relevant laws and regulations.

Payments to defined contribution plans and state-managed retirement benefit plans, where the Group's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as the employees render service.

The costs recognised for funding defined benefit plans are determined using the projected unit credit method, with annual actuarial valuations performed on each plan. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit liability and is presented in operating expenses. Service cost comprises current service cost, past service cost, and gain or loss on settlement.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

2. Material accounting policies *(continued)*

(r) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made as to the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the loans or debt instruments.

Financial guarantee liabilities are initially recognised at their fair value, and subsequently carried at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 *‘Financial Instruments’* and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 *‘Revenue from Contracts with Customers’*.

Financial guarantees are included within other liabilities.

(t) Insurance contracts

Through its insurance subsidiary, the Group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the Group issues investment contracts with discretionary participation features (‘DPF’), which are also accounted under HKFRS 17 *‘Insurance Contracts’*.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. The portfolios are split by their profitability into (i) contracts that are onerous at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Group issues being grouped into calendar quarter cohorts.

2. Material accounting policies *(continued)*

(t) Insurance contracts *(continued)*

Aggregation of insurance contracts (continued)

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing unearned profit. The Group has elected to update the estimates used in the measurement on a year-to-date basis.

Fulfilment cash flows

The fulfilment cash flows comprise the followings:

(i) Best estimates of future cash flows

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

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

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

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

(iii) Risk adjustment for non-financial risk

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

The 75th percentile is estimated to be equivalent to 60th percentile (2022: 57th percentile) for the insurance manufacturing entity in the group, determined on the basis of an ultimate view over the whole duration of the of the contract.

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

2. Material accounting policies *(continued)*
(t) Insurance contracts *(continued)*
Fulfilment cash flows (continued)
Measurement models
The variable fee approach (‘VFA’) measurement model is used for most of contracts issued by the Group, which is mandatory upon meeting the following eligibility criteria at inception:

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

The risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model (‘GMM’).

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

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

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

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

2. Material accounting policies *(continued)*

(t) Insurance contracts *(continued)*

CSM and coverage units (continued)

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

Insurance service result

Insurance revenue reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

Presentation

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

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

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

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

Critical estimates and judgements

The measurement of insurance contract liabilities under HKFRS 17 involves significant judgements that are set out below:

The VFA measurement model is used for most of the contracts issued by the Group. In applying the VFA eligibility criteria, the Group determined that a substantial share of the fair value returns on the underlying items that are expected to be paid to the policyholder is a majority of the returns, and a substantial proportion of change in the amounts that are expected to be paid to the policyholder to vary with the change in fair value of the underlying items is a majority proportion of the change on a present value probability-weight average of all scenarios.

2. Material accounting policies *(continued)*

(t) Insurance contracts *(continued)*

Critical estimates and judgements *(continued)*

The CSM is systematically recognised in insurance revenue based on the coverage units of the group of contracts. The Group determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time, and therefore the quantity of benefit selected is a constant measure. The coverage units are reviewed and updated at each reporting date.

(u) Investment contracts without discretionary participation feature

Customer liabilities under linked investment contracts are measured at fair value and reported under 'Financial liabilities designated at fair value'. The linked financial assets are measured at fair value and the movements in fair value are recognised in the income statement in 'Net income from financial instruments designated at fair value through profit or loss'. Deposits receivable and amounts withdrawn are accounted for as increases or decreases in the liability recorded in respect of investment contracts.

Investment management fee receivables are recognised in the income statement over the period of the provision of the investment management services, in 'Net fee income'.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at each reporting date. Any resulting exchange differences are recognised in other comprehensive income or the income statement depending on where the gain or loss on the underlying item is recognised. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of branches, subsidiaries and associates not reporting in Hong Kong dollars are translated into Hong Kong dollars at the average rates of exchange for the reporting period. Exchange differences arising from the re-translation of opening foreign currency net investments and the related cost of hedging, if any, and exchange differences arising from re-translation of the result for the reporting period from the average rate to the exchange rate ruling at the period-end, are recognised in other comprehensive income and accumulated separately in equity in the foreign exchange reserve.

Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in the income statement of separate subsidiary's financial statements. In the consolidated financial statements, the corresponding exchange differences are recognised in other comprehensive income and accumulated separately in equity in the foreign exchange reserve. On disposal of a foreign operation, exchange differences relating thereto previously recognised in reserves are recognised in the income statement.

2. Material accounting policies *(continued)*

(w) Operating segments

The Group's operating segments are determined to be customer group segment because the chief operating decision maker uses customer group information in order to make decisions about allocating resources and assessing performance.

HKFRS 8 '*Operating Segments'* 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 decision about operating matters.

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are members of the same group. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities which are under the significant influence of related parties of the Group or post-employment benefit scheme. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and its holding companies, directly or indirectly, including any directors (whether executive or otherwise) and Executive Committee members of the Group and its holding companies.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3 Effect of adoption of HKFRS 17

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

	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.

3 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 an 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 VFA contracts, which represent more than 90% of the Group’s insurance contracts, the insurance finance income/(expenses) 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’.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3 Effect of adoption of HKFRS 17 *(continued)*

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

	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

3 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 policyholder 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, and new deferred tax assets are reported, where appropriate, on temporary differences between the new HKFRS 17 accounting balances and their associated tax bases.

3 Effect of adoption of HKFRS 17 *(continued)*

(c) Consolidated Balance Sheet

	HKFRS 17 At 31 December 2022	**HKFRS 17 At 1 January 2022**	HKFRS 4 At 31 December 2022	HKFRS 4 At 31 December 2021
ASSETS				
Cash and balances at central banks	17,609	16,896	17,609	16,896
Trading assets	47,373	47,433	47,373	47,433
Derivative financial instruments	22,761	13,224	22,761	13,224
Financial assets mandatorily measured at fair value through profit or loss	152,957	160,479	28,861	31,326
Reverse repurchase agreements – non-trading	42,364	18,821	42,364	18,821
Placings with and advances to banks	62,203	72,252	62,326	72,493
Loans and advances to customers	931,334	997,397	931,334	997,397
Financial investments	480,698	377,972	622,616	500,386
Interest in associates	2,256	2,341	2,256	2,341
Investment properties	11,998	9,545	11,998	9,545
Premises, plant and equipment	27,498	31,205	27,498	31,205
Intangible assets	3,894	3,123	24,514	25,486
Other assets	51,501	53,442	52,295	53,632
Total assets	1,854,446	1,804,130	1,893,805	1,820,185
LIABILITIES AND EQUITY				
Liabilities				
Deposits from banks	5,205	5,333	5,205	5,333
Current, savings and other deposit accounts	1,249,486	1,230,216	1,249,486	1,230,216
Repurchase agreements – non-trading	11,304	16,592	11,304	16,592
Trading liabilities	46,323	44,291	46,323	44,291
Derivative financial instruments	20,992	12,252	20,992	12,252
Financial liabilities designated at fair value	46,309	27,399	46,309	27,399
Certificates of deposit in issue	93,379	81,567	93,379	81,567
Other liabilities	38,040	33,745	36,739	31,179
Insurance contract liabilities	152,374	164,899	165,594	154,551
Current tax liabilities	389	603	389	603
Deferred tax liabilities	3,168	3,547	6,645	7,302
Subordinated liabilities	27,479	24,484	27,479	24,484
Total liabilities	1,694,448	1,644,928	1,709,844	1,635,769
Equity				
Share capital	9,658	9,658	9,658	9,658
Retained profits	118,717	114,886	142,680	140,100
Other equity instruments	11,744	11,744	11,744	11,744
Other reserves	19,814	22,830	19,814	22,830
Total shareholders' equity	159,933	159,118	183,896	184,332
Non-controlling interests	65	84	65	84
Total equity	159,998	159,202	183,961	184,416
Total equity and liabilities	1,854,446	1,804,130	1,893,805	1,820,185

4 Net interest income

	2023	2022 *(restated)* [1]
Interest income arising from:		
- financial assets measured at amortised cost	**48,879**	30,650
- financial assets measured at FVOCI	**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
of which:		
- interest income from impaired financial assets	**920**	346
- interest expense from subordinated liabilities	**(1,707)**	(779)

[1] HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively. Comparative figures also have 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.

5 Net fee income

2023	**Wealth and Personal Banking**	**Commercial Banking**	**Global Banking**	**Global Markets**	**Other**	**Total**
- 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)**
	3,091	**1,165**	**313**	**(38)**	**389**	**4,920**
2022 *(restated)*						
- 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)
	3,268	1,338	343	(58)	335	5,226

5 Net fee income *(continued)*

	2023	2022 (restated)
of which:		
Net fee income on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**1,442**	1,696
- fee income	**4,244**	3,873
- fee expense	**(2,802)**	(2,177)
Net fee income on trust and other fiduciary activities where the Group holds or invests assets on behalf of its customers	**813**	668
- fee income	**902**	806
- fee expense	**(89)**	(138)

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

	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)

7 Gains less losses from financial investments

	2023	2022 (restated)
Net gains/(losses) from disposal of debt securities measured at FVOCI	**(3)**	85
	(3)	85

8 Dividend income

	2023	2022
Dividend income:		
- listed investments	**211**	195
- unlisted investments	**42**	30
	253	225

In 2023, there was HK$11m dividend recognised related to equity investments measured at fair value through other comprehensive income being disposed during the year.

9 Insurance business

(a) Insurance service results

	2023			2022 *(restated)*		
	Life direct participating contracts[1]	**Life other contracts**[2]	**Total**	Life direct participating contracts	Life other contracts	Total
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	**2,550**	**104**	**2,654**	2,486	231	2,717
- CSM recognised for services provided	**1,862**	**50**	**1,912**	1,610	147	1,757
- Change in risk adjustment for non-financial risk for risk expired	**8**	**2**	**10**	7	3	10
- Expected incurred claims and other insurance service expenses	**680**	**52**	**732**	655	81	736
- Other	**-**	**-**	**-**	214	-	214
Recovery of insurance acquisition cash flows	**228**	**31**	**259**	43	6	49
Total insurance revenue	**2,778**	**135**	**2,913**	2,529	237	2,766
Insurance service expenses						
Incurred claims and other insurance service expenses	**(519)**	**(69)**	**(588)**	(534)	(285)	(819)
Amortisation of insurance acquisition cash flows	**(228)**	**(31)**	**(259)**	(43)	(6)	(49)
Losses and reversal of losses on onerous contracts	**37**	**(44)**	**(7)**	(154)	(72)	(226)
Adjustments to liabilities for incurred claims	**(9)**	**(1)**	**(10)**	(11)	(1)	(12)
Total insurance service expenses	**(719)**	**(145)**	**(864)**	(742)	(364)	(1,106)
Total insurance service results	**2,059**	**(10)**	**2,049**	1,787	(127)	1,660

1 Life direct participating contracts are measured under the variable fee approach measurement model.

2 Life other contracts are measured under the general measurement model.

(b) Net investment return[1]

	2023			2022 *(restated)*		
	Life direct participating contracts	**Life other contracts**	**Total**	Life direct participating contracts	Life other contracts	Total
Total investment return[2]	**10,269**	**544**	**10,813**	(21,291)	(1,118)	(22,409)
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	**(10,269)**	**-**	**(10,269)**	21,291	-	21,291
Effect of risk mitigation option	**(79)**	**-**	**(79)**	367	-	367
Interest accreted	**-**	**(381)**	**(381)**	-	(260)	(260)
Effect of changes in interest rates and other financial assumptions	**-**	**(95)**	**(95)**	-	1,297	1,297
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	**-**	**19**	**19**	-	25	25
Total net finance income/(expenses) from insurance contracts	**(10,348)**	**(457)**	**(10,805)**	21,658	1,062	22,720
Total net investment results	**(79)**	**87**	**8**	367	(56)	311

1 All items are recognised in the income statement.

2 Total investment return for the year ended 31 December 2023 included a gain of HK$10,813m (2022: loss of HK$22,409m) reported under ‘Net income/(loss) from financial instruments measured at fair value through profit or loss’ in the income statement.

10 Other operating income/(loss)

	2023	2022 *(restated)*
Rental income from investment properties	**334**	276
Income/(expense) 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

11 Change in expected credit losses and other credit impairment charges

	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

12 Operating expenses

	2023	2022 *(restated)*
Employee compensation and benefits:		
- salaries and other costs*	**5,986**	5,941
- retirement benefit costs	**506**	504
-- of which: defined benefit scheme (note 46(a))	***134***	*149*
-- of which: defined contribution scheme (note 46(b))	***372***	*355*
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 (note 31)	**1,445**	1,460
Depreciation of right-of-use assets	**470**	514
Amortisation of intangible assets (note 32)	**934**	702
	14,624	13,795
* of which: share-based payments (note 47(c))	**36**	35
Cost efficiency ratio[1]	**35.8%**	40.1%

[1] Cost efficiency ratio is operating expenses divided by net operating income before change in expected credit losses and other credit impairment charges.

13 The emoluments of the five highest paid individuals

(a) The aggregate emoluments

	2023	2022
Salaries, allowances and benefits in kind	**29**	28
Retirement scheme contributions	**3**	3
Variable bonuses		
- Cash bonus	**12**	11
- Share-based payment	**11**	11
	55	53

(b) The numbers of the five highest paid individuals with emoluments within the following bands are:

HK$	**2023 Number of Individuals**	2022 Number of Individuals
5,500,001 - 6,000,000	**-**	1
6,500,001 - 7,000,000	**1**	-
7,000,001 - 7,500,000	**1**	2
7,500,001 - 8,000,000	**1**	-
11,500,001 - 12,000,000	**1**	-
13,000,001 - 13,500,000	**-**	1
19,500,001 - 20,000,000	**-**	1
21,500,001 - 22,000,000	**1**	-
	5	5

The emoluments of the five highest paid individuals set out above include the emoluments of one (2022: one) Executive Director which is included in note 14. There is no Non-Executive Director included in the table above (2022: Nil).

14 Directors' remunerations

The emoluments of the Directors of the Bank disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation were set out below:

	Emoluments								
		Salaries, allowances and benefits in kind (6)	Contribution to retirement benefit schemes (4)	Variable bonus (5)					
				Cash		Shares		Total	Total
	Fees			Deferred	Non-deferred	Deferred	Non-deferred	2023	2022
	'000	'000	'000	'000	'000	'000	'000	'000	'000
Executive Directors									
Diana Cesar, Chief Executive (1)	-	9,961	685	3,113	2,076	3,741	2,076	21,652	19,774
Margaret W H Kwan (1) (Resigned on 1 Feb 2022)	-	-	-	-	-	-	-	-	1,152
Say Pin Saw (1)	-	3,064	455	588	881	685	881	6,554	980
Non-Executive Directors									
John C C Chan (3) (Resigned on 5 May 2022)	-	-	-	-	-	-	-	-	479
L Y Chiang (3) (Resigned on 1 Jan 2023)	-	-	-	-	-	-	-	-	1,142
Cordelia Chung (3)	1,037	-	-	-	-	-	-	1,037	771
Kathleen C H Gan (2)	660	-	-	-	-	-	-	660	660
Clement K M Kwok (3)	1,270	-	-	-	-	-	-	1,270	1,178
Patricia S W Lam (3)	993	-	-	-	-	-	-	993	430
Irene Y L Lee (3)	2,090	-	-	-	-	-	-	2,090	2,032
David Y C Liao (2)	860	-	-	-	-	-	-	860	860
Huey Ru Lin (3)	950	-	-	-	-	-	-	950	378
Vincent H S Lo (Resigned on 5 May 2022)	-	-	-	-	-	-	-	-	275
Kenneth S Y Ng (3)	1,470	-	-	-	-	-	-	1,470	1,312
Xiao Bin Wang (3)	1,071	-	-	-	-	-	-	1,071	840
Michael W K Wu (3) (Resigned on 4 May 2023)	621	-	-	-	-	-	-	621	1,377
Past Directors	-	-	1,718	-	-	-	-	1,718	1,693
	11,022	13,025	2,858	3,701	2,957	4,426	2,957	40,946	35,333
2022	11,734	11,517	2,443	2,652	1,994	3,225	1,768		

Notes :

(1) *In line with the HSBC Group's remuneration policy, no Director's fees were paid to those Directors who were full time employees of the Bank or its subsidiaries.*

(2) *Fees receivable as a Director of Hang Seng Bank Limited were surrendered to The Hongkong and Shanghai Banking Corporation Limited in accordance with the HSBC Group's internal policy.*

(3) *Independent Non-Executive Director.*

(4) *The Bank made contributions during 2023 into the retirement benefit schemes of which the Bank's Directors/past Directors are among their members. The aggregate amount of pensions received by the past Directors of the Bank under the relevant pension schemes amounted to HK$1.718m in 2023.*

(5) *The amount of variable bonus (deferred and non-deferred) comprises the cash and the estimated purchase cost of the award of HSBC Holdings plc Restricted Share.*

(6) *Benefits in kind mainly include estimated money value of other non-cash benefits: accommodation, car, insurance premium.*

(7) *Remunerations/emoluments for Executive Directors are for services in connection with management of the affairs of the Hang Seng Bank and its subsidiaries undertakings.*

15 Auditors' remuneration

	2023	2022
Statutory audit services	**35**	28
Non-statutory audit services and others	**15**	16
	50	44

16 Tax expense

(a) Taxation in the Consolidated Income Statement represents:

	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)
	2,539	1,822
Current tax - taxation outside Hong Kong		
Tax for the year	**194**	204
Adjustment in respect of prior years	**(5)**	1
	189	205
Deferred tax (note 39(b))		
Origination and reversal of temporary differences	**(461)**	(518)
Total tax expense	**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 the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2022: 16.5 per cent). 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. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in July 2023.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the entity's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the Organisation for Economic Cooperation and Development's ('OECD') Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024. Additionally, in the Asia-Pacific region the governments of Hong Kong and Singapore, have announced their intention to introduce Pillar Two legislation and a Qualified Domestic Minimum Top-up Tax ('QDMTT') from year 2025.

Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any additional tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any resulting tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to the UK tax authority.

For those jurisdictions that have announced their intention to introduce Pillar Two legislation and a QDMTT, a top-up tax liability is expected to arise in Hong Kong due to low effective tax rate, driven primarily by income from tax-exempt instruments. The exact impact on the entity is dependent upon the ongoing evolution of the relevant rules and guidance. The Hong Kong QDMTT is expected to be effective from 1 January 2025.

16 Tax expense *(continued)*

(b) Reconciliation between taxation charge and accounting profit at applicable tax rates:

	2023	2022 *(restated)*
Profit before tax	**20,105**	12,781
Notional tax on profit before tax, calculated at Hong Kong profits tax rate of 16.5% (2022: 16.5%)	**3,317**	2,108
Tax effect of:		
- different tax rates in other countries/areas	**30**	11
- non-taxable income	**(933)**	(545)
- non-deductible expenses	**18**	22
- share of (profits)/losses of associates	**(32)**	2
- others	**(133)**	(89)
Actual charge for taxation	**2,267**	1,509

17 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 instruments related deductions, and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2022).

18 Dividends/Distributions

(a) Dividends attributable to the year:

	2023 per share HK$	**2023 HK$m**	2022 per share HK$	2022 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

The fourth interim dividend is proposed after the balance sheet date, and has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the year:

	2023	2022
Fourth interim dividend in respect of the previous year, approved and paid during the year, of HK$2.00 per share (2022: HK$1.80 per share)	**3,824**	3,441

(c) Distributions to holders of AT1 capital instruments classified as equity

	2023	2022
US$900 million fixed to floating rate perpetual capital instrument (coupon rate at 6.03 per cent and then three-month US dollar LIBOR plus 4.02 per cent from the first call date)	**426**	427
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.00 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)	**282**	283
	708	710

19 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[2]	Total
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/(loss)	**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						
Total assets	**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 liabilities	**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**

19 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[2]	Total
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/(loss) 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/(loss)	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/(deficit) on property revaluation	-	-	-	-	(108)	(108)
Share of profits/(losses) 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

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.

19 Segmental analysis *(continued)*

(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'.

	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*	**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*	41,883	1,468	39	-	43,390
Contingent liabilities and commitments	506,097	72,291	5,496	(40,087)	543,797

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

20 Maturity analysis of assets and liabilities

The following table provides an analysis of consolidated total assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'Not more than 1 month' time bucket, because trading balances are typically held for short periods of time.

- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Over 5 years' time bucket.

- Non-financial assets and liabilities with no contractual maturity are included in the 'Over 5 years' time bucket. Non-financial assets mainly include premises, plant and equipment of HK$27,075m (2022: HK$27,498m), intangible assets of HK$4,335m (2022:HK$3,894m), investment properties of HK$12,000m (2022: HK$11,998m), bullion of HK$1,161m (2022: HK$6,887m) and reinsurance contract assets of HK$5,377m (2022: HK$5,663m). Non-financial liabilities mainly include insruance contracts liabilities of HK$167,264m (2022: HK$152,374m) and deferred tax liabilities of HK$3,675m (2022: HK$3,168m).

- Liabilities under insurance contracts and reinsurer's share of liabilities under insurance contracts are irrespective of contractual maturity included in the 'Over 5 years' time bucket in the maturity table provided below. An analysis of the present value of expected future cash flows of insurance contract liabilities and is provided under note 38(d). Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket.

Maturity analysis of assets and liabilities

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
2023									
Assets									
Cash and balances at central banks	**10,564**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,564**
Trading assets	**43,980**	**38**	**-**	**-**	**-**	**-**	**-**	**-**	**44,018**
Derivative financial instruments	**13,492**	**54**	**518**	**224**	**-**	**382**	**289**	**-**	**14,959**
Financial assets mandatorily measured at fair value through profit or loss	**2,174**	**1,085**	**1,125**	**1,390**	**898**	**11,756**	**24,432**	**114,012**	**156,872**
Reverse repurchase agreements - non-trading	**24,801**	**4,031**	**1,370**	**-**	**-**	**-**	**-**	**-**	**30,202**
Placings with and advances to banks	**30,443**	**37,236**	**8,934**	**135**	**1,655**	**5,353**	**-**	**-**	**83,756**
Loans and advances to customers	**82,964**	**53,016**	**67,842**	**58,189**	**48,914**	**103,300**	**152,434**	**293,747**	**860,406**
Financial investments	**90,644**	**116,427**	**83,157**	**13,724**	**17,126**	**30,577**	**46,966**	**7,171**	**405,792**
Accrued income and other financial assets	**17,307**	**5,950**	**5,196**	**1,461**	**218**	**301**	**139**	**96**	**30,668**
Financial assets	**316,369**	**217,837**	**168,142**	**75,123**	**68,811**	**151,669**	**224,260**	**415,026**	**1,637,237**
Non-financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**54,857**	**54,857**
Total assets	**316,369**	**217,837**	**168,142**	**75,123**	**68,811**	**151,669**	**224,260**	**469,883**	**1,692,094**
Liabilities									
Deposits from banks	**19,690**	**17**	**-**	**-**	**-**	**-**	**-**	**-**	**19,707**
Current, savings and other deposit accounts	**810,766**	**184,211**	**128,202**	**10,685**	**5,485**	**9,677**	**4,036**	**-**	**1,153,062**
Repurchase agreements - non-trading	**11,799**	**968**	**-**	**-**	**-**	**-**	**-**	**-**	**12,767**
Trading liabilities	**35,227**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35,227**
Derivative financial instruments	**13,785**	**56**	**40**	**55**	**231**	**10**	**301**	**-**	**14,478**
Financial liabilities designated at fair value	**13,888**	**13,842**	**7,953**	**3,725**	**2,268**	**3,696**	**-**	**261**	**45,633**
Certificates of deposit in issue	**115**	**2,571**	**3,630**	**2,198**	**1,343**	**-**	**-**	**-**	**9,857**
Subordinated liabilities[1]	**-**	**-**	**-**	**-**	**-**	**6,240**	**18,125**	**3,126**	**27,491**
Accruals and other financial liabilities	**16,531**	**7,996**	**5,275**	**359**	**292**	**713**	**608**	**96**	**31,870**
Financial liabilities	**921,801**	**209,661**	**145,100**	**17,022**	**9,619**	**20,336**	**23,070**	**3,483**	**1,350,092**
Non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**173,818**	**173,818**
Total liabilities	**921,801**	**209,661**	**145,100**	**17,022**	**9,619**	**20,336**	**23,070**	**177,301**	**1,523,910**

[1] The maturity for subordinated liabilities is based on the earliest date on which the Group can call, i.e. the callable date.

20 Maturity analysis of assets and liabilities *(continued)*

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
2022 *(restated)*									
Assets									
Cash and balances at central banks	17,609	-	-	-	-	-	-	-	17,609
Trading assets	47,373	-	-	-	-	-	-	-	47,373
Derivative financial instruments	20,705	512	153	27	400	456	508	-	22,761
Financial assets mandatorily measured at fair value through profit or loss	2,771	4,595	3,727	1,783	1,571	4,687	32,935	100,888	152,957
Reverse repurchase agreements – non-trading	25,731	12,908	3,725	-	-	-	-	-	42,364
Placings with and advances to banks	24,061	26,007	8,354	-	2,300	-	1,481	-	62,203
Loans and advances to customers	90,077	61,158	81,851	48,575	38,562	144,907	178,541	287,663	931,334
Financial investments	131,851	208,536	43,547	14,677	13,004	36,999	24,331	7,753	480,698
Accrued income and other financial assets	21,612	5,529	5,448	2,229	1,509	375	172	95	36,969
Financial assets	381,790	319,245	146,805	67,291	57,346	187,424	237,968	396,399	1,794,268
Non-financial assets	-	-	-	-	-	-	-	60,178	60,178
Total assets	381,790	319,245	146,805	67,291	57,346	187,424	237,968	456,577	1,854,446
Liabilities									
Deposits from banks	4,978	1	-	226	-	-	-	-	5,205
Current, savings and other deposit accounts	909,173	167,283	142,972	8,281	9,665	2,521	9,591	-	1,249,486
Repurchase agreements - non-trading	8,520	1,072	1,712	-	-	-	-	-	11,304
Trading liabilities	46,323	-	-	-	-	-	-	-	46,323
Derivative financial instruments	20,509	4	62 0	56	68	161	132	-	20,992
Financial liabilities designated at fair value	13,856	13,824	4,345	4,506	2,476	6,972	-	330	46,309
Certificates of deposit in issue	7,054	30,472	35,501	19,832	520	-	-	-	93,379
Subordinated liabilities	-	-	-	-	-	-	19,680	7,799	27,479
Accruals and other financial liabilities	17,269	7,625	5,618	1,730	1,595	468	641	161	35,107
Financial liabilities	1,027,682	220,281	190,210	34,631	14,324	10,122	30,044	8,290	1,535,584
Non-financial liabilities	-	-	-	-	-	-	-	158,864	158,864
Total liabilities	1,027,682	220,281	190,210	34,631	14,324	10,122	30,044	167,154	1,694,448

21 Cash and balances at central banks

	2023	2022
Cash in hand	**7,899**	8,505
Balances at central banks	**2,665**	9,104
	10,564	17,609

22 Trading assets

	2023	2022
Treasury bills	**18,191**	17,568
Other debt securities	**25,757**	29,749
Debt securities	**43,948**	47,317
Investment funds/equity shares	**33**	43
Reverse repurchase agreements	**37**	13
	44,018	47,373

23 Derivative financial instruments

Use of derivatives

The Group transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge the Group's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Group employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

The following table shows the notional contract amounts and fair value of assets and liabilities by each class of derivatives.

	Notional contract amount			**Fair value - Assets**			**Fair value - Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
Foreign exchange	**1,051,190**	**34,189**	**1,085,379**	**6,053**	**1,020**	**7,073**	**6,674**	**416**	**7,090**
Interest rate	**830,159**	**62,925**	**893,084**	**6,881**	**592**	**7,473**	**6,414**	**331**	**6,745**
Equity and other	**27,433**	**-**	**27,433**	**413**	**-**	**413**	**643**	**-**	**643**
At 31 December 2023	**1,908,782**	**97,114**	**2,005,896**	**13,347**	**1,612**	**14,959**	**13,731**	**747**	**14,478**

	Notional contract amount			Fair value - Assets			Fair value - Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total
Foreign exchange	1,166,859	13,920	1,180,779	10,649	1,491	12,140	10,973	12	10,985
Interest rate	697,187	78,127	775,314	9,472	667	10,139	9,231	485	9,716
Equity and other	25,738	-	25,738	482	-	482	291	-	291
At 31 December 2022	1,889,784	92,047	1,981,831	20,603	2,158	22,761	20,495	497	20,992

Trading derivatives

Most of the Group's trading derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

23 Derivative financial instruments *(continued)*

Derivatives valued using models with unobservable inputs

Any initial gain or loss on financial instruments where the valuation dependent on unobservable parameters is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable. All derivatives that are part of qualifying hedging relationships have valuations based on observable market parameters.

Hedge accounting derivatives

The Group applies hedge accounting to manage the following risks: interest rate, foreign exchange and net investment in foreign operations. The Group uses derivatives (principally interest rate and currency swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the Group to optimise the overall costs to the Group of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities. The accounting treatment of hedging transactions varies according to the nature of the instrument hedged and the type of hedging transaction. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges.

(a) Fair value hedges

The Group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss, including debt securities held and issued.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

For some debt securities held, the Group manages interest rate risk in a dynamic risk management strategy. The assets in scope of this strategy are high quality fixed-rate debt securities, which may be sold to meet liquidity and funding requirements.

Hedging instrument by hedged risk

	Hedging instrument				
	Carrying amount				
Hedged risk	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Interest rate	**28,625**	**428**	**185**	Derivatives	**(405)**
At 31 December 2023	**28,625**	**428**	**185**		**(405)**

	Hedging instrument				
	Carrying amount				
Hedged risk	Notional amount	Assets	Liabilities	Balance sheet presentation	Change in fair value
Interest rate	23,177	579	17	Derivatives	544
At 31 December 2022	23,177	579	17		544

[1] The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

[2] Used in effectiveness testing, which uses the full fair value change of the hedging instrument not excluding any component.

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
Hedged risk	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Interest rate	**28,551**	**-**	**(151)**	**-**	Financial investments measured at fair value through other comprehensive income	**390**	**(14)**	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2023	**28,551**	**-**	**(151)**	**-**		**390**	**(14)**	

[1] Used in effectiveness testing, which comprise an amount attributable to the designated hedged risk that can be a risk component.

23 Derivative financial instruments *(continued)*

(a) Fair value hedges *(continued)*

Hedged item by hedged risk (continued)

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
Hedged risk	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Interest rate	22,878	-	(541)	-	Financial investments measured at fair value through other comprehensive income	(550)	(6)	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2022	22,878	-	(541)	-		(550)	(6)	

(b) Cash flow hedges

The Group's cash flow hedging instruments consist principally of interest rate swaps and cross currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign currency basis.

The Group applies macro cash flow hedging for interest rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The Group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross currency swaps; these are considered non-dynamic hedges.

Hedging instrument by hedged risk

	Hedging instrument					**Hedged item**	**Ineffectiveness**	
		Carrying amount						
Hedged risk	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**	**Change in fair value[3]**	**Recognised in profit and loss**	**Profit and loss presentation**
Foreign currency	**34,189**	**1,020**	**416**	Derivatives	**823**	**823**	**-**	Net income/(loss) from financial instruments measured at fair value through profit or loss
Interest rate	**34,300**	**164**	**146**	Derivatives	**121**	**121**	**-**	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2023	**68,489**	**1,184**	**562**		**944**	**944**	**-**	

	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
Hedged risk	Notional amount	Assets	Liabilities	Balance sheet presentation	Change in fair value	Change in fair value	Recognised in profit and loss	Profit and loss presentation
Foreign currency	13,920	1,491	12	Derivatives	2,783	2,783	-	Net income/(loss) from financial instruments measured at fair value through profit or loss
Interest rate	54,950	88	468	Derivatives	(570)	(570)	-	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2022	68,870	1,579	480		2,213	2,213	-	

[1] The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

[2] Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.

[3] Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.

23 Derivative financial instruments *(continued)*

(b) Cash flow hedges *(continued)*

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign exchange	Total
At 1 January 2023	**(472)**	**(344)**	**(816)**
fair value gains/(losses)	**121**	**823**	**944**
fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
- hedged items that has affected profit or loss	**393**	**(475)**	**(82)**
Income taxes	**(85)**	**(57)**	**(142)**
At 31 December 2023	**(43)**	**(53)**	**(96)**
At 1 January 2022	(2)	48	46
fair value gains/(losses)	(570)	2,783	2,213
fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
- hedged items that has affected profit or loss	8	(3,253)	(3,245)
Income taxes	92	78	170
At 31 December 2022	(472)	(344)	(816)

(c) Interest Rate Benchmark Reform

At 31 December 2022, the Hong Kong interbank offered rate ('HIBOR') was included given that the reform of this benchmark was considered possible. At 31 December 2023, HIBOR is no longer expected to be directly affected by ibors reform following the successful transition of all major LIBOR settings and the HKMA affirmation that there were no plans to discontinue HIBOR.

24 Financial assets mandatorily measured at fair value through profit or loss

	2023	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

25 Placings with and advances to banks

	2023	2022 *(restated)*
Balances with banks	**4,012**	8,605
Placings with and advances to banks maturing within one month	**26,433**	15,458
Placings with and advances to banks maturing after one month but less than one year	**47,962**	36,662
Placings with and advances to banks maturing after one year	**5,353**	1,481
Less: Allowances for expected credit losses	**(4)**	(3)
	83,756	62,203
of which:		
Placings with and advances to central banks	**6,901**	9,129

There were no overdue advances, impaired advances and rescheduled advances to banks at 31 December 2023 (2022: Nil).

26 Loans and advances to customers

(a) Loans and advances to customers

	2023	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

	2023	2022
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

(b) Net investments in finance leases and hire purchase contracts

Loans and advances to customers include net investments in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 5 to 25 years, with an option for acquiring by the lessee the leased asset at nominal value at the end of the lease period. The total minimum lease payments receivable and their present value at the year-end are as follows:

	2023			2022		
Amounts receivable:	**Present value of minimum lease payments receivable**	**Interest income relating to future periods**	**Total minimum lease payments receivable**	Present value of minimum lease payments receivable	Interest income relating to future periods	Total minimum lease payments receivable
- within one year	**286**	**241**	**527**	322	204	526
- over one year to two years	**313**	**200**	**513**	357	180	537
- over two years to three years	**335**	**214**	**549**	342	173	515
- over three years to four years	**344**	**220**	**564**	345	175	520
- over four years to five years	**350**	**223**	**573**	351	178	529
- after five years	**5,658**	**1,623**	**7,281**	5,532	1,294	6,826
	7,286	**2,721**	**10,007**	7,249	2,204	9,453
Allowances for expected credit losses	**(83)**			(112)		
Net investments in finance leases and hire purchase contracts	**7,203**			7,137		

27 Financial investments

	2023	2022 *(restated)*
Financial investments measured at fair value through other comprehensive income:		
- treasury bills	**221,746**	267,413
- other 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
- other debt securities	**59,159**	35,445
Less: Allowances for expected credit losses	**(14)**	(14)
	100,438	119,707
	405,792	480,698

Equity instruments measured at fair value through other comprehensive income

	2023	2022
Type of equity instruments		
- business facilitation	**4,060**	4,933

There was no overdue debt securities at 31 December 2023 (2022: Nil). The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations in 2023 and 2022.

There was no financial investments determined to be impaired at 31 December 2023 (2022: Nil).

28 Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2023	2022
Trading assets and financial investments	**50,140**	64,065
Amount of liabilities secured	**48,226**	64,296

The table above shows assets where a charge has been granted to secure liabilities on a legal and contractual basis. These transactions are conducted under terms that are usual and customary to collateralised transactions including sale and repurchase agreements and securities lending, derivative margining, and include assets pledged to cover short positions and to facilitate settlement processes with clearing houses.

Assets transferred

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2023		2022	
	Carrying amount of		Carrying amount of	
	Transferred assets	**Associated liabilities**	Transferred assets	Associated liabilities
Repurchase agreements	**9,204**	**8,852**	11,724	10,717
Securities lending agreements	**1,317**	**-**	1,830	-
	10,521	**8,852**	13,554	10,717

The financial assets shown above include amounts transferred to third parties that do not qualify for derecognition, notably debt securities held by counterparties as collateral under repurchase agreements and debt securities lent under securities lending agreements. As the substance of these transactions is secured borrowings, the collateral assets continue to be recognised in full and the related liabilities, reflecting the Group's obligation to repurchase the transferred assets for a fixed price at a future date, are also recognised on the balance sheet. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transactions. The Group remains exposed to interest rate risk, credit risk and market risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

Collateral received

Assets accepted as collateral related primarily to standard securities lending, reverse repurchase agreements and derivative margining. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Fair value of collateral accepted as security for assets

	2023	2022
Fair value of collateral permitted to sell or repledge in the absence of default	**31,561**	42,867
Fair value of collateral actually sold or repledged	**4,063**	589

29 Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31 December 2023. The class of shares held is ordinary.

Name of company	Place of incorporation & operation	Principal activities	Issued equity capital	Percentage of shareholding
Hang Seng Bank (China) Limited[1]	People's Republic of China	Banking	RMB8,317,500,000	100%
Hang Seng Insurance Company Limited	Hong Kong SAR	Retirement benefits and life assurance	HK$6,426,184,570	100%
Hang Seng Investment Management Limited	Hong Kong SAR	Fund management	HK$10,000,000	100%
Hang Seng Securities Limited	Hong Kong SAR	Stockbroking	HK$26,000,000	100%
Yan Nin Development Company Limited	Hong Kong SAR	Investment holding	HK$100,000	100%
Hang Seng Indexes Company Limited	Hong Kong SAR	Index compilation and licensing	HK$10,000	100%
High Time Investments Limited	Hong Kong SAR	Investment holding	HK$2,250,010,000	100%
Hang Seng Qianhai Fund Management Company Limited[2]	People's Republic of China	Fund raising, fund sales and asset management	RMB500,000,000	70%

[1] Represents a wholly foreign owned limited liability company registered under the laws of People's Republic of China.

[2] Represents a foreign-majority-owned contractual joint venture registered under the laws of People's Republic of China.

All the above companies are unlisted. All principal subsidiaries are held directly by the Bank except for Hang Seng Indexes Company Limited. The principal places of operation are the same as the places of incorporation.

Some of the principal subsidiaries are regulated banking and insurance entities and as such, are required to maintain certain minimum levels of capital and liquid assets to support their operations. The effect of these regulatory requirements is to limit the extent to which the subsidiaries may transfer funds to the Bank in the form of repayment of certain shareholder loans or cash dividends.

30 Interest in associates

	2023	2022
Share of net assets	**2,363**	2,256

The associates are:

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Group's interest in equity capital
Unlisted				
Barrowgate Limited	Hong Kong SAR	Property investment	HK$10,000	24.64%
GZHS Research Co., Ltd. (liquidated during 2023)	People's Republic of China	Conduct market/securities analysis and publish research reports	RMB44,680,000	33.00%

The interests in Barrowgate Limited are owned by a subsidiary of the Bank.

The above associates are accounted for using the equity method in the Consolidated Financial Statements as at 31 December 2023 and 2022.

During the year, the associate, GZHS Research Co., Ltd. was liquidated and the proceeds from liquidation net of the carrying amount of the investment at the date when the equity method was discontinued was recognised in the income statement as part of the other operating income/(loss).

	Assets	Liabilities	Equity	Revenue	Expenses	Profit or loss
2023						
100 per cent	**10,618**	**1,029**	**9,589**	**951**	**167**	**784**
The Group's effective interest	**2,616**	**253**	**2,363**	**234**	**41**	**193**
2022						
100 per cent	10,183	1,028	9,155	115	155	(40)
The Group's effective interest	2,509	253	2,256	28	38	(10)

At 31 December 2023, the investment in an associate was tested for impairment by estimating the recoverable amount of the investment based on 'Value in use'. No impairment loss was recognised since the recoverable amount exceeded the carrying amount (2022: Nil).

31 Property, plant and equipment

	2023	2022
Premises	**24,268**	24,287
Plant and equipment[1]	**1,657**	1,832
Other right of use assets	**1,150**	1,379
Premises, plant and equipment	**27,075**	27,498
Investment properties	**12,000**	11,998
	39,075	39,496

[1] Represents leasehold land and building assets for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.

(a) Movement in owned property, plant and equipment

	Premises	**Investment properties**	**Plant and equipment**	**Total**
2023				
Cost or valuation:				
At 1 January	**24,287**	**11,998**	**4,275**	**40,560**
Additions	**6**	**57**	**301**	**364**
Disposals and write-offs	**-**	**-**	**(151)**	**(151)**
Elimination of accumulated depreciation on revalued premises	**(980)**	**-**	**-**	**(980)**
Surplus/(Deficit) on revaluation:				
- credited to premises revaluation reserve	**984**	**-**	**-**	**984**
- debited to income statement	**-**	**(57)**	**-**	**(57)**
Transfer	**(3)**	**3**	**-**	**-**
Exchange adjustments and other	**(26)**	**(1)**	**(10)**	**(37)**
At 31 December	**24,268**	**12,000**	**4,415**	**40,683**
Accumulated depreciation:				
At 1 January	**-**	**-**	**(2,443)**	**(2,443)**
Charge for the year (note 12)	**(980)**	**-**	**(465)**	**(1,445)**
Attributable to assets sold or written off	**-**	**-**	**144**	**144**
Elimination of accumulated depreciation on revalued premises	**980**	**-**	**-**	**980**
Exchange adjustments and other	**-**	**-**	**6**	**6**
At 31 December	**-**	**-**	**(2,758)**	**(2,758)**
Net book value at 31 December	**24,268**	**12,000**	**1,657**	**37,925**
Representing:				
- measure at cost	**-**	**-**	**1,657**	**1,657**
- measure at valuation	**24,268**	**12,000**	**-**	**36,268**
	24,268	**12,000**	**1,657**	**37,925**
2022				
Cost or valuation:				
At 1 January	27,281	9,545	4,465	41,291
Additions	32	4	351	387
Disposals and write-offs	-	-	(233)	(233)
Elimination of accumulated depreciation on revalued premises	(994)	-	-	(994)
Surplus/(Deficit) on revaluation:				
- credited to premises revaluation reserve	690	-	-	690
- debited to income statement	-	(134)	-	(134)
Transfer	(2,682)	2,668	-	(14)
Exchange adjustments and other	(40)	(85)	(308)	(433)
At 31 December	24,287	11,998	4,275	40,560
Accumulated depreciation:				
At 1 January	-	-	(2,375)	(2,375)
Charge for the year (note 12)	(1,008)	-	(452)	(1,460)
Attributable to assets sold or written off	-	-	216	216
Elimination of accumulated depreciation on revalued premises	994	-	-	994
Exchange adjustments and other	14	-	168	182
At 31 December	-	-	(2,443)	(2,443)
Net book value at 31 December	24,287	11,998	1,832	38,117
Representing:				
- measure at cost	-	-	1,832	1,832
- measure at valuation	24,287	11,998	-	36,285
	24,287	11,998	1,832	38,117

31 Property, plant and equipment *(continued)*

(b) Terms of lease

	Premises		Investment properties	
	2023	2022	**2023**	2022
Leaseholds				
Held in Hong Kong:				
- long leases (over 50 years unexpired)	**2,101**	2,081	**1,093**	1,093
- medium leases (10 to 50 years unexpired)	**21,301**	21,271	**10,536**	10,536
- short leases (below 10 years unexpired)	**-**	-	**369**	369
Held outside Hong Kong:				
- long leases (over 50 years unexpired)	**-**	-	**-**	-
- medium leases (10 to 50 years unexpired)	**866**	935	**2**	-
- short leases (below 10 years unexpired)	**-**	-	**-**	-
	24,268	24,287	**12,000**	11,998

(c) The carrying amount of all premises which have been stated in the balance sheet would have been as follows had they been stated at cost less accumulated depreciation:

	2023	2022
Cost less accumulated depreciation at 31 December	**5,705**	5,923

(d) The Group leases out investment properties under operating leases. The leases typically run for an initial period of 2 to 3 years, and may contain an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

	2023	2022
Direct operating expenses arising from investment properties	**67**	56
Direct operating expenses arising from investment properties that generated rental income	**59**	47

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2023	2022
Within one year	**255**	239
One to two years	**150**	114
Over two years to three years	**49**	24
Three to four years	**22**	-
Four to five years	**22**	-
After five years	**4**	-
	502	377

(e) Fair value measurement of properties

The Group's premises and investment properties were revalued by Cushman & Wakefield Limited ('C&W'), an independent professional valuer, before the year end, and were updated by C&W for any material changes in the valuation as at 31 December 2023. It was confirmed that there was no material change in value as at 31 Decemeber 2023 since the last valuation. The valuations were carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of valuations of premises and investment properties were market value which is consistent with the definition of fair value under HKFRS 13 'Fair Value Measurement' and take into account the highest and best use of the property from the perspective of market participants.

(i) Fair value hierarchy

The level into which a fair value measurement is classified for properties is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Fair value measured using observable inputs and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3: Fair value measured using significant unobservable inputs.

The resultant values of both investment properties and properties held for own use for the Group were Level 3 in the fair value hierarchy as defined in HKFRS 13 *'Fair Value Measurement'*. During the year ended 31 December 2023, there were no transfers into or out of Level 3 (2022: Nil).

31 Property, plant and equipment *(continued)*

(e) Fair value measurement of properties *(continued)*

(i) Fair value hierarchy *(continued)*

The fair value of tenanted investment properties is determined using Income Approach on the basis of capitalisation of net incomes with due allowance for outgoings and reversionary income potential.

The fair values of the majorities of properties owned and occupied by the Group or vacant investment properties in Hong Kong and the PRC are determined using Market Approach assuming sale with immediate vacant possession and by making reference to comparable sales evidence.

For properties with development potentials, their values are on redevelopment basis and reported upon the assessment on the basis that each of these properties will be developed to its full potential and completed to a good standard. The fair values are determined using Market Approach by making reference to comparable sales transactions as available in the relevant market and have also taken into account the development costs that will be expended to complete the development.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Reconciliation of the movement between opening and closing balances of Level 3 properties measured at fair value using a valuation technique with significant unobservable inputs is under note 31(a). The following table details the gains or losses recognised in profit or loss in relation to the Level 3 premises and investment properties:

2023	**Premises**	**Investment properties**
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period		
- other operating income/(loss)	**-**	**(23)**
- net surplus/(deficit) on property revaluation	**-**	**(34)**
- depreciation of premises, plant and equipment	**(980)**	**-**
2022		
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period		
- other operating income/(loss)	-	(26)
- net surplus/(deficit) on property revaluation	-	(108)
- depreciation of premises, plant and equipment	(1,008)	-

(ii) Information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	**Unobservable input(s)**	**Range 2023**	**Range 2022**
Investment properties	Income approach	Market yields (reversionary yield)	**2.20% to 4.90%**	2.20% to 4.90%
		Market rental	**HK$6.6 to HK$312 per square foot**	HK$14.6 to HK$316 per square foot
	Market approach	Premium (discount) on characteristic of the properties	**-20% to +20%**	-20% to +20%
Premises	Income approach	Market yields (reversionary yield)	**5.00% to 6.50%**	N/A
		Market rental	**HK$38.5 to HK$74.8 per square foot**	N/A
	Market approach	Premium (discount) on characteristic of the properties	**-20% to +20%**	-20% to +20%

The fair value measurement for tenanted investment properties is positively correlated to the market rental but inversely correlated to the market yields. The valuations for premises held for own use or vacant investment properties take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and other factors collectively. Higher premium for properties with better characteristics will result in a higher fair value measurement.

32 Intangible assets

	2023	2022 *(restated)*
Internally developed software	**3,870**	3,485
Acquired software	**136**	80
Goodwill	**329**	329
	4,335	3,894

(a) Goodwill

	2023	2022
At 1 January and at 31 December	**329**	329

Goodwill arising from acquisition of the remaining 50 per cent of Hang Seng Life Limited from HSBC Insurance (Asia-Pacific) Holdings Limited amounted to HK$329m is allocated to cash-generating units of Life Insurance - Hang Seng Insurance Company Limited ('HSIC') for the purpose of impairment testing.

During 2023, there was no impairment of goodwill (2022: Nil). Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of cash generating unit based on HSIC's appraisal value (which is deemed to be its value in use) and carrying value of its net assets.

For the purposes of the impairment test, only a part of the appraisal value was calculated which was determined by discounting future earnings expected from the current business, taking into account factors such as future mortality and morbidity, lapse rates, levels of expenses, risk free rate and risk discount rate that reflects the investment risk and operational risk attributable to the respective long-term insurance business uncertainty in future investment return under different economic scenarios.

(b) Movement of internally developed application software and acquired software

	2023	2022
Cost:		
At 1 January	**6,174**	4,711
Additions	**1,386**	1,500
Amounts written off	**(1)**	(5)
Exchange differences	**(13)**	(32)
At 31 December	**7,546**	6,174
Accumulated amortisation:		
At 1 January	**(2,609)**	(1,917)
Charge for the year (note 12)	**(934)**	(702)
Impairment	**(4)**	(11)
Amounts written off	**1**	5
Exchange differences	**6**	16
At 31 December	**(3,540)**	(2,609)
Net book value at 31 December	**4,006**	3,565

33 Other assets

	2023	2022 *(restated)*
Items in the course of collection from other banks	**3,748**	5,598
Bullion	**1,161**	6,887
Prepayments and accrued income	**7,356**	5,820
Acceptances and endorsements	**9,531**	12,799
Less: Allowances for expected credit losses	**(31)**	(23)
Reinsurance contract assets	**5,377**	5,663
Settlement accounts	**3,917**	8,119
Cash collateral	**3,653**	3,105
Other accounts	**5,040**	3,533
	39,752	51,501

Other accounts included 'Assets held for sale' of HK$247m (2022: HK$217m).

34 Current, savings and other deposit accounts

	2023	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 at fair value (note 36)	**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

35 Trading liabilities

	2023	2022
Short positions in securities	**35,227**	46,323

36 Financial liabilities designated at fair value

	2023	2022
Certificates of deposit in issue	**14,646**	6,945
Structured deposits (note 34)	**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

At 31 December 2023, the accumulated gain in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was HK$2m (2022: accumulated loss HK$9m).

37 Other liabilities

	2023	2022 *(restated)*
Items in the course of transmission to other banks	**4,536**	5,632
Accruals	**9,299**	7,578
Acceptances and endorsements	**9,531**	12,799
Reinsurance contract liabilities	**1,110**	1,112
Retirement benefit liabilities (note 46(a))	**76**	414
Settlement accounts	**1,598**	1,400
Cash collateral	**2,177**	3,766
Lease liabilities	**1,206**	1,426
Other	**4,226**	3,913
	33,759	38,040

38 Insurance contract liabilities

(a) Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims

	Life direct participating contracts				Life other contracts				
	Liabilities for remaining coverage				Liabilities for remaining coverage				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
2023									
Opening assets	-	-	-	-	(9)	-	4	(5)	(5)
Opening liabilities	143,320	72	453	143,845	8,208	120	201	8,529	152,374
Net opening balance at 1 January 2023	143,320	72	453	143,845	8,199	120	205	8,524	152,369
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(500)	-	-	(500)	(70)	-	-	(70)	(570)
Other contracts	(2,278)	-	-	(2,278)	(65)	-	-	(65)	(2,343)
Total insurance revenue (note 9(a))	(2,778)	-	-	(2,778)	(135)	-	-	(135)	(2,913)
Insurance service expenses									
Incurred claims and other insurance service expenses	-	(1)	520	519	-	(35)	104	69	588
Amortisation of insurance acquisition cash flows	228	-	-	228	31	-	-	31	259
Losses and reversal of losses on onerous contracts	-	(37)	-	(37)	-	44	-	44	7
Adjustments to liabilities for incurred claims	-	-	9	9	-	-	1	1	10
Total insurance service expenses (note 9(a))	228	(38)	529	719	31	9	105	145	864
Investment components	(11,309)	-	11,309	-	(1,140)	-	1,140	-	-
Insurance service results (note 9(a))	(13,859)	(38)	11,838	(2,059)	(1,244)	9	1,245	10	(2,049)
Net finance (income)/expenses from insurance contracts (note 9(b))	10,348	-	-	10,348	452	5	-	457	10,805
Effect of movements in exchange rates	(56)	(1)	(5)	(62)	(17)	(1)	(3)	(21)	(83)
Total changes in the statement of profit or loss and OCI	(3,567)	(39)	11,833	8,227	(809)	13	1,242	446	8,673
Cash flows									
Premiums received	19,056	-	-	19,056	997	-	-	997	20,053
Claims and other insurance service expenses paid, including investment components	121	-	(11,811)	(11,690)	(1)	-	(1,313)	(1,314)	(13,004)
Insurance acquisition cash flows	(783)	-	-	(783)	(54)	-	-	(54)	(837)
Transfer	32	(32)	-	-	3	(3)	-	-	-
Total cash flows	18,426	(32)	(11,811)	6,583	945	(3)	(1,313)	(371)	6,212
Others	-	-	-	-	-	-	-	-	-
Net closing balance at 31 December 2023	158,179	1	475	158,655	8,335	130	134	8,599	167,254
Closing assets	-	-	-	-	(22)	2	10	(10)	(10)
Closing liabilities	158,179	1	475	158,655	8,357	128	124	8,609	167,264
Net closing balance at 31 December 2023	158,179	1	475	158,655	8,335	130	134	8,599	167,254

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38 Insurance contract liabilities *(continued)*

(a) Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims *(continued)*

	Life direct participating contracts				Life other contracts				
	Liabilities for remaining coverage				Liabilities for remaining coverage				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
2022									
Opening assets	-	-	-	-	(9)	-	2	(7)	(7)
Opening liabilities	154,108	135	387	154,630	10,126	53	90	10,269	164,899
Net opening balance at 1 January 2022	154,108	135	387	154,630	10,117	53	92	10,262	164,892
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(1,610)	-	-	(1,610)	(172)	-	-	(172)	(1,782)
Other contracts	(919)	-	-	(919)	(65)	-	-	(65)	(984)
Total insurance revenue (note 9(a))	(2,529)	-	-	(2,529)	(237)	-	-	(237)	(2,766)
Insurance service expenses									
Incurred claims and other insurance service expenses	-	(1)	535	534	-	(2)	287	285	819
Amortisation of insurance acquisition cash flows	43	-	-	43	6	-	-	6	49
Losses and reversal of losses on onerous contracts	-	154	-	154	-	72	-	72	226
Adjustments to liabilities for incurred claims	-	-	11	11	-	-	1	1	12
Total insurance service expenses (note 9(a))	43	153	546	742	6	70	288	364	1,106
Investment components	(5,764)	-	5,764	-	(1,420)	-	1,420	-	-
Insurance service results (note 9(a))	(8,250)	153	6,310	(1,787)	(1,651)	70	1,708	127	(1,660)
Net finance (income)/expenses from insurance contracts (note 9(b))	(21,658)	-	-	(21,658)	(1,065)	3	-	(1,062)	(22,720)
Effect of movements in exchange rates	(372)	(1)	(1)	(374)	(90)	-	(2)	(92)	(466)
Total changes in the statement of profit or loss and OCI	(30,280)	152	6,309	(23,819)	(2,806)	73	1,706	(1,027)	(24,846)
Cash flows									
Premiums received	19,962	-	-	19,962	938	-	-	938	20,900
Claims and other insurance service expenses paid, including investment components	80	-	(6,243)	(6,163)	1	-	(1,593)	(1,592)	(7,755)
Insurance acquisition cash flows	(780)	-	-	(780)	(57)	-	-	(57)	(837)
Transfer	215	(215)	-	-	6	(6)	-	-	-
Total cash flows	19,477	(215)	(6,243)	13,019	888	(6)	(1,593)	(711)	12,308
Others	15	-	-	15	-	-	-	-	15
Net closing balance at 31 December 2022	143,320	72	453	143,845	8,199	120	205	8,524	152,369
Closing assets	-	-	-	-	(9)	-	4	(5)	(5)
Closing liabilities	143,320	72	453	143,845	8,208	120	201	8,529	152,374
Net closing balance at 31 December 2022	143,320	72	453	143,845	8,199	120	205	8,524	152,369

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38 Insurance contract liabilities *(continued)*

(b) Movements in carrying amounts of insurance contracts - Analysis by measurement component

	Life direct participating contracts					Life other contracts					
			Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Total
2023											
Opening assets	-	-	-	-	-	(31)	2	16	8	(5)	(5)
Opening liabilities	125,681	210	12,810	5,144	143,845	7,427	24	932	146	8,529	152,374
Net opening balance at 1 January 2023	125,681	210	12,810	5,144	143,845	7,396	26	948	154	8,524	152,369
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	-	-	(135)	(1,727)	(1,862)	-	-	(34)	(16)	(50)	(1,912)
Change in risk adjustment for non-financial risk for risk expired	-	(8)	-	-	(8)	-	(2)	-	-	(2)	(10)
Experience adjustments and other	(161)	-	-	-	(161)	17	-	-	-	17	(144)
	(161)	(8)	(135)	(1,727)	(2,031)	17	(2)	(34)	(16)	(35)	(2,066)
Changes that relate to future services											
Contracts initially recognised in the year	(1,971)	43	-	1,928	-	(56)	2	-	55	1	1
Changes in estimates that adjust the CSM	(2,070)	177	(94)	1,987	-	34	5	10	(49)	-	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	(38)	1	-	-	(37)	42	1	-	-	43	6
	(4,079)	221	(94)	3,915	(37)	20	8	10	6	44	7
Changes that relate to past services											
Adjustments to liabilities for incurred claims	9	-	-	-	9	1	-	-	-	1	10
Insurance service result (note 9(a))	(4,231)	213	(229)	2,188	(2,059)	38	6	(24)	(10)	10	(2,049)
Net finance (income)/expenses from insurance contracts (note 9(b))	10,348	-	-	-	10,348	433	-	20	4	457	10,805
Effect of movements in exchange rates	(59)	-	(4)	1	(62)	(21)	-	-	-	(21)	(83)
Total changes in the statement of profit or loss and OCI	6,058	213	(233)	2,189	8,227	450	6	(4)	(6)	446	8,673
Cash flows											
Premiums received	19,056	-	-	-	19,056	997	-	-	-	997	20,053
Claims and other insurance service expenses paid, including investment components	(11,690)	-	-	-	(11,690)	(1,314)	-	-	-	(1,314)	(13,004)
Insurance acquisition cash flows	(783)	-	-	-	(783)	(54)	-	-	-	(54)	(837)
Total cash flows	6,583	-	-	-	6,583	(371)	-	-	-	(371)	6,212
Others	-	-	-	-	-	-	-	-	-	-	-
Net closing balance at 31 December 2023	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254
Closing assets	-	-	-	-	-	(49)	3	23	13	(10)	(10)
Closing liabilities	138,322	423	12,577	7,333	158,655	7,524	29	921	135	8,609	167,264
Net closing balance at 31 December 2023	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254

38 Insurance contract liabilities *(continued)*

(b) Movements in carrying amounts of insurance contracts - Analysis by measurement component *(continued)*

	Life direct participating contracts					Life other contracts					
			Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Total
2022											
Opening assets	-	-	-	-	-	(37)	2	20	8	(7)	(7)
Opening liabilities	133,135	200	16,900	4,395	154,630	9,094	27	1,009	139	10,269	164,899
Net opening balance at 1 January 2022	133,135	200	16,900	4,395	154,630	9,057	29	1,029	147	10,262	164,892
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	-	-	(1,003)	(607)	(1,610)	-	-	(112)	(35)	(147)	(1,757)
Change in risk adjustment for non-financial risk for risk expired	-	(7)	-	-	(7)	-	(3)	-	-	(3)	(10)
Experience adjustments and other	(120)	-	(215)	-	(335)	204	-	-	-	204	(131)
	(120)	(7)	(1,218)	(607)	(1,952)	204	(3)	(112)	(35)	54	(1,898)
Changes that relate to future services											
Contracts initially recognised in the year	(1,974)	53	-	1,921	-	(62)	4	-	62	4	4
Changes in estimates that adjust the CSM	3,466	(35)	(2,871)	(560)	-	8	(4)	18	(22)	-	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	154	-	-	-	154	68	-	-	-	68	222
	1,646	18	(2,871)	1,361	154	14	-	18	40	72	226
Changes that relate to past services											
Adjustments to liabilities for incurred claims	11	-	-	-	11	1	-	-	-	1	12
Insurance service results (note 9(a))	1,537	11	(4,089)	754	(1,787)	219	(3)	(94)	5	127	(1,660)
Net finance (income)/expenses from insurance contracts (note 9(b))	(21,648)	-	-	(10)	(21,658)	(1,079)	-	13	4	(1,062)	(22,720)
Effect of movements in exchange rates	(362)	(1)	(1)	(10)	(374)	(90)	-	-	(2)	(92)	(466)
Total changes in the statement of profit or loss and OCI	(20,473)	10	(4,090)	734	(23,819)	(950)	(3)	(81)	7	(1,027)	(24,846)
Cash flows											
Premiums received	19,962	-	-	-	19,962	938	-	-	-	938	20,900
Claims and other insurance service expenses paid, including investment components	(6,163)	-	-	-	(6,163)	(1,592)	-	-	-	(1,592)	(7,755)
Insurance acquisition cash flows	(780)	-	-	-	(780)	(57)	-	-	-	(57)	(837)
Total cash flows	13,019	-	-	-	13,019	(711)	-	-	-	(711)	12,308
Others	-	-	-	15	15	-	-	-	-	-	15
Net closing balance at 31 December 2022	125,681	210	12,810	5,144	143,845	7,396	26	948	154	8,524	152,369
Closing assets	-	-	-	-	-	(31)	2	16	8	(5)	(5)
Closing liabilities	125,681	210	12,810	5,144	143,845	7,427	24	932	146	8,529	152,374
Net closing balance at 31 December 2022	125,681	210	12,810	5,144	143,845	7,396	26	948	154	8,524	152,369

38 Insurance contract liabilities *(continued)*

(c) Effect of contracts initially recognised in the year

	2023			2022		
	Profitable contracts issued	**Onerous contracts issued**	**Total**	Profitable contracts issued	Onerous contracts issued	Total
Life direct participating contracts						
Estimates of present value of cash outflows						
- Insurance acquisition cash flows	**1,028**	**-**	**1,028**	391	-	391
- Claims and other insurance service expenses payable	**17,906**	**-**	**17,906**	13,683	-	13,683
Estimates of present value of cash inflows	**(20,905)**	**-**	**(20,905)**	(16,048)	-	(16,048)
Risk adjustment for non-financial risk	**43**	-	**43**	53	-	53
CSM	**1,928**	-	**1,928**	1,921	-	1,921
Losses recognised on initial recognition	-	-	-	-	-	-
Life other contracts						
Estimates of present value of cash outflows						
- Insurance acquisition cash flows	**4**	-	**4**	5	-	5
- Claims and other insurance service expenses payable	**533**	**114**	**647**	213	76	289
Estimates of present value of cash inflows	**(594)**	**(113)**	**(707)**	(284)	(72)	(356)
Risk adjustment for non-financial risk	**2**	-	**2**	4	-	4
CSM	**55**	-	**55**	62	-	62
Losses recognised on initial recognition	-	**1**	**1**	-	4	4
	-	**1**	**1**	-	4	4

(d) Present value of expected future cash flows of insurance contract liabilities and contractual service margin

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**5 to 10 years**	**10 to 20 years**	**Over 20 years**	**Total**
At 31 December 2023									
Insurance liability future cash flows									
Life direct participating contracts	**(6,417)**	**(174)**	**6,048**	**4,988**	**7,848**	**19,453**	**32,302**	**74,274**	**138,322**
Life other contracts	**441**	**596**	**229**	**204**	**806**	**1,483**	**1,403**	**2,313**	**7,475**
Insurance liability future cash flows	**(5,976)**	**422**	**6,277**	**5,192**	**8,654**	**20,936**	**33,705**	**76,587**	**145,797**
Remaining contractual service margin									
Life direct participating contracts	**1,651**	**1,514**	**1,389**	**1,288**	**1,184**	**4,616**	**4,843**	**3,425**	**19,910**
Life other contracts	**116**	**108**	**99**	**89**	**78**	**262**	**209**	**131**	**1,092**
Remaining contractual service margin	**1,767**	**1,622**	**1,488**	**1,377**	**1,262**	**4,878**	**5,052**	**3,556**	**21,002**
At 31 December 2022									
Insurance liability future cash flows									
Life direct participating contracts	(11,595)	(3,671)	(889)	5,294	4,688	26,470	42,318	63,066	125,681
Life other contracts	304	113	630	275	213	1,519	1,200	3,142	7,396
Insurance liability future cash flows	(11,291)	(3,558)	(259)	5,569	4,901	27,989	43,518	66,208	133,077
Remaining contractual service margin									
Life direct participating contracts	1,510	1,376	1,257	1,153	1,059	4,111	4,419	3,069	17,954
Life other contracts	115	104	97	89	81	274	214	128	1,102
Remaining contractual service margin	1,625	1,480	1,354	1,242	1,140	4,385	4,633	3,197	19,056

(e) Discount rates

The Group has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for an illiquidity premium as set out in the note 2(t). The blended average of discount rates used within our insurance manufacturing entities are as follows:

	2023		2022	
	HKD	**USD**	HKD	USD
10-year discount rate (%)	**4.16**	**4.62**	4.70	4.80
20-year discount rate (%)	**4.34**	**5.06**	4.76	5.17

39 Current tax and deferred tax

(a) Current tax and deferred tax are represented in the balance sheet:

	2023	2022 *(restated)*
Included in 'Other assets':		
Current taxation recoverable	**6**	2
Deferred tax assets	**2,092**	1,574
	2,098	1,576
Current tax liabilities:		
Provision for Hong Kong profits tax	**942**	240
Provision for taxation outside Hong Kong	**48**	149
	990	389
Deferred tax liabilities	**3,675**	3,168
	4,665	3,557

(b) Deferred tax assets and liabilities recognised

The major components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	**Revaluation of properties**	**Expected credit losses**	**Fair value adjustments for financial assets at FVOCI**	**Cash flow hedge**	**Other**	**Total**
At 1 January 2023	**806**	**3,722**	**(1,225)**	**(137)**	**(161)**	**(1,411)**	**1,594**
Exchange adjustment and others	**2**	**(3)**	**8**	**-**	**-**	**51**	**58**
Charged/(credited) to income statement (note 16(a))	**91**	**(128)**	**70**	**-**	**-**	**(494)**	**(461)**
Charged/(credited) to other comprehensive income	**-**	**163**	**-**	**70**	**142**	**17**	**392**
At 31 December 2023	**899**	**3,754**	**(1,147)**	**(67)**	**(19)**	**(1,837)**	**1,583**
At 31 December 2021, as previously reported	711	3,743	(852)	3	9	3,598	7,212
Impact on transition to HKFRS 17	-	-	25	-	-	(4,977)	(4,952)
At 1 January 2022, as restated	711	3,743	(827)	3	9	(1,379)	2,260
Exchange adjustment and others	2	(8)	25	(3)	-	29	45
Charged/(credited) to income statement (note 16(a))	93	(131)	(423)	-	-	(57)	(518)
Charged/(credited) to other comprehensive income	-	118	-	(137)	(170)	(4)	(193)
At 31 December 2022	806	3,722	(1,225)	(137)	(161)	(1,411)	1,594

(c) Deferred tax assets not recognised

The amounts of unused tax losses for which no deferred tax asset is recognised in the balance sheet are HK$449m (2022: HK$445m). Of these amounts, HK$201m (2022: HK$161m) have no expiry date and the remaining will expire within 5 years.

There was no other temporary difference for which no deferred tax asset is recognised in the balance sheet as at 31 December 2023 (2022: Nil).

(d) Deferred tax liabilities not recognised

There were no deferred tax liabilities not recognised as at 31 December 2023 (2022: Nil).

40 Subordinated liabilities

Nominal value	Description	**2023**	2022
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,126**	3,119
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,991**	4,988
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,994**	2,992
		27,491	27,479
Representing:			
- measured at amortised cost		**27,491**	27,479

[1] *Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.*
[2] *Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.*
[3] *Interest rate at three-month HK dollar HIBOR plus 1.342 per cent per annum, payable quarterly, to the maturity date.*
[4] *Interest rate at compounded SOFR plus 2.0478 per cent per annum, payable quarterly, to the maturity date.*
[5] *Interest rate at three-month HK dollar HIBOR plus 1.000 per cent per annum, payable quarterly, to the maturity date.*
[6] *Interest rate at three-month HK dollar HIBOR plus 1.680 per cent per annum, payable quarterly, to the maturity date.*

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during 2023 (2022: Nil).

41 Share capital

	2023		2022	
	No. of shares	**HK$**	No. of shares	HK$
Ordinary shares, issued and fully paid				
At 1 January and 31 December	**1,911,842,736**	**9,658**	1,911,842,736	9,658

42 Other equity instruments

Nominal value	Description	2023	2022
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**7,044**	7,044
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[2]	**4,700**	4,700
		11,744	11,744

1 *Coupon rate is 6.03% and then three-month US dollar LIBOR plus 4.02 per cent from the first call date.*

2 *Coupon rate is 6.00% and then three-month US dollar LIBOR plus 4.06 per cent from the first call date.*

The additional tier 1 capital instruments above are held by our immediate holding company. They, which are qualified as loss-absorbing capacity, are perpetual and subordinated. The coupon payments of these capital instruments may be cancelled at the sole discretion of the Bank. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

43 Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	2023	2022
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	**1,882**	1,727
Performance and other guarantees[2]	**21,087**	23,216
Other contingent liabilities	**4**	16
	22,973	24,959
Commitments[3]		
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 Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.

2 Performance and other guarantees include re-insurance letters of credit related to particular transactions, trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment, performance bonds, bid bonds, standby letters of credit and other transaction-related guarantees.

3 Includes commitments of HK$345,932m at 31 December 2023 (2022: HK$357,265m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements.

It also reflects the Group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures from guarantees are captured and managed in accordance with the Group's overall credit risk management policies and procedures. Guarantees are subject to an annual credit review process.

(b) Contingencies

There is no material litigation expected to result in a significant adverse effect on the financial position of the Group, either collectively or individually. Management believes that adequate provisions have been made in respect of such litigation.

44 Other commitments

Capital commitments

At 31 December 2023, capital commitments, mainly related to the commitment for renovation of branches and offices, were HK$239m (2022: HK$270m).

45 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

The 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar arrangements, cash and non-cash collaterals has been received and pledged.

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting in the balance sheet			Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net Amounts reported in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements [1]	Balance sheet total
Financial assets[2]									
Derivatives	**12,727**	**-**	**12,727**	**(5,906)**	**(279)**	**(2,033)**	**4,509**	**2,232**	**14,959**
Reverse repos, stock borrowing and similar agreements classified as:	**27,569**	**-**	**27,569**	**-**	**(27,569)**	**-**	**-**	**2,670**	**30,239**
- trading assets	**37**	**-**	**37**	**-**	**(37)**	**-**	**-**	**-**	**37**
- non-trading assets	**27,532**	**-**	**27,532**	**-**	**(27,532)**	**-**	**-**	**2,670**	**30,202**
Other assets	**1,062**	**(495)**	**567**	**-**	**-**	**-**	**567**	**-**	**567**
At 31 December 2023	**41,358**	**(495)**	**40,863**	**(5,906)**	**(27,848)**	**(2,033)**	**5,076**	**4,902**	**45,765** [2]
Derivatives	19,816	-	19,816	(9,537)	(256)	(3,405)	6,618	2,945	22,761
Reverse repos, stock borrowing and similar agreements classified as:	40,704	-	40,704	-	(40,691)	-	13	1,673	42,377
- trading assets	13	-	13	-	-	-	13	-	13
- non-trading assets	40,691	-	40,691	-	(40,691)	-	-	1,673	42,364
Other assets	953	(891)	62	-	-	-	62	-	62
At 31 December 2022 (restated)	61,473	(891)	60,582	(9,537)	(40,947)	(3,405)	6,693	4,618	65,200 [2]
Financial liabilities[3]									
Derivatives	**11,848**	**-**	**11,848**	**(5,906)**	**(396)**	**(2,429)**	**3,117**	**2,630**	**14,478**
Repos, stock lending and similar agreements classified as:	**6,903**	**-**	**6,903**	**-**	**(6,903)**	**-**	**-**	**5,864**	**12,767**
- trading liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- non-trading liabilities	**6,903**	**-**	**6,903**	**-**	**(6,903)**	**-**	**-**	**5,864**	**12,767**
Other liabilities	**495**	**(495)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2023	**19,246**	**(495)**	**18,751**	**(5,906)**	**(7,299)**	**(2,429)**	**3,117**	**8,494**	**27,245** [3]
Derivatives	17,954	-	17,954	(9,537)	(321)	(2,511)	5,585	3,038	20,992
Repos, stock lending and similar agreements classified as:	5,548	-	5,548	-	(5,399)	(149)	-	5,756	11,304
- trading liabilities	-	-	-	-	-	-	-	-	-
- non-trading liabilities	5,548	-	5,548	-	(5,399)	(149)	-	5,756	11,304
Other liabilities	999	(891)	108	-	-	-	108	-	108
At 31 December 2022 (restated)	24,501	(891)	23,610	(9,537)	(5,720)	(2,660)	5,693	8,794	32,404 [3]

[1] *These exposures continue to be secured by financial collateral, but the Bank may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.*

[2] *Amounts presented in the balance sheet included balances due from HSBC entities of HK$14,533m (2022: HK$11,113m).*

[3] *Amounts presented in the balance sheet included balances due to HSBC entities of HK$5,533m (2022: HK$11,371m).*

46 Employee retirement benefits

(a) Defined benefit scheme

The Group operates one defined benefit scheme, the Hang Seng Bank Limited Defined Benefit Scheme ('HSBDBS'), which covers about 13 per cent of the Group’s employees. HSBDBS was closed to new entrants with effect from 1 April 1999. Since the defined benefit section of the HSBDBS is a final salary lump sum scheme, its exposure to longevity risk and interest rate risk is limited.

HSBDBS is registered under Occupational Retirement Schemes Ordinance (Cap. 426 of the law of Hong Kong) ('the Ordinance'). The trustee assumes the overall responsibility for the HSBDBS but a management committee has also been established to broaden the governance. Its assets are held separately from the assets of the Group. The trustees are required by the Trust Deed to act in the best interest of the scheme participants.

HSBDBS is predominantly a funded scheme with assets which are held in trust funds separate from the Group. The actuarial funding valuation of the HSBDBS is reviewed at least on a triennial basis in accordance with local regulations. The actuarial assumptions used to conduct the actuarial funding valuation of the HSBDBS vary according to the economic conditions.

The investment strategy of the HSBDBS is to invest in a diversified portfolio of assets, both equities and bonds, with low investment and liquidity risk. The assets of the Scheme will be diversified across the different asset classes to reflect the liabilities and performance objectives of the Scheme. The Strategic Asset Allocation percentages for the asset types are as follows: Bonds (0 - 62%) and equity/alternative credit funds (0 - 38%).

(i) Cumulative actuarial gains/(losses) recognised in other comprehensive income in respect of defined benefit scheme

	2023	2022
At 1 January	**(875)**	(857)
Actuarial gains/(losses) recognised in other comprehensive income	**89**	(18)
At 31 December	**(786)**	(875)

(ii) Movements in the scheme assets and present value of the defined benefit obligations

Net asset/(liability) under defined benefit scheme

	Fair value of scheme assets	**Present value of defined benefit obligations**	**Net defined benefit (liability)/ asset**
At 1 January 2023	**3,513**	**(3,927)**	**(414)**
Current service cost (note 12)	**-**	**(115)**	**(115)**
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 12)	**115**	**(127)**	**(12)**
Remeasurement effects recognised in other comprehensive income	**203**	**(114)**	**89**
- Return on plan assets	**203**	**-**	**203**
- Actuarial gains/(losses) from changes in demographic assumptions	**-**	**-**	**-**
- Actuarial gains/(losses) from changes in financial assumptions	**-**	**(93)**	**(93)**
- Actuarial gains/(losses) from experience	**-**	**(21)**	**(21)**
Contributions by the Group	**383**	**-**	**383**
Benefits paid	**(566)**	**566**	**-**
Others	**(7)**	**7**	**-**
Administrative costs and taxes paid by scheme (note 12)	**-**	**(7)**	**(7)**
At 31 December 2023	**3,641**	**(3,717)**	**(76)**
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 37)	**3,641**	**(3,717)**	**(76)**
Present value of defined benefit obligation relating to:			
- Actives		**(3,614)**	
- Pensioners		**(103)**	

The Group expects to make HK$82m of contributions to defined benefit scheme during 2024 (2022: expected contributions for 2023 was HK$90m).

46 Employee retirement benefits *(continued)*

(a) Defined benefit scheme *(continued)*

(ii) Movements in the scheme assets and present value of the defined benefit obligations *(continued)*

Net asset/(liability) under defined benefit scheme *(continued)*

	Fair value of scheme assets	Present value of defined benefit obligations	Net defined benefit (liability)/ asset
At 1 January 2022	4,361	(4,700)	(339)
Current service cost (note 12)	-	(138)	(138)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 12)	53	(56)	(3)
Remeasurement effects recognised in other comprehensive income	(404)	386	(18)
- Return on plan assets	(404)	-	(404)
- Actuarial gains/(losses) from changes in demographic assumptions	-	(2)	(2)
- Actuarial gains/(losses) from changes in financial assumptions	-	481	481
- Actuarial gains/(losses) from experience	-	(93)	(93)
Contributions by the Group	92	-	92
Benefits paid	(589)	589	-
Administrative costs and taxes paid by scheme (note 12)	-	(8)	(8)
At 31 December 2022	3,513	(3,927)	(414)
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 37)	3,513	(3,927)	(414)
Present value of defined benefit obligation relating to:			
- Actives		(3,823)	
- Pensioners		(104)	

(iii) Benefits expected to be paid

Benefits expected to be paid from the HSBDBS to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

	2024	**2025**	**2026**	**2027**	**2028**	**2029-2033**
HSBDBS	323	437	390	448	397	2,006

The duration of the HSBDBS is 5.3 years (2022: 5.4 years) under the disclosure assumptions adopted.

(iv) Fair value of scheme assets by asset classes

	2023			2022		
	Value	**Quoted market price in active market**	**Of which placed with the Group and HSBC Group**	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group
Fair value of scheme assets						
- Index ETFs/Funds	**1,518**	**1,518**	**-**	1,367	1,367	-
- Bonds	**2,073**	**2,073**	**-**	2,106	2,106	-
- Other*	**50**	**50**	**6**	40	40	20
	3,641	**3,641**	**6**	3,513	3,513	20

** Other mainly consists of cash and deposits.*

46 Employee retirement benefits *(continued)*

(a) Defined benefit scheme *(continued)*

(v) Key actuarial financial assumptions

The scheme is funded defined benefit scheme and is administered by trustees with asset held separately from those of the Group. The latest annual actuarial valuation as at 31 December 2023 were performed by Mandy Chan, Fellow of the Society of Actuaries of the United States, of Mercer (Hong Kong) Limited, using the Attained Age Method.

The Ordinance requires that registered retirement benefit schemes shall at all time be fully funded to meet its aggregate vested liability (i.e. on a wind-up basis) in accordance with the recommendations contained in an actuarial certificate supplied under the Ordinance. Any shortfall must be made up within the specified time under the Ordinance. Any deficits to meet the aggregate past service liability (i.e. on an on-going basis) can however be eliminated over a period of time in accordance with the funding recommendations of an actuary.

On an on-going basis, the value of the scheme assets of HSBDBS represented 108 per cent (2022: 95 per cent) of the benefits accrued to scheme members, after allowing for expected future increases in salaries, and the resulting surplus amounted to HK$261m (deficits in 2022: HK$193m). On a wind-up basis, the actuarial value of the HSBDBS assets represented 108 per cent (2022: 95 per cent) of the members' vested benefits, based on salaries at that date, and the resulting surplus amounted to HK$264m (deficits in 2022: HK$189m).

The determinations for actuarial funding valuation purposes are based on different methods and assumptions from those used for financial reporting purposes, and as a result should neither be compared nor related to other determinations included in these financial statements.

The present value of the scheme's obligation was a final lump sum salary and payment of HK$3,717m (2022: HK$3,927m). The principal actuarial assumptions used to calculate the Group's obligations for the HSBDBS for each year, and used as the basis for measuring the expenses in relation to the scheme, were as follows:

Principal actuarial assumptions for the scheme

	2023	2022
	%	%
Discount rate	**2.90**	3.40
Expected rate of salary increases	**4.00**	4.00

The Group determines the discount rates to be applied to its obligations in consultation with the scheme's actuaries, on the basis of current average yields of high quality (AA rated or equivalent) debt instruments, with maturities consistent with those of the defined benefit obligations. Where there is not a deep market in corporate bonds, government bond yields have been used, and this is the case for HSBDBS. The yield curve has been extrapolated where the term of the liabilities is longer than the duration of available bonds and the discount rate used then takes into account the term of the liabilities and the shape of the yield curve.

(vi) Actuarial assumption sensitivities

The discount rate and rate of salary increase are sensitive to changes in market conditions arising during the reporting year. The following table shows the effect of changes in these on the HSBDBS:

The effect of changes in key assumptions:

	HSBDBS	
	2023	2022
Discount rate		
- change in retirement benefit obligation at year end from a 25bps increase	**(47)**	(50)
- change in retirement benefit obligation at year end from a 25bps decrease	**48**	51
Rate of salary increase		
- change in retirement benefit obligation at year end from a 25bps increase	**51**	56
- change in retirement benefit obligation at year end from a 25bps decrease	**(52)**	(55)

46 Employee retirement benefits *(continued)*

(b) Defined contribution schemes

The principal defined contribution scheme for Group employees joining on or after 1 April 1999 is the HSBC Group Hong Kong Local Staff Defined Contribution Scheme. The Bank and relevant Group entities also participate in mandatory provident fund schemes ('MPF schemes') registered under the Hong Kong Mandatory Provident Fund Ordinance, which are also defined contribution schemes.

Contributions made in accordance with the relevant scheme rules to these defined contribution schemes (including MPF schemes) are charged to the income statement as below:

	2023	2022
Amounts charged to the income statement (note 12)	**372**	355

Under the schemes, the Group's contributions are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully. The forfeited contributions utilised during the year or available at the year-end to reduce future contributions is HK$0.03m (2022: HK$0.03m).

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47 Share-based payments

The Group participated in various share compensation plans as listed in the following tables that are operated by the HSBC Group for acquiring of HSBC Holdings plc shares. These are to be settled by the delivery of shares of HSBC Holdings plc.

Share awards and option plans

Award	Policy
Deferred Share Awards	- Vesting of awards generally subject to continued employment with the Group - Vesting often staggered over a period ranging from three to seven years - Vested shares may be subject to a retention requirement post-vesting - Awards are generally subject to the rules of Share Plan and any performance conditions - Awards granted from 2010 onwards are subject to a malus provision prior to vesting - Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post-vesting
International Employee Share Purchase Plan ('Sharematch')	- The plan was introduced in 2013 - Shares are purchased in the market each quarter up to a maximum of GBP750, or the equivalent in local currency - Matching shares are added at a ratio of one free share for every three purchased - Matching awards vest subject to continued employment and retention of the purchased shares for a maximum period of two years and nine months

(a) HSBC share awards

	2023 Number ('000)	2022 Number ('000)
Outstanding at 1 January	**1,344**	1,506
Additions during the year	**771**	917
Less: Released in the year	**(770)**	(942)
Less: Lapsed in the year	**(69)**	(137)
Outstanding at 31 December	**1,276**	1,344

The closing price of the HSBC Holdings plc share at 31 December 2023 was £6.36 (2022: £5.16).

The weighted average remaining vesting period as at 31 December 2023 was 1.09 years (2022: 1.13 years).

(b) Calculation of fair value

The fair value of a share award is based on the share price at the date of the grant.

(c) Reconciliation of total incentive awards to income statement charge

	2023	2022
Equity-settled share-based payments	**33**	31
Cash-settled share-based payments	**3**	4
Income statement charge for restricted share awards (note 12)	**36**	35

The above charge was computed from the fair values of the share-based payment transaction when contracted, that arose under employee share awards made in accordance with HSBC's reward structures.

48 Material related-party transactions

(a) Immediate holding company and its subsidiaries and fellow subsidiaries

The Group entered into transactions with its immediate holding company and its subsidiaries as well as its fellow subsidiaries in the ordinary course of business, mainly including lending activities, the acceptance and placement of interbank deposits, correspondent banking transactions, off-balance sheet transactions and the provision of other banking and financial services. The activities were on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The Group used the IT service of, and shared an automated teller machine network with, its immediate holding company. The Group also shares the costs of certain IT projects with and used certain processing services of fellow subsidiaries. These costs are reported under 'General and administrative expenses – other operating expenses' in the income statement.

The Group maintained a staff retirement benefit scheme for which a fellow subsidiary company acts as trustee and custodian and the Group's immediate holding company acts as administrator.

Fellow subsidiaries were appointed as fund managers to manage the Group's life insurance investment portfolios. There was an arrangement whereby a fellow subsidiary provided certain management services to the Group's insurance subsidiary. These transactions and services were on substantially the same terms as for comparable transactions with third-party counterparties.

The Bank acted as agent for promoting Mandatory Provident Fund products administered by its immediate holding company and distributed retail investment funds for a fellow subsidiary company.

During 2023, the Bank has paid coupons on AT1 capital instruments of HK$708m to its immediate holding company (2022: HK$710m).

The aggregate amount of income and expenses arising from these transactions during the year, the balances of amounts due to and from the relevant related parties, and the total contract amount of off-balance sheet transactions at the year-end are as follows:

	Immediate holding company[1]		**Subsidiaries of immediate holding company**[1]		**Other fellow subsidiaries**	
(re-presented)	**2023**	2022	**2023**	2022	**2023**	2022
Interest income	**127**	25	**274**	168	**233**	144
Interest expense	**(2,789)**	(1,867)	**(91)**	(34)	**-**	-
Other operating income/(loss)	**155**	114	**4**	(22)	**(16)**	(42)
Operating expenses*	**(171)**	(900)	**(233)**	(273)	**(4,782)**	(3,533)
Amounts due from:						
Reverse repurchase agreements – non-trading	**-**	266	**8,676**	1,602	**-**	-
Placings with and advances to banks	**5,814**	6,244	**30**	4,262	**5,623**	4,766
Derivative financial instruments	**5,776**	9,025	**62**	158	**19**	62
Other assets	**1,339**	7,060	**50**	33	**1,203**	643
	12,929	22,595	**8,818**	6,055	**6,845**	5,471
Amounts due to:						
Current, savings and other deposit accounts	**-**	-	**1,846**	2,011	**-**	-
Deposits from banks	**1,568**	498	**-**	-	**7**	-
Repurchase agreements - non-trading	**387**	2,516	**-**	1,108	**-**	-
Derivative financial instruments	**5,067**	7,539	**38**	91	**40**	117
Certificates of deposit in issue	**-**	68,002	**-**	-	**-**	-
Subordinated liabilities	**27,491**	27,479	**-**	-	**-**	-
Other liabilities	**1,547**	2,150	**33**	46	**854**	528
	36,060	108,184	**1,917**	3,256	**901**	645
Derivative contracts:						
Contract amount	**624,010**	571,468	**13,209**	13,559	**13,634**	12,204
Guarantees	**390**	389	**3**	3	**-**	-
Commitments	**-**	-	**800**	800	**-**	-

* *Representing the operating expenses paid to immediate holding company and its subsidiaries and other fellow subsidiaries, of which HK$1,080m was capitalised as intangible assets in the Group's consolidated balance sheet (2022: HK$1,207m).*

[1] *The disclosure has been enhanced to report balances with immediate holding company and subsidiaries of immediate holding company separately. Comparatives have been re-presented accordingly.*

48 Material related-party transactions *(continued)*

(b) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and Bank. It includes members of the Board of Directors and Executive Committee of the Bank. During the year, the members of the Bank's Executive Committee has decreased from 20 to 18. The amount of remuneration paid to key management personnel was pro-rata from the date of being appointed as Directors of the Bank or members of Executive Committee, if any. The aggregate amount of remuneration of the key management personnel during the year are as follows:

	2023	2022
Salaries, allowances and benefits in kind	**72**	70
Retirement scheme contributions	**8**	6
Variable bonuses		
- Cash bonus	**23**	21
- Share-based payment	**16**	16
	119	113

(c) Material transactions with key management personnel

During the year, the Group provided credit facilities to and accepted deposits from key management personnel of the Bank and its holding companies, their close family members and companies controlled or significantly influenced by them. The credit facilities extended and deposit taken were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

Material transactions conducted with key management personnel of the Bank and its holding companies and parties related to them are as follows:

	2023	2022
For the year		
Interest income	**1,834**	886
Interest expense	**41**	20
Fees and commission income	**32**	8
Maximum aggregate amount of loans and advances	**44,731**	56,894
At the year-end		
Loans and advances	**39,618**	40,764
Deposits	**6,795**	8,655
Guarantees issued	**338**	339
Undrawn commitments	**2,242**	2,614

Change in expected credit losses recognised for the year and impairment allowances against balances outstanding at the end of the year as required under HKFRS 9, in respect of Key Management Personnel were insignificant in both years.

The Group adheres to Part 8 of Banking (Exposure Limits) Rules made under Section 81A of Banking Ordinance regarding exposures to connected parties.

48 Material related-party transactions *(continued)*

(d) Loans to Directors

Particulars of loans to directors disclosed pursuant to section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulations for the year ended 31 December 2023 are shown as below.

	2023		2022	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
- Loans and advances	**12,351**	**10,965**	15,460	9,999
- Guarantees issued	**3**	**2**	8	3

The above relevant transactions in 2023 and 2022 were all transacted by the Bank.

(e) Directors' material interests in transactions, arrangements or contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank had, directly or indirectly, a material interest, subsisted as at the end of the year or at any time during the year.

(f) Associates

The Group provides certain banking and financial services to associates, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. Transactions and balances during the year with associates were as follows:

	2023		2022	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
Amounts due from associates#	**9,419**	**9,157**	9,184	8,093
Amounts due to associates#	**1,309**	**1,073**	1,762	876

For the year	**2023**	2022
Total operating income	**355**	141

Representing associates in HSBC Group

The disclosure of the year-end balance and the highest amounts outstanding during the year is considered to be the most meaningful information to represent the amount of transactions and outstanding balances during the year.

The transactions resulting in outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

(g) Ultimate holding company

The Group participates in various share option and share plans operated by HSBC Holdings plc whereby share options or shares of HSBC Holdings plc are granted to employees of the Group. As disclosed in note 47, the Group recognises an expense in respect of these share options and share awards. The cost borne by the ultimate holding company in respect of these share options and share awards is treated as a capital contribution and is recorded under 'Other reserves'. The balance of this reserve as at 31 December 2023 amounted to HK$666m comprising HK$668m relating to share option schemes and negative reserve of HK$2m relating to share award schemes (2022: HK$684m comprising HK$668m relating to share option schemes and HK$16m relating to share award schemes).

49 Fair value of financial instruments

(a) Fair value of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. For inactive markets, the Group sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

The majority of financial instruments measured at fair value are in Global Markets ('GM'). GM's fair value governance structure comprises its Finance function and Valuation Committee. Finance is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Valuation Committees, which consist of independent support functions.

Financial liabilities measured at fair value

In certain circumstances, the Group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to the Group's liabilities. The change in fair value of issued debt securities attributable to the Group's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using an appropriate market discount curve. The difference in the valuations is attributable to the Group's own credit spread. This methodology is applied consistently across all securities.

Structured notes issued and certain other hybrid instruments are included within 'Financial liabilities designated at fair value' and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the Group can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

49 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

The accounting policies, control framework and hierarchy used to determine fair values in 2023 are consistent with those applied for the Annual Report 2022. The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
	Quoted market price Level 1	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Third party total**	**Amounts with HSBC entities ***	**Total**
Recurring fair value measurements						
2023						
Assets						
Trading assets	**39,932**	**4,086**	**-**	**44,018**	**-**	**44,018**
Derivative financial instruments	**286**	**8,816**	**-**	**9,102**	**5,857**	**14,959**
Financial assets mandatorily measured at fair value through profit or loss	**22,688**	**106,709**	**27,475**	**156,872**	**-**	**156,872**
Financial investments	**258,834**	**45,448**	**1,072**	**305,354**	**-**	**305,354**
Liabilities						
Trading liabilities	**35,227**	**-**	**-**	**35,227**	**-**	**35,227**
Derivative financial instruments	**82**	**9,251**	**-**	**9,333**	**5,145**	**14,478**
Financial liabilities designated at fair value	**-**	**31,884**	**13,749**	**45,633**	**-**	**45,633**
2022 *(restated)*						
Assets						
Trading assets	41,117	6,256	-	47,373	-	47,373
Derivative financial instruments	258	13,254	4	13,516	9,245	22,761
Financial assets mandatorily measured at fair value through profit or loss	21,980	110,697	20,280	152,957	-	152,957
Financial investments	296,176	63,182	1,633	360,991	-	360,991
Liabilities						
Trading liabilities	46,323	-	-	46,323	-	46,323
Derivative financial instruments	10	13,231	4	13,245	7,747	20,992
Financial liabilities designated at fair value	-	24,287	22,022	46,309	-	46,309

* *Included derivative contracts transacted with HSBC entities which are mainly classified within Level 2 of the valuation hierarchy.*

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	**Trading assets**	**Financial assets mandatorily measured at fair value through profit or loss**	**Derivatives**	**Trading liabilities**	**Financial liabilities designated at fair value**	**Derivatives**
2023							
Transfer from Level 1 to Level 2	**6,903**	**1,961**	**-**	**-**	**-**	**-**	**-**
Transfer from Level 2 to Level 1	**4,916**	**2,092**	**-**	**-**	**-**	**-**	**-**
2022							
Transfer from Level 1 to Level 2	9,922	310	-	-	-	-	-
Transfer from Level 2 to Level 1	19,467	866	-	-	-	-	-

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarter. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

49 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Fair value adjustments

We adopt the use of fair value adjustments when we take into consideration additional factors not incorporated within the valuation model that would otherwise be considered by a market participant. We classify fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to GM. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Bid-offer

HKFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of, or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the Group's valuation model.

Credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and the Group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the Group may default, and that the Group may not pay the full market value of the transactions.

The Group calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group entities.

The Group calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying the PD of the Group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products the Group uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the Group or the counterparty.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

49 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs - Level 3

	Assets			Liabilities	
	Financial investments	**Financial assets mandatorily measured at fair value through profit or loss**	**Derivatives**	**Financial liabilities designated at fair value**	**Derivatives**
2023					
Investment funds and equity shares	**1,072**	**24,798**	**-**	**-**	**-**
Debt securities	**-**	**2,677**	**-**	**-**	**-**
Structured notes	**-**	**-**	**-**	**13,749**	**-**
	1,072	**27,475**	**-**	**13,749**	**-**
2022					
Investment funds and equity shares	1,633	20,280	-	-	-
Structured notes	-	-	-	22,022	-
Derivatives	-	-	4	-	4
	1,633	20,280	4	22,022	4

Movement in Level 3 financial instruments

	Assets			Liabilities	
	Financial investments	**Financial assets mandatorily measured at fair value through profit or loss**	**Derivatives**	**Financial liabilities designated at fair value**	**Derivatives**
At 1 January 2023	**1,633**	**20,280**	**4**	**22,022**	**4**
Total gains or losses recognised in profit or loss					
- net income/(loss) from financial instruments measured at fair value through profit or loss	**-**	**1,149**	**(4)**	**(76)**	**(4)**
Total gains or losses recognised in other comprehensive income					
- fair value losses	**(350)**	**-**	**-**	**-**	**-**
- exchange differences	**-**	**-**	**-**	**77**	**-**
Purchases	**-**	**3,931**	**-**	**-**	**-**
Issues/ deposit taking	**-**	**-**	**-**	**58,066**	**-**
Sales	**(211)**	**-**	**-**	**-**	**-**
Settlements	**-**	**(562)**	**-**	**(65,346)**	**-**
Transfers out	**-**	**-**	**-**	**(1,105)**	**-**
Transfers in	**-**	**2,677**	**-**	**111**	**-**
At 31 December 2023	**1,072**	**27,475**	**-**	**13,749**	**-**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period					
- net income/(loss) from financial instruments measured at fair value through profit or loss	**-**	**1,122**	**-**	**(9)**	**-**

49 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Movement in Level 3 financial instruments (continued)

	Assets			Liabilities	
	Financial investments	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Financial liabilities designated at fair value	Derivatives
At 1 January 2022	1,369	15,071	17	6,023	-
Total gains or losses recognised in profit or loss					
- net income/(loss) from financial instruments measured at fair value through profit or loss	-	491	(14)	56	4
Total gains or losses recognised in other comprehensive income					
- fair value gains	264	-	-	-	-
- exchange differences	-	-	-	(237)	-
Purchases	-	5,540	-	-	-
Issues/ deposit taking	-	-	-	37,085	-
Sales	-	(1)	-	-	-
Settlements	-	(821)	-	(20,848)	-
Transfers out	-	-	-	(115)	-
Transfers in	-	-	1	58	-
At 31 December 2022	1,633	20,280	4	22,022	4
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period					
- net income/(loss) from financial instruments measured at fair value through profit or loss	-	49	2	(52)	2

In 2023, there was transfer in to level 3 financial assets mandatorily measured at fair value through profit or loss which are primarily attributable to re-assessment of the observability of valuation inputs and price transparency. The transfer in/out of Level 3 derivative assets and liabilities were predominantly resulted from change in observability in equity volatilities and stock correlation. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatility for pricing the instrument.

49 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2023				
Investment funds and equity shares	**1,239**	**(1,239)**	**79**	**(79)**
Debt securities	**134**	**(134)**	**-**	**-**
	1,373	**(1,373)**	**79**	**(79)**
2022				
Investment funds and equity shares	1,015	(1,015)	82	(82)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumptions, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value at 31 December 2023	Valuation technique(s)	Unobservable input(s)	Range
Assets				
Investment funds and equity shares	**25,870**	Net asset value	N/A	**N/A**
		Market-comparable approach	Earnings Multiple Liquidity Discount	**30 - 36** **50%**
Debt securities	**2,677**	Discounted cash flow	Credit Spread	**0.27% - 5.74%**
Liabilities				
Structured notes	**13,749**	Option model	Equity Volatility Equity Correlation FX Volatility	**8.75% - 8.90%** **40.66% - 94.00%** **3.23% - 18.43%**

	Fair value at 31 December 2022	Valuation technique(s)	Unobservable input(s)	Range
Assets				
Investment funds and equity shares	21,913	Net asset value	N/A	N/A
		Market-comparable approach	Earnings Multiple P/B ratios Liquidity Discount	31 - 34 0.26 - 1.30 10% - 60%
Derivatives	4	Option model	Equity Volatility	58.89% - 58.89%
Liabilities				
Structured notes	22,022	Option model	Equity Volatility FX Volatility	21.38% - 92.18% 3.81% - 14.13%
Derivatives	4	Option model	Equity Volatility	58.89% - 58.89%

49 Fair value of financial instruments *(continued)*

(b) Fair value of financial instruments not carried at fair value

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	Carrying amount	**Quoted market price Level 1**	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Fair value**
2023					
Financial Assets					
Reverse repurchase agreements – non-trading	**30,202**	**-**	**30,197**	**-**	**30,197**
Placings with and advances to banks	**83,756**	**-**	**83,761**	**-**	**83,761**
Loans and advances to customers	**860,406**	**-**	**-**	**844,587**	**844,587**
Financial investments – at amortised cost	**100,438**	**83,130**	**16,917**	**-**	**100,047**
Financial Liabilities					
Deposits from banks	**19,707**	**-**	**19,707**	**-**	**19,707**
Current, savings and other deposit accounts	**1,153,062**	**-**	**1,153,614**	**-**	**1,153,614**
Repurchase agreements – non-trading	**12,767**	**-**	**12,768**	**-**	**12,768**
Certificates of deposit in issue	**9,857**	**-**	**9,856**	**-**	**9,856**
Subordinated liabilities	**27,491**	**-**	**27,795**	**-**	**27,795**
2022 *(restated)*					
Financial Assets					
Reverse repurchase agreements – non-trading	42,364	-	42,360	-	42,360
Placings with and advances to banks	62,203	-	62,206	-	62,206
Loans and advances to customers	931,334	-	-	926,376	926,376
Financial investments – at amortised cost	119,707	101,618	16,926	-	118,544
Financial Liabilities					
Deposits from banks	5,205	-	5,205	-	5,205
Current, savings and other deposit accounts	1,249,486	-	1,249,574	-	1,249,574
Repurchase agreements – non-trading	11,304	-	11,304	-	11,304
Certificates of deposit in issue	93,379	-	93,390	-	93,390
Subordinated liabilities	27,479	-	27,053	-	27,053

49 Fair value of financial instruments *(continued)*

(b) Fair value of financial instruments not carried at fair value *(continued)*

Other financial instruments not carried at fair value are typically short-term in nature or reprice to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

The calculation of fair values of financial instruments that are not carried at fair value is described below.

The calculation of fair value incorporates the Group's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Group expects to flow from the instruments' cash flows over their expected future lives.

(i) Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

(ii) Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Group believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(iii) Deposits from banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(iv) Debt securities in issue

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the Group as a going concern.

50 Unconsolidated structured entities

The Group enters into transactions with unconsolidated structured entities in the normal course of business through the holding of collective investment funds established by HSBC Group and third parties. The majority of these funds held related to the insurance business. At 31 December 2023, the total asset value of unconsolidated structured entities amounted to HK$2,253.3bn (2022: HK$5,146.8bn). The Group's interests were recognised in financial assets mandatorily measured at fair value through profit or loss of HK$28,963m and trading assets of HK$33m (2022: financial assets mandatorily measured at fair value through profit or loss of HK$23,920m and trading assets of HK$43m). These collective investment funds include investment in unit trusts, private equity funds and infrastructure funds which provide the Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment funds regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments and the outstanding capital commitments of HK$15,087m (2022: HK$11,824m) to invest in several alternative investment funds for funding future alternative invesments in global companies under respective investment mandates.

51 Immediate and ultimate holding companies

The immediate and ultimate holding companies of the Bank are The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong) and HSBC Holdings plc (incorporated in England) respectively.

52 Bank balance sheet and statement of changes in equity

Bank balance sheet at 31 December

	2023	2022
ASSETS		
Cash and balances at central banks	**10,549**	17,595
Trading assets	**42,655**	44,006
Derivative financial instruments	**12,723**	19,786
Financial assets mandatorily measured at fair value through profit or loss	**156**	77
Reverse repurchase agreements – non-trading	**29,152**	42,364
Placings with and advances to banks	**69,826**	49,112
Loans and advances to customers	**805,807**	852,555
Amounts due from subsidiaries	**10,635**	15,070
Financial investments	**372,849**	446,223
Investments in subsidiaries	**19,883**	19,929
Investment properties	**4,282**	4,262
Premises, plant and equipment	**23,634**	23,965
Intangible assets	**3,620**	3,345
Other assets	**19,255**	29,869
Total assets	**1,425,026**	1,568,158
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**18,397**	4,244
Current, savings and other deposit accounts	**1,104,289**	1,192,590
Repurchase agreements - non-trading	**6,903**	3,032
Trading liabilities	**35,227**	46,323
Derivative financial instruments	**11,815**	17,945
Financial liabilities designated at fair value	**37,035**	23,246
Certificates of deposit in issue	**1,340**	78,027
Amounts due to subsidiaries	**5,289**	5,906
Other liabilities	**21,469**	22,159
Current tax liabilities	**568**	214
Deferred tax liabilities	**2,895**	2,407
Subordinated liabilities	**27,491**	27,479
Total liabilities	**1,272,718**	1,423,572
Equity		
Share capital	**9,658**	9,658
Retained profits	**114,042**	107,065
Other equity instruments	**11,744**	11,744
Other reserves	**16,864**	16,119
Shareholders' equity	**152,308**	144,586
Total equity and liabilities	**1,425,026**	1,568,158

Irene Y L Lee *Independent Non-executive Chairman*

Diana Cesar *Executive Director and Chief Executive*

Say Pin Saw *Executive Director and Chief Financial Officer*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

52 Bank balance sheet and statement of changes in equity *(continued)*

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

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]	Total equity
At 1 January 2023	**9,658**	**11,744**	**107,065**	**14,612**	**1,628**	**(816)**	**18**	**677**	**144,586**
Profit for the year	**-**	**-**	**17,216**	**-**	**-**	**-**	**-**	**-**	**17,216**
Other comprehensive income (net of tax)	**-**	**-**	**72**	**761**	**(190)**	**720**	**-**	**8**	**1,371**
Debt instruments at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**358**	**-**	**-**	**-**	**358**
Equity instruments designated at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**(548)**	**-**	**-**	**-**	**(548)**
Cash flow hedges	**-**	**-**	**-**	**-**	**-**	**720**	**-**	**-**	**720**
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**8**
Property revaluation	**-**	**-**	**-**	**761**	**-**	**-**	**-**	**-**	**761**
Actuarial gains on defined benefit plans	**-**	**-**	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Others	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Total comprehensive income for the year	**-**	**-**	**17,288**	**761**	**(190)**	**720**	**-**	**8**	**18,587**
Dividends paid[3]	**-**	**-**	**(10,133)**	**-**	**-**	**-**	**-**	**-**	**(10,133)**
Coupons paid on AT1 capital instruments	**-**	**-**	**(708)**	**-**	**-**	**-**	**-**	**-**	**(708)**
Movement in respect of share-based payment arrangements	**-**	**-**	**(6)**	**-**	**-**	**-**	**-**	**(18)**	**(24)**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers[4]	**-**	**-**	**536**	**(573)**	**37**	**-**	**-**	**-**	**-**
At 31 December 2023	**9,658**	**11,744**	**114,042**	**14,800**	**1,475**	**(96)**	**18**	**667**	**152,308**
At 1 January 2022	9,658	11,744	105,140	14,651	2,371	46	17	677	144,304
Profit for the year	-	-	9,597	-	-	-	-	-	9,597
Other comprehensive income (net of tax)	-	-	(17)	513	(788)	(862)	1	(5)	(1,158)
Debt instruments at fair value through other comprehensive income	-	-	-	-	(678)	-	-	-	(678)
Equity instruments designated at fair value through other comprehensive income	-	-	-	-	(110)	-	-	-	(110)
Cash flow hedges	-	-	-	-	-	(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)
Property revaluation	-	-	-	513	-	-	-	-	513
Actuarial losses on defined benefit plans	-	-	(15)	-	-	-	-	-	(15)
Others	-	-	(2)	-	-	-	1	-	(1)
Total comprehensive income for the year	-	-	9,580	513	(788)	(862)	1	(5)	8,439
Dividends paid	-	-	(7,455)	-	-	-	-	-	(7,455)
Coupons paid on AT1 capital instruments	-	-	(710)	-	-	-	-	-	(710)
Movement in respect of share-based payment arrangements	-	-	5	-	-	-	-	5	10
Others	-	-	(2)	-	-	-	-	-	(2)
Transfers	-	-	507	(552)	45	-	-	-	-
At 31 December 2022	9,658	11,744	107,065	14,612	1,628	(816)	18	677	144,586

[1] Retained profits are the cumulative net earnings of the Bank 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 Bank 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 in 2023 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.

52 Bank balance sheet and statement of changes in equity *(continued)*

Bank statement of changes in equity for the year ended 31 December *(continued)*

The Bank and its banking subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios and which could therefore potentially restrict the amount of realised profits which can be distributed to shareholders.

At 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance (Cap. 622) amounted to HK$108,316m (2022: HK$101,000m). After considering regulatory capital requirement and business development needs, an amount of HK$6,118m (2022: HK$3,824m) has been declared as the proposed fourth interim dividend in respect of the financial year ended 31 December 2023. The difference between the aggregate distributable reserves of HK$108,316m and the Bank's retained profit of HK$114,042m as reported above mainly represents the exclusion of unrealised revaluation gain on investment properties.

53 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 21 February 2024.

Independent Auditor's Report
To the Members of Hang Seng Bank Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hang Seng Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group'), which are set out on pages 219 to 308, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes[1] to the consolidated financial statements, comprising material accounting policies and other explanatory information.

1 Certain required disclosures as described in Note 1(b) have been presented elsewhere in the Annual Report 2023, rather than in the notes to the consolidated financial statements. These are cross-referenced from the consolidated financial statements and are identified as audited.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ('HKFRSs') issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:
- Allowances for expected credit losses ('ECL') on loans and advances to customers; and
- Insurance contracts liabilities

Key Audit Matters (continued)

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

Nature of the Key Audit Matter

As at 31 December 2023, the Group recorded allowances for ECL on loans and advances to customers of HK$13,633m.

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

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

Impacts related to the Mainland China commercial real estate sector, the geopolitical landscape and certain other current macroeconomic conditions effect the inherent risk and estimation uncertainty involved in determining the ECL on loans and advances to customers. Management judgemental adjustments to ECL on non-credit-impaired loans and advances to customers therefore continue to be made.

The above ongoing conditions continue to result in significant credit-impaired corporate exposures related to the unsecured offshore Mainland China Commercial Real Estate sector. The assumptions with the most significant impact here are those applied in estimating the recoverability of these exposures.

Matters discussed with the Audit Committee

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

How our audit addressed the Key Audit Matter

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

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

Key Audit Matters (continued)

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

How our audit addressed the Key Audit Matter (continued)

We performed substantive audit procedures over the compliance of ECL methodologies with the requirements of HKFRS 9. We engaged professionals with experience in ECL modelling to assess the appropriateness of methodologies and related models.

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

- We challenged the appropriateness of the significant assumptions and obtained corroborating evidence;
- We involved our economic experts in assessing the reasonableness of the severity and likelihood of certain economic scenarios;
- We tested a sample of customer risk ratings assigned to wholesale exposures; and
- We tested a sample of critical data used to determine ECL.

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

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

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

Relevant references in the Annual Report 2023

- Management Discussion and Analysis – Risk, (a) Credit Risk, pages 53 to 96
- Note 2 on the consolidated financial statements: Material accounting policies, (j) Impairment of amortised cost and FVOCI financial assets, pages 235 to 242
- Note 11 on the consolidated financial statements: Change in expected credit losses and other credit impairment charges, page 260
- Note 26 (a) on the consolidated financial statements: Loans and advances to customers, page 275

Key Audit Matters (continued)

Insurance contracts liabilities

Nature of the Key Audit Matter	***Matters discussed with the Audit Committee***
The Group has adopted HKFRS 17 *'Insurance contracts'*. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues, reinsurance contracts it holds and investment contracts with discretionary participating features it issues. As at 31 December 2023, the Group recorded insurance contract liabilities of HK$167,264m. Insurance contract liabilities under HKFRS 17 are measured as the total of fulfilment cash flows and contractual service margin, the determination of which required judgement and interpretation. This includes the selection of accounting policies and the use of complex methodologies that are applied in models. The selection and application of appropriate methodology requires significant professional judgement. It also requires the determination of assumptions which involve estimation uncertainty.	We discussed the appropriateness of the methodologies, their application, significant assumptions and related disclosures with the Audit Committee. Perspectives were also shared on the control environment related to accounting for insurance contracts.

How our audit addressed the Key Audit Matter

We tested certain controls in place over accounting policies, methodologies, their application, significant assumptions and data used in determining insurance contract liabilities. These included controls relating to:

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

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

- We assessed the adherence of the accounting policies with the requirements in HKFRS 17;
- We assessed the appropriateness of the methodologies used and their application in models;
- We challenged the appropriateness of the judgements made in selecting significant assumptions and, where relevant, their interrelationships. We have assessed these significant assumptions and obtained relevant corroborating evidence. We further considered whether the judgements made in selecting the significant assumptions would give risk to indicators of susceptibility to management bias;
- We performed substantive audit procedures over a sample of critical data used to ensure these are relevant and reliable; and
- We assessed the adequacy of the relevant disclosures in the context of the applicable financial reporting framework.

Relevant references in the Annual Report 2023

- Management Discussion and Analysis – Risk, (i) Insurance manufacturing operation risk, pages 136 to 143
- Note 2 on the consolidated financial statements: Material accounting policies, (t) Insurance contracts, pages 246 to 250
- Note 3 on the consolidated financial statements: Effect of adoption of HKFRS 17, pages 252 to 256
- Note 38 on the consolidated financial statements: Insurance contract liabilities, pages 283 to 287

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the Annual Report 2023 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Banking Disclosure Statement for the year ended 31 December 2023, which is expected to be made available to us after the date of this auditor's report. The other information does not include the specific information presented therein that is identified as being an integral part of the consolidated financial statements and, therefore, covered by our audit opinion on the consolidated financial statements.

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

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

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

When we read the Banking Disclosure Statement for the year ended 31 December 2023, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

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

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

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

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

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

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
21 February 2024

CORPORATE INFORMATION AND OTHER INFORMATION

SHAREHOLDER ANALYSIS

Distribution of Shareholdings (at 31 December 2023)	Shareholders Number	Shareholders Percentage of total	Number of Shares Number in millions	Number of Shares Percentage of total
Number of shares held				
1 - 500	5,929	36.91	1.36	0.07
501 - 2,000	4,917	30.61	5.98	0.31
2,001 - 5,000	2,474	15.40	8.46	0.44
5,001 - 20,000	2,057	12.80	21.03	1.10
20,001 - 50,000	468	2.91	14.75	0.77
50,001 - 100,000	115	0.72	8.16	0.43
100,001 - 200,000	54	0.34	7.85	0.41
Over 200,000	50	0.31	1,844.25	96.47
	16,064	100.00	1,911.84	100.00

Locations of the Shareholders (at 31 December 2023)	Shareholders Number	Shareholders Percentage of total	Number of Shares Number in millions	Number of Shares Percentage of total
Geographical distribution				
Hong Kong	15,821	98.49	1,908.94	99.85
Malaysia	45	0.28	0.29	0.01
Canada	37	0.23	0.13	0.01
Singapore	34	0.21	1.74	0.09
United Kingdom	29	0.18	0.17	0.01
Macau	27	0.17	0.13	0.01
United States of America	22	0.14	0.11	0.01
Australia	20	0.12	0.07	0.00
Others	29	0.18	0.26	0.01
	16,064	100.00	1,911.84	100.00

Types of the Shareholders (at 31 December 2023)	Number of Shares Number in millions	Number of Shares Percentage of total
Types of shareholders		
The Hongkong and Shanghai Banking Corporation Limited	1,188.06	62.14
Other corporate shareholders	644.52	33.71
Individual shareholders	79.26	4.15
	1,911.84	100.00

SHAREHOLDER INFORMATION

Financial Calendar

2023 Full Year Results	
Announcement date	21 February 2024
2023 Fourth Interim Dividend	
Announcement date	21 February 2024
Book close and record date	7 March 2024
Payment date	21 March 2024
2023 Annual Report	
to be despatched to shareholders	At or about the end of March 2024
2024 AGM	May 2024

Dividend

The Board declares the payment of a fourth interim dividend of HK3.20 per share. The fourth interim dividend will be payable in cash on Thursday, 21 March 2024 to shareholders whose names appear on the Register of Shareholders of the Bank on Thursday, 7 March 2024.

The Register of Shareholders of the Bank will be closed on Thursday, 7 March 2024, for the purpose of determining Shareholders' entitlement to the fourth interim dividend, on which date no transfer of shares can be registered. In order to qualify for the fourth interim dividend for 2023, all transfers documents 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. Shares of the Bank will be traded ex-dividend as from Tuesday, 5 March 2024.

Electronic Communication

This Annual Report, in English and Chinese versions, is available on the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkexnews.hk). Shareholders are encouraged to access the Bank's corporate communications electronically via the Bank's website to help protect the environment.

If shareholders who have chosen (or are deemed to have chosen) to read this Annual Report on the Bank's website, have difficulty in reading or gaining access to this Annual Report via the Bank's website for any reason, the Bank will promptly send this Annual Report in printed form free of charge upon the shareholders' request. Shareholders may change their choice of means of receipt or language of the Bank's future corporate communications at any time, free of charge, by giving the Bank c/o the Bank's Registrar reasonable notice in writing or by email to hangseng@computershare.com.hk. Shareholders may also download the request form from the Bank's website (www.hangseng.com) or HKEx's website (www.hkexnews.hk).

CORPORATE INFORMATION

Subsidiaries

The Bank's subsidiaries as defined in Section 15 of the Hong Kong Companies Ordinance (Cap 622) are set out below:

Fulcher Enterprises Company Limited
Hang Seng Bank (China) Limited
Hang Seng Bank (Trustee) Limited
Hang Seng Bullion Company Limited
Hang Seng Credit Limited
Hang Seng Data Services Limited
Hang Seng Finance Limited
Hang Seng Financial Information Limited
Hang Seng Indexes Company Limited
Hang Seng Indexes (Netherlands) B.V.
Hang Seng Insurance Company Limited
Hang Seng Investment Management Limited
Hang Seng Investment Services Limited
Hang Seng (Nominee) Limited
Hang Seng Qianhai Fund Management Company Limited
Hang Seng Real Estate Management Limited
Hang Seng Security Management Limited
Hang Seng Securities Limited
Haseba Investment Company Limited
HASE Wealth Limited
High Time Investments Limited
HSI International Limited
Imenson Limited
Yan Nin Development Company Limited

Directors of Subsidiaries

The Directors of the Bank's subsidiaries during the period from 1 January 2023 up to the date of this Annual Report are set out below (unless otherwise stated):

CESAR Diana Ferreira
CHAN Ka Lok
CHAN Ping Chung Eddie
CHEN Yu Sheng
CHEUNG Ka Wai Kathy
CHIU Wai Man Vivien
CHOW Tan Ling
FAN Gordon
Gregory Thomas HINGSTON
HO Lok Sze
HUANG Jian*
JIN Jiejun*
Hong Mei KNIGHT
KONG Kwong Ming*
KWAN Wing Shing Vincent*
LAM Hei Yin Joe
LAM Hoi
LAM Wai Chung Gordon
LAW Soo Ping Alison*
LEE Kit Han Jackie
LEE Man Lung
LEE Pui Shan
LEE Wah Lun Rannie
LEE Yuk Shan*
LEUNG Chi Wai
LEUNG Kin Ping
LI Chi Chung
LI Jianfeng*
LIANG Chun Fei Belle
LIM Sau Fung
LIN Kam Tung
LIU Lai Ka*
LIU Yu
LUI Man Chung Raymond
MA Zhengwei
MAK Chung Wo Theodore
MO Yuen Man Anita
MUK Chung Wing
NG Kar Wah*
NIP Tak Kuen
SAW Say Pin
SIT Wing Fai Wilfred
SONG Yue Sheng Ryan
SUEN Wai Kwan Grace
TIN Ho Ting*
TSANG Hing Keung*
WANG Xiao Kun
Stuart Kingsley WHITE
WONG Ti
WONG Wai Hung
YAM Chi Fai
YAM Chi Hei
YUEN Kin Chung
ZHANG Ping
ZHU Jin*
ZHU Shushang

* He/She has resigned/ceased as a Director of the relevant subsidiary(ies) of the Bank as at the date of this Annual Report.

CORPORATE INFORMATION (Cont'd)

The Board

Independent Non-executive Chairman
Irene Y L Lee

Executive Directors
Diana Cesar JP (Chief Executive)
Say Pin Saw

Non-executive Directors
Kathleen C H Gan
David Y C Liao

Independent Non-executive Directors
Cordelia Chung
Clement K M Kwok
Patricia S W Lam
Huey Ru Lin
Kenneth S Y Ng
Xiao Bin Wang

Company Secretary
Ka Ki Cheung

Registered Office
83 Des Voeux Road Central, Hong Kong
Website: www.hangseng.com
Email: hangseng@computershare.com.hk

Stock Codes
The Stock Exchange of Hong Kong Limited:
11 (HKD counter) and 80011 (RMB counter)

Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Depositary*
BNY Mellon Shareowner Services
PO Box 43006
Providence, RI 02940-3078, USA
Website: www.computershare.com/investor
Email: shrrelations@cpushareownerservices.com

* The Bank offers investors in the United States a Sponsored Level-1 American Depositary Receipts Programme through The Bank of New York Mellon Corporation.

Cautionary statement regarding forward-looking statements

This *Annual Report 2023* contains certain forward-looking statements with respect to the Group's financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; and ESG targets, commitments and ambitions described herein.

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

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

- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which we operate and the consequences thereof (including, without limitation, actions taken as a result of the impact of the Russia-Ukraine war on inflation); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide (including data sharing restrictions); revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to the Group, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies; and

- factors specific to the Group, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); our ability to achieve our financial, investment, capital and ESG targets, commitments and ambitions (including the positions set forth in our thermal coal phase-out policy and our energy policy and our targets to reduce our on-balance sheet financed emissions and, where applicable, facilitated emissions in our portfolio of selected high-emitting sectors), which may result in our failure to achieve any of the expected benefits of our strategic priorities; evolving regulatory requirements and the development of new technologies, including artificial intelligence, affecting how we manage model risk; model limitations or failure, including, without limitation, the impact that high inflationary pressures and rising interest rates have had on the performance and usage of financial models, which may require us to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions we base our financial statements on; changes in our ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to us or any of our subsidiaries, which could increase the cost or decrease the availability of our funding and affect our liquidity position and net interest margin; changes to the reliability and security of our data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact our ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; our dependence on loan payments and dividends from subsidiaries to meet our obligations; changes in our reporting frameworks and accounting standards, which have had and may continue to have a material impact on the way we prepare our financial statements; our ability to successfully execute planned strategic acquisitions and disposals; changes in our ability to manage third-party, fraud, financial crime and reputational risks inherent in our operations; employee or supplier's misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel; and changes in our ability to develop sustainable finance and ESG-related products consistent with the evolving expectations of our regulators, and our capacity to measure the environmental and social impacts from our financing activity (including as a result of data limitations and changes in methodologies), which may affect our ability to achieve our ESG ambitions, targets and commitments, including our net zero ambition, our targets to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in our portfolio of selected high-emitting sectors and the positions set forth in our thermal coal phase-out policy and our energy policy, and increase the risk of greenwashing. Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in risk related discussions in the *Annual Report 2023*.

This *Annual Report 2023* contains a number of images, graphics, infographics, text boxes and illustrative case studies and credentials which aim to give a high-level overview of certain elements of our disclosures and to improve accessibility for readers. These images, graphics, infographics, text boxes and illustrative case studies and credentials are designed to be read within the context of the *Annual Report 2023* as a whole.