恒生銀行
HANG SENG BANK

2024 Annual Report

We share the dreams of Hong Kong people and serve our communities with pride.

We provide best-in-class, trusted and friendly financial services to drive their success – today and for generations to come.

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.

2024 Performance at a Glance

Scan this QR Code with your smart phone or tablet to see a summary of our 2024 performance.
Alternatively, visit https://www.hangseng.com/cms/fin/fld/statement/annual-report-2024/index-eng.html

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 close to 4 million customers. Combining its award-winning mobile app and strong digital capabilities with a vast network of over 250 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.

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 2024

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

Profit attributable to shareholders
18,379 HK$m
2023 17,848 HK$m

Profit before tax
21,014 HK$m
2023 20,105 HK$m

Operating profit
21,558 HK$m
2023 19,946 HK$m

Net operating income before change in expected credit losses and other credit impairment charges
41,537 HK$m
2023 40,822 HK$m

Return on average ordinary shareholders' equity
11.3%
2023 11.3%

Cost efficiency ratio
36.6%
2023 35.8%

Earnings per share
9.33 HK$
2023 8.97 HK$

Dividends per share
6.80 HK$
2023 6.50 HK$

At Year-end (at 31 December)

Shareholders' equity
169,522 HK$m
2023 168,131 HK$m

Total assets
1,795,196 HK$m
2023 1,692,094 HK$m

Capital ratios

Common Equity Tier 1 ('CET1') Capital Ratio
17.7%
2023 18.1%

Tier 1 Capital Ratio
19.4%
2023 19.9%

Total Capital Ratio
20.8%
2023 21.4%

Liquidity ratios

Liquidity Coverage Ratio
301.0%
2023 260.7%

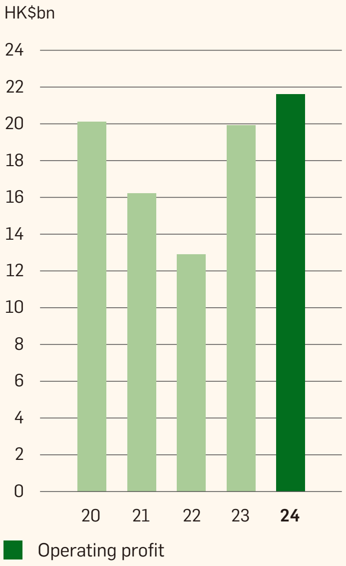
Net Stable Funding Ratio
181.0%
2023 168.4%

Five-year Financial Summary

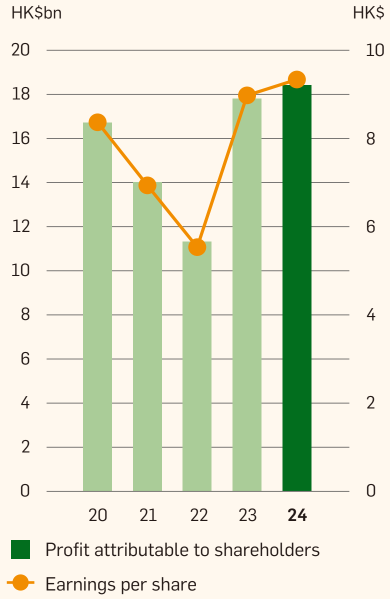
	2020	2021	2022 (restated)	2023	**2024**
For the year	HK$bn	HK$bn	HK$bn	HK$bn	**HK$bn**
Operating profit	20.1	16.2	12.9	19.9	**21.6**
Profit before tax	19.4	16.4	12.8	20.1	**21.0**
Profit attributable to shareholders	16.7	14.0	11.3	17.8	**18.4**
At year-end	HK$bn	HK$bn	HK$bn	HK$bn	**HK$bn**
Shareholders' equity	183.1	184.3	159.9	168.1	**169.5**
Issued and paid-up capital	9.7	9.7	9.7	9.7	**9.7**
Total assets	1,759.8	1,820.2	1,854.4	1,692.1	**1,795.2**
Total liabilities	1,576.6	1,635.8	1,694.4	1,523.9	**1,625.6**
Per share	HK$	HK$	HK$	HK$	**HK$**
Earnings per share	8.36	6.93	5.53	8.97	**9.33**
Dividends per share					
– 1st to 4th interim dividends	5.50	5.10	4.10	6.50	**6.80**
Ratios	%	%	%	%	**%**
Return on average ordinary shareholders' equity	9.6	7.7	7.2	11.3	**11.3**
Post-tax return on average total assets	1.0	0.8	0.6	1.0	**1.1**
Capital ratios					
– Common Equity Tier 1 ('CET1') Capital Ratio	16.8	15.9	15.2	18.1	**17.7**
– Tier 1 Capital Ratio	18.5	17.5	16.8	19.9	**19.4**
– Total Capital Ratio	20.0	18.9	18.1	21.4	**20.8**
Cost efficiency ratio	36.6	42.6	40.1	35.8	**36.6**

Unless otherwise stated, all tables in the 2024 Annual Report are presented on a reported basis. Financial results of 2024, 2023 and 2022 are prepared on HKFRS 17 basis and that of 2020 and 2021 are prepared on HKFRS 4 basis and are not comparable.

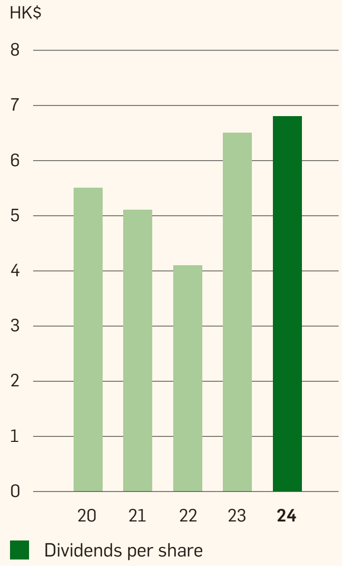
Operating Profit



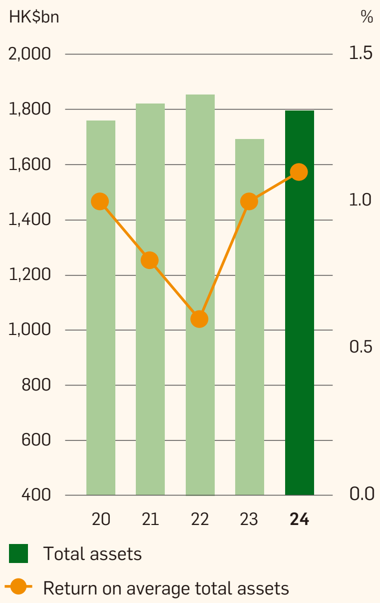
Profit Attributable to Shareholders and Earnings per Share



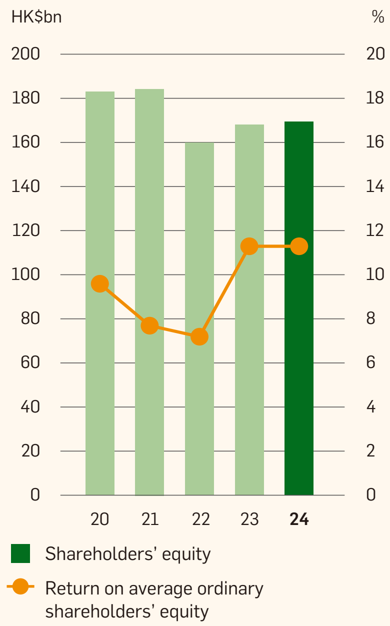
Dividends per Share



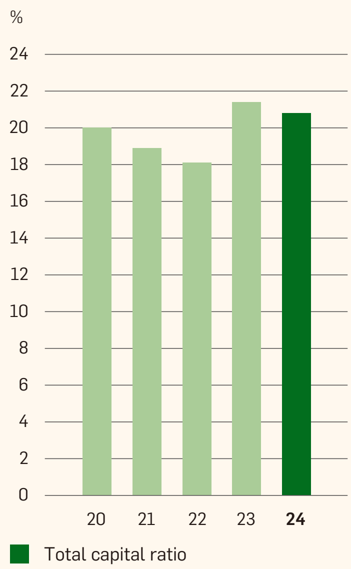
Total Assets and Return on Average Total Assets



Shareholders' Equity and Return on Average Ordinary Shareholders' Equity



Total Capital Ratio



Chairman's Statement

As the largest local bank in Hong Kong, the success of our business is inextricably linked to the complexities affecting the local economy. Last year we faced difficult challenges but also saw positive signs of the resilience of Hong Kong.

Within this context, we have strengthened our cross-boundary services to better meet the banking needs of our retail and corporate customers. With new policies being introduced on both sides to stimulate economic development, the synergies of the Greater Bay Area are starting to be felt.

Concurrently, we have been helping the city enhance its status as the super-connector between mainland China and the rest of the world. Hang Seng Investment Management Limited has partnered with Saudi Arabia's SAB Invest to enable investors in the Middle East to access Hong Kong's capital markets.

Our commitment to improving the local community and contributing to its development has been evidenced through multiple initiatives including making available banking services to families in transitional housing. Additionally, many youth and education programmes have been launched focusing on financial literacy and inclusion. Improving awareness on fraud risks to protect our customers and their assets has also been a priority.

It's a great pleasure to note that we were recognised as 'Best Domestic Bank for the Greater Bay Area' by Euromoney. We also won the Gold Award at The Asset ESG Corporate Awards 2024.

Looking Ahead

I would like to extend a warm welcome to Catherine Zhou who was appointed as Non-executive Director with effect from October 2024. Currently the Chief Information Officer, International Wealth and Premier Banking at the HSBC Group, Catherine brings with her expertise in digital transformation.

Knowing that the Bank remains in capable hands, I will retire with effect from the conclusion of the upcoming Annual General Meeting in May. It has been a pleasure serving with our Chief Executive Diana Cesar and my other esteemed colleagues. I wish them continued success as they steer the Bank to become an even more integral part of Hong Kong and its economy.

Next, I would like to welcome Edward Cheng who will assume the role of Chairman. He is currently an Independent Non-executive Director on the Board of The Hongkong and Shanghai Banking Corporation Limited. Edward's breadth and depth of experience will ensure we continue to maximise the Bank's potential. I wish him all the best as he takes over this distinguished office.

On a final note, I wish to recognise the hard work of our colleagues who deliver exceptional customer service whilst bringing creativity and innovation to their jobs. They represent the best of everything that Hang Seng and Hong Kong stand for.

Irene Lee
Chairman
19 February 2025

Chief Executive's Report

As expected, 2024 was a difficult year with continued geopolitical and macro challenges. These led to slower economic growth and sluggish performance in the trade and retail sectors, which created a tough environment for local businesses.

In response, we adapted our strategy to focus on diversifying our revenue and growing our targeted customer base. Combined with a proactive approach to de-risk our portfolio, we were able to deliver strong results and continue to grow.

More balanced revenue growth

We recorded a notable increase in non-interest income, in turn propelling decent growth in our net operating income.

Interest rates started trending down since the third quarter of last year and against a market where loan demand remained subdued, net interest income was down 5%.

Nonetheless, we made significant progress in diversifying our revenue, resulting in a 26% year-on-year increase in non-interest income, which more than offsets the decline in net interest income. This was mainly driven by strengthening of our wealth management business, with income improving 22% year-on-year.

We sustained a healthy net interest margin of 2.20% as we continued to implement our robust asset and liability management strategy.

Our affluent customer base recorded a 15% growth with new-to-bank affluent customers having increased 75% year-on-year. Investment services income was up 28% and life insurance income increased 17% compared to last year. Hang Seng became the second largest life insurer by new business premiums with the same having grown by 80% as per the latest available figures.

Cross-boundary business with integrated banking and wealth management services also delivered positive results. New account opening for retail mainland China customers jumped by 81% year-on-year.

Our operating profit increased 8% year-on-year. Profit before tax increased by more than HK$900m. Earnings per share improved by 4% and return on average ordinary shareholders' equity remained stable at 11.3%.

Proactively managing risk

As the largest domestic bank in Hong Kong, Hang Seng is closely tied to the local economy, supporting small and medium-sized enterprises ('SMEs') as well as large corporates. Due to these close links, we share many of the challenges faced by these businesses. At the same time, preserving the long-term interests of our stakeholders remains a priority.

We continue to adopt a prudent and forward-looking risk management approach.

Cash flow pressures for some of our Hong Kong commercial real estate ('HKCRE') borrowers continued because of the prolonged high interest rate environment. Our non-performing loans for the year ended at 6.12%, mainly driven by the HKCRE portfolio as borrowers sought to defer payments. That said, two-thirds of our loans are secured by strong collateral. Asset quality of the unsecured book remains stable with over 90% at investment grade. As such, we have not seen a material impact on our financial performance. Expected credit loss ('ECL') charges reduced by 24% year-on-year.

With regards to mainland China CRE, we continue to reduce our exposure. At year-end 2024, it accounted for around 2% of our total loan book.

We are satisfied that our proactive and decisive risk management approach on our Hong Kong portfolio provides us with a solid foundation which will better position us for future growth.

Investing for the future

Hang Seng has a history of more than 90 years during which time the Bank has been evolving alongside Hong Kong and contributing to the city's success. Going forward, we continue to invest in our capabilities and the community.

We are dedicating investments to upgrade our digital solutions and infrastructure. Our newly renovated Main Branch in Central features Future Banking 2.0 – a market-first 'We Come to You' service model which combines technology and the human touch. This improves servicing to our customers by enabling them to enjoy banking with the support of Smart Teller technology and other digital applications.

Financial inclusion and education through various community initiatives are also key priorities. We have developed programmes that improve financial skills, specifically for the city's youth. We have also been supporting underprivileged families in transitional housing to enhance their awareness and habits on financial management.

Another major undertaking has been the launch of our HK$33 Billion SME Power Up Fund which supports Hong Kong's SMEs. Additionally, our HK$80 Billion Sustainability Power Up Fund provides financial support to local enterprises on their green transition plans.

Outside of Hong Kong, Hang Seng Investment Management Limited collaborated with SAB Invest of Saudi Arabia to launch the SAB Invest Hang Seng ETF on the Saudi Exchange. This provides investors in the Middle East with direct access to Hong Kong's capital market. It also helps enhance Hong Kong's status as an international finance centre and a global super-connector.

Our dividends

Our continued business growth and strong capital position ensure we are well-placed to maintain a steady and healthy dividend policy.

I am pleased to announce that the Directors have declared a fourth interim dividend of HK$3.20 per share. This brings the total distribution for 2024 to HK$6.80 per share, an improvement of 4.6% year-on-year.

Financial overview

The Bank's 2024 financial performance reflects the positive outcome of the efforts made to diversify the revenue stream, mainly on non-interest income. As a result, non-interest income grew by 26% to HK$10,753m and the proportion of non-interest income to net operating income improved from 21% in 2023 to 26% in 2024.

Net fee income increased by 8% to HK$5,316m, aided by our continued strong performance in generating investment services income, mainly contributed by the growth in retail investment funds and securities broking and related services.

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 recorded a gain of HK$1,044m. This is in contrast to a loss of HK$148m in 2023, and mainly reflects the higher revenue from derivatives products coupled with enhanced net interest income from trading positions and higher foreign exchange revenue generated from increased client activities.

Life insurance-related income also increased by 17% to HK$3,119m, with higher revenue generated from insurance services.

On the other hand, net interest income decreased by 5% to HK$30,784m driven mainly by subdued loan demand on the back of the high interest rate environment, and the declining rates in 2H 2024.

Compared to 31 December 2023, gross loan balances decreased by 5% whilst customer deposits rose by 7%, primarily due to the growth in our customer base mainly from new-to-bank affluent customers and mainland customers.

Net interest margin dropped 10-basis-points to 2.20% on the back of weaker loan demand where surplus liquidity has mainly been deployed into high-quality financial assets. Our liquidity coverage ratio was 301.0% as at 31 December 2024.

Net operating income before change in ECL and other credit impairment charges grew by 2% to HK$41,537m.

ECL and other credit impairment charges decreased by 24% to HK$4,773m due to the reduction in ECL charges for wholesale Stage 3 customers. As of 31 December 2024, gross impaired loans and advances as a percentage of gross loans and advances to customers was 6.12%, compared to 5.32% on 30 June 2024 and 2.83% on 31 December 2023.

Profit before tax increased by 5% year-on-year to HK$21,014m. Attributable profit also rose by 3% to HK$18,379m. Earnings per share grew by 4% to HK$9.33 per share. Return on average ordinary shareholders' equity remained stable at 11.3% for both years. Return on average total assets was 1.1%, up from 1.0% in 2023.

As of 31 December 2024, our common equity tier 1 ('CET1') capital ratio was 17.7%, tier 1 ('T1') capital ratio was 19.4%, and total capital ratio was 20.8%.

In 2024, we continued to invest in our people and technology to deliver greater operational efficiencies and enhanced customer experiences. We also made good progress in diversifying our revenue sources and building a strong capital base, which has helped support a good dividend payout. Looking ahead, we will continue, as always, to manage our costs and risks in a robust manner so as to build a solid foundation that can deliver healthy and sustainable returns to our shareholders.

Diana Cesar
Executive Director and Chief Executive
19 February 2025

Business Review

The past year was challenging due to various macroeconomic and geopolitical factors, but we were able to deliver solid business results with strong customer growth. This was made possible by our steadfast focus on diversifying our businesses, while effectively capitalising on our cross-boundary links as well as other market opportunities.

As we look to the future, our goal will be to further expand our presence across Hong Kong and the Mainland, and other regions around the world. We are confident of achieving these goals and building a sustainable, future-proof business by continuing to invest in our people and the latest digital capabilities. In doing so, we will also aid the growth of our home city and deliver long-term value to our stakeholders.

Wealth and Personal Banking

Wealth and Personal Banking ('WPB') recorded a 3% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$24,264m. This was driven by growth in non-interest income, which was up by 15% year-on-year. Operating profit increased by 3% to HK$14,604m and profit before tax increased by 2% year-on-year at HK$14,643m. Through enhancing product capability and services, and aided by stronger market sentiment during the year, our wealth management business showed a 20% growth in income year-on-year and 38% growth in 2H 2024 as compared with 2H 2023. Our deposit balance increased by 9% compared to last year. As part of our portfolio diversification, non-Hong Kong dollar deposits grew by 17% year-on-year backed by a 21% increase in customers with FX transactions.

Customer growth remains one of our key strategic priorities; we achieved a 15% year-on-year increase in our affluent client segments with new-to-bank customers up 75% year-on-year. Hang Seng's dedication to exceptional customer service was recognised at the Hong Kong Customer Contact Association Awards 2024 and our Contact Centre was honoured with the prestigious Grand Award of the Year. Hang Seng was also recognised as the 'Domestic Retail Bank of the Year' at the Asian Banking & Finance ('ABF') Retail Banking Awards and as the 'Retail Bank of the Year' at the Bloomberg Businessweek Financial Institution Awards. We continued to invest in growing our affluent client segments by meeting their personal and family wealth management needs, and our Prestige Family + account opening increased by 41% year-on-year. New compelling features were introduced this year, including the brand-new Global Money + service enabling express fee-free international transfer to over 50 countries in their local currencies and the Prestige Multi-currency Debit Card allowing transactions in 12 major currencies when travelling abroad. Continual growth in the affluent customer base contributed to an 11% increase in our wealth management income in 2H 2024 compared with 1H 2024.

To meet the growing demand for wealth management services in the Greater Bay Area ('GBA'), we now have nine cross-boundary Wealth Management Centres in key GBA cities. Hang Seng was also recognised as the 'Best Domestic Bank for the Greater Bay Area' at the Euromoney Greater Bay Area Awards 2024. Following the launch of the express account opening journey this year for Mainlanders, new account openings by Mainlanders increased by 81% year-on-year.

Strong growth in the wealth management business was observed especially in investment services with income growing 24% year-on-year. The growth was fuelled by enhanced digital capabilities such as the launch of Capital Protected Investment Deposits and Structured Notes journeys on mobile, and new financial planning tools with Wealth Master for portfolio analysis and goal-based wealth planning journeys. These initiatives contributed to a 324% year-on-year increase in investment account openings and significant growth of our mobile-active customer base by 12% year-on-year.

Our insurance business achieved 23% year-on-year growth in Contractual Service Margin ('CSM') balance (excluding reinsurance contracts held), reaching HK$26bn, mainly driven by strong new business growth. In Q3 2024, Hang Seng achieved a 80% year-on-year growth in Life Insurance New Business Premium and was ranked in 2nd position as a life insurer. To provide customers with enhanced medical insurance products, Hang Seng and HSBC Life (International) Limited entered into an exclusive 15-year distribution agreement starting 1 November 2024.

Hang Seng Investment Management Limited ('HSVM'), with its strong asset management capabilities, successfully launched our first two co-branded fixed income ETFs in partnership with CMS Asset Management (HK), while leveraging CMS's extensive client base in mainland China to capture business opportunities under Wealth Management Connect ('WMC'). Our investment coverage has been further expanded to the US and Japan markets through the introduction of two additional ETFs tracking the S&P500 and TOPIX 100 indexes. To further extend HSVM's footprint beyond Hong Kong and mainland China, HSVM has collaborated with SAB Invest, a subsidiary of the Saudi Awwal Bank in Saudi Arabia, for listing an ETF that fully invests in the Tracker Fund of Hong Kong ('TraHK') on the Tadawul Exchange. The strategic move demonstrated HSVM's dedication to driving the growth of Hong Kong's financial market and strengthening the city's position as a global financial hub. As the largest ETF manager in Hong Kong, the overall assets under management ('AUM') of HSVM and TraHK both reached record highs during the second half of 2024. By the end of 2024, they increased by 4.5% and 7.6% year-on-year respectively.

The public's concerns for safety and fraud prevention remains at the core of our design ethos. Our mobile app has been strengthened with security measures as per HKMA guidelines. The Bank also actively supports HKMA's innovative initiatives, such as participating in the HKMA Interbank Account Data Sharing ('IADS') and has been selected to participate in HKMA's Generative Artificial Intelligence Sandbox initiative with a dedicated use case on fraud management.

Commercial Banking

Commercial Banking ('CMB') recorded a decline of 4% on net operating income before change in ECL and other credit impairment charges to HK$10,226m. Both operating profit and profit before tax increased by 10% to HK$2,691m.

Under the persistently high interest rate environment, customers tended to accelerate loan repayments and had less appetite for loan drawdowns, leading to a year-on-year decrease of 6% on interest income. On the other hand, we diversified our non-interest income stream, which contributed to a growth of 9% compared against last year. Our continuous support for our customers in their daily operations through convenient, safe, and tailor-made payment solutions led to a 6% year-on-year growth in related income and a 6% uplift in our customer deposit balances against last year-end. We captured the market window to grow our wealth management business, where sales of investment funds and structured products increased by 47%.

To further extend beyond Hong Kong and mainland China, HSVM has collaborated with SAB Invest in Saudi Arabia for listing an ETF that fully invests in the Tracker Fund of Hong Kong on the Tadawul Exchange.

We launched the **HK$80 Billion Sustainability Power Up Fund**, which offers diversified green and sustainable financing solutions to businesses across sectors.

We continue to deliver tailored solutions and accessible resources that address the unique challenges of local small and medium-sized enterprises ('SMEs'). We launched the HK$33 Billion SME Power Up Fund. This proactive move corresponds with the Hong Kong SAR Government's supportive measures for SMEs, empowering our customers with various financing solutions and enabling their business growth in Hong Kong as well as the GBA.

Moreover, to capture business opportunities stemming from growing demand across the GBA and better support our customers, the cross-boundary connectivity between CMB Hong Kong and mainland China subsidiary was strengthened in 2024, contributing 9% of the total loan drawdown in Hong Kong.

We have embraced fintech to provide innovative banking services and simplify the loan application process. Our customers can now enjoy a fully digitalised loan application process with an approval-in-principle result received in as fast as 10 seconds, and execute loan documents via digital ID verification and e-Sign function with Time to Cash as fast as five working days. We are also one of the first batch of participating banks in HKMA's IADS initiative, which enables faster interbank account data retrieval upon customer consent and further streamlines the loan assessment process.

We launched the HK$80 Billion Sustainability Power Up Fund, which offers diversified green and sustainable financing solutions to businesses across sectors. The SME Green Equipment Financing Assessment Platform launched in partnership with the Hong Kong Quality Assurance Agency ('HKQAA') further provides faster and more affordable Green Equipment Financing assessment services exclusively for Hang Seng's commercial customers.

Our Business e-Banking service continued to be enhanced beyond daily transaction banking management capabilities. Customers can now enjoy improved digital engagement experiences by knowing more about their 'best-fit' banking solutions and exclusive offers from the Bank, leading to a year-on-year growth in active mobile and internet banking users by 24% and 6%, respectively.

We have been recognised as 'Commercial Bank of 2024 – Excellence' and 'Commercial Bank in GBA – Excellence' and for 'SME Engagement – Outstanding' at the Bloomberg Businessweek Financial Institution Awards 2024. We were also awarded 'Hong Kong Domestic Trade Finance Bank of the Year' and 'Hong Kong Domestic Digital Payment Initiative of the Year' at the ABF Wholesale Banking Awards 2024. The Hong Kong Institute of Marketing also commended us as the 'Hong Kong Power Brand in Commercial Banking' at its Power Brand Awards 2024.

Global Banking

Global Banking ('GB') reported a 0.5% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$2,991m. Change in ECL decreased by 66% or HK$513m compared against 2023 with the de-risking of mainland China CRE exposure. Profit before tax increased by 33% to HK$1,873m.

We have diversified our revenue stream through timely and increased sales activities to capture business opportunities, resulting in 9% growth in non-interest income. Impacted by softened loan demand in the market, our customer loans and advances declined by 6% as compared to last year. However, we remain dedicated to serving our customers with tailored financing solutions. Our bond assets under management increased by 62%.

By leveraging our strong cross-boundary connections, we have delivered integrated banking, wealth management, and advisory services tailored to the specific needs of large corporations in both Hong Kong and mainland China. Our dedication to improving operational efficiencies for clients across various sectors has been further highlighted by our innovative digital cash management solutions, designed to meet their unique requirements.

In line with our dedication to sustainability, we have adopted a client-focused approach by offering comprehensive sustainable finance solutions to help our clients transition to low-carbon operations.

Global Markets

Global Markets ('GM') net operating income before change in ECL increased by 33% to HK$3,214m. Operating profit and profit before tax both grew by 48% to HK$2,475m.

Net interest income recorded year-on-year growth of 55% due to the reinvestment for higher yield. The Markets Treasury team explored market opportunities, and actively managed and diversified its portfolio while upholding prudent risk management standards.

Non-interest income remained stable while Foreign Exchange and Option Trading achieved solid revenue growth of 69% year-on-year. Besides successfully managing market volatility and capturing opportunities, we enhanced customer experience by extending trading hours of Capital Protected Investment and elevated the transaction volume by 46% year-on-year. We deepened GM product penetration among Bank customers through close collaboration with the WPB, CMB, and GB teams. Particularly, we promoted foreign exchange business through collaboration with other business units and achieved 18% growth in our Bank-wide Sales foreign exchange revenue. We also continued to expand our client segment for Repo Trading, with the number of active clients increasing 30% year-on-year, and achieved 6% growth in revenue.

Awards and Recognition 2024

No. 1 in Hong Kong for Gender Equality
EQUILEAP

Retail Bank of 2024 (Outstanding)
Commercial Bank of 2024
Commercial Bank in GBA
BLOOMBERG BUSINESSWEEK

Domestic Retail Bank of the Year (Hong Kong)
ASIAN BANKING & FINANCE

Best Domestic Bank for the Greater Bay Area
EUROMONEY

Best in Treasury and Working Capital – SMEs
Best Liquidity and Investments Solution
Best Payments and Collections Solution
Best Cash Management Solution
ESG Corporate Awards Gold Award
Best Initiative in Environmental Responsibility
THE ASSET

Best Payments Bank in Hong Kong
Best FX Bank in Hong Kong
THE ASIAN BANKER

Best China Index Provider
ASIA ASSET MANAGEMENT

Index Provider of the Year – Regional
INSIGHTS & MANDATE (I&M)

Best ETF Index Provider – China
INSURANCEASIA NEWS

Best SME's Partner Award
THE HONG KONG GENERAL CHAMBER OF SMALL AND MEDIUM BUSINESS

Best Corporate Governance and ESG Awards 2024
HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

2024 Gamma Award for Annual Cross-border Financial Service Bank
SECURITIES TIMES

Best Featured Trade Finance Bank
TRADE FINANCE

2024 TOP Mobile Banking APP
CAILIAN PRESS

Investor and Financial Education Award 2024 (Corporate) Silver Award
INVESTOR AND FINANCIAL EDUCATION COUNCIL

IFPHK Financial Education and ESG Leadership Award 2024 Gold Award
INSTITUTE OF FINANCIAL PLANNERS OF HONG KONG

20 Year Plus Caring Company
THE HONG KONG COUNCIL OF SOCIAL SERVICE

Distinction Award (Large Organisation Category) of the Hong Kong Sustainability Award
THE HONG KONG MANAGEMENT ASSOCIATION

Financial Review

(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

Financial Performance

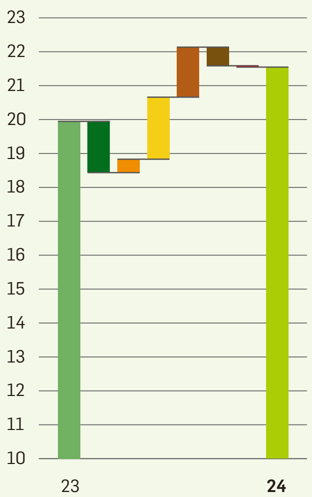
Income Analysis

Summary of financial performance

	2024	2023
Net operating income before change in expected credit losses and other credit impairment charges	41,537	40,822
Operating expenses	15,193	14,624
Operating profit	21,558	19,946
Profit before tax	21,014	20,105
Profit attributable to shareholders	18,379	17,848
Earnings per share (in HK$)	9.33	8.97

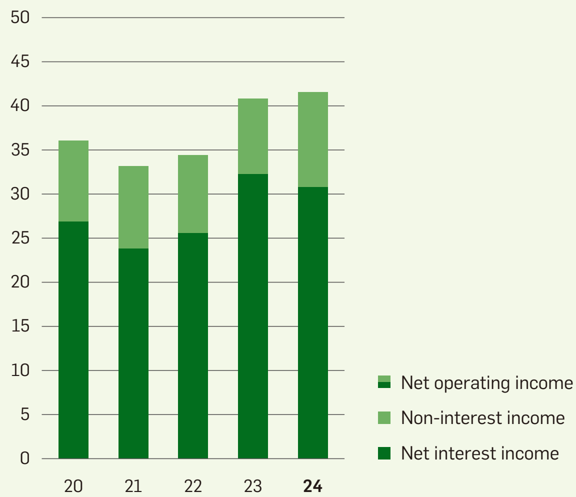
The Group has recorded a healthy improvement in financial performance, with a substantial increase in non-interest income underscoring our dedication to broadening our revenue sources as net interest income came under growing pressure amid declining interest rates in the second half of 2024. Recent developments in credit conditions have also resulted in an increase in impaired loans and associated credit loss charges during the latter half of 2024. In light of these challenges, the Group remains vigilant and is closely monitoring the prevailing interest rate outlook and continues to seek out opportunities as the economy continues to expand at a moderate pace.

Operating Profit Analysis



	HK$m
2023 Operating profit	19,946
Changes due to:	
Net interest income	(1,511)
Net fee income	396
Other operating income	1,830
Change in expected credit losses	1,475
Operating expenses	(569)
Impairment loss on intangible assets	(9)
2024 Operating profit	**21,558**

Net Operating Income
(Before change in expected credit losses and other credit impairment charges)



Financial results of 2024, 2023 and 2022 are prepared on HKFRS 17 basis and that of 2020 and 2021 are prepared on HKFRS 4 basis and are not comparable.

Net operating income before change in expected credit losses and other credit impairment charges was HK$41,537m, up 2%. Non-interest income increased by 26%. This rise was partly offset by the 5% decrease in net interest income. **Operating profit** increased by 8% to HK$21,558m. **Profit before tax** increased by 5% to HK$21,014m and **profit attributable to shareholders** was up by 3% at HK$18,379m.

Net interest income decreased by HK$1,511m, or 5%, to HK$30,784m. Average interest-earning assets declined by HK$9bn, or 1%, to HK$1,397bn due to subdued new loan demand at elevated interest rates throughout the year since 2023, partly offset by higher average balances in financial investments and interbank placements due to the redeployment of the commercial surplus. Net interest margin was down by 10 basis points to 2.20% attributable mainly to the narrowing of loan spreads on the back of weaker loan demand. Net interest spread reduced by 11 basis points to 1.78% while contribution from net-free funds increased by 1 basis point to 0.42%.

	2024	2023
Interest income arising from:		
– financial assets measured at amortised cost	47,539	48,879
– financial assets measured at fair value through other comprehensive income	13,738	10,560
	61,277	59,439
Interest expense arising from financial liabilities measured at amortised cost	(30,493)	(27,144)
Net interest income	30,784	32,295
Average interest-earning assets	1,396,927	1,406,183
Net interest spread	1.78%	1.89%
Net interest margin	2.20%	2.30%

Net fee income increased by HK$396m, or 8%, to HK$5,316m, mainly contributed by a 39% increase in retail investment funds reflecting the strong fund sales as a result of the launch of new capabilities to drive rigorous need-based wealth solutions. Income from securities broking-related services increased by 19%, reflecting the higher stock turnover in 2024.

Net income/(loss) from financial instruments measured at fair value through profit or loss decreased by HK$3,649m, or 32%, to HK$7,681m. 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 recorded a gain of HK$1,044m compared to a loss of HK$148m in 2023, mainly reflecting the higher revenue from derivatives products coupled with enhanced net interest income from trading positions and higher foreign exchange revenue generated from increased client activities.

Net income from assets and liabilities of the insurance business, including related derivatives, measured at fair value through profit or loss decreased by HK$4,841m to HK$6,637m; mainly reflecting fair value losses on debt securities as compared to gains in 2023 due to the opposite interest rate movement; the unfavourable impact was partially countered by the increased fair value gains on equity securities which back insurance contracts. More than 90% of the insurance businesses are accounted under the variable fee approach; as such, these fair value changes will be absorbed in the insurance contract liabilities through the line of insurance finance expense. **Insurance service results** showed an increase of HK$222m, or 11%, to HK$2,271m. This increase mainly reflected the higher release of Contractual Services Margin ('CSM') due to growth of CSM balance propelled by new business growth and favourable economic variances.

Wealth management business income (mainly investment and insurance-related income) increased by HK$1,241m, or 22%, to HK$6,934m. The increase predominantly came from investment services income, contributed by the growth in retail investment funds, securities broking and related services, and structured investment products income, as a result of the Bank's proactive approach towards pursuing cross-boundary business opportunities.

	2024	2023
Investment services income[1]:		
– retail investment funds	1,330	950
– structured investment products[2]	673	524
– securities broking and related services[3]	1,507	1,258
– margin trading and others	58	62
	3,568	2,794
Life insurance:		
– net interest income	217	95
– non-interest income/(expense)	365	304
– 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)	5,825	11,016
– insurance finance income/(expenses)	(5,559)	(10,805)
– insurance service results	2,271	2,049
• insurance revenue	3,377	2,913
• insurance service expense	(1,106)	(864)
	3,119	2,659
General insurance and others	247	240
	6,934	5,693

1 Income from retail investment funds and securities broking and related services are net of fee expenses.

2 It includes profits generated from the selling of structured investment products in issue, which are reported under net income/(loss) from financial instruments measured at fair value through profit or loss.

3 It includes income generated from the sales of third-party structured investment products, which is reported under net fee income.

Change in expected credit losses and other credit impairment charges decreased by HK$1,475m, or 24%, to HK$4,773m compared with 2023 mainly due to the reduction in ECL charges for wholesale Stage 3 customers by HK$1,625m.

	2024	2023
Loans and advances to banks and customers	**4,825**	6,304
– new allowances net of allowance releases	**4,921**	6,420
– recoveries of amounts previously written off	**(179)**	(229)
– other movements	**83**	113
Loan commitments and guarantees	**(26)**	(65)
Other financial assets	**(26)**	9
	4,773	6,248

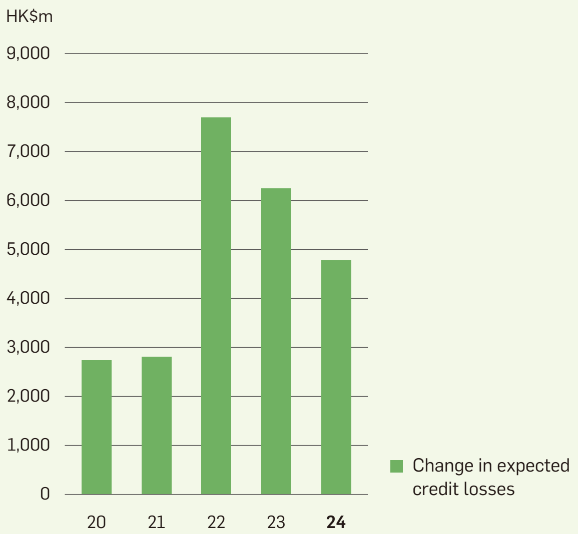
Change in ECL for Stage 1 and Stage 2 unimpaired credit exposures reduced by HK$230m, reflecting the favourable change in the economic outlook in the retail portfolio.

Change in ECL for Stage 3 and purchased or originated credit-impaired exposures ('impaired credit exposures') decreased by HK$1,245m to HK$6,074m compared with 2023, predominantly related to the reduction in ECL charges for mainland China CRE exposures.

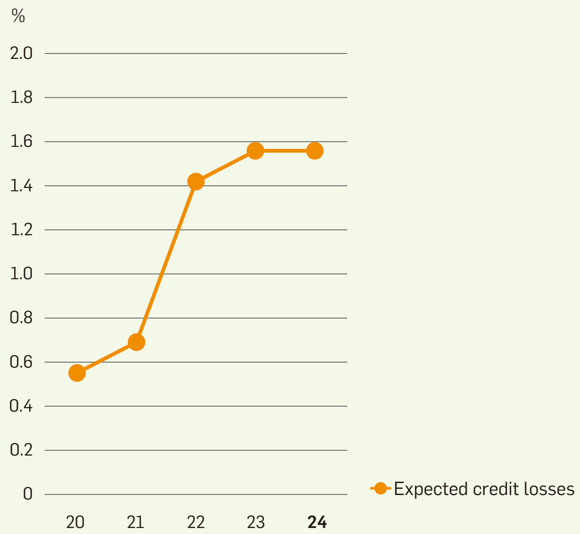
Total change in ECL for Wealth and Personal Banking decreased by HK$228m to HK$577m. Commercial Banking, Global Banking and Global Markets recorded reduced total change in ECL by HK$1,247m to HK$4,196m.

Gross impaired loans and advances increased from HK$24.7bn as at 31 December 2023 to HK$51bn as at 31 December 2024. This change mainly reflects downgrades net of write-offs in certain impaired corporate loans. Gross impaired loans and advances as a percentage of gross loans and advances to customers were 6.12% as of 31 December 2024, compared to 5.32% on 30 June 2024 and 2.83% at 31 December 2023.

Change in expected credit losses and other credit impairment charges



Expected credit losses as a percentage of gross loans and advances to customers



Financial results of 2024, 2023 and 2022 are prepared on HKFRS 17 basis and that of 2020 and 2021 are prepared on HKFRS 4 basis and are not comparable.

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 2024	At 31 December 2023
Expected credit losses as a percentage of gross loans and advances to customers	1.56%	1.56%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	6.12%	2.83%

Operating expenses increased by HK$569m, or 4%, to HK$15,193m, primarily due to the higher amortisation of intangible assets, staff costs and IT-related costs, reflecting our continuing investment in people and technology to deliver operational efficiencies and enhanced customer experiences.

Amortisation of intangible assets increased by 25%, related mainly to the development costs of capitalised IT systems to support business growth. IT-related costs also increased by 7% as we continued to enhance our digital capabilities. Staff costs increased by 2%, primarily due to higher wages and salaries, performance-related pay and increased staff insurance premium to improve employee benefits.

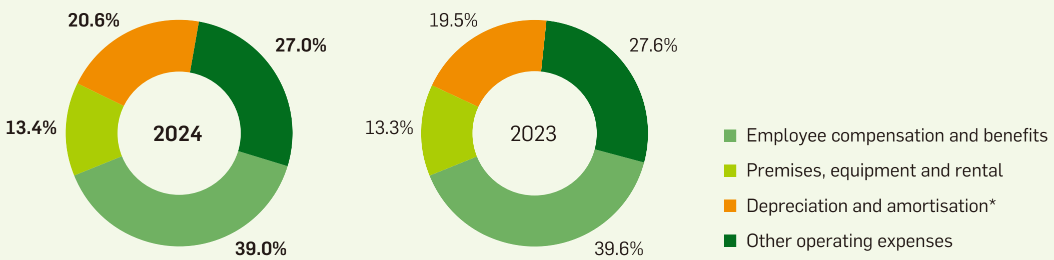
Full-time equivalent staff numbers by region	At 31 December 2024	At 31 December 2023
Hong Kong and others	6,982	6,997
Mainland China	1,346	1,497
	8,328	8,494

The cost efficiency ratio slightly increased by 0.8 percentage points to 36.6%.

	2024	2023
Cost efficiency ratio	36.6%	35.8%

Reflecting the uncertain property market, **property revaluation** decreased by HK$549m, resulting in net deficit of HK$583m. Share of profits of associates decreased by HK$154m to HK$39m, mainly reflecting the reduction of revaluation of a property investment company.

Operating Expenses



* Included depreciation of right-of-use assets of HK$504m in 2024 (2023: HK$470m).

2H 2024 compared with 1H 2024

Net operating income before change in expected credit losses and other credit impairment charges grew by HK$675m, or 3%, to HK$21,106m. This growth was driven by a 17% increase in non-interest income, partly offset by a 1% drop in net interest income. Operating profit decreased by HK$1,234m, or 11%. Profit attributable to shareholders decreased by HK$1,407m, or 14%, when compared with 1H 2024.

Net interest income decreased by HK$182m, or 1%. Net interest margin was down by 16 basis points to 2.13%. Net interest spread dropped by 11 basis points to 1.72% and contribution from free fund decreased by 5 basis points to 0.41% as a result of declining market interest rates in 2H 2024.

Non-interest income was up HK$857m, or 17%, primarily reflecting higher foreign exchange income, dividend income, and increased levels of customer activity across the Group's fee-generating businesses. This included notably higher income from retail investment funds and securities broking-related services.

Operating expenses increased by HK$147m, or 2%, driven mainly by higher general and administrative expenses, partly offset by the 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.

Total change in ECL increased by HK$1,773m to HK$3,273m, due to higher charges for impaired credit exposures, which recorded net charges for both periods – HK$3,718m for 2H 2024 and HK$2,356m for 1H 2024 – mainly reflecting the ratings downgrade of certain corporate customers. Additionally, there were lower net releases of HK$445m for Stage 1 and 2 ECL for unimpaired credit exposures in 2H 2024, compared with the net release of HK$856m in 1H 2024.

Segmental Analysis

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

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other	Total
Year ended 31 December 2024						
Profit/(loss) before tax	**14,643**	**2,691**	**1,873**	**2,475**	**(668)**	**21,014**
Share of profit/(loss) before tax	**69.7%**	**12.8%**	**8.9%**	**11.8%**	**(3.2%)**	**100.0%**
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%

Wealth and Personal Banking ('WPB') recorded a 3% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$24,264m. This was driven by growth in non-interest income, which was up by 15% year-on-year. Operating profit increased by 3% to HK$14,604m and profit before tax increased by 2% year-on-year at HK$14,643m. Through enhancing product capability and services, and aided by stronger market sentiment during the year, our wealth management business showed a 20% growth in income year-on-year and 38% growth in 2H 2024 as compared with 2H 2023. Our deposit balance increased by 9% compared to last year. As part of our portfolio diversification, non-Hong Kong dollar deposits grew by 17% year-on-year backed by a 21% increase in customers with FX transactions.

Customer growth remains one of our key strategic priorities; we achieved a 15% year-on-year increase in our affluent client segments with new-to-bank customers up 75% year-on-year. Hang Seng's dedication to exceptional customer service was recognised at the Hong Kong Customer Contact Association Awards 2024 and our Contact Centre was honoured with the prestigious Grand Award of the Year. Hang Seng was also recognised as the 'Domestic Retail Bank of the Year' at the Asian Banking & Finance ('ABF') Retail Banking Awards and as the 'Retail Bank of the Year' at the Bloomberg Businessweek Financial Institution Awards. We continued to invest in growing our affluent client segments by meeting their personal and family wealth management needs, and our Prestige Family + account opening increased by 41% year-on-year. New compelling features were introduced this year, including the brand-new Global Money + service enabling express fee-free international transfer to over 50 countries in their local currencies and the Prestige Multi-currency Debit Card allowing transactions in 12 major currencies when travelling abroad. Continual growth in the affluent customer base contributed to an 11% increase in our wealth management income in 2H 2024 compared with 1H 2024.

To meet the growing demand for wealth management services in the Greater Bay Area ('GBA'), we now have nine cross-boundary Wealth Management Centres in key GBA cities. Hang Seng was also recognised as the 'Best Domestic Bank for the Greater Bay Area' at the Euromoney Greater Bay Area Awards 2024. Following the launch of the express account opening journey this year for Mainlanders, new account openings by Mainlanders increased by 81% year-on-year.

Strong growth in the wealth management business was observed especially in investment services with income growing 24% year-on-year. The growth was fuelled by enhanced digital capabilities such as the launch of Capital Protected Investment Deposits and Structured Notes journeys on mobile, and new financial planning tools with Wealth Master for portfolio analysis and goal-based wealth planning journeys. These initiatives contributed to a 324% year-on-year increase in investment account openings and significant growth of our mobile-active customer base by 12% year-on-year.

Our insurance business achieved 23% year-on-year growth in Contractual Service Margin ('CSM') balance (excluding reinsurance contracts held), reaching HK$26bn, mainly driven by strong new business growth. In Q3 2024, Hang Seng achieved a 80% year-on-year growth in Life Insurance New Business Premium and was ranked in 2nd position as a life insurer. To provide customers with enhanced medical insurance products, Hang Seng and HSBC Life (International) Limited entered into an exclusive 15-year distribution agreement starting 1 November 2024.

Hang Seng Investment Management Limited ('HSVM'), with its strong asset management capabilities, successfully launched our first two co-branded fixed income ETFs in partnership with CMS Asset Management (HK), while leveraging CMS's extensive client base in mainland China to capture business opportunities under Wealth Management Connect ('WMC'). Our investment coverage has been further expanded to the US and Japan markets through the introduction of two additional ETFs tracking the S&P500 and TOPIX 100 indexes. To further extend HSVM's footprint beyond Hong Kong and mainland China, HSVM has collaborated with SAB Invest, a subsidiary of the Saudi Awwal Bank in Saudi Arabia, for listing an ETF that fully invests in the Tracker Fund of Hong Kong ('TraHK') on the Tadawul Exchange. The strategic move demonstrated HSVM's dedication to driving the growth of Hong Kong's financial market and strengthening the city's position as a global financial hub. As the largest ETF manager in Hong Kong, the overall assets under management ('AUM') of HSVM and TraHK both reached record highs during the second half of 2024. By the end of 2024, they increased by 4.5% and 7.6% year-on-year respectively.

The public's concerns for safety and fraud prevention remains at the core of our design ethos. Our mobile app has been strengthened with security measures as per HKMA guidelines. The Bank also actively supports HKMA's innovative initiatives, such as participating in the HKMA Interbank Account Data Sharing ('IADS') and has been selected to participate in HKMA's Generative Artificial Intelligence Sandbox initiative with a dedicated use case on fraud management.

Commercial Banking ('CMB') recorded a decline of 4% on net operating income before change in ECL and other credit impairment charges to HK$10,226m. Both operating profit and profit before tax increased by 10% to HK$2,691m.

Under the persistently high interest rate environment, customers tended to accelerate loan repayments and had less appetite for loan drawdowns, leading to a year-on-year decrease of 6% on interest income. On the other hand, we diversified our non-interest income stream, which contributed to a growth of 9% compared against last year. Our continuous support for our customers in their daily operations through convenient, safe, and tailor-made payment solutions led to a 6% year-on-year growth in related income and a 6% uplift in our customer deposit balances against last year-end. We captured the market window to grow our wealth management business, where sales of investment funds and structured products increased by 47%.

We continue to deliver tailored solutions and accessible resources that address the unique challenges of local small and medium-sized enterprises ('SMEs'). We launched the HK$33 Billion SME Power Up Fund. This proactive move corresponds with the Hong Kong SAR Government's supportive measures for SMEs, empowering our customers with various financing solutions and enabling their business growth in Hong Kong as well the GBA.

Moreover, to capture business opportunities stemming from growing demand across the GBA and better support our customers, the cross-boundary connectivity between CMB Hong Kong and mainland China subsidiary was strengthened in 2024, contributing 9% of the total loan drawdown in Hong Kong.

We have embraced fintech to provide innovative banking services and simplify the loan application process. Our customers can now enjoy a fully digitalised loan application process with an approval-in-principle result received in as fast as 10 seconds, and execute loan documents via digital ID verification and e-Sign function with Time to Cash as fast as five working days. We are also one of the first batch of participating banks in HKMA's IADS initiative, which enables faster interbank account data retrieval upon customer consent and further streamlines the loan assessment process.

We launched the HK$80 Billion Sustainability Power Up Fund, which offers diversified green and sustainable financing solutions to businesses across sectors. The SME Green Equipment Financing Assessment Platform launched in partnership with the Hong Kong Quality Assurance Agency ('HKQAA') further provides faster and more affordable Green Equipment Financing assessment services exclusively for Hang Seng's commercial customers.

Our Business e-Banking service continued to be enhanced beyond daily transaction banking management capabilities. Customers can now enjoy improved digital engagement experiences by knowing more about their 'best-fit' banking solutions and exclusive offers from the Bank, leading to a year-on-year growth in active mobile and internet banking users by 24% and 6%, respectively.

We have been recognised as 'Commercial Bank of 2024 – Excellence' and 'Commercial Bank in GBA – Excellence' and for 'SME Engagement – Outstanding' at the Bloomberg Businessweek Financial Institution Awards 2024. We were also awarded 'Hong Kong Domestic Trade Finance Bank of the Year' and 'Hong Kong Domestic Digital Payment Initiative of the Year' at the ABF Wholesale Banking Awards 2024. The Hong Kong Institute of Marketing also commended us as the 'Hong Kong Power Brand in Commercial Banking' at its Power Brand Awards 2024.

Global Banking ('GB') reported a 0.5% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$2,991m. Change in ECL decreased by 66% or HK$513m compared against 2023 with the de-risking of mainland China CRE exposure. Profit before tax increased by 33% to HK$1,873m.

We have diversified our revenue stream through timely and increased sales activities to capture business opportunities, resulting in 9% growth in non-interest income. Impacted by softened loan demand in the market, our customer loans and advances declined by 6% as compared to last year. However, we remain dedicated to serving our customers with tailored financing solutions. Our bond assets under management increased by 62%.

By leveraging our strong cross-boundary connections, we have delivered integrated banking, wealth management, and advisory services tailored to the specific needs of large corporations in both Hong Kong and mainland China. Our dedication to improving operational efficiencies for clients across various sectors has been further highlighted by our innovative digital cash management solutions, designed to meet their unique requirements.

In line with our dedication to sustainability, we have adopted a client-focused approach by offering comprehensive sustainable finance solutions to help our clients transition to low-carbon operations.

Global Markets ('GM') net operating income before change in ECL increased by 33% to HK$3,214m. Operating profit and profit before tax both grew by 48% to HK$2,475m.

Net interest income recorded year-on-year growth of 55% due to the reinvestment for higher yield. The Markets Treasury team explored market opportunities, and actively managed and diversified its portfolio while upholding prudent risk management standards.

Non-interest income remained stable while Foreign Exchange and Option Trading achieved solid revenue growth of 69% year-on-year. Besides successfully managing market volatility and capturing opportunities, we enhanced customer experience by extending trading hours of Capital Protected Investment and elevated the transaction volume by 46% year-on-year. We deepened GM product penetration among Bank customers through close collaboration with the WPB, CMB, and GB teams. Particularly, we promoted foreign exchange business through collaboration with other business units and achieved 18% growth in our Bank-wide Sales foreign exchange revenue. We also continued to expand our client segment for Repo Trading, with the number of active clients increasing 30% year-on-year, and achieved 6% growth in revenue.

Balance sheet Analysis

Assets

Total assets increased by HK$103bn, or 6%, to HK$1,795bn compared with the 2023 year-end. Financial investments increased by HK$135bn, or 33%, to HK$541bn, reflecting the redeployment of higher commercial surplus.

Customer loans and advances (net of allowances for ECL) decreased by HK$41bn, or 5%, to HK$819bn. The interest rate reductions in the second half of 2024 did not lead to a recovery in loan demand. Dampened credit demand, combined with higher customer repayments, contributed to a decline in loan balances.

Loans for use in Hong Kong decreased by 3% due to the subdued loan demand and higher loan repayments under a still high interest rate environment. Lending to industrial, commercial, and financial sectors decreased by 4%, mainly due to the decline in lending for property development and property investment by 8% and 9%, respectively.

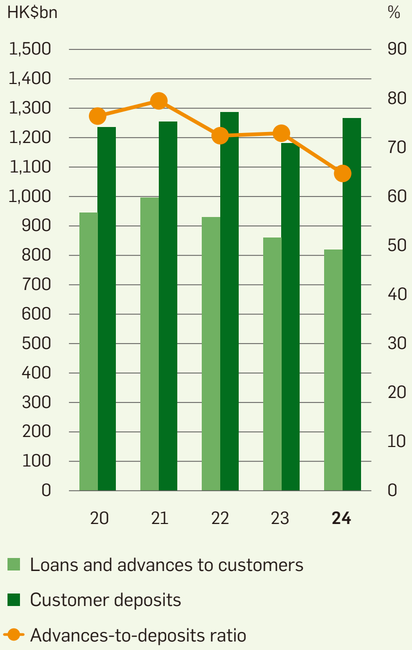
Lending to individuals decreased by 2%. With an uncertain property market, residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending reduced by 3% and 1%, respectively.

Loans for use outside Hong Kong were down by 11%, due mainly to the reduction in mainland China CRE loans.

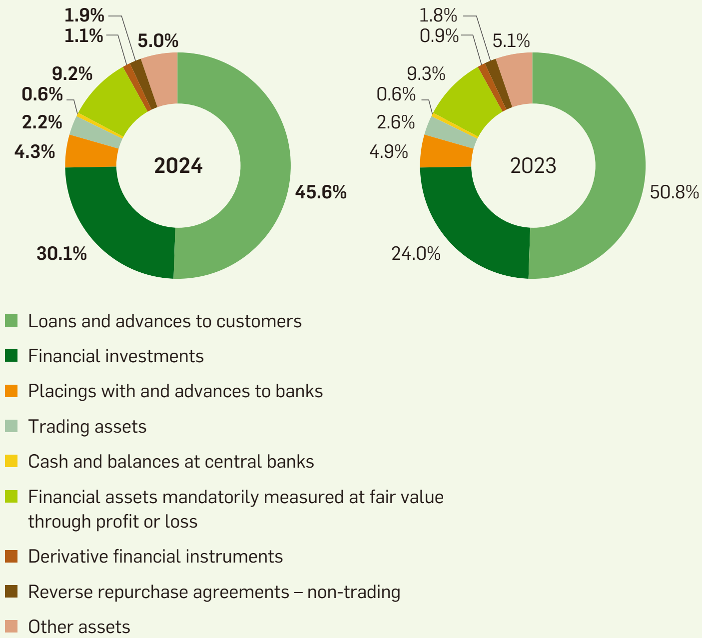
Assets Deployment

	At 31 December 2024	%	At 31 December 2023	%
Cash and balances at central banks	**10,433**	**0.6**	10,564	0.6
Trading assets	**39,640**	**2.2**	44,018	2.6
Derivative financial instruments	**20,201**	**1.1**	14,959	0.9
Financial assets mandatorily measured at fair value through profit or loss	**164,557**	**9.2**	156,872	9.3
Reverse repurchase agreements – non-trading	**33,479**	**1.9**	30,202	1.8
Placings with and advances to banks	**76,221**	**4.3**	83,756	4.9
Loans and advances to customers	**819,136**	**45.6**	860,406	50.8
Financial investments	**541,155**	**30.1**	405,792	24.0
Other assets	**90,374**	**5.0**	85,525	5.1
Total assets	**1,795,196**	**100.0**	1,692,094	100.0
Return on average total assets	**1.1%**		1.0%	

Loans and Advances to Customers and Customer Deposits



Assets Deployment

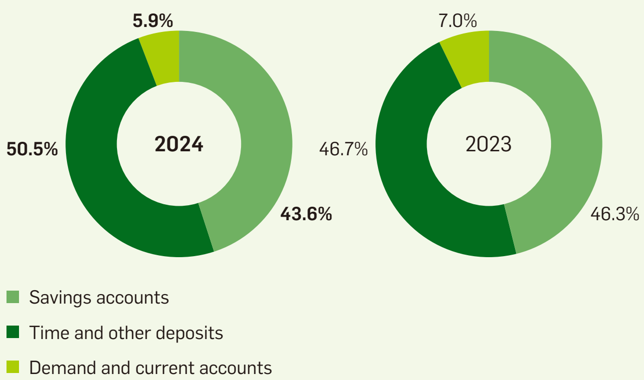


Liabilities and equity

Customer deposits increased by HK$86bn, or 7%, to HK$1,267bn from the end of 2023. Demand, current and savings accounts as a percentage of total customer deposits decreased from 53.3% at 2023 year-end to 49.5% at 31 December 2024, reflecting the growth of our customer base. At 31 December 2024, the advances-to-deposits ratio was 64.7%, compared with 72.9% at 31 December 2023.

	At 31 December 2024	At 31 December 2023
Customer loans and advances (net of allowances for ECL)	**819,136**	860,406
Customer deposits, including structured deposits	**1,267,021**	1,180,611
Advances-to-deposits ratio	**64.7%**	72.9%

Customer Deposits



Shareholders' equity

	At 31 December 2024	At 31 December 2023
Share capital	**9,658**	9,658
Retained profits	**129,390**	126,624
Other equity instruments	**11,587**	11,744
Premises revaluation reserve	**17,273**	18,525
Cash flow hedging reserve	**(150)**	(96)
Financial assets at fair value through other comprehensive income reserve	**2,198**	1,579
Other reserves	**(434)**	97
Total reserves	**159,864**	158,473
Total shareholders' equity	**169,522**	168,131
Return on average ordinary shareholders' equity	**11.3%**	11.3%

At 31 December 2024, shareholders' equity increased by HK$1bn, or 1%, to HK$170bn, driven by an increase in retained profits of HK$3bn, or 2%. This increase occurred despite the HK$3bn Automatic Share Buy-back Programme and the appropriation of dividends paid during the year, indicating the Group's ability to accumulate profits while still returning value to shareholders. The premises revaluation reserve was down HK$1bn, or 7%, reflecting the unfavourable movement in the commercial property market in Hong Kong during the year.

Risk

(Figures expressed in millions of Hong Kong dollars
unless otherwise indicated)

Our approach to risk

(unaudited)

Our risk appetite

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. Our risk appetite is defined as the aggregate level of risk that the Bank is comfortable to take to achieve its strategic objectives. Risk appetite also provides a mechanism for non-executive directors and executive directors to collectively establish the Bank's willingness to engage in certain activities and assess these activities.

Enterprise-wide application

Our risk appetite is expressed in both quantitative and qualitative terms.

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

- alignment with our strategy, purpose, values, external risk environment, reputational and customer needs;
- compliance with applicable laws, regulations and regulatory priorities;
- forward-looking insights into future risk exposure;
- sufficiency of available capital, liquidity and balance sheet leverage to absorb the risks;
- capacity and capabilities of people to manage the risk landscape;
- functionality, capacity and resilience of available systems to manage the risk landscape;
- effectiveness of the applicable control environment to mitigate risk; and
- internally and externally disclosed commitments.

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.

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.

In addition, we recognise the importance of a strong culture, which refers to our shared attitudes, beliefs, 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 ultimate supervisory oversight residing with the Board.

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 safe 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 a positive risk culture. It 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.

Our risk management framework

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

Key components of our risk management framework

<table>
<tr><th colspan="3">Our Values and Risk Culture</th></tr>
<tr><td rowspan="2">Risk governance</td><td>Non-executive risk governance</td><td>The Board approves the risk appetite, plans and performance targets. It sets the ‘tone from the top’ and is advised by the RC.</td></tr>
<tr><td>Executive risk governance</td><td>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.</td></tr>
<tr><td>Roles and responsibilities</td><td>Three lines of defence model</td><td>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.</td></tr>
<tr><td rowspan="3">Processes and tools</td><td>Risk appetite</td><td rowspan="3">The Group has processes in place to identify, assess, monitor, manage and report risks to help ensure we remain within our risk appetite.</td></tr>
<tr><td>Enterprise-wide risk management tools</td></tr>
<tr><td>Active risk management: identification/assessment, monitoring, management and reporting</td></tr>
<tr><td rowspan="3">Internal controls</td><td>Policies and procedures</td><td>Policies and procedures define the minimum requirements for the controls required to manage our risks.</td></tr>
<tr><td>Control activities</td><td>Non-financial risk stewards define the minimum control standards for managing non-financial risks.</td></tr>
<tr><td>Systems and infrastructure</td><td>The Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.</td></tr>
</table>

Risk governance

The Board has ultimate supervisory responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the RC. Through review and independent challenge of reports presented by management at RC meetings, the RC oversees the effectiveness of monitoring, assessment and management of the risk environment as well as the risk management framework.

The Chief Risk and Compliance Officer, supported by members of 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.

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 challenges the first line of defence on effective risk management, and provides advice and guidance of the first line of defence to ensure it is managing risk effectively.
- The third line of defence is our Internal Audit function, which provides independent assurance that our risk management approach and 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. It provides 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 risks, as set out in our risk management framework. Our ongoing focus is on helping to ensure more effective oversight and better end-to-end identification and management of financial and non-financial risks.

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 aggregate risks that the Group is comfortable taking to achieve its strategic objectives. RA also defines the risks that are not tolerated in order to operate effectively. 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 taking action to ensure strategic growth within desired risk and remediate unacceptable risk, while monitoring exposure 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. Our suite of top and emerging risks is subject to regular review by senior governance forums and are updated as necessary. We continue to monitor closely the identified risks and ensure management actions are in place, as required.

Stress testing and recovery planning

The Group operates a wide-ranging stress testing programme that is a key part of our risk management, and 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.

Recovery and resolution plans

Recovery and resolution plans form an integral framework in the safeguarding of the Group's financial stability under severe stress. The recovery plan, together with stress testing, helps us to generate business insights to identify credible recovery options that can be implemented under a range of idiosyncratic and market-wide stress scenarios to mitigate the potential shortfall in capital and liquidity pressures.

Key developments in 2024

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

In 2024, we enhanced our risk management in the following areas:

- We enhanced our processes, framework and controls to improve the oversight of our material third parties with respect to financial stability to better manage our supply chain and operational resilience. We will continue to assess and manage our operational resilience.
- We made progress on our comprehensive regulatory reporting programme, which seeks to strengthen our processes, enhance consistency and improve controls across regulatory reports. This programme remains a top priority and continues to enhance data, transform the reporting systems and uplift the control environment over the report production process.
- We continued to enhance model risk framework in response to changes in regulation. Artificial Intelligence ('AI') and machine learning models remain a key focus. Progress has been made in enhancing governance activity in this area with particular focus on generative AI due to the pace of technological change and regulatory and wider interest in adoption and usage.
- We continued to embed climate considerations throughout the organisation, including through policy updates. Risk metrics have been developed to monitor and manage our exposure to climate risk. We will continue to complete our annual materiality assessment and make changes to policies, processes and capabilities to better embed climate considerations throughout the organisation.
- We deployed industry-leading technology and advanced analytics capabilities to improve our ability to identify suspicious activities and prevent financial crime. We will continue to evaluate technological solutions to improve our capabilities in the detection and prevention of financial crime.
- We continued to embed our Regulatory management systems focused on horizon scanning, regulatory mapping, and regulatory content for our inventory.

Areas of Special Interest

During 2024, 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 risk

(unaudited)

Elections and subsequent changes of government during 2024 have created uncertainty as domestic and foreign policy priorities have shifted. The US in particular is expected to bring about changes to economic and foreign policy that will have broad economic and geographical implications.

The relationships between China and several other countries, including the US and the UK, remain 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 there is a continued risk of additional sanctions and trade restrictions or tariffs being imposed by the US and other governments in relation to human rights abuses, advances in certain sensitive technologies, and other issues. For example, during 2024, the US imposed restrictions on outbound investment in sensitive technologies in Chinese companies, and both the US and EU raised the rate at which they level tariffs on a range of Chinese imports, including electric vehicles. These have been imposed on the basis of unfair competition, where the Chinese government is accused of providing unfair subsidies to industry.

China, in turn, imposed a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals or companies as well as certain goods such as rare earth minerals and metals, and technology and services. These, as well as certain law enforcement measures, have been and may continue to be imposed against certain countries, businesses and individuals.

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 in all jurisdictions in which it operates, geopolitical tensions and potential ambiguities in the Group's compliance obligations continue to present challenges and risks and these could have a material adverse impact on the Group's strategy, business, customers, operations, financial results and reputation.

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

The Russia-Ukraine and the Middle East conflict, and their potential escalation or resurgence may impact economic activity for a prolonged period. The Israel-Hamas conflict continues, but regional economic impact was relatively limited throughout 2024.

The Group continues to monitor and respond to financial sanctions and trade restrictions that have been adopted in response to the conflict. The sanctions and trade restrictions imposed by the US, the UK and the EU, as well as other countries, remain complex, far reaching and evolving. The US has expanded the reach of its secondary sanctions regime, which includes broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services directly or indirectly involving Russia's military-industrial base, including certain third-party activities that are difficult to detect or beyond HSBC's control.

In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures, including the expropriation of foreign assets.

These and any future measures and countermeasures that may be taken by the US, China and other countries may affect the Group, its customers and the markets in which the Group operates.

Key economic and financial risks are monitored closely. Major markets, including the US and UK, continued to grow during the second half of 2024, due to an expansionary fiscal policies and the positive impact of monetary easing on domestic demand and investment. Similarly, Hong Kong and mainland China also continued to grow, despite ongoing declines in house prices and weakness in consumer spending.

The outlook for 2025 remains uncertain as the new US administration intends to enact a significant change in economic and foreign policies that could have an uncertain impact on global growth, inflation and interest rates. In particular, the prospect of higher US tariff rates and retaliatory actions on trade has started to weigh on economic growth forecasts and has raised future inflation expectations. Consequently, markets now expect that major central banks will adopt a more cautious approach to lower policy interest rates during the course of 2025.

The prospective impact on individual economies from the imposition of higher US tariffs will depend on the breadth and level of the increases and the dependence of the countries' exports on US import demand.

The country and sector implications of changing global tariff policies remains an area that is closely monitored. The implications for export demand from mainland China and Hong Kong is a key area of concern.

We continue to monitor real estate conditions in mainland China and Hong Kong, where activity remains subdued. Various central government policies have been introduced to support the property market and wider economy, but meaningful signs of recovery are yet to be observed.

In Hong Kong, the high vacancy rate in the commercial real estate sector and the elevated interest rate environment have added pressure to the commercial real estate market. Commercial land sales resumed during the latter part of 2024 after a halt earlier in the year, and the recent reduction in interest rates has provided some liquidity relief to borrowers operating in this sector. Nevertheless, a sustainable recovery in confidence and underlying demand is contingent on a more meaningful reduction in interest rates. We continue to closely monitor the risk of further credit deterioration and defaults in the portfolio.

Impairment of assets against credit loss is conducted under the HKFRS 9 *'Financial Instruments'* calculations of ECL, which use forward-looking scenarios that incorporate the economic and financial risks detailed above.

Changes to economic and financial policies, including an adjustment for tariff increases, were a key consideration in the calculation of ECL in the fourth quarter of 2024, in addition to inflation and high interest rates. Those could also have an impact on our customers and we continue to closely monitor the impact to offer the right support to our customers in line with regulatory, government and wider stakeholder expectations.

In the fourth quarter of 2024, the Central scenario, which has the highest probability weighting in our HKFRS 9 *'Financial Instruments'* calculations of ECL, incorporated more recent views on the economic landscape, including evolving views on the effects of global tariff rates via an adjustment to our macroeconomic scenarios.

In light of the adjustment the Central scenario has been assigned the standard weighting across all of our major markets. Outer scenarios have incorporated more adverse tariff escalations and the escalation of key geopolitical risks.

There remains uncertainty regarding the adequacy of our models to reflect credit losses under emerging risks which are not captured under the historical loss experience of our models, or to adequately discriminate risks for specific sectors or portfolios.

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 seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing, auditing and enhancements.

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.

Financial Crime Risk

(unaudited)

Financial institutions remain under considerable regulatory scrutiny regarding their ability to detect and prevent financial crime. In 2024, these risks continued to be exacerbated by rising geopolitical tensions and ongoing macroeconomic factors. These challenges require managing conflicting laws and approaches to legal and regulatory regimes, and implementing increasingly complex and less predictable sanctions and trade restrictions.

Amid increasing cost of living pressures, we continue to face increasing regulatory expectations with respect to managing internal and external fraud and protecting customers. The accessibility and increasing sophistication of generative AI brings additional financial crime risks. While there is potential for the technology to support financial crime detection, there is also a 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.

The intersection of ESG issues and financial crime continues to pose risks related to potential 'greenwashing', human rights issues and environmental crime, as our organisation, customers and suppliers transition to net zero. 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.

Mitigating actions

- We continue to seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing, auditing and enhancements.
- We continue to develop our fraud controls and invest in capabilities to fight financial crime through the application of advanced analytics and AI, while monitoring technological developments and engaging with third parties.
- We continue to look 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 financial crime risks are 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' business models fail to align to a net zero economy, or if our customers face disruption to their operations or a deterioration to their assets as a result of extreme weather.
- We may face trading losses if climate change results in changes to macroeconomic and financial variables that negatively impact our trading book exposures.
- We may face liquidity impacts in the form of deposit outflows due to changes in customer behaviours driven by impacts to profitability/wealth, or due to reputational concerns relating to the progress we make towards our climate-related ambitions.
- We may face impacts from physical risk on our own operations and premises, 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, regulatory compliance and financial risks if we fail to make sufficient progress towards our climate ambitions, 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 our stakeholders.
- We may face financial reporting risk in relation to our climate-related disclosures, as any data, methodologies and reporting standards we have used may evolve over time in line with market practice, regulation or developments in science. We may also face the risk of making reporting errors due to issues relating to the availability, accuracy and verifiability of data, and system, process and control challenges. Any changes and reporting errors 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 ambitions in future.
- We may face model risk, as the uncertain and evolving impacts of climate change and data and methodology limitations present challenges to creating reliable and accurate model outputs.

Mitigating actions

- We continue to support 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 July 2024, the energy policy has been updated covering 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. In January 2024 the thermal coal phase-out policy has been updated, which aims to drive thermal coal phase-out aligned to science-based timeframes. A risk-based approach has been taken when identifying transactions and clients to which the policies apply and adopting approaches proportionate to risk and materiality.
- The scope of our financial reporting risk framework includes oversight over the accuracy and completeness of ESG and climate-related disclosures. Our internal controls incorporate requirements for addressing the risk of misstatement in climate-related and broader ESG disclosures. To support this, we have adopted HSBC Group framework which guide control implementation over climate-related and broader ESG disclosures, which includes areas such as process and data governance, and risk assessment.
- We continue to engage with our customers, investors and regulators proactively on the management of climate related risks.

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, and by setting limits and appetite across geographical markets, portfolios or sectors.
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 foreign exchange exposures and changes in market interest rates, together with pensions risk.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions, or the external environment.	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.
Market risk		
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.	Market risk arises from both trading portfolios and non-trading portfolios. 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.
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;	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 and the development of portfolio steering capabilities to manage the net zero commitments.

Our material banking and insurance risks continued

Description of risks – banking operations continued

(unaudited)

Risks	Arising from	Measurement, monitoring and management of risk
***Climate risk** continued*		
	– net zero alignment risk, which arises from failing to meet HSBC Group's 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.	
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.
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.

Our material banking and insurance risks continued

Description of risks – banking operations continued

(unaudited)

Risks	Arising from	Measurement, monitoring and management of risk
Model risk		
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.	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 validations completed by the model risk management team, 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.

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		

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 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.

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 certain other products, such as guarantees and derivatives.

Credit risk management

Key developments in 2024

(unaudited)

There were no material changes to the policies and practices for the management of credit risk in 2024. 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 interest rate, inflation, fiscal and monetary policy and broader geopolitical uncertainties and conflicts.

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.

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 for generating unbiased and independent global economic scenarios. Scenarios are subject to a process of review and challenge by HSBC Group as well as the Bank. 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.

(a) Credit Risk

Credit risk management continued

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.

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 customers and retail facilities.

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.

(a) Credit Risk

Credit risk management 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	CRR1 to CRR2	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	CRR4 to CRR5	0.741-4.914	Band 4 and 5	1.501-20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915-99.999	Band 6	20.001-99.999
Credit-impaired	Default	Default	CRR9 to CRR10	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.

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.

(a) Credit Risk

Credit risk management continued

Key risk management processes continued

Credit quality of forborne loans continued

(unaudited)

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.

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. For wholesale and retail lending, any forbearance measures granted on a loan still classified as forborne and not cure results in the customer being classified as credit impaired.

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 or 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.

However, in exceptional circumstances, to avoid unfair customer outcomes, deliver customer duty or meet regulatory expectations, the period may be extended further.

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.

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.

(a) Credit Risk

The following table provides an overview of the Group's credit risk by stage and industry, 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	706,478	74,667	50,822	142	832,109	(683)	(2,472)	(9,764)	(54)	(12,973)	0.10%	3.31%	19.21%	38.03%	1.56%
– personal	373,719	11,418	1,220	–	386,357	(355)	(922)	(209)	–	(1,486)	0.09%	8.07%	17.13%	N/A	0.38%
– corporate and commercial	298,586	63,184	49,602	142	411,514	(291)	(1,550)	(9,555)	(54)	(11,450)	0.10%	2.45%	19.26%	38.03%	2.78%
– non-bank financial institutions	34,173	65	–	–	34,238	(37)	–	–	–	(37)	0.11%	0.00%	N/A	N/A	0.11%
Placings with and advances to banks at amortised cost	76,007	216	–	–	76,223	(2)	–	–	–	(2)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	201,352	1,078	6	–	202,436	(20)	(3)	–	–	(23)	0.01%	0.28%	0.00%	N/A	0.01%
Loans and other credit-related commitments	336,998	13,135	181	–	350,314	(65)	(61)	–	–	(126)	0.02%	0.46%	0.00%	N/A	0.04%
– personal	241,539	4,998	5	–	246,542	(5)	–	–	–	(5)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	81,378	8,137	176	–	89,691	(57)	(61)	–	–	(118)	0.07%	0.75%	0.00%	N/A	0.13%
– non-bank financial institutions	14,081	–	–	–	14,081	(3)	–	–	–	(3)	0.02%	N/A	N/A	N/A	0.02%
Financial guarantee and similar contracts	1,550	348	–	–	1,898	(1)	(2)	–	–	(3)	0.06%	0.57%	N/A	N/A	0.16%
– personal	1	–	–	–	1	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	1,161	348	–	–	1,509	(1)	(2)	–	–	(3)	0.09%	0.57%	N/A	N/A	0.20%
– non-bank financial institutions	388	–	–	–	388	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2024	1,322,385	89,444	51,009	142	1,462,980	(771)	(2,538)	(9,764)	(54)	(13,127)	0.06%	2.84%	19.14%	38.03%	0.90%

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).

(a) Credit Risk

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

(audited)

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

(audited)

	At 31 December 2024											
	Gross carrying amount				Allowance for ECL				ECL coverage %			
	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 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	11,418	8,405	1,918	1,095	(922)	(701)	(74)	(147)	8.07%	8.34%	3.86%	13.42%
– corporate and commercial	63,184	62,769	362	53	(1,550)	(1,538)	(11)	(1)	2.45%	2.45%	3.04%	1.89%
– non-bank financial institutions	65	65	–	–	–	–	–	–	0.00%	0.00%	N/A	N/A
	74,667	71,239	2,280	1,148	(2,472)	(2,239)	(85)	(148)	3.31%	3.14%	3.73%	12.89%

1 Days past due ('DPD').

	Gross carrying/ nominal amount[1]					Allowances 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').

(a) Credit Risk

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

(audited)

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 to 29 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').

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.

	2024	2023
Cash and balances at central banks	**10,433**	10,564
Trading assets	**39,613**	43,985
Derivative financial instruments	**20,201**	14,959
Financial assets mandatorily measured at fair value through profit or loss	**114,368**	119,784
Reverse repurchase agreements - non-trading	**33,479**	30,202
Placings with and advances to banks	**76,221**	83,756
Loans and advances to customers	**819,136**	860,406
Financial investments	**536,745**	401,732
Other assets	**28,815**	30,999
Financial guarantees and other credit related contingent liabilities[1]	**22,848**	22,969
Loan commitments and other credit related commitments	**495,092**	503,632
	2,196,951	2,122,988

1 Performance and other guarantees were included.

(a) Credit Risk

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.

The Central scenario is constructed to reflect the latest macroeconomic expectations. Outer scenarios incorporate the crystallisation of economic and geopolitical risks, including a more severe escalation in global tariff rates and an escalation in geopolitical tensions that drive supply chain disruptions.

Management judgemental adjustments are used to address late breaking events, data and model limitations, model deficiencies and expert credit judgements where ECL does not fully reflect the identified risks and related uncertainty. At 31 December 2024, there was an overall reduction in management judgemental adjustments compared with 31 December 2023, as modelled outcomes better reflected the key risks at 31 December 2024.

Methodology

At 31 December 2024, 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 distributional estimates every quarter.

Three scenarios, the Upside, Central and Downside, are drawn from 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. Consensus estimates are deployed as conditioning variables in a proprietary expansion of the scenario variables.

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 forecast probability distributions for select markets that capture economists' 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.

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% probability. 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.

For the fourth quarter of 2024, consensus forecasts and distributional estimates were assessed to inadequately reflect the consequences of the US election on the global economic outlook. Forecasts lag and there is increased uncertainty as to how economic policy will change and how tariffs will be implemented. Scenarios were constructed using the standard methodology, as described, before an adjustment, to account for policy changes, was subsequently applied. The adjustment is based on a modelled update to the Central scenario and incorporated a detailed narrative of US economic policy proposals, including specific tariff rates. The modelled results were then layered onto the Central scenario which resulted in changes to most variables. To quantify, the adjustment reduces GDP growth in our key markets in the first two years of the Central scenario forecast. Outer scenarios have been shifted in parallel.

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

Methodology continued

The scenario adjustment entailed no change in scenario probability weights, which remained in-line with the Forward Economic Guidance ('FEG') framework. Uncertainty relating to the policy outlook have been addressed in the scenarios directly. Measures of dispersion and uncertainty have remained low but may reflect lags in the consensus economic forecasting process.

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

Description of Economic Scenarios

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

Forecasts may change and remain subject to uncertainty. Outer scenarios are designed to capture potential crystallisation of key economic and financial risks and alternative paths for economic variables.

In our key markets, Central scenario incorporate potential impacts from anticipated changes to US economic and trade policy, including higher tariffs. The overall effect of the adjustment in our key markets is to lower GDP and unemployment estimates, relative to the consensus. Consequently, GDP growth and unemployment forecasts have deteriorated in the fourth quarter of 2024, compared with the fourth quarter of 2023. With regard to monetary policy, the expectations path for interest rates in our key market are based on market futures.

At the end of 2024, risks to the economic outlook included a number of significant geopolitical issues. Within our downside scenarios, the economic consequences from the crystallisation of those risks are captured by higher commodity and goods prices, the re-acceleration of inflation, a further rise in interest rates and a global recession.

The scenarios used to calculate ECL in the 2024 Annual Report are described below.

The consensus Central scenario

The Central scenario reflects expectations for slower growth and high inflation and unemployment across our key markets.

Expectation of lower GDP growth in many markets in 2025 are driven by the assumed effects of higher tariffs, which impede trade flows and deter investment. In the scenario, the US applies tariffs on key trading partners, focusing on mainland China at the outset of the new administration's term, before moving attention to other trading partners. Countries are expected to respond in-kind. As a direct consequence of tariffs, trade growth is reduced, which in turn weighs on GDP growth. Mainland China and Hong Kong experience the greatest negative consequences given the interlinkages with the US economy. Indirect consequences from tariffs dampen growth elsewhere. Tariffs, or the threat of them, increases uncertainty, leading to lower confidence and reduced investment.

Hong Kong GDP is expected to grow by 1.7% in 2025 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.

The key features of our Central scenario are:

- GDP growth rates in our key markets are expected to slow in 2025 and 2026, due to the implementation of higher tariffs as well as underlying structural weaknesses in some economies. The most significant slowdowns in activity are expected to occur in the markets with the highest trade dependence with the US. Elevated interest rates and higher price levels are also expected to continue to weigh on some consumer and corporate segments.
- Hong Kong unemployment is expected rise moderately as economic activity slows, although it remains low by historical standards.
- In Hong Kong and mainland China, inflation is expected to remain subdued, despite higher tariffs, due to weak domestic demand.
- Price weakness in housing markets is expected to persist in Hong Kong and mainland China. High inventory level remains the biggest drag on Hong Kong and mainland China residential property and is expected to lead to another year of price declines in 2025, before recovering gradually from 2026.
- Challenging conditions are also forecast to continue in certain segments of the commercial property sector in our key markets. Structural changes to demand in the office segment in particular have driven lower valuations.

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

The consensus Central scenario continued

- Policy interest rates in key markets are forecast to gradually decline further in 2025. In the longer term, they are expected to remain at a higher level than in recent years.

The Central scenario was created with forecasts available in late November, and reviewed continually until end December. In accordance with Group's scenario framework, a probability weight of 75% has been assigned to the Central scenario.

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

Central scenario

	Hong Kong %	Mainland China %
GDP (annual average growth rate)		
2025	1.7	4.0
2026	1.8	3.7
2027	3.5	4.3
2028	3.1	3.9
2029	2.7	3.7
5-year average[1]	2.6	3.9
Unemployment rate (annual average rate)		
2025	3.3	5.2
2026	3.7	5.4
2027	3.3	5.2
2028	3.0	5.0
2029	2.9	5.0
5-year average[1]	3.2	5.2
House price (annual average growth rate)		
2025	(0.5)	(5.9)
2026	2.4	(0.7)
2027	3.0	3.2
2028	2.7	4.1
2029	2.7	2.9
5-year average[1]	2.1	0.7
Probability	75	75

[1] The 5-year average is computed by using the projection of time period from 1Q 2025 to 4Q 2029.

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. It also incorporates a faster fall in the rate of inflation than incorporated in the Central scenario.

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

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

Consensus Upside scenario best outcome

	Hong Kong %	Mainland China %
GDP growth (%, Start-to-peak)[1]	21.4 (4Q29)	27.5 (4Q29)
Unemployment rate (%, Min)[1]	2.9 (4Q29)	4.9 (4Q26)
House price index (%, Start-to-peak)[1]	25.3 (4Q29)	9.8 (4Q29)
Probability	10	10

[1] 'Start-to-peak' is the cumulative change to the highest level of the series during the 20-quarter projection from 1Q25 to 4Q29. '%, Min' is the lowest projected unemployment rate in the scenario.

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks. These include a more material escalation of tariff policies and geopolitical tensions, which disrupt key commodity and goods markets, causing inflation and interest rates to rise, and creating a global recession.

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

- an increase in protectionist policies, as countries increasingly impose retaliatory tariffs. This lowers investment, complicates international supply chains, and impedes trade flows;
- a broader and more prolonged conflict in the Middle East and between Russia and Ukraine, which further disrupts energy, fertiliser and food supplies; and

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

Downside scenarios continued

- continued differences between the US and China, which could affect economic confidence, the global goods trade and supply chains for critical technologies.

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

Higher inflation and labour supply shortages could also trigger a wage-price spiral and put sustained pressure on household incomes and corporate margins. In turn, it raises the risk that central bank react more forcefully, leading to higher defaults and a deep economic recession.

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 an increase in tariffs over and above those assumed in the Central scenario and an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker consumption demand begin to dominate and commodity prices and inflation fall again.

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

Consensus Downside scenario worst outcome

	Hong Kong %	Mainland China %
GDP growth (%, Start-to-trough)[1]	(4.5) (4Q25)	(2.5) (3Q25)
Unemployment rate (%, Max)[1]	5.1 (2Q26)	6.9 (4Q26)
House price index (%, Start-to-trough)1	(1.9) (2Q26)	(12.8) (3Q26)
Probability	10	10

1 'Start-to-trough' is the cumulative change to the lowest level of the series during the 20-quarter projection from 1Q25 to 4Q29. '%, Max' is the highest projected unemployment rate in the scenario.

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 significant increases in tariffs globally, where the US imposes tariffs of 60% on imports from mainland China, and a further escalation of geopolitical crises, which creates severe supply disruptions to goods and energy markets. In the scenario, as inflation surges and central banks tighten monetary policy further, confidence evaporates. However, this impulse is expected to prove short-lived, as recession takes hold, causing a sharp fall in demand, leading commodity prices to correct sharply and global price inflation to fall.

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

Downside 2 scenario worst outcome

	Hong Kong %	Mainland China %
GDP growth (%, Start-to-trough)[1]	(10.1) (4Q25)	(8.7) (4Q25)
Unemployment rate (%, Max)[1]	7.1 (1Q26)	7.1 (4Q26)
House price index (%, Start-to-trough)[1]	(34.4) (3Q27)	(30.5) (4Q26)
Probability	5	5

1 'Start-to-trough' is the cumulative change to the lowest level of the series during the 20-quarter projection from 1Q25 to 4Q29. '%, Max' is the highest projected unemployment rate in the scenario.

Scenario weightings

Scenarios are calibrated to probabilities that are determined with reference to consensus probability distributions. Management may then choose to vary weights if they assess that the calibration lags more recent events, or does not reflect their view of the distribution of economic and geopolitical risk. Management's view of the scenarios and weights takes into consideration the relationship of the consensus scenarios to both internal and external assessments of risk.

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

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

Scenario weightings continued

In the fourth quarter of 2024, key considerations in the fourth quarter around uncertainty attached to the Central scenario projections focused on:

- US import tariffs and bilateral tariff escalations globally and the impact to trade and manufacturing supply chains;
- the extent to which authorities in mainland China can support economic activity and growth;
- prospects for recovery in the Hong Kong residential property market; and
- the impacts of ongoing volatility in interest rate expectations on household finances and businesses, and the implications of changes to monetary policy expectations on growth and employment.

Although these risk factors are significant, management assessed that the adjusted Central scenario reflected their most likely future outcome and that outer scenarios were sufficiently well calibrated to address the crystalisation of more severe risk.

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

In support of the decision, it was noted that the effect of higher tariffs would be most negative in mainland China and Hong Kong, as it would restrict trade growth (a significant growth driver in 2024) substantially and lead to weaker domestic demand. The adjustment to the Central scenario reflected this assumption.

Critical accounting estimates and judgements

The calculation of ECL under HKFRS 9 involves significant judgements, assumptions and estimates at 31 December 2024. These include:

- the selection and configuration of economic scenarios, given constant change in economic conditions and distribution of economic risks; and
- estimating the economic effects of those scenarios on ECL where similar observable historical conditions cannot be captured by the credit risk models.

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 2024, 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 2024.

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.

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.

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

How economic scenarios are reflected in the calculation of ECL continued

For our retail portfolios, 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, using 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 market level house price index forecast and applying the corresponding LGD expectation relative to the updated forecast collateral values. For unsecured portfolios historically observed recovery rates are leveraged to measure loss. For both mortgages and unsecured, a limited number of portfolios utilise a macro-economic dependent stressed LGD applied to the alternative downside scenario.

Management judgemental adjustments

In the context of HKFRS 9, management judgemental adjustments are typically short-term increases or decreases to the modelled ECL at either a customer, segment or portfolio level, where management believes allowance 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 quantitative analysis for impacts that are difficult to model.

The effect of management judgemental adjustments are considered for both balances and ECL when determining whether or not a significant increase in credit risk has occurred and is allocated to stage where appropriate. This is in accordance with the internal adjustments framework.

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.

The drivers of management judgemental adjustments continue to evolve with the economic environment, and as new risks emerge.

For the wholesale portfolio, defaulted exposures are assessed individually and management judgemental adjustments are made only to the performing portfolio.

At 31 December 2024, management judgement adjustments reduced by HK$535m compared with 31 December 2023. For the wholesale portfolios, this was due to modelled outcomes better reflecting the key risks at 31 December 2024. For the retail portfolio, there was a decrease in adjustment due to exit of macro-related adjustments as impact was already embedded in the FEG model.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2024 are set out in the following table.

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

Management judgemental adjustments continued

Management judgemental adjustments to ECL[1]:

(HK$m)	Retail	Wholesale	Total
	31 December 2024		
Corporate lending adjustments	**–**	**(83)**	**(83)**
Macroeconomic-related adjustments	**–**	**–**	**–**
Other lending adjustments	**57**	**21**	**78**
Total	**57**	**(62)**	**(5)**

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

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

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 negative HK$83m at 31 December 2024 (31 December 2023: positive HK$243m). The decrease in adjustment compared with 31 December 2023 is attributed to a crystallisation of existing risks at that date through downgrades, and an improved reflection of emerging risks in macroeconomic scenarios and modelled outcomes.

In the retail portfolio, management judgement adjustments mainly relate to unsecured portfolios regarding model performance and adjustment for mortgages portfolios mainly regarding volatility of property price.

There was an ECL increase of HK$57m at 31 December 2024 (31 December 2023: HK$250m increase).

- Model performance-related adjustments increased ECL by HK$34m. These adjustment were primarily in relation to impact from model performance review in major unsecured portfolios to ensure outcome estimates remains accurate and relevant.
- Mortgages-related adjustments increased ECL by HK$23m. The adjustment was considered to ensure sufficient provision mainly regarding volatility of property price.

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 allowance for 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 allowances.

(a) Credit Risk

Measurement uncertainty and sensitivity analysis of ECL estimates continued

(audited)

Economic scenarios sensitivity analysis of ECL estimates continued

The allowance for ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date.

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. This is because the retail ECL for unsecured portfolios including loans in stages 1/2 is sensitive to macroeconomic variables.

Wholesale and Retail sensitivity

The wholesale and retail sensitivity tables present the 100% weighted results. These 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.

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario.

For both retail and wholesale portfolios, the gross carrying amount of financial instruments are the same under each scenario. For exposures with similar risk profile and product characteristics, the sensitivity impact is therefore largely the result of changes in macroeconomic assumptions.

Wholesale analysis

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

ECL of financial instruments subject to significant measurement uncertainty[2]	31 December 2024		31 December 2023	
	Hong Kong	Mainland China	Hong Kong	Mainland China
Reported ECL	1,636	404	2,533	602
Central scenario	1,501	346	2,362	530
Upside scenario	1,071	237	1,819	370
Downside scenario	2,541	668	3,317	896
Downside 2 scenario	4,513	1,429	5,412	1,847

1 Excludes ECL and financial instruments on defaulted obligors because the measure 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.

Compared with 31 December 2023, the Downside 2 ECL impact was lower in Hong Kong and mainland China, mostly due to the crystallisation of defaults for certain high-risk exposures and decrease of the associated downside uncertainty.

(a) Credit Risk

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[1,3]

	31 December 2024		31 December 2023	
ECL of loans and advances to customers[2]	Hong Kong	Mainland China	Hong Kong	Mainland China
Reported ECL	**1,311**	**57**	1,554	21
Central scenario	**1,239**	**46**	1,303	19
Upside scenario	**1,213**	**45**	1,153	19
Downside scenario	**1,336**	**63**	2,176	22
Downside 2 scenario	**3,564**	**155**	5,115	45

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.

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

At 31 December 2024, 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 2024.

(a) Credit Risk

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)

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.

	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 2024	1,125,306	(798)	155,555	(3,840)	24,635	(9,158)	117	–	1,305,613	(13,796)
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(42,560)	63	42,560	(63)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	37,999	(539)	(37,999)	539	–	–	–	–	–	–
– transfers to Stage 3	(4,801)	48	(32,477)	1,245	37,278	(1,293)	–	–	–	–
– transfers from Stage 3	1	–	29	(3)	(30)	3	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	207	–	(113)	–	(11)	–	–	–	83
Changes due to modifications not derecognised	–	–	–	–	(45)	–	–	–	(45)	–
New financial assets originated and purchased[2]	272,609	(223)	6,313	(209)	–	–	–	–	278,922	(432)
Assets derecognised (including final repayments)	(224,777)	134	(58,959)	488	(970)	13	–	–	(284,706)	635
Changes to risk parameters – further lending/(repayments)	(38,592)	163	13,783	156	(6,233)	371	3	–	(31,039)	690
Changes to risk parameters – credit quality	–	95	–	(621)	–	(4,714)	–	(33)	–	(5,273)
Changes to model used for ECL calculation	–	35	–	(125)	–	–	–	–	–	(90)
Assets written off	–	–	–	–	(6,317)	6,317	–	–	(6,317)	6,317
Foreign exchange and others	(4,152)	64	(439)	11	2,685	(1,292)	22	(21)	(1,884)	(1,238)
At 31 December 2024	1,121,033	(751)	88,366	(2,535)	51,003	(9,764)	142	(54)	1,260,544	(13,104)

	Total
Change in ECL in income statement (charge)/ release for the year	(4,387)
Add: Recoveries	179
Add: Modification losses on contractual cash flows that did not result in derecognition	(45)
Add/(less): Others	(553)
Total ECL (charge)/ release for the year	(4,806)

(a) Credit Risk

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)

	At 31 December 2024		For the year ended 31 December 2024
	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	**1,260,544**	**(13,104)**	**(4,806)**
Other financial assets measured at amortised cost	**202,436**	**(23)**	**28**
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	**1,462,980**	**(13,127)**	**(4,778)**
Debt instruments measured at FVOCI[3]	**407,065**	**(5)**	**(2)**
Performance and other guarantees	**20,950**	**(21)**	**7**
Total allowances for ECL/ total consolidated income statement ECL charge for the year	**1,890,995**	**(13,153)**	**(4,773)**

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

2 Includes the new financial assets originated and purchased during the year, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2024.

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 allowances. 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.

	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/(repayments)	(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)
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)

	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)

(a) Credit Risk

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)

	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 allowances 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 year, 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 allowances. 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.

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.

(a) Credit Risk

Credit quality of financial instruments continued

Distribution of financial instruments by credit quality at 31 December 2024

(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	465,309	122,793	165,397	27,646	50,964	832,109	(12,973)	819,136
– personal	360,576	10,050	13,996	515	1,220	386,357	(1,486)	384,871
– corporate and commercial	88,414	100,968	145,257	27,131	49,744	411,514	(11,450)	400,064
– non-bank financial institutions	16,319	11,775	6,144	–	–	34,238	(37)	34,201
Placings with and advances to banks at amortised cost	75,953	248	22	–	–	76,223	(2)	76,221
Cash and balances at central banks	10,433	–	–	–	–	10,433	–	10,433
Reverse repurchase agreements – non-trading	26,171	7,308	–	–	–	33,479	–	33,479
Financial investments measured at amortised cost	129,965	77	–	–	–	130,042	(3)	130,039
Other assets	17,944	3,907	6,581	44	6	28,482	(20)	28,462
Debt instruments measured at fair value through other comprehensive income[1]	407,063	2	–	–	–	407,065	(5)	407,060
	1,132,838	134,335	172,000	27,690	50,970	1,517,833	(13,003)	1,504,830
Out-of-scope for HKFRS 9 impairment								
Trading assets	39,352	192	62	–	7	39,613	–	39,613
Other financial assets mandatorily measured at fair value through profit or loss	88,814	21,377	4,094	–	83	114,368	–	114,368
Derivative financial instruments	19,772	396	10	23	–	20,201	–	20,201
	147,938	21,965	4,166	23	90	174,182	–	174,182
	1,280,776	156,300	176,166	27,713	51,060	1,692,015	(13,003)	1,679,012
Percentage of total credit quality	76%	9%	10%	2%	3%	100%		
Loan and other credit related commitments[2]	261,586	44,551	43,211	785	181	350,314	(126)	350,188
Financial guarantee and similar contracts[2]	550	458	738	152	–	1,898	(3)	1,895

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 of 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.

(a) Credit Risk

Credit quality of financial instruments continued

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 of 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.

(a) Credit Risk

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

(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	465,309	122,793	165,397	27,646	50,964	832,109	(12,973)	819,136
– Stage 1	461,564	118,603	125,317	994	–	706,478	(683)	705,795
– Stage 2	3,745	4,190	40,080	26,652	–	74,667	(2,472)	72,195
– Stage 3	–	–	–	–	50,822	50,822	(9,764)	41,058
– POCI	–	–	–	–	142	142	(54)	88
Placings with and advances to banks at amortised cost	75,953	248	22	–	–	76,223	(2)	76,221
– Stage 1	75,737	248	22	–	–	76,007	(2)	76,005
– Stage 2	216	–	–	–	–	216	–	216
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	184,513	11,292	6,581	44	6	202,436	(23)	202,413
– Stage 1	184,505	11,232	5,615	–	–	201,352	(20)	201,332
– Stage 2	8	60	966	44	–	1,078	(3)	1,075
– Stage 3	–	–	–	–	6	6	–	6
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	261,586	44,551	43,211	785	181	350,314	(126)	350,188
– Stage 1	260,224	40,846	35,545	383	–	336,998	(65)	336,933
– Stage 2	1,362	3,705	7,666	402	–	13,135	(61)	13,074
– Stage 3	–	–	–	–	181	181	–	181
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	550	458	738	152	–	1,898	(3)	1,895
– Stage 1	550	454	546	–	–	1,550	(1)	1,549
– Stage 2	–	4	192	152	–	348	(2)	346
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2024	987,911	179,342	215,949	28,627	51,151	1,462,980	(13,127)	1,449,853
Debt instruments at FVOCI[1]								
– Stage 1	407,063	2	–	–	–	407,065	(5)	407,060
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2024	407,063	2	–	–	–	407,065	(5)	407,060

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 allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in 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 of the Consolidated Financial Statements.

(a) Credit Risk

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 continued

(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	–	–	–	–	–	–	–	–
At 31 December 2023	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	–	–	–	–	–	–	–	–
At 31 December 2023	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 allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in 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 of the Consolidated Financial Statements.

(a) Credit Risk

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.

CRE 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 exposures in the table are related to companies whose primary activities are focused on these activities. However, in addition to our normal definition of CRE, this table 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. This provides a more comprehensive view of our mainland China CRE exposures. The exposures at 31 December 2024 are split by country/territory and credit quality including allowances for ECL by stage.

	At 31 December 2024			At 31 December 2023		
	Hong Kong	Mainland China	Total	Hong Kong	Mainland China	Total
Loans and advances to customers[1]	10,975	7,002	17,977	22,453	12,041	34,494
Guarantees issued and others[2]	–	–	–	205	–	205
Total mainland China CRE exposure	10,975	7,002	17,977	22,658	12,041	34,699
Distribution of mainland China CRE exposure by credit quality						
– Strong	94	1,137	1,231	1,151	392	1,543
– Good	755	1,046	1,801	1,807	3,157	4,964
– Satisfactory	776	3,245	4,021	2,690	5,889	8,579
– Sub–standard	983	409	1,392	4,169	1,070	5,239
– Credit–impaired	8,367	1,165	9,532	12,841	1,533	14,374
	10,975	7,002	17,977	22,658	12,041	34,699
Allowance by ECL by credit quality						
– Strong	–	2	2	–	1	1
– Good	–	6	6	1	17	18
– Satisfactory	1	48	49	14	66	80
– Sub–standard	196	158	354	224	239	463
– Credit–impaired	3,101	393	3,494	6,407	479	6,886
	3,298	607	3,905	6,646	802	7,448
Allowance by ECL by stage						
– Stage 1	–	26	26	2	47	49
– Stage 2	197	188	385	237	276	513
– Stage 2	3,047	393	3,440	6,407	479	6,886
– POCI	54	–	54	–	–	–
	3,298	607	3,905	6,646	802	7,448
ECL coverage %	30.1	8.7	21.7	29.3	6.7	21.5

1 Amounts represent gross carrying amount.

2 Amounts represent nominal amount.

(a) Credit Risk

Credit quality of financial instruments continued

Mainland China Commercial Real Estate continued

(unaudited)

The mainland China commercial real estate portfolio continues to face challenges as market fundamentals remain weak and refinancing risks continue. The portfolio remains closely managed, with reductions in exposure driven by a combination de-risking measures, repayments by performing customers and write-off in the 'credit impaired' category.

The portfolio of mainland China CRE loans booked in Hong Kong remains relatively higher risk, with allowances for ECL substantially against unsecured exposures. For secured exposures, allowances for ECL are minimal, reflecting the nature and value of the security held.

Approximately 40% of the performing exposure in the mainland China CRE portfolio booked in Hong Kong 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.

Mainland China real estate market activity remains depressed with continued weakness in underlying buyer demand for housing. Various government stimulus measures were introduced in 2024 to underpin market confidence. Despite some early signs of price stabilisation in certain cities, these measures have not yet triggered a meaningful recovery in transaction levels. Financing conditions and liquidity for borrowers operating in the real estate sector therefore remains constrained, particularly for privately-owned enterprises. A market recovery is likely to be protracted and contingent on further government support.

Hong Kong Commercial Real Estate

(unaudited)

The following table presents the Group's CRE lending booked in Hong Kong and not fall under the China CRE sector. The exposures are split by stage and credit quality.

	At 31 December 2024	At 31 December 2023
Gross loans and advances to customers by stage		
– Stage 1	**81,274**	90,383
– Stage 2	**29,438**	46,549
– Stage 3	**19,806**	1,081
– POCI	**–**	–
Total	**130,518**	138,013
Allowance for ECL	**1,654**	1,245
Gross loans and advances to customers by credit quality		
– Strong	**20,161**	22,605
– Good	**33,911**	36,974
– Satisfactory	**39,880**	63,308
– Sub-standard	**16,760**	14,045
– Credit-impaired	**19,806**	1,081
Total	**130,518**	138,013

(a) Credit Risk

Credit quality of financial instruments continued

Hong Kong Commercial Real Estate continued

(unaudited)

The Hong Kong CRE portfolio (excluding exposure to mainland China borrowers) saw negative credit migration in 2024 as a result of higher interest rates, high inventory levels and weak demand. This was predominantly driven by a deterioration in the secured portfolio as borrowers sought payment deferrals to accommodate debt serviceability challenges.

Secured exposures account for approximately two-thirds of the total portfolio (unchanged in proportion compared to 31 December 2023) with collateral values regularly updated in line with our existing practice. The trend of loan right-sizing and borrower deleveraging within the secured portfolio has supported good collateral coverage levels that continue to provide headroom in the event of a further softening of property valuations. As at 31 December 2024, the weighted average loan-to-value ('LTV'):

- Of performing exposures rated sub-standard was 49% (31 December 2023: 59%);
- Of impaired exposures was 60% (31 December 2023: 84%). This has driven relatively low levels of Stage 3 allowance for ECL. The reduction in LTV reflects the significantly smaller 'credit impaired' portfolio at 31 December 2023.

The unsecured portfolio remained stable in size and quality, with very limited levels of default and above 90% rated Strong or Good. Unsecured exposures are typically granted to strong, listed Hong Kong CRE developers, which commonly are members of conglomerate group with diverse cashflows.

We continue to closely assess and manage the risk in the portfolio, including through portfolio reviews and stress testing. Vulnerable borrowers, including those with debt serviceability challenges and higher LTV levels, are subject to heightened monitoring and management.

Market conditions remain challenging, particularly for commercial property as a result of continued weakness in demand. The performance of the residential market also remains mixed, with some initial improvement in sentiment and transaction levels observed in the fourth quarter of 2024, driven by a further easing of real estate regulatory policies in October and improved end-user affordability as prices and interest rates fell. Nevertheless, property price pressure is likely to persist in the near term and until economic conditions and sentiment improve. Given the more uncertain interest rate outlook, we expect broader market fundamentals to remain subdued and challenges in this sector to continue.

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. Collateral realisation is one of the sources of repayment in the event of default.

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.

(a) Credit Risk

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.

	At 31 December 2024			At 31 December 2023		
	Gross carrying/ nominal amount	ECL	ECL coverage %	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Fully collateralised	270,931	(6)	0.00	293,293	(4)	0.00
LTV ratio:						
– Less than 70%	196,614	(6)	0.00	216,125	(4)	0.00
– 71% to 90%	40,955	–	–	39,790	–	–
– 91% to 100%	33,362	–	–	37,378	–	–
Partially collateralised (A)	45,396	(1)	0.00	28,796	(1)	0.00
Total	316,327	(7)	0.00	322,089	(5)	0.00
– *Collateral value on A*	42,487			27,519		
Stage 2						
Fully collateralised	4,195	(12)	0.29	8,322	–	–
LTV ratio:						
– Less than 70%	3,046	(4)	0.13	7,412	–	–
– 71% to 90%	889	(8)	0.90	543	–	–
– 91% to 100%	260	–	–	367	–	–
Partially collateralised (B)	500	–	–	347	–	–
Total	4,695	(12)	0.26	8,669	–	–
– *Collateral value on B*	465			327		
Stage 3						
Fully collateralised	848	(48)	5.66	558	(16)	2.87
LTV ratio:						
– Less than 70%	663	(25)	3.77	509	(15)	2.95
– 71% to 90%	141	(16)	11.35	35	(1)	2.86
– 91% to 100%	44	(7)	15.91	14	–	–
Partially collateralised (C)	78	(19)	24.36	22	(1)	4.55
Total	926	(67)	7.24	580	(17)	2.93
– *Collateral value on C*	69			20		
	321,948	(86)	0.03	331,338	(22)	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.

The 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.

(a) Credit Risk

Collateral and other credit enhancements

continued

(audited)

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.

Commercial real estate

(audited)

Commercial real estate ('CRE') 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 2024			At 31 December 2023		
	Gross carrying/ nominal amount	ECL	ECL coverage %	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Not collateralised	52,637	(11)	0.02	50,544	(14)	0.03
Fully collateralised	60,634	(65)	0.11	64,453	(70)	0.11
LTV ratio:						
– less than 50%	40,159	(32)	0.08	39,358	(23)	0.06
– 51% to 75%	17,008	(18)	0.11	14,504	(12)	0.08
– 76% to 90%	652	(3)	0.46	4,848	(18)	0.37
– 91% to 100%	2,815	(12)	0.43	5,743	(17)	0.30
Partially collateralised (A)	995	–	–	12,270	(6)	0.05
Total	114,266	(76)	0.07	127,267	(90)	0.07
– Collateral value on A	746			11,641		
Stage 2						
Not collateralised	5,467	(449)	8.21	9,134	(745)	8.16
Fully collateralised	30,370	(457)	1.50	49,472	(842)	1.70
LTV ratio:						
– less than 50%	12,525	(191)	1.52	29,318	(464)	1.58
– 51% to 75%	6,108	(91)	1.49	13,936	(269)	1.93
– 76% to 90%	8,343	(111)	1.33	4,958	(101)	2.04
– 91% to 100%	3,394	(64)	1.89	1,260	(8)	0.63
Partially collateralised (B)	483	(9)	1.86	4,792	(38)	0.79
Total	36,320	(915)	2.52	63,398	(1,625)	2.56
– Collateral value on B	321			4,102		

(a) Credit Risk

Collateral and other credit enhancements continued

(audited)

Commercial real estate continued

(audited)

	At 31 December 2024			At 31 December 2023		
	Gross carrying/ nominal amount	ECL	ECL coverage %	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 3						
Not collateralised	4,673	(2,390)	51.14	8,109	(6,181)	76.22
Fully collateralised	19,969	(1,443)	7.23	5,059	(630)	12.45
LTV ratio:						
– less than 50%	8,126	(621)	7.64	1,512	(276)	18.25
– 51% to 75%	7,654	(422)	5.51	477	(9)	1.89
– 76% to 90%	3,717	(387)	10.41	2,541	(236)	9.29
– 91% to 100%	472	(13)	2.75	529	(109)	20.60
Partially collateralised (C)	4,228	(748)	17.69	221	(84)	38.01
Total	28,870	(4,581)	15.87	13,389	(6,895)	51.50
– *Collateral value on C*	3,035			200		
POCI						
Not collateralised	–	–	–	–	–	–
Fully collateralised	–	–	–	–	–	–
LTV ratio:						
– less than 50%	–	–	–	–	–	–
– 51% to 75%	–	–	–	–	–	–
– 76% to 90%	–	–	–	–	–	–
– 91% to 100%	–	–	–	–	–	–
Partially collateralised (D)	142	(54)	38.03	117	–	–
Total	142	(54)	38.03	117	–	–
– *Collateral value on D*	24			65		
	179,598	(5,626)	3.13	204,171	(8,610)	4.22

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.

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).

(a) Credit Risk

Collateral and other credit enhancements continued

(audited)

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

(audited)

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

	At 31 December 2024			At 31 December 2023		
	Gross carrying/ nominal amount	ECL	ECL coverage %	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Not collateralised	324,723	(221)	0.07	284,386	(222)	0.08
Fully collateralised	73,338	(75)	0.10	87,126	(110)	0.13
Partially collateralised (A)	30,557	(16)	0.05	33,211	(30)	0.09
Total	428,618	(312)	0.07	404,723	(362)	0.09
– *Collateral value on A*	13,885			14,725		
Stage 2						
Not collateralised	25,162	(137)	0.54	40,792	(182)	0.45
Fully collateralised	21,923	(527)	2.40	46,230	(711)	1.54
Partially collateralised (B)	5,102	(32)	0.63	11,258	(100)	0.89
Total	52,187	(696)	1.33	98,280	(993)	1.01
– *Collateral value on B*	1,768			5,954		
Stage 3						
Not collateralised	3,079	(1,621)	52.65	1,730	(900)	52.02
Fully collateralised	11,792	(598)	5.07	5,290	(380)	7.18
Partially collateralised (C)	6,037	(2,755)	45.64	3,394	(833)	24.54
Total	20,908	(4,974)	23.79	10,414	(2,113)	20.29
– *Collateral value on C*	3,624			1,617		
	501,713	(5,982)	1.19	513,417	(3,468)	0.68

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.

(a) Credit Risk

Collateral and other credit enhancements

continued

(audited)

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

(audited)

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 2024, HK$76,221m (2023: HK$83,756m) 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.

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 2024 are residential properties with carrying amount of HK$220m (2023: HK$118m), commercial properties of HK$5m (2023: nil) and vehicles of HK$4m (2023: HK$1m).

(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 foreign exchange exposures, as well as changes in market interest rates, together with pension 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 group 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 2024

(unaudited)

- Initiatives and readiness activities were undertaken to prepare for the implementation of the Basel III Reform package from 1 January 2025. Our Structural FX risk management strategy was revisited accordingly under the new regulatory regime.
- Continued to enhance our recovery and resolution capabilities, in line with our preferred resolution strategy and regulatory expectations.
- Initiatives taken to strengthen our regulatory reporting process through enhancing consistency and improving controls. This multifaceted programme includes data enhancement, transformation of the reporting systems and uplift to the control environment over the report production process.
- 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.

Governance and structure

(unaudited)

The Board approves the policy and risk appetite for capital risk, liquidity and funding risk, and Interest Rate Risk in the Banking Book ('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'), and is overseen by the Treasury Risk Management function and 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 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 risk management activities undertaken by ALCM and Markets Treasury.

Internal Audit provides independent assurance that risk is managed effectively.

(b) Treasury Risk

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

Our capital management approach is underpinned by a Global Capital Risk Policy and supporting frameworks for Recovery and Resolution Planning and Stress Testing. The policy 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 and management, performance and planning, risks to capital, 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 continues to develop the approach for climate risk management. The ICAAP supports the determination of the capital risk appetites, and enables the assessment and determination of capital requirements by regulator. Banking subsidiary prepare ICAAPs in line with global guidance, while considering their local regulatory regimes to determine their own risk appetites and ratios.

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. Each subsidiary manages its own capital to support its planned business growth and meet its local regulatory requirements within the context of the approved annual Group capital plan. 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 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, issuance and profit retention. 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.

Regulatory 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 and on a solo-consolidated basis. Individual banking subsidiaries and branches 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.

(b) Treasury Risk

Capital Risk continued

Regulatory capital requirements continued

(audited)

In accordance with the Banking (Capital) Rules under Basel III effective as of 31 December 2024, the Group used 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 used the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group used standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions. For credit valuation adjustment ('CVA'), the Group used standardised CVA method to calculate CVA capital charge. For market risk, the Group used 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 used 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 2024, 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 18 October 2024 and 31 December 2024 respectively. In its latest announcement, the HKMA reduced the CCyB for Hong Kong from 1.0% to 0.5% and maintained the D-SIB designation as well as HLA requirement at 1.0% for the Group.

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 adequacy at 31 December 2024

(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 will be 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 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$734m (31 December 2023: nil) .

We closely monitor and consider future regulatory change and continue to evaluate the impact upon our capital requirements of regulatory developments. The Basel III final reform package was implemented in Hong Kong on 1 January 2025, covering credit risk, operational risk, market risk, credit valuation adjustment and the output floor. The approaches outlined in the above Regulatory capital requirements will be updated to align with the new standards. 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.

(b) Treasury Risk

Capital Risk continued

Capital Base

(unaudited)

The following table sets out the composition of the Group's capital base under Basel III at 31 December 2024 and 31 December 2023. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets will be available in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

	2024	2023
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	152,799	151,744
– Shareholders' equity per balance sheet	169,522	168,131
– Additional Tier 1 ('AT1') perpetual capital instruments	(11,587)	(11,744)
– Unconsolidated subsidiaries	(5,136)	(4,643)
Non-controlling interests	–	–
– Non-controlling interests per balance sheet	42	53
– Non-controlling interests in unconsolidated subsidiaries	(42)	(53)
Regulatory deductions to CET1 capital	(32,394)	(29,485)
– Cash flow hedge reserve	134	37
– Changes in own credit risk on fair valued liabilities	(1)	(4)
– Property revaluation reserves*	(22,736)	(24,570)
– Regulatory reserve	(734)	–
– Intangible assets	(3,498)	(3,388)
– Defined benefit pension fund assets	(269)	–
– Deferred tax assets net of deferred tax liabilities	(389)	(481)
– Valuation adjustments	(161)	(153)
– Excess of total expected loss amount over total eligible provisions under the IRB approach	(4,740)	(926)
Total CET1 Capital	120,405	122,259
AT1 Capital		
Total AT1 capital before and after regulatory deductions	11,587	11,744
– Perpetual capital instruments	11,587	11,744
Total AT1 Capital	11,587	11,744
Total Tier 1 ('T1') Capital	131,992	134,003
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	10,507	11,275
– Property revaluation reserves*	10,231	11,056
– Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	276	219
Regulatory deductions to T2 capital	(1,045)	(1,045)
– Significant capital investments in unconsolidated financial sector entities	(1,045)	(1,045)
Total T2 Capital	9,462	10,230
Total Capital	141,454	144,233

* 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.

(b) Treasury Risk

Capital Risk continued

Risk-weighted assets by risk type

(unaudited)

	2024	2023
Credit risk	**595,975**	592,283
Market risk	**14,749**	19,898
Operational risk	**69,358**	62,088
Total	**680,082**	674,269

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:

	2024	2023
CET1 capital ratio	**17.7%**	18.1%
T1 capital ratio	**19.4%**	19.9%
Total capital ratio	**20.8%**	21.4%

In addition, the capital ratios of all tiers as of 31 December 2024 would be reduced by approximately 0.9 percentage point after the prospective fourth interim dividend payment for 2024 (31 December 2023: reduced by approximately 0.9 percentage point after the prospective fourth interim dividend payment for 2023). The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma 2024	Pro-forma 2023
CET1 capital ratio	**16.8%**	17.2%
T1 capital ratio	**18.5%**	19.0%
Total capital ratio	**19.9%**	20.5%

Leverage ratio

(unaudited)

	2024	2023
Leverage ratio	**8.0%**	8.5%
T1 capital	**131,992**	134,003
Exposure measure	**1,657,571**	1,568,958

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 will be available in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

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 will be available in the Regulatory Disclosures section of our website www.hangseng.com.

(b) Treasury Risk

Non-trading book foreign exchange exposures

Structural foreign exchange exposures

(unaudited)

Structural foreign exchange exposures arise from the capital invested or net assets in foreign operation. A foreign operation is an entity that is a subsidiary, branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those 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 structural and non-structural foreign currency positions, please refer to the Banking Disclosure Statement that will be 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 we do not have sufficient resources to meet our 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').

The Group has comprehensive policies, metrics and controls to manage liquidity and funding risk. The Group manages liquidity and funding risk at an operating entity level to make sure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group.

The Group is required to meet internal and applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that we 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 intra-day. The ILAAP supports determination of liquidity and funding risk appetite and also assesses the capability to manage liquidity and funding effectively. Liquidity and funding risk metrics are set and managed locally but are subject to global review and challenge to ensure consistency of approach and application of the Group's policies and controls.

(b) Treasury Risk

Liquidity and funding risk continued

Framework

(audited)

ALCM teams are responsible for the application of policies and controls at a local operating entity level. The elements of liquidity and funding risk management framework are underpinned by a robust governance framework, with the two major elements being:

- ALCOs at the Group and entity level; and
- Annual ILAAP support determination of risk appetite.

The Group is required to prepare an ILAAP document at appropriate frequency. Compliance with liquidity and funding requirements is monitored and reported to ALCO, RMM and Executive Committee on a regular basis. Liquidity and Funding Risk management processes include:

- 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.

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 provides independent assurance that risk is managed effectively.

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 Board-level 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;
- an ILM requirement;
- a minimum liquidity requirement in material currencies;
- a depositor concentration limit;
- cumulative term funding maturity concentration limit;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

(b) Treasury Risk

Liquidity and funding risk continued

Management of liquidity and funding risk continued

(audited)

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 2024, 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 2024, the NSFR of all the Group's principal operating entities were above the internally expected levels established by the Board.

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 2024, 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)

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

Additional collateral 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.

(b) Treasury Risk

Liquidity and funding risk continued

Management of liquidity and funding risk continued

(audited)

Liquidity and funding risk in 2024

(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 to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the reportable periods are as follows:

	Quarter ended							
	31 Dec 2024	**30 Sep 2024**	**30 Jun 2024**	**31 Mar 2024**	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
Average LCR	**335.2%**	**307.9%**	**277.2%**	**276.8%**	260.6%	240.1%	245.0%	276.7%

The liquidity position of the Group remained strong and above the statutory requirement of 100%. The average LCR increased from 260.6% for the quarter ended 31 December 2023 to 335.2% for the quarter ended 31 December 2024, 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.

	Weighted amount (average value) for the quarter ended							
	31 Dec 2024	**30 Sep 2024**	**30 Jun 2024**	**31 Mar 2024**	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
Level 1 assets	**484,743**	**428,247**	**393,516**	**379,665**	369,952	348,096	402,508	454,223
Level 2A assets	**11,355**	**9,739**	**10,125**	**10,378**	10,920	10,566	12,182	12,928
Level 2B assets	**3,486**	**4,144**	**3,544**	**3,187**	2,996	2,420	3,293	4,044
Total	**499,584**	**442,130**	**407,185**	**393,230**	383,868	361,082	417,983	471,195

The NSFR for the reportable periods are as follows:

	At quarter ended							
	31 Dec 2024	**30 Sep 2024**	**30 Jun 2024**	**31 Mar 2024**	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
NSFR	**181.0 %**	**178.5 %**	**168.2 %**	**171.7 %**	168.4 %	165.8 %	161.4 %	163.6 %

The funding position of the Group remained strong and stable in 2024. The NSFR was 181.0% at the quarter ended 31 December 2024 (168.4% as at 31 December 2023), 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 will be found in the Regulatory Disclosures section of our website www.hangseng.com.

(b) Treasury Risk

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 2024						
Deposits from banks	**14,261**	**21**	**–**	**–**	**–**	**14,282**
Current, savings and other deposit accounts	**837,711**	**307,991**	**95,288**	**5,326**	**–**	**1,246,316**
Repurchase agreements – non-trading	**18,416**	**994**	**–**	**–**	**–**	**19,410**
Trading liabilities	**18,093**	**–**	**–**	**–**	**–**	**18,093**
Derivative financial instruments	**13,159**	**155**	**(51)**	**220**	**–**	**13,483**
Financial liabilities designated at fair value	**14,871**	**13,311**	**9,401**	**1,525**	**242**	**39,350**
Certificates of deposit in issue	**471**	**4,502**	**22**	**–**	**–**	**4,995**
Other financial liabilities	**39,371**	**5,760**	**4,048**	**661**	**24**	**49,864**
Subordinated liabilities	**–**	**402**	**7,346**	**23,572**	**–**	**31,320**
	956,353	**333,136**	**116,054**	**31,304**	**266**	**1,437,113**
Loan commitments	**495,092**	**–**	**–**	**–**	**–**	**495,092**
Contingent liabilities and financial guarantee contracts	**22,848**	**–**	**–**	**–**	**–**	**22,848**
	517,940	**–**	**–**	**–**	**–**	**517,940**

	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

(b) Treasury Risk

Liquidity and funding risk continued

Analysis of cash flows payable under financial liabilities by remaining contractual maturities continued

(audited)

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. 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 one-year NII sensitivity across a range of interest rate scenarios.

The table below sets out the assessed impact to a hypothetical base case projection of our NII under an immediate shock of 100bps to the current market-implied path of interest rates across all currencies on 1 January 2025 (effects in the coming 12 months).

NII sensitivity figures 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.

An immediate interest rate rise of 100bps would increase projected NII for the 12 months to 31 December 2025 by HK$1,488m. An immediate interest rate fall of 100bps would decrease projected NII for the 12 months to 31 December 2025 by HK$2,139m.

The sensitivity of NII for 12 months as at 31 December 2024 decreased by $298m in the plus 100bps parallel shock and by $67m in the minus 100bps parallel shock, when compared with 31 December 2023. The key drivers of the reduction in NII sensitivity are the increase in stabilisation activities in line with our strategy.

(b) Treasury Risk

Interest Rate Risk in the Banking Book continued

Net interest income sensitivity continued

(audited)

The expected net interest income sensitivity is described as follows:

	Change in 2025 expected net interest income		Change in 2024 expected net interest income	
	100bp parallel increase	100bp parallel decrease	100bp parallel increase	100bp parallel decrease
– HKD	612	(923)	895	(1,038)
– USD	(67)	(111)	191	(213)
– Other	943	(1,105)	701	(955)
Total	1,488	(2,139)	1,787	(2,206)

Economic value of equity sensitivity

(unaudited)

Economic value of equity ('EVE') measures the present value of our banking book assets and liabilities excluding equity, based on a run-off balance sheet. Economic value of equity sensitivity measures the impact to EVE from a movement in interest rates, including the assumed term profile of non-maturing deposits having adjusted for stability and price sensitivity. 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.

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.

(b) Treasury Risk

Interest Rate Risk in the Banking Book continued

Sensitivity of reserves continued

(audited)

	At 31 December 2024	Maximum impact	Minimum impact
+ 100 basis points parallel move in all yield curves	**(2,338)**	**(2,338)**	**(896)**
As a percentage of shareholders' equity at 31 December 2024 (%)	**(1.38)**	**(1.38)**	**(0.53)**
- 100 basis points parallel move in all yield curves	**2,373**	**2,373**	**956**
As a percentage of shareholders' equity at 31 December 2024 (%)	**1.40**	**1.40**	**0.56**

	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

(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. Market risk arises from both trading portfolios and non-trading portfolios.

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.

Key developments in 2024

(unaudited)

There were no material changes to our policies and practices for the management of market risk in 2024.

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.

(c) Market risk

Governance and structure continued

(unaudited)

Market risk is managed and controlled through limits approved by the Group Chief Risk and Compliance Officer. These limits are allocated across business lines and to the Group's legal entities. Each major operating entity 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 local Global Markets unit 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 derivative products to only those offices with appropriate levels of product expertise and 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 movements in individual market factors 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.

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.

(c) Market risk

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 and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR.

Stress testing is implemented at legal entity and overall Group levels. A set of scenarios is used consistently across the Group. The market risk stress testing incorporates both historical and hypothetical events. Market risk reverse stress tests are designed to identify vulnerabilities in the portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be local or idiosyncratic in nature and complement the systematic top-down stress testing.

The risk appetite around potential stress losses for the Group is set and monitored against limits.

Trading portfolios

(unaudited)

Market risk in 2024

(unaudited)

It was a busy year on the political agenda, with the November US election being the main event. Geopolitics remained prominent amid ongoing tensions in the Middle East and the Russia-Ukraine conflict. Major central banks began their easing cycles in 2024, with the US Federal Reserve cutting its policy rate by 1% since September. In contrast, the Bank of Japan raised its overnight rate, marking the end of a prolonged period of negative interest rates and abandoning yield curve control in March.

Throughout the year, government bond yields generally trended upward, except during the third quarter, largely driven by volatile inflation figures and shifting central bank expectations. In China, the yields of Chinese government bonds slipping to decade lows driven by expectations on aggressive policy easing and demand for safe haven assets. Global equities reached multiple record highs in the US and Europe, buoyed by strong corporate earnings and positive sentiment in the technology sector. Global markets rebounded from a short period of volatility in August, triggered by the unwinding of carry trades due to rising Japanese government bond yields, US recession concerns, and equity market valuations. In foreign exchange markets, the trend of a strengthening US dollar continued against most developed and emerging market currencies. The Euro approached parity with the US dollar, while the Yen weakened to multi-decade lows. Credit markets performed positively throughout the year, with a more pronounced tightening of high-yield credit spreads compared to investment-grade spreads, despite a broad widening of spreads in August.

We continued to manage market risk prudently during 2024. 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.

(c) Market risk

Trading portfolios continued

(unaudited)

VaR 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 2024 was lower comparing to that on 31 December 2023, mainly driven by interest rate trading portfolio.

The table below shows the Group's trading VaR for the following periods.

Trading value at risk, 99% 1 day[1]

(unaudited)

	At 31 December 2024	Maximum during the year	Average for the year	At 31 December 2023	Maximum during the year	Average for the year
VaR						
Total	**26**	**55**	**40**	38	58	42
Foreign exchange trading	**14**	**35**	**18**	8	11	5
Interest rate trading	**32**	**74**	**51**	34	57	43
Credit spread trading	**1**	**3**	**1**	0	1	1
Portfolio diversification[2]	**(21)**	**N/A**	**(30)**	(4)	N/A	(7)

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.

(c) Market risk

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 necessarily 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 2024 and 2023 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 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, action 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, regulatory compliance and litigation risks:

- net zero alignment risk, which arises from the risk of failure to meet HSBC Group's 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.

(d) Climate risk

(unaudited)

Overview continued

Approach

The table below provide an overview of the climate risk drivers considered with the climate risk approach.

Climate Risk – Primary Risk

<table>
<tr><th colspan="2">Drivers</th><th>Details</th><th>Potential Impacts</th><th>Time horizons</th></tr>
<tr><td rowspan="2">Physical</td><td>Acute</td><td>Increased frequency and severity of weather events causing disruption to business operations</td><td rowspan="6">• 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</td><td rowspan="6">Short term
Medium term
Long term</td></tr>
<tr><td>Chronic</td><td>Longer-term shifts in climate patterns (e.g. sustained higher temperatures, sea level rise, shifting monsoons or chronic heat waves)</td></tr>
<tr><td rowspan="4">Transition</td><td>Policy and legal</td><td>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</td></tr>
<tr><td>Technology</td><td>Replacement of existing products with lower emission options</td></tr>
<tr><td>End-demand (market)</td><td>Changing consumer demand from individuals and corporates</td></tr>
<tr><td>Reputational</td><td>Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction</td></tr>
</table>

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.

The climate risk approach aims to effectively manage the material climate risks that could impact bank operations, financial performance and stability, and reputation. The approach is informed by the evolving expectations of the regulators.

Continuous development on our climate risk capabilities across our businesses, by prioritising sectors, portfolios and counterparties with the highest impacts. We continue to make progress in enhancing our climate risk capabilities and recognise it is a long-term iterative process.

The approach will be regularly reviewed to increase coverage and incorporate maturing data, climate analytics capabilities, frameworks and tools, as well as respond to emerging industry best practice and climate risk regulations.

The climate risk approach is aligned to the HSBC Group-wide risk management framework and three lines of defence model, which sets out how the group identifies, assesses and manages its risks. For further details of the three lines of defence framework, see page 38.

(d) Climate risk

(unaudited)

Overview continued

Approach continued

The Group conducts climate risk materiality assessment annually to help it to understand how climate risk may impact across HSBC's Group risk taxonomy. The assessment considers short-term (up to 2026), medium-term (2027-2035) and long-term (2036-2050) periods. The table below provides a summary of how climate risk may impact a subset of the Group's principal risks.

Climate risk drivers	Credit risk	Traded risk	Reputational risk[1]	Regulatory compliance risk[1]	Resilience risk	Other financial and non-financial risk types
Physical risk	▲	▲			▲	▲
Transition risk	▲	▲	▲	▲	▲	▲

1 The HSBC Group's climate risk approach identifies thematic issues such as net zero alignment risk and the risk of greenwashing, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks.

Climate risk management

Key developments in 2024

The following outlines our key developments in 2024:

- Enhanced approach in assessing the impact of climate change on capital, focusing on credit, market and operational risk.
- Transition Engagement Questionnaire has been rolled out to key wholesale customers and enhanced climate risk considerations into credit risk assessments.
- Completed the HKMA long-term climate risk scenario analysis.
- Started to embed the HSBC Group's enhanced approach for managing and mitigating the risk of greenwashing.
- Climate-related training has been provided to Board and senior management, and supported staff upskilling through climate risk related professional certifications as well as internal training.

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.

Governance and structure

The Board takes overall supervisory 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 climate risk indicators, which are reported for oversight by the Risk Management Meeting and the Risk Committee.

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.

(d) Climate risk

(unaudited)

Embedding the climate risk approach

The table below provides further details on how the management of climate risk has been embedded across key risk types.

Risk type	Details
Wholesale Credit Risk	The Group has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors which are: automotive, chemicals, construction and building materials, metals and mining, oil and gas, and power and utilities. The relationship managers engage with their key wholesale customers through a transition engagement questionnaire (formerly the transition and physical risk questionnaire) to gather and assess information about the alignment of customers' business models to net zero economy and their exposure to physical & transition risks. Responses from the questionnaire are utilised to create a climate risk score for its key wholesale customers. The Group's credit policies require relationship managers to comment on climate risk factors in credit applications for new money requests and annual credit reviews. The policies also 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 developments in 2024 include the roll-out of the transition engagement questionnaire. Also, climate risk guidelines has been developed for relationship managers to further embed climate risk considerations into credit risk assessments. 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 wholesale customers.
Retail Credit Risk	Climate risk may impact retail credit risk through an increase in credit losses on our retail mortgage portfolio due to the impact of physical risk. The retail credit risk mortgage policy requires to conduct an annual review of climate risk management procedures, to ensure they remain fit for purpose. Within the mortgage portfolios, properties or areas with potential heightened physical risk are identified and assessed locally with exposure monitored using risk indicators. A reduction in property value, higher insurance costs and insurance availability are potential future financial impacts for higher risk properties. Additionally, retail credit risk will follow the Group's guidance to implement physical risk assessment at mortgage origination for retail customer by 2025.
Treasury Risk	Climate risk may impact Treasury Risk through increased regulatory requirements and from changes to customer behaviours, which may result in increased deposit outflows. From a capital risk perspective, climate risk has been considered as part of the internal capital adequacy assessment ('ICAAP') in 2024. Treasury portfolios were included within scope of the Hong Kong Monetary Authority's Climate Risk Stress Test ('CRST'), the impacts of which were considered as part of the ICAAP. Internal Liquidity Adequacy Assessment Process ('ILAAP') included assessment of how climate risk may impact the key liquidity risk drivers and identify potential impact of climate risk exposures. In October 2024, HSBC Group published Green Financing Framework, in alignment with the International Capital Market Association Green Bond Principles. This framework promotes transparency, forming part of our sustainability strategy and helping to further our aim of supporting our clients in transitioning to a net zero future. **Pension Risk** Climate risk could result in additional costs within the Group's defined benefit pension plans, due to changes in the pension plans' investment performance or through having to meet evolving regulatory requirements. The Group's global policies on the oversight of pension investments explicitly reflect climate considerations. HSBC Group has provided training on how to consider ESG risk in pension investments. HSBC Group also conducts an annual exercise to estimate the exposure of its largest pension plans (including the Group) to climate risk.

(d) Climate risk

(unaudited)

Embedding the climate risk approach continued

Risk type	Details
Traded Risk	Climate risk may result in trading losses due to increases in market volatility and widening spreads from the macro and microeconomic impacts of transition and physical risk. We have implemented climate risk limits in Group trading mandates to monitor exposure to climate-sensitive sectors and countries across different asset classes in the Markets and Securities Services ('MSS') business. Our market risk policies include specific climate risk control requirements, which ensure that our climate risk limits and utilisations are monitored in the same way as market and traded credit risk exposures. We conduct monthly stress testing to understand the vulnerabilities of our trading portfolio to various climate scenarios, which are refined on an annual basis, with the results reported to global and regional senior management.
Reputational Risk	Reputational impact of climate risk has been managed through its broader reputational risk framework supported by sustainability risk policies and metrics. The sustainability risk policies set out its appetite for financing activities in certain sectors. The thermal coal phase-out and energy policies aim to drive down greenhouse emissions while supporting a just transition.
Regulatory Compliance Risk	Regulatory Compliance is responsible for the oversight and management of climate-related risks that could cause breaches of our regulatory duties to customers and inappropriate market conduct, ensuring fair customer outcomes are achieved. The Group has updated its policies to incorporate considerations for ESG and climate risks, particularly in relation to new and ongoing product management, sales outcomes, and product marketing. To support its key policies, the Group also enhanced the underlying control frameworks and processes. This includes the integration of greenwashing risk and controls considerations in the design of new products and changes to them, as well as in relation to marketing materials. From a product sales perspective, the Group has established key control principles and desired outcomes throughout the sales lifecycle, encompassing the sales journey design, training and competence, supervision, sales quality, and governance. The HSBC Group operate an ESG and climate risk working group tasked with tracking and monitoring the integration of ESG and climate risk stewardship across its operations. This also monitors regulatory and legislative developments related to the ESG and climate agenda. A similar working group is in place for the Group.
Resilience Risk	Resilience risks may potentially crystallise through physical climate risk impacts to the group's buildings supporting service provision, or through physical and/or transition disruption to the group's third party supply chain relationships. The Group has developed metrics to assess how physical risk may impact its critical properties and to monitor progress against its own operations net zero ambitions. The Group's resilience risk policies are subject to continuous improvement to remain relevant to evolving climate risks.
Model Risk	Model risk in ESG context refers to the uncertainties and complexities inherent in the modelling of the financial impact translation of climate related changes and scenarios. Climate risk models are used for climate scenario analysis and risk management among other use cases. Climate risk modelling is at a nascent stage, with challenges - including limitations in data availability, consistency and quality-shared across the financial industry. It is important that limitations in models should be clearly identified, understood and, where possible, mitigated to support effective decision making. HSBC Group has developed model risk procedures that set out the minimum control requirements for identifying, measuring and managing model risk for climate-related models. All the identified climate-related models are subject to HSBC Group model lifecycle controls and policy.

(d) Climate risk

(unaudited)

Challenges

While the Group has continued to develop its climate risk capabilities, its remaining challenges include:

- the diverse range of internal and external data sources and data structures needed for climate related reporting, which introduces data accuracy and reliability risks;
- data limitations on customer assets and supply chains, and methodology gaps, which hinder the Group's ability to assess physical risks accurately;
- industry-wide data gaps on customer emissions and transition plan and methodology gaps, which limit its ability to assess transition risks accurately; and
- limitations in the management of net zero alignment risk due to known and unknown factors, including the limited accuracy and reliability of data, merging methodologies, and the need to develop new tools to better inform decision making.

(e) Resilience risk

(unaudited)

Overview

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

Resilience risk management

Key developments in 2024

The Enterprise Risk Management 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 continued to monitor markets affected by the Russia-Ukraine and Israel-Hamas wars, as well as other geopolitical events, for any potential impact they may have on our colleagues and operations;
- We provided analysis and easy-to-access risk and control information and metrics to enable management to focus on non-financial risks 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
- We prioritize our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

The Enterprise Risk Management target operating model provides a 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 seven sub-risk types related to: third party risk; technology and cyber security risk; transaction processing risk; business interruption and incident risk; data risk; change execution risk; and facilities availability, safety and security risk.

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.

(e) Resilience risk

(unaudited)

Resilience risk management continued

Operational Resilience

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 business 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.

Regulatory compliance risk management

Key developments in 2024

Regulatory horizon scanning and mapping capabilities continue to evolve with a focus on enhanced connectivity to Risk management systems to support better traceability of regulatory obligations to control performance. We have enhanced our processes, framework, and governance capabilities to improve the controls and oversight of regulatory compliance risks. Work is underway to transition from event driven technology to incorporate Cloud and analytics capability to enhance our oversight abilities in areas such as surveillance.

Governance and structure

The Head of Regulatory Compliance continues to report to the Chief Risk and Compliance Officer. 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 2024

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 various financial sanctions and trade restrictions, 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 Personal 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 ISO 20022 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 structure of the Financial Crime function remained substantively unchanged in 2024, although we continued to review the effectiveness of our governance framework to manage financial crime risk. The Head of Financial Crime and Money Laundering Reporting Officer continues to report 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.

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 law and regulation.

We are committed to complying with the laws and regulations 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 and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have simplified our framework and consolidated previously separate, financial crime policies into a single global financial crime policy to drive consistency and provide a more holistic assessment of financial crime risk. We further strengthened our financial crime risk taxonomy and control libraries and our monitoring capabilities through technology deployments. We developed more targeted metrics, and continued to seek to enhance our 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 2024, our focus remained on measures to improve the overall effectiveness of the financial crime framework.

(h) Model risk

(unaudited)

Overview

Model risk is the risk of 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 2024

Updating Model Risk Management Framework to meet the requirements of the Prudential Regulation Authority's ('PRA') Supervisory Statement ('SS') 1/23, where a programme of work is in progress to implement these changes across model landscape.

Completing a full review of Model Tiering across the organisation, assessing the materiality and complexity of all models and assigning a new tier which will drive the level of oversight required at model level.

Introducing a new framework to govern and manage the risks associated with Deterministic Quantitative Methods, these are complex and material calculators which present similar risks as models.

Following feedback from the PRA and HKMA on a number of model submissions for internal ratings-based ('IRB') models, a programme of work is being delivered to address and redevelop a number of the IRB models for wholesale credit.

Completion of independent validation of models being submitted for regulatory approval, including the first tranche of models for the Fundamental Review of the Trading Book.

Working closely with the Businesses and Functions in developing a governance framework to manage the range of risks Artificial Intelligence and Machine Learning techniques can introduce.

Governance

Model oversight forums provide oversight of models used in the Group to oversee model risk management activities based on associated types of models 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.

(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 insurance business

(unaudited)

We sell insurance products through a range of channels including our branches, direct channels and third-party distributors. The majority of sales are through an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship, although the proportion of sales through other sources such as independent brokers and digital platforms is increasing.

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 predominantly by WPB through our branches and direct channels.

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.

(i) Insurance manufacturing operation risk

Measurement

(audited)

The following table shows the composition of assets and liabilities by type of contract:

Balance sheet of insurance manufacturing subsidiary by type of contract[5]

(audited)

	Life direct participating contracts[1]	Life other[2]	Other contracts[3]	Shareholders' assets and liabilities	Total
At 31 December 2024					
Financial assets:					
– financial assets mandatorily measured at fair value through profit or loss	155,400	8,680	43	100	164,223
– derivative	152	8	–	1	161
– financial investments	–	–	186	8,698	8,884
– other financial assets[4]	9,576	535	40	1,071	11,222
Total financial assets	165,128	9,223	269	9,870	184,490
Insurance contract assets	–	3	–	–	3
Reinsurance contract assets	–	12,867	–	–	12,867
Other assets and investment properties	5,843	318	3	3,966	10,130
Total assets	170,971	22,411	272	13,836	207,490
Liabilities under investment contracts designated at fair value	–	–	245	–	245
Insurance contract liabilities	178,475	9,970	–	–	188,445
Reinsurance contract liabilities	–	1,002	–	–	1,002
Deferred tax	–	–	–	10	10
Derivative financial instruments	151	9	–	–	160
Other liabilities	3,382	187	1	2,914	6,484
Total liabilities	182,008	11,168	246	2,924	196,346
Total equity	–	–	–	11,144	11,144
Total liabilities and equity	182,008	11,168	246	14,068	207,490

(i) Insurance manufacturing operation risk

Measurement continued

(audited)

Balance sheet of insurance manufacturing subsidiary by type of contract[5] continued

(audited)

	Life direct participating contracts[1]	Life other[2]	Other contracts[3]	Shareholders' assets and liabilities	Total
At 31 December 2023					
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

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.

(i) Insurance manufacturing operation risk

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.

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.

(i) Insurance manufacturing operation risk

Key Risk Types continued

Market risk (insurance) continued

(audited)

Sensitivity of the Group's insurance manufacturing subsidiary to market risk factors

	2024			2023		
	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]	136	39	39	112	(3)	(3)
–100 basis point parallel shift in yield curves[1]	(637)	(74)	(74)	(697)	(10)	(10)
+100 basis point shift in credit spreads[1]	(1,153)	(236)	(236)	(1,284)	(285)	(285)
–100 basis point shift in credit spreads[1]	1,187	316	316	1,231	365	365
10% increase in growth assets[2]	713	94	94	603	93	93
10% decrease in growth assets[2]	(785)	(101)	(101)	(632)	(96)	(96)
10% appreciation in US dollar exchange rate against local functional currency[3]	33	(1)	(1)	18	–	–
10% depreciation in US dollar exchange rate against local functional currency[3]	(33)	1	1	(18)	–	–

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

3 For the sensitivity to USD exchange rate, the extent of change is limited by the impact of the HKD to USD peg.

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 method used for deriving sensitivity information and significant market risk factors remain unchanged except for updates made to the FX risk methodology which now limits the impacts to within more recent historical ranges. 2023 comparative sensitivities have been updated to reflect this change.

The relationship between the profit and total equity and the risk factors is non-linear and non-symmetrical, 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.

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.

(i) Insurance manufacturing operation risk

Key Risk Types continued

Credit risk (insurance) continued

(audited)

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 (2023: 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.

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 and conducting stress testing to understand the impact on liquidity in the event of a mass lapse.

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

(i) Insurance manufacturing operation risk

Key Risk Types continued

Liquidity risk (insurance) continued

(audited)

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

Amounts Payable on Demand

(audited)

	2024		2023	
	Amounts Payable on Demand	**Carrying Amount for these Contracts**	Amounts Payable on Demand	Carrying Amount for these Contracts
Life direct participating contracts	**168,930**	**178,518**	147,593	158,655
Life other contracts	**7,887**	**9,963**	6,384	8,609
At 31 December	**176,817**	**188,481**	153,977	167,264

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 the methodology and assumptions that underpin HKFRS 17 reporting by our insurance manufacturing subsidiary's Actuarial Review Committee.

(i) Insurance manufacturing operation risk

Key Risk Types 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 (net)[3]	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 2024					
5% increase in mortality and/or morbidity rates[4]	**(77)**	**(9)**	**(16)**	**(9)**	**(16)**
5% decrease in mortality and/or morbidity rates[4]	**76**	**9**	**16**	**9**	**16**
10% increase in lapse rates	**(270)**	**(27)**	**(34)**	**(27)**	**(34)**
10% decrease in lapse rates	**292**	**28**	**35**	**28**	**35**
10% increase in expense rates	**(20)**	**(1)**	**(1)**	**(1)**	**(1)**
10% decrease in expense rates	**24**	**1**	**1**	**1**	**1**
At 31 December 2023					
5% increase in mortality and/or morbidity rates[4]	(72)	(13)	(23)	(13)	(23)
5% decrease in mortality and/or morbidity rates[4]	77	13	23	13	23
10% increase in lapse rates	(195)	(30)	(40)	(30)	(40)
10% decrease in lapse rates	206	31	41	31	41
10% increase in expense rates	(21)	–	–	–	–
10% decrease in expense rates	22	1	1	1	1

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.

3 The above CSM sensitivities have been presented on a net basis to reflect the re-insurance arrangements entered into by the insurance manufacturing subsidiary as part of its operational business model. The comparative figures have been re-presented accordingly.

4 During 2024, we have revised the sensitivity to mortality and morbidity rates from 10% to 5% to align with reasonable foreseeable changes, and the comparatives have been restated accordingly.

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 (71)

Independent Non-executive Chairman

N A R Rm

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

^ **Hysan Development Company Limited**
– Executive Chairman; Chairman of Nomination Committee

The Better Hong Kong Foundation
– Member of the Board of Trustees

The Hongkong and Shanghai Banking Corporation Limited
– Independent Non-executive Director; Chairman of Remuneration Committee

30% Club HK – Chairman

Past major appointments

The Hongkong and Shanghai Banking Corporation Limited
– Member of Audit Committee (2014 – 2024)
Member of Risk Committee (2016 – 2024)

Hong Kong Monetary Authority
– Member of The Exchange Fund Advisory Committee (2018 – 2024)

^ **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

● Committee Chairman A Audit Committee R Risk Committee N Nomination Committee Rm Remuneration Committee

Diana Ferreira CESAR JP (56)

Executive Director
and Chief Executive

N

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

^ **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**
– Managing Director (Note 1)

The Community Chest of Hong Kong
– Board Member; Second Vice President and Campaign Committee Chairman; 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

Women's Commission (Note 1)
– Non-official Member; Member of Working Group on Public Education and Promotion

Past major appointments

Financial Services Development Council
– Member of Board of Directors (2019 – 2025) (Note 1)
Convenor of Human Capital Committee (2023 – 2025) (Note 1)

The Community Chest of Hong Kong
– Chairman of Corporate and Employee Contribution Programme Organising Committee (2023 – 2024)

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

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

Edward CHENG Wai Sun GBS JP (69)

Independent Non-executive Director (Note 1)

N A R Rm

Joining the Board in April 2025

Other positions held within Hang Seng Group

^ **Hang Seng Bank Limited** (Note 1)
– Member of Nomination Committee;
Member of Audit Committee;
Member of Risk Committee;
Member of Remuneration Committee

Other major appointments

Justice of the Peace
Culture Commission – Member
HKSH Medical Group Limited
– Member of Clinical Governance Committee
Lanson Place Hospitality Management Limited
– Chairman; Director
The Hongkong and Shanghai Banking Corporation Limited
– Independent Non-executive Director; Member of Risk Committee;
Member of Remuneration Committee
^ **Wing Tai Properties Limited**
– Deputy Chairman; Chief Executive; Executive Director;
Member of Nomination Committee

Past major appointments

The Hong Kong Academy for Performing Arts
– Council Chairman (2022 – 2023)
Standard Chartered Bank (Hong Kong) Limited
– Independent Non-executive Director (2014 – 2023)
Securities and Futures Commission
– Non-executive Director and Member of various Committees (2017 – 2022)
Chief Executive's Council of Advisers on Innovation and Strategic Development
– Member (2018 – 2022)
^ **Orient Overseas (International) Limited**
– Independent Non-executive Director (2009 – 2018)
The Airport Authority Hong Kong
– Board Member (2011 – 2017)
The University Grants Committee
– Chairman (2011 – 2015)
^ **Television Broadcasts Limited**
– Independent Non-executive Director (2006 – 2014)
Independent Commission Against Corruption
– Member of Advisory Committee on Corruption (2004 – 2009)
Urban Renewal Authority
– Chairman (2004 – 2007)
† **SUNDAY Communications Limited**
– Founder; Co-Chairman (1999 – 2005)
^ **The Wharf (Holdings) Limited**
– Executive Director, Finance Director and various positions in Investment (1987 – 1994)
Hutchison Whampoa Limited
– Various positions in China Projects (1985 – 1987)
Slaughter and May (HK and UK)
– Solicitor, specialising in corporate finance, and mergers and acquisitions (1979 – 1984)

Qualifications

Solicitor – Hong Kong; London
Master of Arts – University of Oxford, UK
Bachelor of Arts in Jurisprudence – University of Oxford, UK
Bachelor of Arts in Economics and Politics – Cornell University, USA

Major awards

Gold Bauhinia Star (2018)

Committee Chairman · A Audit Committee · R Risk Committee · N Nomination Committee · Rm Remuneration Committee

Cordelia CHUNG (65)

Independent
Non-executive Director

Rm N

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.**
– Independent Non-executive Chairman (Note 1); Chairman of Nomination Committee (Note 1); Chairman of Remuneration Committee (Note 1); Member of Audit Committee (Note 1)

HKSTP Foundation Limited – Member of the Board

^ **Hysan Development Company Limited**
– Independent Non-executive Director; Chairman of Remuneration Committee; Member of Nomination Committee

Maryknoll Convent School Foundation Limited – Chairman

Raymond T. Y. Chan, Victoria Chan & Co. – Consultant

Past major appointments

Human Resources Planning Commission of HKSAR Government
– Member (2018 – 2024) (Note 1)

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 (50)

Non-executive Director

Joined the Board since May 2019

Other major appointments

^ **HSBC Holdings plc**
– Managing Director (Note 1); Group Financial and Business Integration Lead (Note 1)

Past major appointments

^ **HSBC Holdings plc**
– Head of Finance, Global Businesses, DBS and Functions (2023 – 2024) (Note 1)
Head of Finance (2019 – 2023)

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

^ The securities of these companies are listed on a securities market in Hong Kong or overseas.
# The securities of this company have been previously listed on a securities market in Hong Kong or overseas.
† The securities of this company (which has been dissolved) have been previously listed on a securities market in Hong Kong or overseas.

Clement KWOK King Man (65)

Independent
Non-executive Director

A

Joined the Board since May 2021

Other positions held within Hang Seng Group

^ **Hang Seng Bank Limited** – Chairman of Audit Committee

Other major appointments

^ **Chen Hsong Holdings Limited** (Note 1)
– Independent Non-executive Director; Member of Audit Committee; Member of Corporate Governance Committee; Member of Nomination Committee
CUHK Business School of The Chinese University of Hong Kong
– Chairman of the Advisory Committee on Hotel and Tourism Management (Note 1)
Faculty of Business and Economics of The University of Hong Kong
– Member of International Advisory Council
^ **The Hongkong and Shanghai Hotels, Limited**
– Executive Director and Advisor to the CEO (Note 1)
World Travel & Tourism Council – Council Member

Past major appointments

^ **The Hongkong and Shanghai Hotels, Limited**
– Managing Director and Chief Executive Officer (2002 – 2024) (Note 1)
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 – Institute of Chartered Accountants in England and Wales
Fellow – 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 (58)

Independent
Non-executive Director

N Rm

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
M Plus Museum Limited
– Non-West Kowloon Cultural District Authority Board Member (Note 1)
^ **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

Committee Chairman   A Audit Committee   R Risk Committee   N Nomination Committee   Rm Remuneration Committee

David LIAO Yi Chien JP (52)

Non-executive Director

N

Joined the Board since September 2021

Other positions held within Hang Seng Group

^ **Hang Seng Bank Limited** – Member of Nomination Committee

Other major appointments

Justice of the Peace
Advisory Committee on Attracting Strategic Enterprises of HKSAR Government
– Non-official Member
Advisory Committee on the Northern Metropolis of HKSAR Government
– Non-official Member
^ **Bank of Communications Co., Ltd.**
– Non-executive Director; Member of Personnel and Remuneration Committee
Chinese People's Political Consultative Conference
– Member of Beijing Municipal Committee
Federation of Hong Kong Beijing Organisations Limited
– Member of Standing Committee
Hong Kong General Chamber of Commerce
– Member of General Committee
Hong Kong Monetary Authority
– Member of The Exchange Fund Advisory Committee
HSBC Bank (China) Company Limited
– Chairman and Non-executive Director; Member of Nomination Committee; Member of Remuneration Committee
^ **HSBC Holdings plc**
– Managing Director (Note 1); Member of Group Operating Committee (Note 1); Member of Group People Committee; Member of Group Risk Management Meeting; Member of Holdings Asset and Liability Committee
HSBC Philanthropy Foundation Beijing (Note 1)
– Council Member and Honorary Chairman
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 Holdings plc**
– Member of Group Executive Committee (2021 – 2024) (Note 1)
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
Honorary Certified Banker – The Hong Kong Institute of Bankers

LIN Huey Ru (49)

Independent Non-executive Director

R

Joined the Board since July 2022

Other positions held within Hang Seng Group

^ **Hang Seng Bank Limited** – Member of Risk Committee

Other major appointments

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

GGV Capital Pte. Ltd. – Venture Partner (2021 – 2024)
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

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

SAW Say Pin (57)

Executive Director and Chief Financial Officer

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 (57)

Independent Non-executive Director

R A

Joined the Board since February 2022

Other positions held within Hang Seng Group

^ **Hang Seng Bank Limited**
– Chairman of Risk Committee;
Member of Audit Committee

Other major appointments

^ **Cathay Pacific Airways Limited**
– Independent Non-executive Director;
Chair of Audit Committee;
Member of Board Risk Committee
^ **Transport International Holdings Limited** (Note 1)
– Independent Non-executive Director;
Member of Audit and Risk Management Committee

Past major appointments

^ **Worley Limited**
– Independent Non-executive Director;
Member of Audit and Risk Committee;
Member of Nominations Committee (2011 – 2024)
^ **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

● Committee Chairman A Audit Committee R Risk Committee N Nomination Committee Rm Remuneration Committee

Catherine ZHOU Rong (51)

Non-executive Director (Note 1)

Joined the Board since October 2024

Other major appointments

HSBC Group Management Services Limited
– Chief Information Officer, International Wealth and Premier Banking (Note 1)
HSBC UK Bank plc – Interim Chief Information Officer (Note 1)
MP Payments Group Limited – Executive Director

Past major appointments

HSBC FinTech Services (Shanghai) Company Limited
– Non-executive Director (2023 – 2025) (Note 1)
HSBC Group Management Services Limited
– Global Chief Information Officer, Wealth and Personal Banking (2022 – 2024) (Note 1)
Group Head of Innovation, Ventures and Partnerships (2020 – 2023)
East West Bank
– Executive Vice President, Head of Consumer Banking and Digital Banking (2017 – 2020)
PricewaterhouseCoopers – Partner (2013 – 2017)

Qualifications

Master of Business Administration – Carnegie Mellon University, USA
Master of Science – University of Science and Technology Beijing
Bachelor of Engineering and Master of Engineering
– University of Science and Technology Beijing

Notes:

1 New appointments or cessation of appointments since the date of the Bank's 2024 Interim Report or the date of announcement for the appointment of Director issued by the Bank subsequent to the date of the Bank's 2024 Interim Report as required to be disclosed under Rule 13.51B of the Rules Governing the Listing of Securities on the Stock Exchange.

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 2024 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 13 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 (https://www.hangseng.com/en-hk/about/board-of-directors/).

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

Senior Management

1 **Rannie LEE Wah Lun**
Head of Wealth and Personal Banking

2 **Diana Ferreira CESAR** JP
Executive Director and Chief Executive

5 **Betty LAW Shuk Man**
Head of Corporate Communications and Community Investments

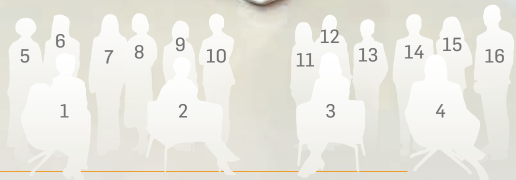
6 **Mabel CHU Wing Lui**
General Counsel

7 **Shelley ZHOU Wenwen**
Head of Corporate Sustainability

8 **Kathy CHEUNG Ka Wai**
Chief Risk and Compliance Officer

9 **Rose CHO Mui**
Head of Global Banking

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



3 **SAW Say Pin**
Executive Director and Chief Financial Officer

4 **Regina LEE Sau Yee**
Head of Commercial Banking

11 **Liz CHOW Tan Ling**
Head of Global Markets

12 **Gloria HO Lok Sze**
Head of Human Resources

13 **Vivien CHIU Wai Man**
Chief Operating Officer

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

15 **Maggie CHEUNG Ka Ki**
Company Secretary and
Head of Corporate Governance

16 **Jordan CHEUNG Wang Chun**
Chief Marketing Officer

Senior Management

Diana Ferreira CESAR JP

Executive Director and Chief Executive
(Biographical details are set out on page 113)

SAW Say Pin

Executive Director and Chief Financial Officer
(Biographical details are set out on page 118)

Jordan CHEUNG Wang Chun (41)

Chief Marketing Officer
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 appointments

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 (55)

Chief Risk and Compliance Officer
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 appointments

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 (47)

Company Secretary and Head of Corporate Governance

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 appointments

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 (60)

Chief Operating Officer

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 appointments

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 (53)

Head of Global Banking

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 Hainan Province Committee of the Chinese People's Political Consultative Conference
– Member

Past major appointments

The Community Chest of Hong Kong
– Dress Casual Day Organising Committee Co-Chairman;
Member of Campaign Committee (2021 – 2024)

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)

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 (51)

Head of Global Markets

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

City University of Hong Kong – Member of Investment Sub-Committee
Treasury Markets Association – Member of Executive Board

Past major appointments

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

Mabel CHU Wing Lui (54)

General Counsel

Joined the Bank since February 2024

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
Haseba Investment Company Limited – Director

Other major appointments

Hong Kong Digital Finance Association
– Co-Chair of Regtech Committee
Association of Family Offices in Asia
– Executive Vice-Chairman, Strategy and Technology Enablement

Past major appointments

Ping An OneConnect Bank (Hong Kong) Limited
– Deputy Chief Executive (Functions) (2019 – 2023)
Comprador Limited – Managing Director (2018 – 2019)
E.I. Sturdza Investments (Asia) Limited
– Chief Operating Officer (2014 – 2016)
Baring Private Equity Asia
– Compliance Director (2013 – 2014)
Standard Chartered Bank (Hong Kong) Limited
– Chief Operating Officer and Managing Director, Principal Finance – Real Estate (2007 – 2010)
Group Legal Counsel, M&A/Corporate – Head of Greater China and Vice-Head of Asia Pacific (2005 – 2007)
The Hongkong and Shanghai Banking Corporation Limited
– Legal Adviser, Asia Pacific (2000 – 2005)

Qualifications

Bachelor of Laws
– King's College, University of London, UK
Solicitor
– High Court of Hong Kong;
Supreme Court of England and Wales
Certified Management Accountant
– Institute of Certified Management Accountants, Australia (Hong Kong branch)

Gloria HO Lok Sze (46)

Head of Human Resources

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

Past major appointments

The Community Chest of Hong Kong
– Co-Chairman of Corporate and Employee Contribution Programme Organising Committee; Member of Campaign Committee (2022 – 2024)
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 (52)

Head of Corporate Communications and Community Investments

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 appointments

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 (47)

Head of Strategy & Planning and Chief of Staff to CE

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 Bank (China) Limited
– Non-executive Director;
Member of Remuneration Committee
Hang Seng Data Services Limited – Director
Hang Seng Indexes Company Limited – Chairman

Past major appointments

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

Fellow – CPA Australia
Chartered Financial Analyst
Chartered Global Management Accountant
Fellow – The Chartered Institute of Management Accountants
Certified ESG Analyst – European Federation of Financial Analysts Societies
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 (57)

Head of Wealth and Personal Banking

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
JC PROJECT LIFT – Member of Advisory Committee
The Hong Kong Institute of Bankers
– Member of Executive Committee; Chairperson of Membership and Professional Development Committee

Past major appointments

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 (50)

Head of Commercial Banking

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 appointments

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

Ryan SONG Yue Sheng (51)

Vice-Chairman and Chief Executive of
Hang Seng Bank (China) Limited

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 appointments

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 (49)

Head of Corporate Sustainability

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)

Carbon Care Asia Limited
– Head of Carbon (2019 – 2022)

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 (the "Stock Exchange") throughout the year of 2024.

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 2024, we have continued implementing governance initiatives within the Group to streamline and enhance the oversight framework of the parent and subsidiaries for reporting efficiency and quality.

Governance Highlights in 2024

Board Structure	• Around 55% of the Board of Directors are independent • The Bank has an independent Board Chairman • 100% of each of the Audit Committee, Risk Committee and Remuneration Committee are independent directors (including the respective Committee Chairmen) • 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 • Diverse range of expertise and experience
Board and Governance Process	• Annual review of the Board and Senior Management Succession Plans • 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 • Board Chairman had one-on-one individual interviews with each Independent Non-executive Director ("INED") to share insights and gather Directors' feedbacks • Enhanced and published the terms of reference of the Board and its Committees: Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee • Joint meeting sessions by the Remuneration Committee and Nomination Committee, and by the Audit Committee and Risk Committee, focusing on associated topics to further enhance connectivity, coordination and flow of information

Disclosure and Transparency	• More than 21 clear 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 Hong Kong Exchanges and Clearing Limited ("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
Corporate Governance	• Corporate governance policies and procedures (including Nomination Policy, Board Diversity Policy, Whistleblowing Policy, Anti-Bribery & Corruption Policy, Remuneration Policy and Shareholders Communication Policy) are reviewed annually to ensure their continual effectiveness • Gap analysis on the terms of reference of the Board and its Committees (including Executive Committee, Audit Committee, Risk Committee, Nomination committee and Remuneration committee) are conducted annually to ensure their compliance • Corporate Governance Framework is reviewed annually to ensure it is consistent with best practices
Culture and Compliance	• Strengthened the risk and compliance culture throughout the Bank • The Bank has a Cultural and Conduct Committee focusing 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 • Separate meetings by the Board Chairman with INEDs, by the Audit Committee and Risk Committee jointly with external auditor and Head of Audit respectively, and by Risk Committee with Chief Risk and Compliance Officer, were held without the presence of Executive Directors ("EDs") and Senior Management

Opening Up a World of Opportunity

Our Purpose

"We share the dreams of Hong Kong people and serve our communities with pride. We provide best-in-class, trusted and friendly financial services to drive their success – today and for generations to come."

Our Values

We Value Difference	We Succeed Together	We Take Responsibility	We Get It Done
Seeking out different perspectives	Collaborating across boundaries	Holding ourselves accountable and taking the long view	Moving at pace and making things happen

Hang Seng Bank's Culture

Our culture is a critical enabler of our business strategy and is guided by our purpose and values that are rooted in our history, heritage and character. The Bank is committed to building and developing positive and progressive culture that is built on its purpose, vision and 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 the 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.

Purpose and Values

Aspiring to be the preferred financial partner for our clients, the Bank's purpose as an organisation is to open up a world of opportunity, share the dreams of Hong Kong people and serve the communities with pride. 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.

Our actions are guided by four core values, namely, "We value difference, We succeed together, We take responsibility, and We get it done". Our 4 values are the bedrock of our culture and support the achievement of our purpose. 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 driving a tone from the top; strengthening people management capability to build the desired ethical culture; and incentivising and demonstrating professional behaviours.

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, creating sustainable value to stakeholders and a culture of openness based on the Bank's purpose and values.

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

Roles	AGM	Board Meetings[1]	Responsibilities
Independent Non-executive Chairman			
Irene LEE Yun Lien[2]	1/1	9/9	• Takes on the role of leading the Board members and promotes high standards of corporate governance practices • Leads the Board in providing strong strategic oversight • Ensures that the decisions made by the Board are aligned with the best interests of the Bank, considering its long-term sustainability and success • Organises regular monitoring and evaluation of the performance of the Board and its Committees
Executive Director – Chief Executive			
Diana Ferreira CESAR	1/1	9/9	• Leads and guides the Senior Management team in their roles and responsibilities • Leads and directs execution and put into action the strategic plans and policies of the Bank • Maintains relationships with key internal and external stakeholders, including the Board, customers, regulators and investors • Oversees and manages the daily activities and operations of the Bank, ensuring smooth functioning and efficient performance
Executive Director – Chief Financial Officer			
SAW Say Pin	1/1	9/9	• Supports the Chief Executive in developing and implementing the Bank's strategy, and collaborates with the executive team to align financial strategies with the Bank's long-term vision • Contributes to efficient operations by optimising financial resources and implementing cost-effective measures • Leads the Finance function and is responsible for effective financial and regulatory reporting
Independent Non-executive Directors			• 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 • Ensures that the decisions made by the Board are based on solid reasoning, thorough analysis, and accurate information • Promotes the highest standards of corporate governance
Cordelia CHUNG[3]	1/1	8/9	
Clement KWOK King Man	1/1	9/9	
Patricia LAM Sze Wan	1/1	9/9	
LIN Huey Ru	1/1	9/9	
Kenneth NG Sing Yip[4]	1/1	3/3	
WANG Xiao Bin	1/1	9/9	
Non-executive Directors			• 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 • Maintains internal and external relationships with the group's stakeholders
Kathleen GAN Chieh Huey	1/1	9/9	
David LIAO Yi Chien	1/1	9/9	
Catherine ZHOU Rong[5]	–	2/2	
Average attendance rate	**100%**	**99%**	

1 The total number of ten meetings comprised of five regular meetings, three ad hoc meetings, one meeting with HKMA and the AGM.

2 As announced by the Bank on 19 February 2025, Irene LEE Yun Lien will retire after the conclusion of the Bank's AGM to be held in May 2025 and will not serve as an INED and the Chairman of the Board. Edward CHENG Wai Sun has been appointed as an INED with effect from 1 April 2025. Mr Cheng will succeed Ms Lee and be re-designated as the Chairman of the Board after the conclusion of the Bank's 2025 AGM.

3 Ad hoc meeting was called at short notice. Due to prior commitments, Cordelia CHUNG was unable to attend the meeting.

4 Kenneth NG Sing Yip stepped down as INED with effect from the conclusion of the Bank's 2024 AGM.

5 Catherine ZHOU Rong was appointed as Non-executive Director with effect from 25 October 2024.

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 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 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.

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 are:

Corporate Strategy/Acquisition/Disposal:

- strategic plans and objectives
- corporate culture, purpose, 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
- risk governance structure
- internal control and risk management
- whistleblowing policy and mechanism

Financial/Audit:

- financial resource plans and performance targets
- capital plans and management
- annual and interim financial reporting
- effective audit functions
- declaration of dividends and buyback programmes

The Board's powers are governed by relevant laws, regulations, supervisory standards, the Board's terms of reference and the Bank's Articles of Association, which are available on our website.

Board Composition

As at the date of this Report, the Board comprises 11 Directors: two are EDs, three are Non-executive Directors ("NEDs") and six are INEDs. Around 55% of the Board of Directors are independent, which well exceeds the Listing Rules requirement. Above 82% 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

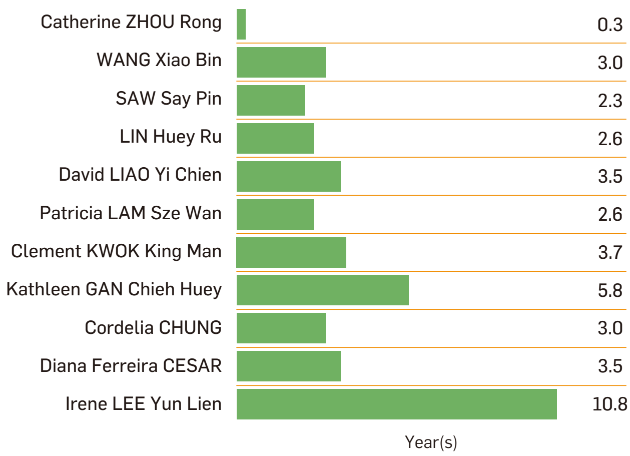
2 **Executive Directors**

3 **Non-executive Directors**

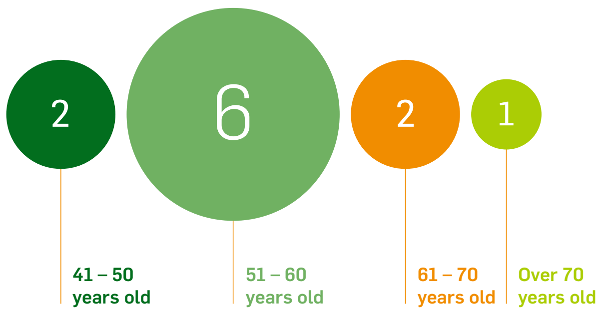
6 **Independent Non-executive Directors**

Gender

Tenure



Age



Skills and Experience

The Board has adopted a comprehensive directors' skills matrix as a key tool to comprehend the skills and experience it requires for Board refreshment. The Board possesses an appropriate balance of skills, diversity, experience, competencies, professional expertise and personal qualities, helps to enable us to deliver our strategy in line with our purpose, values and culture, enriches board discussions and provides invaluable insights when addressing complex global challenges.

The summary below provides an overview of the skills and experiences held by the Directors on the Board. This is based on the current skills matrix, which is reviewed annually by the Nomination Committee to ensure that the Board has the skills and experience required to effectively discharge its duties and responsibilities and to support succession planning discussion. Biographies of the Directors are set out in the section "Biographical Details of Directors and Senior Management" in this Annual Report.

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

	No. of Directors	% of entire Board
Global market experience	9	82%
Asia market experience	10	91%
Mainland China market experience	10	91%
Government/Regulatory	9	82%
Insurance	5	45%
Technology/Digital	9	82%
ESG	9	82%
Business Transformation/Change Management	11	100%
Governance	10	91%
Legal	9	82%
Compliance	11	100%
People	8	73%
Risk	9	82%
Finance	9	82%
Banking	7	64%

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.

During 2024, the compositions of the Board and its committees were reviewed, with assessments focused on the skills, knowledge and experience necessary to oversee, challenge and support management in the achievement of the Bank's strategic and business objectives. The assessments were focused on the Board, both collectively and as individual members. The Nomination Committee discussed succession planning for key roles on the Board and its Committees.

The Nomination Committee considered and took into account the balance of skills, knowledge and experience on the Board and believed that the appointment of Catherine ZHOU Rong as a new NED would be beneficial to Board's oversight on technological and digital development and would further enhance the skills matrix of the Board as a whole, given her experience in technology and digital remits and proven track records of delivering technology solutions at global scale.

The Nomination Committee further considered the board chairmanship succession planning on the balance of skills, diversity, experience, competencies, professional expertise and personal qualities. The Board, on 19 February 2025, approved the Nomination Committee's recommendations and announced that Irene LEE Yun Lien, having served on the Board of the Bank for close to 11 years, will retire after the conclusion of the Bank's AGM to be held in May 2025, and will not serve as an INED, the Chairman of the Board and the Nomination Committee, and a member of the Audit

Committee, the Risk Committee and the Remuneration Committee of the Bank on the same date. Her commitment to continuous enhancements to corporate governance and passion to drive business growth in a sustainable manner have been well recognised by the market.

Edward CHENG Wai Sun has been appointed as an INED of the Bank with effect from 1 April 2025. Mr Cheng will also join the Nomination Committee, the Audit Committee, the Risk Committee and the Remuneration Committee as a member on the same date. Mr Cheng will succeed Ms Lee and be re-designated as the Chairman of the Board and the Chairman of the Nomination Committee after the conclusion of the Bank's 2025 AGM. The appointment adds significant executive experience in banking. It also provides an opportunity to add deep business and cultural expertise that the Board previously identified as a priority. 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 brings 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, and requires appointments to be based on objective criteria, including 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 Nomination Committee annually reviews and reports to the Board the succession planning, selection, nomination, operation and evaluation of the Board.

During 2024, the Board Diversity Policy was reviewed by the Board to assess the implementation of the policy and progress on achieving measurable 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.

The Board considers that its diversity, including gender-diverse leadership, is a vital for a broader perspective to business decision-making process which eventually leads 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.

During 2024, the female representation on the Board was around 82%, 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: 81% of Senior Management are female and 52% 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. For more detailed statistics, please refer to the "Employee Statistics" session of this Corporate Governance Report and the Bank's 2024 ESG Report published on our website (www.hangseng.com).

Independence

Independence is a vital component of good corporate governance. As of the date of this Annual Report, six 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 six INEDs to have been independent throughout the year under review. The Bank has also considered all its INEDs are independent.

Following the robust assessment of the independence of its INEDs, it has affirmed that, all INEDs of the Bank continue to be considered as independent in character and judgement.

Cordelia CHUNG holds a cross-directorship with Irene LEE Yun Lien, since they both serve on the boards of the Bank and Hysan Development Company Limited. However, given that Ms Chung and Ms Lee both play a non-executive role, the Bank believes that this cross-directorship would not undermine the independence of Ms Chung and Ms 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 agendas 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 agendas for the Board and Board Committee meetings are circulated to all Directors at least three weeks before each meeting to provide an opportunity for the Directors to include any other matters in the agendas. Agendas and meeting papers are circulated via digital board portal at least seven 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 after 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 2024 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 gatherings with other Directors occasionally, without the presence of the EDs, to consider issues in an informal setting. The Audit Committee and the 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 People 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 2024, 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 2024, the Bank has continued embedding HSBC Group's governance requirements, including the Subsidiary Accountability Framework (that aims to balance appropriate governance oversight by the HSBC Group with each subsidiary's local legal and regulatory duties). It supports in promoting effective governance arrangements and focuses on ensuring that each subsidiary is led by an effective board with an appropriate balance of skills, diversity, experience and knowledge, having regard to the nature of the subsidiary's business and local legal and regulatory requirements.

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 2024, 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 agendas, 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 or operation 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, supported by the Nomination Committee, 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.

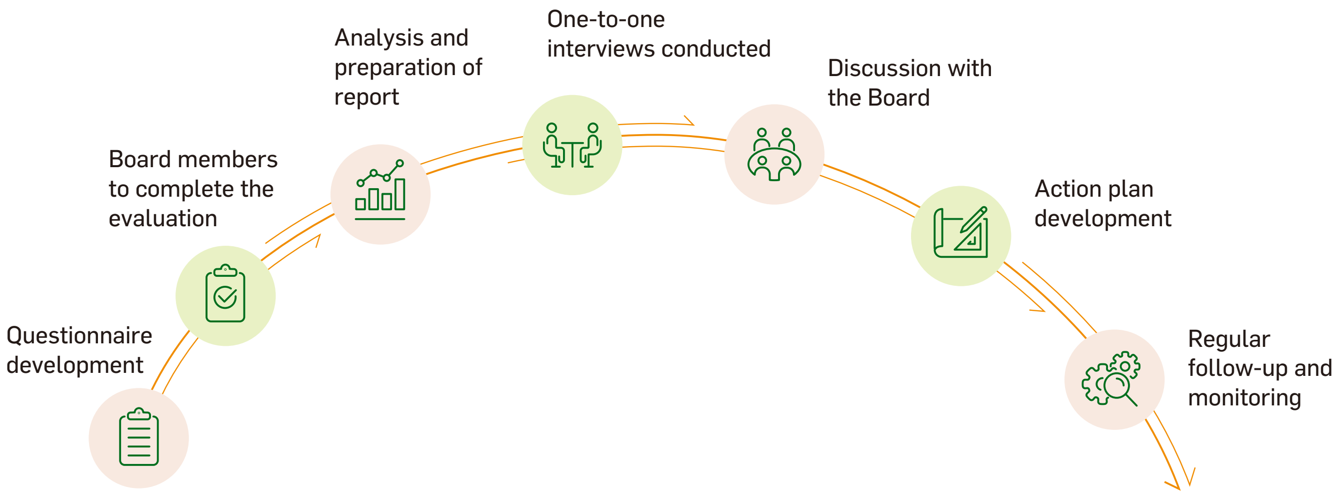
Evaluation Process and Parameters

The Board evaluation has been conducted through an internal process which 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 four 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 agendas, meeting papers, informed material between the Board and the Board Committee, Directors' induction programme, and the digital board portal; and
4. **Cultures and board behaviour** – looks into the Board's open culture and inclusion.

Being anonymous, Directors are encouraged to share comments, provide suggestions and raise any concerns.

Evaluation process



To enhance and as part of 2024 Board Evaluation process, the Company Secretary has organised one-to-one individual interviews by the Chairman with each INED to share insights and gather their feedbacks. All Directors had completed the online Board evaluation questionnaire for 2024, which consists of both ratings and open-ended questions for annual evaluation of the Board's performance in 2024.

Findings of 2024 Board Evaluation

Overview: Directors favourably perceived their board leadership as highly effective. The Board and the Board Committees discharged their responsibilities effectively. 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 also operated in a constructive manner, with a culture of openness, inclusion and with an appropriate tone of debate.

The Board: The Board had a clear understanding of its roles and responsibilities and had a balanced mix of geographical and industry experience, skills and diversity in all perspectives. The Chairman of the Board and/or the Chairmen of the Board Committees encouraged Directors/members with different views to voice their concerns, allowed sufficient time for discussion of issues and ensured that Board decisions fairly reflect the Board's consensus.

The Board Committees: The Bank's Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee discharged their responsibilities effectively and coordinated between the Board Committees.

The Bank's Strategy: The Board appreciated the Bank was a unique institution with enormous potential that could be further leveraged. The Board understood the key factors that drove the performance of the Bank's business, a need for greater involvement in goal setting and strategies was identified. Feedbacks also suggested and welcomed to have an offsite strategic discussion of the Bank's longer term strategy and vision.

Procedures and process: The Board received appropriate education and orientation on the Bank's business and its key issues, developments in the banking sector and relevant regulatory requirements, and the trainings arranged for the Directors during the year were adequate and effective. The Board was provided the appropriate level of details on the Bank's operational activities at Board meetings.

The Board was also kept appropriately informed of material matters between the Board and 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.

Given the complexity of running the Bank's businesses, it was desirable to allow longer board meetings to better understand and discuss the Bank's business lines, challenges and opportunities. The Board generally agreed that the use of digital Board Portal could make the Board and Board Committee meetings and approvals more efficient and productive, with instant access.

Cultures and board behaviour: The Board and the Board Committees operated in a constructive manner, with a culture of openness, inclusion and with an appropriate tone of debate. The engagement between the Directors and the Bank's Management was constructive, open and positive. The Board worked well as a team and had an excellent diversity and inclusion culture. The Board had discussed issues and made decisions by consideration of wider stakeholders and perspectives, such as shareholders, customers and employees, as well as reputation for high standards of business conduct.

Quality of meeting papers and minutes: The Board and the Board Committees were generally supplied with sufficient and concise meeting papers, and the supply of information for the Board and Board Committee meetings, including monthly reports, updates provided by the Bank's Management gave a balanced and understandable assessment of the Bank's performance. However, the Board opined that the papers could be more succinct and simplified.

Board's Training: More trainings, in particular, new regulatory requirements, artificial intelligence and how artificial intelligence would enhance/impact the Bank's business, risk and opportunities were suggested to be arranged.

Senior executive succession planning: The Directors acknowledged the Board was engaged professionally with other directors and the Management with mutual respect. The Board had been overseeing the Bank's senior executive succession plan and would welcome meeting with the Bank's middle management to understand the Bank's talent pool and succession planning.

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 and incorporate the Board and Board Committees' meeting agendas and trainings 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 all Directors, 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; and (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 is available on our website.

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 2024

During the year, the Board held ten meetings comprised five regular meetings, 2024 AGM, three ad hoc meetings and one meeting with HKMA. The key matters discussed at Board meetings included, but not limited to the following:

Strategic Planning

- strategy update of the Bank
- Hang Seng Bank (China) Limited ("HACN") strategy and execution review
- progress update of Hang Seng Indexes business
- 2023 ESG Report and regular ESG progress updates for 2024
- climate strategy and net zero transition plan for 2024
- outlook and priorities of Wealth and Personal Banking business
- strategy review of Commercial Banking
- engagement model between the Bank and The Hongkong and Shanghai Banking Corporation Limited ("HSBC")

Financial and Business Performance, and Capital Planning

- financial statements for the year ended 31 December 2023
- interim financial statements for the six months ended 30 June 2024
- declaration of the fourth interim dividend for year 2023 and first three interim dividends for year 2024
- financial resource plan and capital plan for year 2024 and 2025
- reports on financial and business performance
- internal capital adequacy assessment process
- internal liquidity adequacy assessment process
- review/update on financial policies, plans and frameworks
- share buy-back programme
- continuing connected transactions
- redemption of non-capital loss absorbing capacity debt instruments in 2025
- review of regulatory and internal stress testing results, approach and approval process

Risk Management and Technology

- 2024 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
- updates 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-Bribery & Corruption Policy, Risk and Compliance Profile, Liquidity Contingency Plan, Liquidity and Funding Risk Policy, Traded and Treasury Risk Limit (Amendment) Policy, business continuity planning, BCBS239 Compliance Framework, Cybersecurity and Cyber Resilience Assessment Framework
- updates on wholesale loan management, property mortgage loans and Hong Kong commercial real estate

Governance and Culture

- review of Subsidiary Accountability Framework and the compliance gap analysis
- 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 2023 Board effectiveness
- review of the structure, size and composition of the Board and the Board Committees
- reviews of the Stock Exchange consultation on Corporate Governance Code and related Listing Rules
- review of new and revised Supervisory Policy Manuals or Guidelines issued by HKMA from time to time
- review of the Bank's Culture Statement and update on the Bank's culture
- ESG progress updates
- review or updates of significant corporate governance policies/framework including, Board Diversity Policy, Shareholders Communication Policy, Delegation of Authority Framework, Disclosure Policy under Banking (Disclosure) Rules, 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 2024 and variable pay for 2023
- review of fees payable to Chairman and Directors (excluding EDs) and the Board Committee Chairmen/Members of the Bank and its subsidiaries for 2024 and 2025
- annual review of the remuneration of EDs, Senior Management, Key Personnels and Heads of Control Functions
- appointment of NED and Head of Audit
- appointments/extension and remuneration packages of the Senior Management and Key Personnels
- succession planning for the Board and the Senior Management
- performance management relating to the Senior Management
- changes of Board Composition of the Bank and its subsidiaries
- re-election of Director at 2024 AGM
- review of the terms of appointment of NEDs and INEDs and independence of INEDs
- review of Employee Snapshot Survey results of 2024

Other key matters considered by the Board in early 2025

The Board held its first regular meeting on 10 February 2025 to discuss key matters including, but not limited to the following:

- 2024 annual results and fourth interim dividend, 2025 Financial Resource Plan and Capital Plan update and 2024 Annual Report
- 2024 ESG Report and Climate Strategy with Net Zero Transition Plan for 2025
- 2025 AGM Circular to shareholders (including re-election/election of Directors, re-appointment of external auditor at the Bank's 2025 AGM and proposed amendments of the Bank's Articles of Association)
- Pay review for 2025 and variable pay for 2024
- Changes to Board and Board Committee Compositions of the Bank and its subsidiaries, as appropriate
- Board effectiveness evaluation for 2024 and the review of the Nomination Policy
- Progress update on 2025 review of risk appetite statement and framework, with quarterly risk appetite profile update as at 31 December 2024
- 2024 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
- Internal control and governance of 2024 continuing connected transactions
- Update of the Code for Securities Transactions by Directors of the Bank

Appointment and Re-election/election of Directors

The Board has adopted a Nomination Policy. The Nomination Policy was reviewed by the Nomination Committee and the Board in February 2025. The implementation of the Nomination Policy, including nomination procedures and processes in selection and recommendation of candidates as Directors, remains effective with independent views and inputs made available to the Board. The latest version of the Nomination Policy is available on our website.

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.

Catherine ZHOU Rong and Edward CHENG Wai Sun were appointed as NED and INED with effect from 25 October 2024 and 1 April 2025 respectively. In accordance with Rule 3.09D of the Listing Rules, Catherine ZHOU Rong and Edward CHENG Wai Sun obtained legal advices from the Bank's external legal advisor on 22 October 2024 and 18 February 2025 respectively with regards to the requirements under the Listing Rules that are applicable to them as directors of the Bank and the possible consequences of making a false declaration or giving false information to the Stock Exchange and have confirmed they understood their obligations as a director of the Bank.

Diana Ferreira CESAR, David LIAO Yi Chien, Cordelia CHUNG, Clement KWOK King Man, WANG Xiao Bin, Catherine ZHOU Rong and Edward CHENG Wai Sun will retire at the forthcoming AGM to be held in May 2025. All of them being eligible, they will offer themselves for re-election or election in accordance with the Articles of Association of the Bank. Details of the candidates standing for re-election and election will be set out in the 2025 AGM Circular to the shareholders.

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. The implementation and effectiveness of 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. The recent review was made in February 2025 as approved by the Board for clarification that dealing restriction is not applicable to acceptance or vesting of shares pursuant to share awards if granted by the Bank and the purchase price fixed before closed periods; and the Bank must notify the Stock Exchange in advance of the commencement of closed periods. 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 2024.

The Directors' interests in securities of the Bank and HSBC Group as at 31 December 2024 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 and continuous professional development, 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 to new Directors aims to provide them with a clear understanding of the Bank's culture and way of operation. All the newly appointed Directors will complete no less than 24 hours of the continuous profession development within 18 months of the date of their appointment. Catherine ZHOU Rong joined the Board as NED with effect from 25 October 2024 and completed the full induction programme and participated in continuous professional development in 2024. The induction programme was delivered through formal briefings and introductory sessions including topic-specific deep dives, with Board members, Senior Management, legal counsel, auditors, tax advisers as appropriate. Topics covered included, but were not limited to, purpose and values; culture and leadership; governance and stakeholder management; Directors' legal and regulatory duties; recovery and resolution planning; anti-money laundering and anti-bribery and corruption; technical and business briefings; and strategy.

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 aware. Such memorandum is updated from time to time so as to reflect the latest internal policies, guidelines, regulatory/statutory requirements and best practices.

All Directors have provided to the Bank with their continuous professional development training records as soon as they completed the trainings during 2024. Each of the Director had confirmed their continuous professional development training records during the year 2024 specifying the training topics, training providers, training hours, format or mode of training (whether an external or internal provider was used or whether the professional development was the result of self-study). The record of training and development activities undertaken and confirmed by each Director of the Bank is also provided to the HKMA annually as demonstration all Directors are keeping abreast of the latest developments in necessary areas to fulfil their responsibilities adequately, effectively and efficiently.

The Bank encourages a blend learning approach that combines in-person training with online experiences. Thematic training and refresher materials are also provided to Directors from time to time. The average hours of continuous professional development completed by the Directors during 2024 is 76 hours. The following table shows a summary of key training topics and continuous professional development completed by the Directors during 2024:

	Average training hours: 76[11]						
Topic	Business and Strategy[4]	Corporate Governance and ESG[5]	Risk Management and Internal Control[6]	Digital and Technology[7]	Legal and Regulatory[8]	Board, Committees, Directors' Roles and Duties[9]	Induction & Group Mandatory Training[10]
INEDs							
Irene LEE Yun Lien[1]	●	●	●	●	●	●	●
Cordelia CHUNG	●	●	●	●	●	●	●
Clement KWOK King Man	●	●	●	●	●	●	●
Patricia LAM Sze Wan	●	●	●	●	●	●	●
LIN Huey Ru	●	●	●	●	●	●	●
Kenneth NG Sing Yip[2]	●	●	●	●	●	●	●
WANG Xiao Bin	●	●	●	●	●	●	●
NEDs							
Kathleen GAN Chieh Huey	●	●	●	●	●	●	●
David LIAO Yi Chien	●	●	●	●	●	●	●
Catherine ZHOU Rong[3]	●	●	●	●	●	●	●
EDs							
Diana Ferreira CESAR	●	●	●	●	●	●	●
SAW Say Pin	●	●	●	●	●	●	●

1 As announced by the Bank on 19 February 2025, Irene LEE Yun Lien will retire and will not serve as an INED after the conclusion of the Bank's 2025 AGM.

2 Kenneth NG Sing Yip stepped down as an INED with effect from the conclusion of the Bank's 2024 AGM.

3 Catherine ZHOU Rong was appointed as a NED with effect from 25 October 2024. Ms Zhou has also completed the full induction programme.

4 The Directors joined Future Banking model Branch Tour, Main Branch Opening Tour and Board Exchange meeting in Guangzhou. The Directors also received trainings and readings on topics such as "Greater Bay Area Opportunities", "Financial Services in the Greater Bay Area: Ready for take-off" and "Green and Sustainable Banking – Navigating the Regulatory Landscape and Capitalizing on Emerging Business Opportunities".

5 The Directors received trainings and readings on topics such as "Global Climate Change Disclosure Initiatives and Board Corporate Governance Considerations", "HKEX Proposes Amendments to Listing Rules To Strengthen Corporate Governance For Listed Companies", "Net-zero in Practice" and "Good practices on climate-related risk governance".

6 The Directors received risk and control trainings and readings on topics such as "Anti-money Laundering", "Climate Risk Stress Test", "Climate Risk" and "Connected Transactions".

7 The Directors received trainings on topics such as "Technology Transformation", "Voice to Action: How Hang Seng uses Contact Centre Voice for Data Mining", "Harnessing GenAI for Efficient Website Development" and "Knowledge Management System (KMS) using Google AI powered Search".

8 The Directors received readings on topic such as "Cancellation of Spicy Hong Kong Stamp Duty Measures" and "HKEX Proposes Amendments to Listing Rules To Strengthen Corporate Governance For Listed Companies".

9 The Directors received trainings and readings on topics such as "KPMG 2024 Banking CEO Outlook", "Independent Non-Executive Directors Forum", "The KPMG Board Leadership Forum" and "Gap Analysis on Board and Committees Terms of Reference".

10 The Directors received induction programme covering: Directors' role and responsibilities, the Bank's business strategy and operations, corporate values, governance and internal control system. Group Mandatory Trainings, issued to all Directors, mirrored training undertaken by all employees, including Senior Management. These included risk management, sustainability, net zero strategy, health, safety, well-being, financial crime risk and conduct.

11 The average training duration of 76 hours for the Directors included continuous professional development from the Bank, external and internal providers and self-study.

Delegation by the Board

Board Committees

The Board has set up five Committees, namely, Executive Committee, Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee, to assist it in carrying out its responsibilities.

Board

- Collectively responsible for the Bank's long-term success and delivery of sustainable value to shareholders
- Sets the strategy and risk appetite and approves capital and operating plans for achieving strategic objectives
- Oversees overall governance, finance performance and sustainable development of the Bank and its subsidiaries

Board Committees

Executive Committee

Exercises the powers, authorities and discretions as delegated by the Board to manage the businesses and day-to-day running of the Bank and its subsidiaries

- Reviews strategic plans and operating plans
- Establishes effective governance structure and mechanisms

Audit Committee

Oversees matters relating to financial reporting and internal controls of the Bank and its subsidiaries

- Reviews the integrity of financial statements and disclosures relating to financial performance
- Monitors internal and external auditors
- Reviews internal control systems

Risk Committee

Oversees risk-related matters impacting the Bank and its subsidiaries, including risk governance and culture-related matters

- Reviews regular and thematic risk management reports and frameworks
- Advises the Board on risk appetite and tolerance related matters and culture enhancement initiatives

Nomination Committee

Leads the process for Board appointment including candidate identification and nomination; and identifies individuals for Senior Management positions

- Reviews the appointments and succession of Directors and Senior Management positions
- Re-elects Directors retiring by rotation
- Assesses independence of INEDs
- Reviews time commitment required from all Directors

Remuneration Committee

Oversees matters related to remuneration impacting the Bank and its subsidiaries

- Reviews the remuneration framework and governance
- Oversees the implementation and operation of remuneration policy
- Advises the Board on Directors' fee proposals, and remuneration of EDs, Senior Management, Key Personnels and Heads of Control Functions

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.

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 as well as with shareholders. During 2024, the Company Secretary undertook over 15 hours of relevant professional training.

Executive Committee

Membership

	Member since	Meeting attendance in 2024[1]
Diana Ferreira CESAR (Chairman)	Sep 2021	10/11
Jordan CHEUNG Wang Chun	Dec 2022	11/11
Kathy CHEUNG Ka Wai	Mar 2022	11/11
Maggie CHEUNG Ka Ki	Apr 2023	11/11
Vivien CHIU Wai Man	Jan 2022	10/11
Rose CHO Mui	Jan 2021	10/11
Liz CHOW Tan Ling	Jul 2017	11/11
Mabel CHU Wing Lui[2]	Feb 2024	10/10
Gloria HO Lok Sze	May 2022	9/11
Betty LAW Shuk Man	Aug 2022	10/11
Gilbert LEE Man Lung	Feb 2018	11/11
Rannie LEE Wah Lun	Jan 2022	9/11
Regina LEE Sau Yee	Oct 2023	10/11
Godwin LI Chi Chung[3]	Sep 2015	1/1
SAW Say Pin	Sep 2022	11/11
Ryan SONG Yue Sheng	Jun 2018	11/11
Shelley ZHOU Wenwen	May 2023	11/11
Average attendance rate		95%

1 These included 11 regular meetings.

2 Mabel CHU Wing Lui was appointed as Executive Committee member with effect from 22 February 2024.

3 Godwin LI Chi Chung ceased as Executive Committee member with effect from 22 February 2024.

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 ("CFO") 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 six times a year

Audit Committee

Membership

	Member since	Meeting attendance in 2024[1]
Clement KWOK King Man* (Chairman)	May 2021	4/4
Irene LEE Yun Lien*[2]	Aug 2014	4/4
WANG Xiao Bin*	Mar 2022	4/4
Average attendance rate		100%

* INED

1 These included four regular meetings (including joint sessions with the Risk Committee).

2 As announced by the Bank on 19 February 2025, Irene LEE Yun Lien will not serve as a member of the Audit Committee after the conclusion of the Bank's 2025 AGM to be held in May 2025. Edward CHENG Wai Sun will join the Audit Committee as a member with effect from 1 April 2025.

Meeting Process

The Audit Committee meets at least four times a year. The Bank's executives including the CFO, 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 also joins the Audit Committee meeting. The Audit Committee meets at least twice annually with the Bank's Head of Audit and the representatives of external auditor separately 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 any 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 meets regularly with the Senior Management, internal auditor and external auditor to discuss specific matters 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 2024 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 responsibility to the Audit Committee and provided it with sufficient resources for the oversight of matters relating to financial reporting and internal controls, in particular, reviewing:

- the integrity of the financial statements, banking disclosure statement, formal announcements and disclosures relating to financial performance;
- the effectiveness of Internal Audit and the external audit process; and
- the effectiveness of internal control systems, subject to input from the Bank's Risk Committee.

The Audit Committee is also responsible for making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, 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 and on the website of HKEX (www.hkexnews.hk).

Matters considered during 2024

During the year, the Audit Committee held four regular meetings and the major works performed by the Committee were as follows:

- reviewed the financial statements for the year ended 31 December 2023 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 2024 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 2023, 31 March 2024, 30 June 2024 and 30 September 2024
- reviewed the Financial Resource Plan and Capital Plan for year 2024 and 2025
- reviewed and endorsed the redemption of non-capital loss-absorbing capacity debt instrument in 2025
- reviewed the quarterly financial performance and balance sheet management positions
- reviewed the financial reporting risk updates, which included the effectiveness of the Bank's internal control systems 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, internal liquidity adequacy assessment process, internal capital adequacy assessment process, and Disclosure Policy under Banking (Disclosure) Rules
- 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 2024, and reviewed the resources arrangements, audit statistics, internal audit reports and key themes, and the progress update of the Internal Audit Planning for 2025
- reviewed the update on Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2023 and 30 June 2024
- 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 2024 and the operation and effectiveness of the whistleblowing arrangements; and the Bank's Whistleblowing Policy and Anti-Bribery & Corruption Policy
- reviewed information technology perspective and cybersecurity risk, and the internal audit work on the effectiveness of cybersecurity and information technology controls
- reviewed the Audit Committee's independence and effectiveness in discharging its role and responsibilities, and reviewed the update on its terms of reference
- reviewed and approved the Audit Committee Certificates of the Bank and its subsidiaries
- reviewed and endorsed the appointment of the Bank's Head of Audit
- reviewed and endorsed the composition of the Audit Committees of the Bank's subsidiaries
- reviewed and endorsed continuing connected transactions
- 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 2025

The Audit Committee held its first regular meeting on 7 February 2025 to discuss key matters including, but not limited to the following:

- 2024 annual results and fourth interim dividend, 2025 Financial Resource Plan and Capital Plan update, and 2024 Annual Report and 2024 ESG Report
- Re-appointment of external auditor at the Bank's 2025 AGM
- External auditor's report on 2024 annual audit
- Internal Audit Charter, Internal Audit Planning for 2025 and resources requirement and Audit statistics, internal audit annual report for 2024 and key themes
- Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2024
- Annual review of internal liquidity adequacy assessment process
- Internal control and governance of 2024 continuing connected transactions
- Proposed changes to the Bank's Audit Committee composition

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 2024[1]
WANG Xiao Bin*[3] (Chairman)	Aug 2023	4/4
Irene LEE Yun Lien*[2]	May 2014	4/4
LIN Huey Ru*	Nov 2022	4/4
Kenneth NG Sing Yip*[3]	Jan 2019	2/2
Average attendance rate		100%

* INED

1 These included four regular meetings (including joint sessions with the Audit Committee).

2 As announced by the Bank on 19 February 2025, Irene LEE Yun Lien will not serve as a member of the Risk Committee after the conclusion of the Bank's 2025 AGM to be held in May 2025. Edward CHENG Wai Sun will join the Risk Committee as a member with effect from 1 April 2025.

3 Kenneth NG Sing Yip ceased as Risk Committee Chairman, and, WANG Xiao Bin was appointed as Risk Committee Chairman, all with effect from the conclusion of the Bank's 2024 AGM.

Meeting Process

The Risk Committee meets at least four times a year. The Bank's executives including the CFO, 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 meets at least twice annually with the Bank's Chief Risk and Compliance Officer, Head of Audit and the representatives of 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 Risk 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 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 2024 for presentation and answering questions, reaffirmed the ownership and accountability of risks in the first line of defence.

Roles and Authorities

The Board has delegated responsibility to the Risk Committee and provided it with sufficient resources for the oversight of risk-related matters and the enterprise risks impacting the Bank and its subsidiaries, risk governance 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 enterprise risk management framework and internal control system and compliance, 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 and on the website of HKEX (www.hkexnews.hk).

Matters considered during 2024

During the year, the Risk Committee held four regular meetings and the major work performed by the Committee was as follows:

- reviewed the Bank's Culture Statement and culture update with enhanced 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, internal capital adequacy assessment process and internal liquidity 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
- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for the variable pay of performance year 2023
- reviewed the Internal Audit Plan and the Internal Audit Charter for 2024, and the resources arrangements, audit statistics, internal audit reports and key themes, and the progress update of the Internal Audit Planning for 2025
- reviewed the update on Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2023 and 30 June 2024
- 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 2024 and the operation and effectiveness of the whistleblowing arrangements; and the Bank's Whistleblowing policy and Anti-Bribery & Corruption Policy
- reviewed other risk related reports in relation to Climate Risk Strategy and Net Zero Transition Plan, progress update of climate risk management, risk appetite metric limit update, Hong Kong commercial real estate portfolios, wholesale loan management, and property mortgage loan dashboard
- reviewed other operations related reports in relation to scenario testing strategy, first line risk reports, update on business continuity planning, third party risk management implementation and outsourcing governance, effectiveness of the cyber security and information technology controls, cybersecurity and cyber resilience assessment framework, operational resilience programme, progress of data execution programme and update on data risk
- reviewed the Risk Committee's independence and effectiveness in discharging its role and responsibilities, and endorsed the update on its terms of reference
- reviewed and approved the Risk Committee Certificates of the Bank and its subsidiaries
- reviewed and endorsed the appointment of a Risk Committee Chairman of the Bank
- reviewed and endorsed 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 2025

The Risk Committee held its first regular meeting on 7 February 2025 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 2024 Annual Report
- Internal Audit Charter, Internal Audit Planning for 2025 and resources requirement and audit statistics, internal audit annual report for 2024 and key themes
- Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2024
- Annual review of internal liquidity adequacy assessment process
- First line of defence report from Wealth and Personal Banking business
- Progress update on 2025 review of risk appetite statement and framework, with quarterly risk appetite profile update as at 31 December 2024
- Alignment of risk and remuneration and outcome of incentivising compliance for performance year 2024 variable pay
- Update on operational resilience programme and progress of data execution programme
- Internal control and governance of 2024 continuing connected transactions
- Proposed changes to the Bank's Risk Committee composition

Nomination Committee

Membership

	Member since	Meeting attendance in 2024[1]
Irene LEE Yun Lien*[2] (Chairman)	Dec 2020	2/2
Diana Ferreira CESAR#	Sep 2021	2/2
Cordelia CHUNG*	Aug 2023	2/2
Patricia LAM Sze Wan*	July 2022	2/2
David LIAO Yi Chien^	Sep 2021	2/2
Kenneth NG Sing Yip*[3]	May 2022	1/1
Average attendance rate		**100%**

* INED

^ NED

\# ED

1 These included two regular meetings (including joint session with the Remuneration Committee).

2 As announced by the Bank on 19 February 2025, Irene LEE Yun Lien will not serve as the Chairman of the Nomination Committee after the conclusion of the Bank's 2025 AGM to be held in May 2025. Edward CHENG Wai Sun will join the Nomination Committee as a member with effect from 1 April 2025. Mr Cheng will succeed Ms Lee and be re-designated as the Chairman of the Nomination Committee after the conclusion of the Bank's 2025 AGM.

3 Kenneth NG Sing Yip ceased as Nomination Committee member with effect from the conclusion of the Bank's 2024 AGM.

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 and for 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/election of Directors, succession planning of Directors, term of appointment of NEDs, time commitment required from all Directors, appointment to Board Committees, and approves the appointment to the position of "manager" as defined under the Banking Ordinance. Our Directors demonstrated strong engagement and sufficient time commitment to the affairs of the Bank for the year.

The responsibilities of the Nomination Committee are set out in its terms of reference, which are available on our website 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. 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 2024

During the year, the Nomination Committee held two regular meetings and the major work performed by the Committee was as follows:

- endorsed the appointment of a NED and Head of Audit of the Bank
- endorsed/approved the appointment/extension of the Senior Management and Key Personnels
- reviewed and approved the principles of appointments of "managers" as defined under the Banking Ordinance; and approved the relevant appointments
- 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 of the Bank
- 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 of Director
- reviewed the Nomination Committee's effectiveness in discharging its role and responsibilities, and its terms of reference
- approved the appointment letters for INEDs, NEDs and EDs
- reviewed Employee Snapshot results of 2024
- reviewed the information cascaded from and escalated significant issues to the Nomination Committee of HSBC, as appropriate

Other key matters considered by the Nomination Committee in early 2025

The Nomination Committee held its first regular meeting on 10 February 2025 to discuss key matters including, but not limited to the following:

- Annual review of independence of INEDs, time commitment of all Directors including EDs, and re-election and election of Directors at the Bank's 2025 AGM
- Nomination Policy of the Bank
- Board Succession Planning of the Bank
- 2024 Board Effectiveness Evaluation
- Proposed changes to Board and Board Committee composition of the Bank

Remuneration Committee

Membership

	Member since	Meeting attendance in 2024[1]
Cordelia CHUNG* (Chairman)	Mar 2022	3/3
Patricia LAM Sze Wan*	May 2023	3/3
Irene LEE Yun Lien*[2]	May 2021	3/3
Average attendance rate		100%

* INED

1 These included three regular meetings (including the joint session with the Nomination Committee).

2 As announced by the Bank on 19 February 2025, Irene LEE Yun Lien will not serve as a member of the Remuneration Committee after the conclusion of the Bank's 2025 AGM to be held in May 2025. Edward CHENG Wai Sun will join the Remuneration Committee as a member with effect from 1 April 2025.

Meeting Process

The Remuneration Committee meets at least three times 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 2024, the Remuneration Committee engaged an external consultant to undertake an independent review of the Bank's remuneration policy and its implementation for year 2024.

The Remuneration Committee reports to the Board following each Committee meeting, drawing the Board's attention to any significant issues 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 Remuneration Committee Chairman meets regularly with the Senior Management to discuss agenda planning.

Roles and Authorities

The Board has delegated to the Remuneration Committee and provided it with sufficient resources for 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 and on the website of HKEX (www.hkexnews.hk).

Matters considered during 2024

During the year, the Remuneration Committee held three regular 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 and Senior Executive of the Bank
- endorsed the proposed variable pay for 2023 and pay review proposal for 2024 (including 2023 year end pay review outcomes) and reviewed 2023 performance year pay review survey results and actions
- reviewed on the 2024 performance year pay review cycle and other 2024 priorities including the refreshed reward strategy and principles into framework
- reviewed the update of the 2024 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 2023 variable pay
- reviewed group benefits update of the Bank for 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 system, and the adequacy and effectiveness of its implementation
- reviewed the update of 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
- reviewed and approved the Remuneration Committee Certificates of the Bank and its subsidiaries
- reviewed and endorsed the changes to the Remuneration Committee compositions of the Bank and its subsidiaries, as appropriate
- 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 2025

The Remuneration Committee held its first regular meeting on 10 February 2025 to discuss key matters including, but not limited to the following:

- Alignment of risk and remuneration and incentivising compliance for performance year 2024 variable pay
- Pay review for 2025 and variable pay for 2024
- 2024 review of the remuneration of EDs, Senior Management, Key Personnels and Head of Control Functions of the Bank
- Proposed changes to Remuneration Committee Composition of the Bank

Remuneration of Directors, Senior Management and Key Personnel

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best. This is critical to strengthening our ability to attract, retain and motivate the people we need in competitive markets where employee expectations continue to evolve.

Our performance and pay framework is underpinned by our Group's Remuneration Strategy and principles. They support our focus on being a great place to work, provide clarity on our proposition and ensure prioritisation in the right areas.

1. **We will reward you responsibly** through fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity, and 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

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	930,000
NEDs	710,000
Audit Committee	
Chairman	610,000
Members	290,000
Risk Committee	
Chairman	610,000
Members	290,000
Remuneration Committee	
Chairman	420,000
Members	240,000
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 2024 is set out in Note 13 to the Bank's 2024 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 17 Senior Management members[1] and 8 Key Personnels[2] in 2024. 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	2024	2023
	Fixed remuneration		
1	Number of employees	**25**	24
2	Total fixed remuneration (HK$ '000)	**91,295**	82,687
3	Of which: cash-based	**91,295**	82,687
	Variable remuneration		
4	Number of employees[4]	**25**	24
5	Total variable remuneration (HK$ '000)[5]	**54,972**	51,453
6	Of which: cash-based	**29,969**	28,367
7	*Of which: deferred*	***9,404***	*9,040*
8	Of which: shares or other share-linked instruments	**25,003**	23,086
9	*Of which: deferred*	***13,738***	*12,557*
10	**Total remuneration (HK$ '000)**	**146,267**	134,140

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, 17 of them are Executive Committee members (including new joiners and leavers) of the Bank in 2024.

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 2024 and 2023.

The emoluments of 17 Senior Management members by total remuneration bands for 2024 are set out below:

Hong Kong dollars	Number of Senior Management
Below $5,000,000	8
$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:

		2024		2023	
	Special payments	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:

		2024		2023	
	Deferred and retained remuneration (HK$ '000)	Cash	Shares	Cash	Shares
1	Total amount of outstanding deferred remuneration[6]	23,363	43,737	20,486	31,709
2	*Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment*	*23,363*	*43,737*	*20,486*	*31,709*
3	Total amount of amendment during the year due to ex post implicit adjustments[7]	–	10,852	–	4,610
4	Total amount of deferred remuneration paid out in the financial year[8]	7,133	11,655	7,882	17,964

[6] Outstanding, unvested, deferred remuneration is exposed to ex post explicit adjustments via malus.

[7] 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 23.57% higher as at 31 December 2024 when compared to that of 29 December 2023.

[8] Paid and vested variable pay made to Material Risk Takers is subject to clawback.

Other relevant remuneration disclosures are set out in Notes 12, 13 and 48(b) to the Bank's 2024 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 2024, 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 2024 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 are designed to manage rather than eliminate the risk of failure to achieve business objective, and can only 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 2024 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, Company Secretary and Head of Corporate Governance and General Counsel. The Disclosure and Controls Committee has the discretion to decide whether a matter should be referred to the Audit Committee, 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 2024, fees paid to the Bank's external auditor for statutory audit services amounted to HK$37 million, compared with HK$35 million in 2023. For non-statutory audit services, the fees paid to the Bank's external auditor amounted to HK$12 million, compared with HK$13 million in 2023. For other assurance services, the fees paid to the Bank's external auditor amounted to HK$3 million, compared with HK$2 million in 2023.

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 and our Board (including the INEDs) maintain 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 2024 to add relevant provisions in relation to the electronic dissemination of corporate communications under HKEX's expanded paperless listing regime. 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.

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 Bank confirmed that all dividend decisions made by the Board were made in accordance with the Bank's Dividend Policy. The Directors have declared all interim dividends for 2024, the total distribution was HK$6.80 per share.

The Policy is available on our website. The financial calendar and the dividend-related dates for the year ended 31 December 2024 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.

The Bank's last AGM was held in a hybrid format on Wednesday, 8 May 2024 ("2024 AGM") with physical attendance at Hang Seng Bank Headquarters and online participation through which shareholders were allowed to attend, participate and vote at the 2024 AGM electronically and submit questions. Shareholders were also encouraged to express their views before the 2024 AGM by submitting their questions to a designated email account.

All resolutions at the 2024 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.

The next AGM will be held in May 2025 ("2025 AGM"). 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.

Supplemental information: As announced by the Bank on 19 February 2025, Irene Lee Yun Lien will retire after the conclusion of 2025 AGM and will not serve as an Independent Non-executive Director, the Chairman of the Board and the Nomination Committee, and a member of the Audit Committee, the Risk Committee and the Remuneration Committee of the Bank. The Board has resolved to appoint Edward Cheng Wai Sun as Independent Non-executive Director of the Bank with effect from 1 April 2025. Mr Cheng will also join the Nomination Committee, the Audit Committee, the Risk Committee and the Remuneration Committee as a member. Mr Cheng will succeed Ms Lee and be re-designated as the Chairman of the Board and the Chairman of the Nomination Committee after the conclusion of the 2025 AGM. Accordingly, in addition to Catherine Zhou Rong as disclosed in the Report of Directors, Edward Cheng Wai Sun will also retire under the provisions of the Bank's Articles of Association and, being eligible, offer themselves for election at the 2025 AGM.

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 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.

There has not been any change to the Bank's Articles of Association during the year ended 31 December 2024.

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. During the year, the Bank maintained a series of comprehensive engagement events, allowing the Board to provide business updates to the stakeholders on the progresses and improvements made.

Key Stakeholders	Engagement	Impact and outcomes
Customers	– Regular meeting with key customers in Hong Kong and Mainland China. – Regular engagement events with business customers to discuss challenges and opportunities by Senior Management with respective team. – Regular reports to the Board on customers matters, including operational resilience, customers experiences, etc.	– Continued engagement with customers and potential customers helps to further the Bank's understanding of their purposes and business needs, and how they can be supported to achieve their varied goals.
Employees	– Regular internal communications from the Chief Executive and Senior Management to keep the employees informed of business performance. – Staff events including leadership forums, townhalls and employee exchange sessions across the Bank. – Annual SnapShot survey of all employees.	– Meeting with colleagues allowed the Bank to hear first-hand the employee voice on important issues. – Employee engagements and interactions helped to ensure continued connectivity between the Board, Management and the workforce.
Investors/ Shareholders	– The Board held hybrid AGM annually, shareholders were able to ask questions of the Board during the meeting online or in person. – Chief Executive, CFO and CRCO together and separately attended meetings with analysts and investor. – Chief Executive, CFO and CRCO presented the interim and annual results to analyst and investors and engaged in Q&A sessions. – CFO together with investor relations attended roadshows to discuss interim and annual results.	– Regular interactions with investors throughout the year helped the Board manage and understand investor sentiment on material matters and gauge investors' continued support for the Bank.
Communities	– Regular forums, summits and roundtables supporting ESG causes. – Regular communities engagements and activities taken part by Senior Management and the workforce throughout the year.	– Interaction with, and understanding of, the communities in which the Bank operates helped the Management appreciate how the Bank can influence meaningful change, including by educating, encouraging broader thinking, helping to shape policy and formulating solutions, creating supportive environments, and helping to achieve net zero ambitions.
Regulators and governments	– Regular meetings and engagements from the regulators including HKMA by Senior Management. – Annual meeting with HKMA with the Board.	– Meeting with the regulators allows the Bank to communicate the Bank's strategy, perspectives and insights while ensuring that Directors remain abreast of political and regulatory developments. It also allows the Bank to share perspectives on industry best practices.
Suppliers	– Regular reports and updates to the Bank. – Meetings with key suppliers in sectors.	– It helps the Bank understand our suppliers' challenges and how we can work collaboratively to succeed. – It is key for the Management to understand the Bank's supply chain.

Material topics highlighted through our engagement include:

- Anti-bribery and corruption
- Climate risk
- Conduct and product responsibility
- Customer advocacy
- Cybersecurity
- Diversity
- Employee training
- Employee engagement
- Embedding net zero into the way we operate
- Net zero transition plan
- Supporting our customers
- Sustainability risk policies

These form part of our ESG disclosures suite together with other requirements, and are not exhaustive or exclusive to one stakeholder group. For further details of our ESG disclosures in 2024, please see the Bank's 2024 ESG Report published on our website (www.hangseng.com).

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 Directors of the Bank are also available on our website.

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.

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 financial partner for our clients, the Bank's purpose as an organisation is to open up a world of opportunity, share the dreams of Hong Kong people and serve the communities with pride. Our actions are guided by four core values, namely, "We value 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, we believe people managers play a critical role in engaging, motivating, and retaining employees. To upskill leadership capability in mitigating people-risks and driving a high-performance culture, various workshops and drop-in sessions on specific themes have been delivered to people managers since 2023. Uplifting leadership capability will continue to be a focus in 2025.

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 and Whistleblowing Policy

The Bank has implemented the relevant 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 which includes 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, regulations and expected standard and behaviors set out in the Codes, an annual refresher in form of online learning and assessment has been launched in December 2024 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.

People

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.

Workforce Diversity

The Bank is dedicated to cultivating a workplace that embraces diversity, equity, and inclusion. We have established a Diversity and Inclusion Policy, which sets out our approach for fostering an empowerment culture. For more details about our measures for promoting diversity and fostering inclusion for employees, please refer to the ESG section of our website. The Bank aspires to maintain a balanced female representation in all levels of our workforce. As of the date of this Annual Report, the Bank's female representation at the senior level is above our target. For details, please refer to the "Employee Statistics" section.

Employee Statistics

As at 31 December 2024, the Bank's total headcount was 6,928* representing a decrease of 4 or -0.06%, compared with a year earlier. The total headcount comprised 3,273* executives (50% are male and 50% are female), 2,697* officers (36% are male and 64% are female) and 957 clerical and non-clerical staff (39% are male and 61% are female). The female representation of senior leaders* (Global Career Band 3 or above) was targeted at 50% for 2024. As at 31 December 2024, we have achieved 52%*.

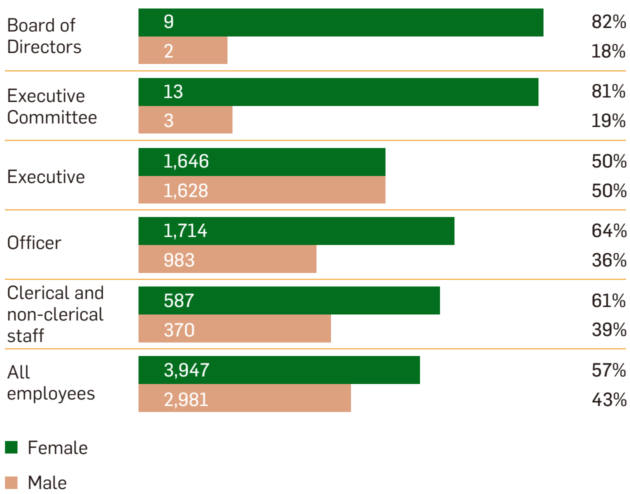
In 2024, the Bank has achieved a gender balance at all four levels (52%-82% women), including our Board, executive, Senior Management and workforce as follow:

- 82% of Board of Directors are female
- 81% of Executive Committee members* are female
- 52% of senior leaders* are female
- 57% of our employees* in Hong Kong are female

* Include employees seconded from HSBC

In 2025, the Bank will continue to sustain its inclusive culture where everyone has the opportunity to grow and achieve their career objectives, 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 2024).

- 55% of the Bank's external senior hires are female
- 56% of the Bank's promotion into senior leaders are female
- 23% 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.

More detailed statistics of workforce diversity are set out in the section "Promoting Diversity and Fostering Inclusion", please see the Bank's 2024 ESG Report published on our website (www.hangseng.com).

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.

In 2024, we introduced performance routines to help ensure colleagues know what is expected of them, how they are doing and how they can improve. This is achieved by setting ambitious goals, discussing performance frequently through the year, regularly exchanging feedback and recognising outstanding performance via our simplified performance assessment. We also introduced "Target Variable Pay" to majority of our junior to mid-level employees, helping to improve fairness and consistency in reward outcomes, and providing more clarity and transparency on how we make pay decisions and the impact of Group, business and individual performance on variable pay.

We continued to improve our wellbeing offering by enhancing country Employee Assistance Programmes, developed new financial wellbeing support and running activity challenges to improve employees' physical activity.

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. By aligning roles with individual skills and abilities, we enhance job satisfaction and increase employees' capability to achieve their career objectives.

Our annual Snapshot survey, aimed at gauging employees' thoughts and inputs, has led to the implementation of measures and activities that address staff suggestions and needs. In response to the collective feedback, we revamped our staff benefits package in 2024 to include enhanced medical protection, extended parental leave, and additional time off.

We continue to upskill our colleagues to help achieve the Bank's strategic objectives. In 2024, the ESG for ALL learning curriculum was launched, featuring a series of learning and engagement activities to enable employees to embed ESG principles into their daily work. Through the "Creating Your Own Career" initiative, colleagues have gained access to various development resources and support, such as career consultations. In addition, employees are encouraged to take on short-term projects via the "Talent Marketplace" to broaden their professional experiences across different areas of our business.

We also focus on enhancing our people managers' capabilities to foster a high-performance culture. This enables and energises our employees to perform at their best and achieve their career objectives.

Open dialogue is central to our Bank's ethos, as demonstrated by initiatives like the *2024 CE Town Hall* and the *Annual Staff Recognition Awards Ceremony*. These events facilitate conversations around our values and vision. *The Leader Connect* campaign, which continued in 2024, has strengthened ties between staff and our Executive Committee. This initiative has notably enhanced overall confidence, alignment with our core values and trust in leadership, ensuring we move forward together toward 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 enhance support for employees' physical, mental, financial, and social well-being. For instance, the *Caregiver Employee Resource Group* was launched in February 2024, provides vital assistance to employees balancing work and caregiving responsibilities. During the *Wellness and Inclusion Week*, we promoted employee wellness and workplace inclusivity through thematic seminars, a fun fair with activities, and health assessments, emphasising the importance of self-care. These enhanced efforts have led to increased employee satisfaction with the well-being support provided by the Bank.

Our employees have also dedicated significant time to community service, delivering a wide array of programmes focused on skills development, financial education, environmental sustainability, and community support. These initiatives have made a meaningful impact on diverse groups, including the elderly, youth, and individuals with disabilities.

We value employee feedback and use it to drive continuous improvement. Through annual surveys, exchange sessions, and thematic focus groups, we gather invaluable insights. In 2024, we were pleased with the high level of engagement from our staff, reflecting a positive trend in our internal feedback metrics and overall employee sentiment.

While we celebrate these successes, we remain attentive to feedback suggesting the need for additional support to enhance employees' well-being and work experiences. These areas will remain a key focus as we strive 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.

Whilst the Bank is dedicated to building a future-proof workforce with skills and values-aligned behaviours essential for sustainable growth, the Bank proactively embrace the latest development and to identify critical skills for growth, re-prioritisation, transformation, and efficiency enhancement. In this regard, we capitalise all opportunities to engage people in focused-skills learning in partnership with our businesses/functions on programmes around data literacy, ESG, conduct & risk culture and people manager capability.

On average, each staff member of the Bank in Hong Kong undertook 4.4 days of learning and development programme (excluding those arranged by individual department) in 2024. 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 People function take actions to accelerate the development of successors and high potential talents through feedback and coaching, participation on bank-wide strategic projects, 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 2024, our ESG strategy focused on three key areas:

Environmental

Transition to Net Zero:
Aiming to achieve net zero in our own operations[1] by 2030 and offering customers a broad range of climate solutions;

Social

Building Inclusion and Resilience:
Promoting inclusion and resilience by equipping our people with future skills, enhancing customer experiences with inclusive financial services, and contributing to social good and creating shared value; and

Governance

Acting Responsibly:
Upholding high standards of corporate governance while embedding ESG principles throughout the organisation.

Our ESG strategy is built on six implementation pillars, designed with reference to the principles of the United Nations Sustainable Development Goals.

Environmental Ambitions

12 Responsible Consumption and Production; 13 Climate Action

Climate Risk Management

13 Climate Action; 17 Partnerships for the Goals

Sustainable Finance

3 Good Health and Well-Being; 7 Affordable and Clean Energy; 8 Decent Work and Economic Growth; 11 Sustainable Cities and Communities; 13 Climate Action

Advocacy and Awareness

11 Sustainable Cities and Communities; 17 Partnerships for the Goals

Youth

4 Quality Education

Disclosure

[1] This includes Scope 1 and Scope 2 emissions.

Our Approach to the Transition

We aim to achieve net zero in our own operations[1] by 2030, and contribute to the HSBC Group's climate ambitions. For details of HSBC Group's climate ambitions, please refer to its Annual Report and Accounts at www.hsbc.com/investors/results-and-announcements/annual-report.

[1] This includes Scope 1 and Scope 2 emissions.

Conserving Environment Through Banking Services

In 2024, we expanded our sustainable finance capabilities with the launch of a series of initiatives, providing diversified green and sustainable financing solutions for businesses of different natures, to assist enterprises in their sustainability journey.

In collaboration with the Hong Kong Quality Assurance Agency ("HKQAA"), we introduced the 'SME Green Equipment Financing Assessment Platform'. By reducing assessment fees and simplifying the process for Green Equipment Financing, the platform enables small and medium-sized enterprises ("SME"), to access faster and more affordable green assessment services.

To further incentivise businesses to reduce carbon emissions, we launched the Green and Sustainable Financing Assessment Subsidy Programme. Under this programme, businesses that secure qualified green and sustainable certifications from the HKQAA or other recognised external assessment agencies may be eligible for cash rebates on assessment fees when financing with our Bank.

To enhance awareness of sustainable development, we established the 'Hang Seng Carbon Academy' which organises:

- Industry experience-sharing sessions focused on green transitions;
- Professional training courses on ESG practices; and
- Platforms for business exchanges to help companies improve their ESG performance.

Supporting Society Through Our Services

The Bank has joined The Hong Kong Jockey Club's JC PROJECT LIFT as the Strategic Financial Services Partner. This initiative combines a savings plan with preferential high interest rates and financial education offering to tenants in transitional housing areas. It aims to enhance their financial literacy and cultivate sustainable financial habits. A two-year savings plan with preferential interest rates for the project participants has been created to encourage consistent savings habits. Additionally, a series of Hang Seng Financial Power Up Days have been conducted to deepen participants' knowledge of financial planning and protection.

Community Investment

Community investments are a key part of Hang Seng's commitment to the social and environmental development of Hong Kong. The Bank supports programmes and initiatives organised by local charitable organisations that align with its four strategic pillars: empowering the future generation, promoting financial literacy, addressing climate change, and caring for the community.

In collaboration with the Hong Kong Science and Technology Parks and Wofoo Social Enterprises, the Bank launched a 30-month *Future Ecopreneur Programme* in 2024. This initiative combines entrepreneurship, technology, and sustainability to cultivate green tech leaders.

Hang Seng is dedicated to enhancing financial inclusion and advancing financial literacy. In partnership with the Hong Kong Family Welfare Society, the Bank launched the *Hang Seng Financial Literacy Academy*, which conducted diverse financial education sessions for primary and secondary school students, parents, and social workers. Additionally, the Bank introduced its *Financial Volunteer Team* in 2024 to support educational activities across the broader community.

For 33 years, the Bank has supported the Hong Kong, China Table Tennis Association. The *Hang Seng Table Tennis Academy* has played a pivotal role in nurturing the Hong Kong's home-grown table tennis talent, contributing significantly to the sport's development.

The Bank also supported the Community Chest's Cinema Quintet initiative, a short film programme aimed at encouraging young people to gain a deeper understanding of societal needs and embody the spirit of *Hong Kong people helping Hong Kong people*.

In addition, Hang Seng partnered with Kadoorie Farm and Botanic Garden to promote nature conservation, sustainable operations, and community outreach, particularly among students. Initiatives include a public Nature Walk event, community engagement activities, experiential programmes, and a school *Eco-Literacy Programme* designed to accelerate climate change education and biodiversity awareness.

Health and Safety

We uphold high standards of occupational health and safety ("OH&S") through our ISO 45001:2018-certified Occupational Health and Safety Management System, accredited by an independent external certification body.

Our proactive strategies aim to prioritise the health and well-being of all stakeholders. The Bank is fully dedicated to:

- Regularly reviewing the effectiveness of OH&S management system in collaboration with appointed certification bodies;
- Taking all practicable measures to identify and minimise risks to the physical and mental well-being of staff and stakeholders through comprehensive risk assessments;
- Fostering a safety-first workplace culture by creating an exemplary activity-based working environment;
- Engaging staff and stakeholders in consultations to ensure collaboration on health, safety and well-being activities;
- Encouraging early intervention practices to identify risks and mitigate their impacts;
- Supporting vulnerable employees with well-established policies and measures;
- Providing sufficient resources, training, and supervision to enable staff to work safely; and
- Promoting industry best practices to continually improve our OH&S standards.

Our senior management encourages all employees to actively contribute to maintaining a safe and healthy working environment by participating in consultations and discussions on OH&S issues. We conduct regular reviews to ensure appropriate standards are upheld.

The information in this ESG section cover our operations in Hong Kong only, unless otherwise specified.

For more details of our ESG disclosures in 2024, please refer to our 2024 ESG Report published on our website (www.hangseng.com).

Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries ('Hang Seng Group') for the year ended 31 December 2024.

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

Hang Seng Group is engaged in the provision of banking and related financial services.

Business Review and Performance

Discussions on Hang Seng Group's businesses and performance for the year as required by Schedule 5 to the Companies Ordinance can be found throughout this Annual Report.

A summary of the relevant sections in this Annual Report is set out below and these discussions form part of this Directors' Report.

Disclosures	Sections
(a) A fair review of Hang Seng Group's businesses and a discussion and analysis of Hang Seng Group's performance during the financial year 2024 and the material factors underlying its results and financial position, including analysis using financial key performance indicators	• Five-year Financial Summary • Chairman's Statement • Chief Executive's Report • Management Discussion and Analysis
(b) Description of the principal risks and uncertainties facing Hang Seng Group	• Management Discussion and Analysis
(c) Particulars of important events affecting Hang Seng Group that have occurred since the end of the financial year 2024	• Management Discussion and Analysis
(d) Outlook of Hang Seng Group's businesses	• Chief Executive's Report • Management Discussion and Analysis
(e) Details regarding Hang Seng Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on Hang Seng Group	• Management Discussion and Analysis • Corporate Governance Report
(f) An account of Hang Seng Group's relationships with its key stakeholders that have a significant impact on Hang Seng Group	• Corporate Governance Report

Profits and Dividends

The consolidated profit of the Bank and its subsidiaries and associates for the year ended 31 December 2024 is set out in the consolidated income statement of this Annual Report.

The Directors declared and paid the first to third interim dividends of HK$3.60 (2023: HK$3.30) per ordinary share totalling HK$6,805m (2023: HK$6,309m) during the year. The Directors also declared the fourth interim dividend of HK$3.20 per ordinary share totalling HK$6,023m (2023: HK$3.20 per ordinary share totalling HK$6,118m), which will be paid on 27 March 2025.

Donations

Charitable donations made by Hang Seng Group during the year amounted to HK$29m (2023: 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.

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 2024.

Equity-linked Agreements

No equity-linked agreements were entered into by the Bank during the year or subsisted at the end of the year.

Reserves

Distributable reserve of the Bank as at 31 December 2024, calculated under Part 6 of the Companies Ordinance, amounted to HK$110,214m (2023: HK$108,316m). Movements in other reserves are set out in the consolidated statement of changes in equity of this Annual Report.

Purchase, Sale or Redemption of the Bank's Listed Securities

After considering different options in returning surplus capital to the shareholders, the Bank commenced the Automatic Share Buy-back Programme (the 'Buy-back Programme') in April 2024 to buy back up to HK$3bn of its ordinary shares on The Stock Exchange of Hong Kong Limited (the 'Stock Exchange'), details of which was announced on 9 April 2024. The Buy-back Programme concluded on 9 September 2024.

During the year ended 31 December 2024, the Bank bought back 29,575,200 ordinary shares on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$2,998m and all ordinary shares bought back were subsequently cancelled.

Details of the ordinary shares bought back are set out below:

Month	Number of Ordinary Shares bought back	Purchase price per Ordinary Share Highest (HK$)	Lowest (HK$)	Average (HK$)	Aggregate consideration (excluding expenses) (HK$)
April 2024	7,534,000	105.00	93.90	99.04	746,194,325.64
May 2024	6,654,700	117.20	102.90	109.32	727,507,403.23
June 2024	4,813,900	111.40	99.90	106.51	512,745,608.22
July 2024	4,400,000	104.30	95.85	100.92	444,046,980.00
August 2024	4,792,000	95.75	87.55	91.67	439,295,125.60
September 2024	1,380,600	94.55	90.80	92.80	128,114,001.12
	29,575,200				2,997,903,443.81

Save as disclosed above, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year ended 31 December 2024.

Subsidiaries

Particulars of the Bank's principal subsidiaries as at 31 December 2024 are set out in note 29 to the financial statements for the year ended 31 December 2024.

Directors

The Directors of the Bank, who were in office on the date of this report, were Irene LEE Yun Lien, Diana Ferreira CESAR, Cordelia CHUNG, Kathleen GAN Chieh Huey, Clement KWOK King Man, Patricia LAM Sze Wan, David LIAO Yi Chien, LIN Huey Ru, SAW Say Pin, WANG Xiao Bin and Catherine ZHOU Rong.

Kenneth NG Sing Yip stepped down from the Board with effect from the conclusion of the Bank's 2024 Annual General Meeting held on 8 May 2024.

Save for Catherine ZHOU Rong who was appointed as Non-executive Director with effect from 25 October 2024, all the other Directors, who were in office on the date of this report, had served on the Board of the Bank throughout the year.

Catherine ZHOU Rong will retire under the provisions of the Bank's Articles of Association and, being eligible, offer herself for election at the Bank's Annual General Meeting ('2025 AGM') to be held in May 2025.

The Directors who are required to retire by rotation pursuant to the Bank's Articles of Association at the 2025 AGM are Diana Ferreira CESAR, Cordelia CHUNG, Clement KWOK King Man, David LIAO Yi Chien and WANG Xiao Bin.

No Director proposed for re-election at the 2025 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' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance, in relation to Hang Seng Group'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 at the end of the year or at any time during the year.

Directors' Interests in Competing Businesses

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (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 Ferreira CESAR is a Managing Director of HSBC Holdings plc.

Kathleen GAN Chieh Huey is a Managing Director and Group Financial and Business Integration Lead of HSBC Holdings plc.

David LIAO Yi Chien is a Managing Director and a Member of Group Operating Committee of HSBC Holdings plc. He is also an Executive Director and Co-CEO of The Hongkong and Shanghai Banking Corporation Limited and the Chairman and Non-executive Director of HSBC Bank (China) Company Limited, which is a directly wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation. In addition, he is a Non-executive Director of Bank of Communications Co., Ltd., which conducts general banking business.

SAW Say Pin is a Director of HSBC Asia Holdings Limited, the immediate holding company of The Hongkong and Shanghai Banking Corporation Limited.

Catherine ZHOU Rong is the Chief Information Officer, International Wealth and Premier Banking of HSBC Group Management Services Limited and the Interim Chief Information Officer of HSBC UK Bank plc, both with effect from 1 January 2025, prior to the role of the Global Chief Information Officer, Wealth and Personal Banking of HSBC Group Management Services Limited. She is also an Executive Director of MP Payments Group Limited. She was a Non-executive Director of HSBC FinTech Services (Shanghai) Company Limited and resigned with effect from 10 February 2025. HSBC UK Bank plc, HSBC Group Management Services Limited and MP Payments Group Limited, all are directly or indirectly held by HSBC Holdings plc. HSBC FinTech Services (Shanghai) Company Limited is indirectly held by 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 six 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 three 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 Hang Seng Group. 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 13 to the financial statements for the year ended 31 December 2024.

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 2024 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.

Directors' and Alternate Chief Executives' Interests

As at 31 December 2024, 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 GAN Chieh Huey	2,500	–	–	–	2,500	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Diana Ferreira CESAR	523,449	–	–	133,779[(1)]	657,228	0.00
Kathleen GAN Chieh Huey	266,414	–	–	149,882[(1)]	416,296	0.00
Patricia LAM Sze Wan	367,270	–	–	–	367,270	0.00
Irene LEE Yun Lien	15,000	–	–	–	15,000	0.00
David LIAO Yi Chien	840,544	–	–	596,377[(1)]	1,436,921	0.00
SAW Say Pin	58,063	–	–	31,556[(1)]	89,619	0.00
Catherine ZHOU Rong	463,528	–	–	247,801[(1)]	711,329	0.00
Alternate Chief Executives:						
Kathy CHEUNG Ka Wai	106,159	–	–	21,343[(1)]	127,502	0.00
Vivien CHIU Wai Man	33,848[(2)]	79,570[(3)]	–	10,395[(1)]	123,813	0.00
Rannie LEE Wah Lun	40,287	–	–	21,591[(1)]	61,878	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 CHIU Wai Man	–	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 CHIU Wai Man and her family member.

(3) Vivien CHIU Wai Man'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

As at 31 December 2024, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under various HSBC Share Plans were as follows:

	Awards held as at 1 January 2024	Awards made during the Director's/Alternate Chief Executive's term of office in 2024	Awards released during the Director's/Alternate Chief Executive's term of office in 2024	Awards held as at 31 December 2024[(1)]
Directors:				
Diana Ferreira CESAR	113,680	98,165	78,066	133,779
Kathleen GAN Chieh Huey	141,470	68,178	59,766	149,882
David LIAO Yi Chien	466,693	280,260	150,576	596,377
SAW Say Pin	35,916	26,433	31,148	31,556
Catherine ZHOU Rong	247,801[(2)]	–	–	247,801
Alternate Chief Executives:				
Kathy CHEUNG Ka Wai	18,621	23,217	20,495	21,343
Vivien CHIU Wai Man	5,506	7,644	2,793	10,395
Rannie LEE Wah Lun	15,493	24,505	18,407	21,591

Notes:

(1) This included additional shares arising from scrip dividends, if any.

(2) These represented the awards held by Catherine ZHOU Rong on 25 October 2024 when she was appointed as Non-executive Director of the Bank.

The interests of Kathy CHEUNG Ka Wai, Vivien CHIU Wai Man, Kathleen GAN Chieh Huey and SAW Say Pin in ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase 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 2024, 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 2024.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 31 December 2024, the following corporations had interests or short positions of 5% or more in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporations	Capacity in which Ordinary Shares were held	Number of Ordinary Shares Interested (Percentage of total)[2]
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner/Custodian	1,191,484,902[1] (62.83%)
HSBC Asia Holdings Limited	Interest of controlled corporations	1,191,484,902[1] (62.83%)
HSBC Holdings plc	Interest of controlled corporations	1,195,511,509[1] (63.04%)

Notes:

(1) 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, HSBC Asia Holdings Limited and HSBC Holdings plc were deemed to be interested in the ordinary shares in which The Hongkong and Shanghai Banking Corporation Limited was shown to be interested.

HSBC Holdings plc filed the corporate substantial shareholder notice (the 'Notice') on 21 June 2024 that on 18 June 2024, the number of the Bank's ordinary shares interested by HSBC Holdings plc, HSBC Asia Holdings Limited and The Hongkong and Shanghai Banking Corporation Limited were detailed above.

(2) The percentage represents the number of the Bank's ordinary shares interested divided by the total number of the Bank's issued ordinary shares as at the date on the Notice.

All the interests stated above represented long positions. As at 31 December 2024, 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.

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 existed during the year.

Major Customers

The Directors believe that the five largest customers of Hang Seng Group accounted for less than 30% of the total interest income and other operating income of Hang Seng Group for the year ended 31 December 2024.

Permitted Indemnity Provision

Details of the Bank's permitted indemnity provision are set out in the section 'Corporate Governance Report' of this Annual Report.

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.

Continuing Connected Transactions

Certain transactions have been entered into Hang Seng Group with HSBC Group. As members of HSBC Group are connected persons of the Bank under Chapter 14A of the Listing Rules, the transactions between Hang Seng Group and HSBC Group constitute continuing connected transactions (the 'Continuing Connected Transactions') under the Listing Rules. The Continuing Connected Transactions set out below are subject to the announcement, annual reporting and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and the Bank has complied with applicable disclosure requirements for such Continuing Connected Transactions under the Listing Rules. Details of the Continuing Connected Transactions subsisting during the year and required to be disclosed are set out below:

(a) On 7 October 2024, the Bank and HSBC Life (International) Limited ('HSBC Life') entered into an exclusive distribution agreement ('Exclusive Distribution Agreement') for a term of 15 years, commencing from 1 November 2024 up to and including 31 October 2039. Pursuant to the Exclusive Distribution Agreement, HSBC Life acts as the exclusive supplier of all medical insurance products which are proposed to be marketed, promoted, distributed and sold in Hong Kong to certain customers of the Bank through the distribution channels utilised by Hang Seng Group in Hong Kong and the Bank acts as the licensed insurance agency of HSBC Life for the purpose of providing medical insurance agency services.

The fees and amounts payable to the Bank, including commissions and upfront payments and future payments, which are subject to annual caps, were determined on an arm's length basis. The Exclusive Distribution Agreement and the transactions contemplated thereunder, are made on normal commercial terms or better as compared with similar agreements and in the ordinary and usual course of business of Hang Seng Group.

As HSBC Life, being a member of HSBC Group, is a connected person of the Bank, the entering into of the Exclusive Distribution Agreement has constituted a Continuing Connected Transaction of the Bank under Chapter 14A of the Listing Rules.

Details of the above Continuing Connected Transaction and the annual caps were set out in the Bank's announcement dated 7 October 2024. The Bank followed the pricing policies disclosed in the announcement for the Continuing Connected Transaction conducted during the financial year.

For the year ended 31 December 2024, the aggregate fees and amounts payable to the Bank under the Exclusive Distribution Agreement was approximately HK$0.1m, which was within the annual cap (from 1 November 2024 to 31 October 2025) of HK$39m.

(b) Historically, Hang Seng Group had relied on individual contracts with members of HSBC Group in order to utilise HSBC Group's infrastructure and services in the ordinary and usual course of business. To standardise the governing principles and simplify processes for both existing and future continuing connected transactions between Hang Seng Group and HSBC Group, Hang Seng Group and HSBC Group entered into a suite of master agreements under eight categories of transactions including but not limited to multi-party intra group services agreements and framework agreements (collectively 'Master Agreements') on 29 November 2024.

Scope of services of the eight categories under the suite of Master Agreements are:

(1) Information Technology Services

Hang Seng Group receives services according to Hang Seng Group's needs for its day-to-day technology operations, system development and maintenance, technology upgrade, demise or migration.

(2) Outsourced Operation Services

HSBC Group provides services to Hang Seng Group, including but not limited to support for the delivery of banking services, including account opening and servicing, customer due diligence, wealth and insurance servicing, secured and unsecured lending processing, payment servicing, contact centre, insurance operation services, global markets operation services, data analytics and miscellaneous support (e.g. digital production services and business management support).

(3) International Supervisory Framework Related Services

These services encompass a range of activities, including but not limited to financial reporting, regulatory reporting, risk management framework, risk management of interest rates, liquidity, capital adequacy and recovery and resolution planning as well as risk and compliance oversight on financial crime to meet international supervisory regulatory and/or governance standards.

(4) Group Administrative and Support Services

These services encompass a range of activities and functions, including human resources, legal, communication, operation, internal audit and sustainability for supporting global business, including insurance business.

(5) Financial Services

The underlying transactions include the provision of the following financial services by (i) Hang Seng Group to HSBC Group; and (ii) HSBC Group to Hang Seng Group.

(a) Investment Products Distribution Services

Distribution of investment products include but are not limited to funds, equity linked investments, structured products and bonds.

(b) Investment Management and Advisory Services

Investment management and advisory services include but are not limited to valuation, investment due diligence, discretionary and advisory services in connection with investments into investment products such as bonds, equity, funds and provision of portfolio management services as investment advisor or agent or investment manager of an investment product.

(c) Referral Services

Referral services include but are not limited to Hang Seng Group/HSBC Group referring customers to HSBC Group/Hang Seng Group for access to private credit origination and debt capital market origination business, syndication loan referral services and aircraft lending referral services.

(d) Insurance and Pension Distribution Services

Insurance and pension distribution services cover distribution of insurance and pension products.

(e) Trade Services

Trade services include but are not limited to the issuance of standby documentary credit and bank guarantee services.

(f) Broker Services

Broker services include but are not limited to execution broker services, clearing broker services, settlement broker services, provision of pricing and execution services, securities lending broker services, custodian services and delivery services.

(6) Insurance Related Investment Management and Advisory Services

Insurance related investment management and advisory services include but not limited to research, structuring, valuation, custodian, discretionary and advisory services in connection with investments into investment products targeted for the insurance investment portfolios of Hang Seng Group.

(7) Intercompany Dealing Transactions

(a) Foreign Exchange and Cash Equities Transactions

Foreign exchange transactions include but are not limited to spot, forward and swap transactions of foreign exchange and precious metals (excluding physical precious metals) and exercised currency options. Cash equities transactions include buying and selling of cash equities transactions.

(b) Derivatives Transactions

Derivatives transactions include but are not limited to over-the-counter and on-exchange transaction and products such as foreign exchange options, bond forward, bond swap, bond options, interest rate derivatives, equity derivatives, credit derivatives, commodity derivatives, etc.

(c) Bond and Equity Financing Transactions

The transactions include bond financing transactions and equity financing transactions.

(8) Trading of Financial Assets

(a) Capital Markets and Physical Precious Metals Transactions

Capital markets and physical precious metals transactions include buying and selling of debt instruments and physical precious metals. A majority of these transactions involve capital markets trading of debt instruments.

(b) Trade Assets Related Transactions

These are primarily loans, trade receivable, guarantees and other similar transactions involving HSBC Group sharing interest and/or guarantee or other similar fee received from underlying customers with Hang Seng Group and vice versa.

These Master Agreements had been agreed on an arm's length basis, with reference to various considerations, including the relevant cost incurred, nature of services, market practice and prevailing market conditions. The services were provided in the ordinary course of businesses of Hang Seng Group and on normal commercial terms which are no less favourable than those offered by independent third parties to Hang Seng Group.

These Master Agreements also cover the continuing connected transactions between certain members of Hang Seng Group and HSBC Group announced by the Bank on 21 June 2019 and 21 June 2022 respectively.

Details of these Continuing Connected Transactions and corresponding annual caps were set out in the Bank's announcement dated 29 November 2024. Hang Seng Group followed the pricing policies disclosed in the announcement for Continuing Connected Transactions conducted during the financial year.

	Categories of Transactions	Term of Master Agreements	2024 Annual Cap (HK$'m)	2024 Actual Amount (HK$'m)
1.	Information Technology Services	1/1/2024 – 31/12/2026	1,545	1,484
2.	Outsourced Operation Services	1/1/2024 – 31/12/2026	1,250	1,077
3.	International Supervisory Framework Related Services	1/1/2024 – 31/12/2026	850	778
4.	Group Administrative and Support Services	1/1/2024 – 31/12/2026	1,500	1,193
5.	Financial Services	1/1/2024 – 31/12/2026	1,100	735
6.	Insurance Related Investment Management and Advisory Services	1/1/2024 – 31/12/2026	800	140
7.	Intercompany Dealing Transactions			
	(a) Foreign Exchange and Cash Equities Transactions	1/1/2024 – 31/12/2043	1,900	-166
	(b) Derivatives Transactions	1/1/2024 – 31/12/2043	1,900	456
	(c) Bond and Equity Financing Transactions	1/1/2024 – 31/12/2043	1,000	-0.5
8.	Trading of Financial Assets			
	(a) Capital Markets and Physical Precious Metals Transactions	1/1/2024 – 31/12/2026	30,000	8,026
	(b) Trade Assets Related Transactions	1/1/2024 – 31/12/2029	100	0.3

The Independent Non-executive Directors of the Bank have reviewed the continuing connected transactions which the Bank disclosed in public announcements on 7 October 2024 and 29 November 2024 respectively, and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of Hang Seng Group;

(ii) conducted on normal commercial terms or better; and

(iii) entered into according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

In accordance with Rules 14A.56 and 14A.71(6)(b) of the Listing Rules, the Bank engaged its external auditor to report on the continuing connected transactions of Hang Seng Group 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 its findings and conclusions in respect of the above continuing connected transactions.

Related Party Transactions

During the year ended 31 December 2024, Hang Seng Group entered into certain transactions with parties regarded as 'related parties' under the applicable accounting standards. Details of the related party transactions entered into by Hang Seng Group during the year ended 31 December 2024 are set out in note 48 to the financial statements for the year ended 31 December 2024.

Apart from the Continuing Connected Transactions as disclosed in this Annual Report, none of the related party transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules which are subject to announcement or independent shareholders' approval requirements.

Contracts of Significance

Save as disclosed in the sections 'Continuing Connected Transactions' and 'Related Party Transactions' in this Annual Report, at no time during the year ended 31 December 2024 had the Bank or any of its subsidiaries entered into any contract of significance with the controlling shareholders of the Bank or any of their subsidiaries, nor had any contract of significance been entered into for the services provided by the controlling shareholders of the Bank or any of their subsidiaries to the Bank or any of its subsidiaries.

Auditor

The consolidated financial statements for the year ended 31 December 2024 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer itself for re-appointment at the 2025 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Bank will be proposed at the 2025 AGM.

On behalf of the Board

Irene LEE Yun Lien
Chairman
Hong Kong, 19 February 2025

2024 Financial Statements

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2024
(Expressed in millions of Hong Kong dollars)

	note	2024	2023
Interest income[1]		**61,277**	59,439
Interest expense		**(30,493)**	(27,144)
Net interest income	3	**30,784**	32,295
Fee income		**8,248**	7,829
Fee expense		**(2,932)**	(2,909)
Net fee income	4	**5,316**	4,920
Net income/(loss) from financial instruments measured at fair value through profit or loss	5	**7,681**	11,330
Gains less losses from financial investments	6	**53**	(3)
Dividend income	7	**207**	253
Insurance finance income/(expenses)	8	**(5,559)**	(10,805)
Insurance service results	8	**2,271**	2,049
– Insurance revenue		**3,377**	2,913
– Insurance service expense		**(1,106)**	(864)
Other operating income/(loss)	9	**784**	783
Net operating income before change in expected credit losses and other credit impairment charges		**41,537**	40,822
Change in expected credit losses and other credit impairment charges	10	**(4,773)**	(6,248)
Net operating income		**36,764**	34,574
Employee compensation and benefits		**(5,918)**	(5,795)
General and administrative expenses		**(6,142)**	(5,980)
Depreciation expenses		**(1,963)**	(1,915)
Amortisation of intangible assets		**(1,170)**	(934)
Operating expenses	11	**(15,193)**	(14,624)
Impairment loss on intangible assets		**(13)**	(4)
Operating profit		**21,558**	19,946
Net surplus/(deficit) on property revaluation	15	**(583)**	(34)
Share of profits/(losses) of associate		**39**	193
Profit before tax		**21,014**	20,105
Tax expense	16	**(2,645)**	(2,267)
Profit for the year		**18,369**	17,838
Profit attributable to:			
Shareholders of the Bank		**18,379**	17,848
Non-controlling interests		**(10)**	(10)
(Figures in HK$)			
Earnings per share – basic and diluted	17	**9.33**	8.97

[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 193 to 268 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2024
(Expressed in millions of Hong Kong dollars)

	2024	2023
Profit for the year	**18,369**	17,838
Other comprehensive income		
Items that will be reclassified subsequently to the profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI') reserve:		
– fair value gains/(losses) taken to equity	**272**	814
– fair value (gains)/losses transferred to the income statement:		
– on hedged items	**31**	(390)
– on disposal	**(53)**	3
– expected credit losses/(recoveries) recognised in the income statement	**2**	(3)
– deferred taxes	**(51)**	(70)
Cash flow hedge reserve:		
– fair value gains/(losses) taken to equity	**4,896**	944
– fair value (gains)/losses transferred to the income statement	**(4,961)**	(82)
– deferred taxes	**11**	(142)
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and an associate	**(520)**	(449)
Items that will not be reclassified subsequently to the profit or loss:		
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	**(2)**	11
– deferred taxes	**–**	(2)
Equity instruments designated at FVOCI:		
– fair value gains/(losses) taken to equity	**418**	(548)
Premises:		
– unrealised surplus/(deficit) on revaluation of premises	**(722)**	976
– deferred taxes	**118**	(163)
Defined benefit plans:		
– actuarial gains/(losses) on defined benefit plans	**402**	89
– deferred taxes	**(66)**	(15)
Others	**–**	242
Other comprehensive income for the year, net of tax	**(225)**	1,215
Total comprehensive income for the year	**18,144**	19,053
Total comprehensive income for the year attributable to:		
– shareholders of the Bank	**18,154**	19,063
– non-controlling interests	**(10)**	(10)
	18,144	19,053

The notes on pages 193 to 268 form part of these Financial Statements.

Consolidated Balance Sheet

at 31 December 2024
(Expressed in millions of Hong Kong dollars)

	note	**2024**	2023
ASSETS			
Cash and balances at central banks	21	**10,433**	10,564
Trading assets	22	**39,640**	44,018
Derivative financial instruments	23	**20,201**	14,959
Financial assets mandatorily measured at fair value through profit or loss	24	**164,557**	156,872
Reverse repurchase agreements – non-trading		**33,479**	30,202
Placings with and advances to banks	25	**76,221**	83,756
Loans and advances to customers	26	**819,136**	860,406
Financial investments	27	**541,155**	405,792
Interest in an associate	30	**2,321**	2,363
Investment properties	31	**11,220**	12,000
Premises, plant and equipment	31	**24,943**	27,075
Intangible assets	32	**4,465**	4,335
Other assets	33	**47,425**	39,752
Total assets		**1,795,196**	1,692,094
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		**14,279**	19,707
Current, savings and other deposit accounts	34	**1,238,224**	1,153,062
Repurchase agreements – non-trading		**19,387**	12,767
Trading liabilities	35	**18,093**	35,227
Derivative financial instruments	23	**13,517**	14,478
Financial liabilities designated at fair value	36	**38,636**	45,633
Certificates of deposit in issue		**4,948**	9,857
Other liabilities	37	**57,399**	33,759
Insurance contract liabilities	38	**188,481**	167,264
Current tax liabilities	39	**1,476**	990
Deferred tax liabilities	39	**3,717**	3,675
Subordinated liabilities	40	**27,475**	27,491
Total liabilities		**1,625,632**	1,523,910
Equity			
Share capital	41	**9,658**	9,658
Retained profits		**129,390**	126,624
Other equity instruments	42	**11,587**	11,744
Other reserves		**18,887**	20,105
Total shareholders' equity		**169,522**	168,131
Non-controlling interests		**42**	53
Total equity		**169,564**	168,184
Total equity and liabilities		**1,795,196**	1,692,094

Irene LEE Yun Lien *Independent Non-executive Chairman*
Diana Ferreira CESAR *Executive Director and Chief Executive*

SAW Say Pin *Executive Director and Chief Financial Officer*

The notes on pages 193 to 268 form part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2024
(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 2024	**9,658**	**11,744**	**126,624**	**18,525**	**1,579**	**(96)**	**(571)**	**668**	**168,131**	**53**	**168,184**
Profit for the year	–	–	18,379	–	–	–	–	–	18,379	(10)	18,369
Other comprehensive income (net of tax)	–	–	336	(604)	619	(54)	(520)	(2)	(225)	–	(225)
Debt instruments at FVOCI	–	–	–	–	201	–	–	–	201	–	201
Equity instruments designated at FVOCI	–	–	–	–	418	–	–	–	418	–	418
Cash flow hedges	–	–	–	–	–	(54)	–	–	(54)	–	(54)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Property revaluation	–	–	–	(604)	–	–	–	–	(604)	–	(604)
Actuarial gains on defined benefit plans	–	–	336	–	–	–	–	–	336	–	336
Others	–	–	–	–	–	–	(520)	–	(520)	–	(520)
Total comprehensive income for the year	–	–	18,715	(604)	619	(54)	(520)	(2)	18,154	(10)	18,144
Redemption and repayment of AT1 capital instruments[3]	–	(11,744)	–	–	–	–	–	–	(11,744)	–	(11,744)
Issue of new AT1 capital instruments[3]	–	11,587	–	–	–	–	–	–	11,587	–	11,587
Dividends paid[4]	–	–	(12,923)	–	–	–	–	–	(12,923)	–	(12,923)
Coupon paid on AT1 capital instruments	–	–	(699)	–	–	–	–	–	(699)	–	(699)
Movement in respect of share-based payment arrangements	–	–	(9)	–	–	–	–	(9)	(18)	–	(18)
Share buy-back[5]	–	–	(3,006)	–	–	–	–	–	(3,006)	–	(3,006)
Others	–	–	40	–	–	–	–	–	40	(1)	39
Transfers[6]	–	–	648	(648)	–	–	–	–	–	–	–
At 31 December 2024	**9,658**	**11,587**	**129,390**	**17,273**	**2,198**	**(150)**	**(1,091)**	**657**	**169,522**	**42**	**169,564**

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 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$734m.

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 The Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m in June 2024 and has redeemed and repaid another AT1 capital instrument of US$900m and issued new AT1 capital instrument of US$900m in September 2024.

4 Dividends paid represented the payment of fourth interim dividend of 2023 and the first three interim dividends of 2024 amounted to HK$6,118m and HK$6,805m respectively.

5 In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which was completed in September 2024.

6 This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.

Consolidated Statement of Changes in Equity continued

for the year ended 31 December 2024
(Expressed in millions of Hong Kong dollars)

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign exchange reserve	Other reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2023	9,658	11,744	118,717	18,338	1,737	(816)	(122)	677	159,933	65	159,998
Profit for the year	–	–	17,848	–	–	–	–	–	17,848	(10)	17,838
Other comprehensive income (net of tax)	–	–	316	813	(194)	720	(449)	9	1,215	–	1,215
Debt instruments at FVOCI	–	–	–	–	354	–	–	–	354	–	354
Equity instruments designated at FVOCI	–	–	–	–	(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)
Coupon 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

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 was not required to restrict any reserves which can be distributed to shareholders 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 included 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 2024
(Expressed in millions of Hong Kong dollars)

	2024	2023
Profit before tax	**21,014**	20,105
Adjustments for non-cash items:		
Depreciation and amortisation	**3,133**	2,849
Net interest income	**(30,784)**	(32,295)
Dividend income	**(207)**	(253)
Gains less losses from financial investments	**(53)**	3
Share of (profits)/losses of associate	**(39)**	(193)
Net (surplus)/deficit on property revaluation	**583**	34
Change in expected credit losses and other credit impairment charges	**4,773**	6,248
Impairment loss on intangible assets	**13**	4
Loans and advances written off net of recoveries	**(6,138)**	(5,371)
Elimination of exchange differences and other non-cash items	**4,141**	(8,753)
Changes in operating assets and liabilities		
Change in trading assets	**4,378**	3,355
Change in derivative financial instruments	**(6,203)**	1,288
Change in financial assets mandatorily measured at fair value through profit or loss	**(8,719)**	(3,869)
Change in reverse repurchase agreements – non-trading maturing after one month	**1,888**	2,009
Change in placings with and advances to banks maturing after one month	**21,898**	(15,171)
Change in loans and advances to customers	**41,930**	70,689
Change in financial investments of insurance business	**763**	(306)
Change in other assets	**1,205**	16,441
Change in repurchase agreements – non-trading	**6,620**	1,463
Change in deposits from banks	**(5,428)**	14,502
Change in current, savings and other deposit accounts	**85,162**	(96,424)
Change in trading liabilities	**(17,134)**	(11,096)
Change in financial liabilities designated at fair value	**(6,997)**	(676)
Change in certificates of deposit in issue	**(4,909)**	(83,522)
Change in other liabilities	**9,559**	(2,317)
Change in insurance contract liabilities	**21,217**	14,890
Interest received	**51,828**	49,842
Interest paid	**(31,881)**	(26,058)
Dividends received from financial investments	**207**	247
Tax paid	**(3,169)**	(2,129)
Net cash from/(used in) operating activities	**158,651**	(84,464)

Consolidated Statement of Cash Flows continued

for the year ended 31 December 2024
(Expressed in millions of Hong Kong dollars)

	2024	2023
Purchase of financial investments	**(841,534)**	(783,419)
Proceeds from sale or redemption of financial investments	**759,463**	825,715
Repayment of shareholders' loan from an associated company	**7**	10
Purchase of property, plant and equipment and intangible assets	**(1,748)**	(1,750)
Net cash from/(used in) investing activities	**(83,812)**	40,556
Interest paid for subordinated liabilities	**(1,732)**	(1,700)
Principal and interest elements of lease payments	**(500)**	(515)
Dividends paid	**(12,923)**	(10,133)
Share buy-back	**(3,006)**	–
Coupons paid to holder on AT1 capital instruments	**(699)**	(708)
Net cash from/(used in) financing activities	**(18,860)**	(13,056)
Net increase/(decrease) in cash and cash equivalents	**55,979**	(56,964)
Cash and cash equivalents at 1 January	**97,191**	152,818
Exchange differences in respect of cash and cash equivalents	**(2,590)**	1,337
Cash and cash equivalents at 31 December	**150,580**	97,191
Cash and cash equivalents comprise[1]:		
– Cash and sight balances at central banks	**10,433**	10,564
– Balances with banks	**4,129**	4,012
– Items in the course of collection from other banks	**3,634**	3,748
– Placings with and advances to banks maturing within one month	**40,677**	26,433
– Reverse repurchase agreements with banks maturing within one month	**19,041**	13,876
– Treasury bills	**91,351**	37,985
– Net settlement accounts and cash collateral to banks within one month	**(14,236)**	5,109
– Less: items in the course of transmission to other banks	**(4,449)**	(4,536)
	150,580	97,191

1 At 31 December 2024, the amount of cash and cash equivalents that was not available for use by the Group was HK$13,041m (31 December 2023: HK$10,561m), of which HK$4,696m (31 December 2023: HK$4,333m) was related to mandatory deposits at central banks.

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 2024. 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 2024

There were no new standards applied during the year ended 31 December 2024. During 2024, the Group adopted a number of amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

(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'.

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 on the Consolidated 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 2024.

(d) Future Accounting Developments

The HKICPA has published minor amendments to HKFRSs that are effective from 1 January 2025, including Lack of Exchangeability (Amendments to HKAS 21). The Group expect they will have an insignificant effect, when adopted, on the consolidated financial statements.

Amendments to HKFRS 9 'Financial Instruments' and HKFRS 7 'Financial Instruments: Disclosures'

In August 2024, the HKICPA issued Amendments to HKFRS 9 *'Financial Instruments'* and HKFRS 7 *'Financial Instruments: Disclosures'*, effective for annual reporting periods beginning on or after 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarifications regarding the classification of financial assets that contain contractual terms that change the timing and amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The Group is undertaking an assessment of the potential impact.

1. Basis of preparation continued

(d) Future Accounting Developments continued

HKFRS 18 'Presentation and Disclosure in Financial Statements'

In July 2024, the HKICPA issued HKFRS 18 *'Presentation and Disclosure in Financial Statements'*, effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about a company's financial performance. It will replace HKAS 1 *'Presentation of Financial Statements'* but carries over many requirements from this HKAS unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While HKFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement. The Group is currently assessing the impact before developing a more detailed implementation plan.

(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 judgements from those reached by management for the purpose of 2024 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 2024 management did 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.

(b) Non-interest income

(i) Fee income

The Group generates fee income from services provided 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/(loss) from financial instruments designated at fair value through profit or loss

Net income/(loss) 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 installments 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.

(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.

2. Material accounting policies continued

(d) Valuation of financial instruments continued

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.

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 derecognised 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'.

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.

2. Material accounting policies continued

(h) Financial instruments designated at fair value continued

– 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 through profit or loss. 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.

(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, in which case it is recognised in the income statement immediately.

(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.

2. Material accounting policies continued

(i) Derivatives continued

Hedge accounting continued

(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'.

(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 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.

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.

2. Material accounting policies continued

(j) Impairment of amortised cost and FVOCI financial assets continued

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when the Group modifies 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.

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, which are 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 ('PD') 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 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.

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.

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.

2. Material accounting policies continued

(j) Impairment of amortised cost and FVOCI financial assets continued

Measurement of ECL continued

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.

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 are 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.

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.

2. Material accounting policies continued

(j) Impairment of amortised cost and FVOCI financial assets continued

Measurement of ECL continued

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.

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.

2. Material accounting policies continued

(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:

- 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.

(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.

2. Material accounting policies continued

(o) Goodwill and intangible assets continued

(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.

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.

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's accounting policy is 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.

2. Material accounting policies continued

(t) Insurance contracts continued

Fulfilment cash flows continued

(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 59th percentile (2023: 60th 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.

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.

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.

2. Material accounting policies continued

(t) Insurance contracts continued

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.

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.

2. Material accounting policies continued

(v) Translation of foreign currencies continued

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.

(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.

3. Net interest income

	2024	2023
Interest income arising from:		
– financial assets measured at amortised cost	**47,539**	48,879
– financial assets measured at FVOCI	**13,738**	10,560
	61,277	59,439
Interest expense arising from financial liabilities measured at amortised cost	**(30,493)**	(27,144)
Net interest income	**30,784**	32,295
of which:		
– interest income from impaired financial assets	**1,584**	920
– interest expense from subordinated liabilities	**(1,716)**	(1,707)

4. Net fee income

	2024	2023
– securities broking and related services	**1,526**	1,277
– retail investment funds	**1,350**	968
– insurance	**298**	357
– account services	**484**	465
– remittances	**246**	247
– cards	**3,063**	3,107
– credit facilities	**359**	394
– imports/exports	**235**	254
– other	**687**	760
Fee income	**8,248**	7,829
Fee expense	**(2,932)**	(2,909)
	5,316	4,920
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)	**1,342**	1,442
– fee income	**4,160**	4,244
– fee expense	**(2,818)**	(2,802)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**773**	813
– fee income	**950**	902
– fee expense	**(177)**	(89)

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

	2024	2023
Net trading income	**2,978**	1,632
– trading income	**2,982**	1,646
– other trading expense from ineffective fair value hedges	**(4)**	(14)
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(1,976)**	(1,763)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**6,637**	11,478
– financial assets/liabilities held to meet liabilities under insurance contracts	**6,646**	11,476
– liabilities to customers under investment contracts	**(9)**	2
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**42**	(17)
	7,681	11,330

6. Gains less losses from financial investments

	2024	2023
Net gains/(losses) from disposal of debt securities measured at FVOCI	**53**	(3)

7. Dividend income

	2024	2023
Dividend income for financial investments measured at FVOCI:		
– listed investments	**189**	211
– unlisted investments	**18**	42
	207	253

There was nil (2023: HK$11m) dividend recognised related to equity investments measured at fair value through other comprehensive income which were disposed of during the year.

8. Insurance business

(a) Insurance service results

	2024			2023		
	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	**2,756**	**217**	**2,973**	2,550	104	2,654
– CSM recognised for services provided	**1,934**	**147**	**2,081**	1,862	50	1,912
– Change in risk adjustment for non-financial risk for risk expired	**37**	**2**	**39**	8	2	10
– Expected incurred claims and other insurance service expenses	**785**	**68**	**853**	680	52	732
Recovery of insurance acquisition cash flows	**367**	**37**	**404**	228	31	259
Total insurance revenue	**3,123**	**254**	**3,377**	2,778	135	2,913
Insurance service expenses						
Incurred claims and other insurance service expenses	**(574)**	**(84)**	**(658)**	(519)	(69)	(588)
Amortisation of insurance acquisition cash flows	**(367)**	**(37)**	**(404)**	(228)	(31)	(259)
Losses and reversal of losses on onerous contracts	**(3)**	**(26)**	**(29)**	37	(44)	(7)
Adjustments to liabilities for incurred claims	**(15)**	**–**	**(15)**	(9)	(1)	(10)
Total insurance service expenses	**(959)**	**(147)**	**(1,106)**	(719)	(145)	(864)
Total insurance service results	**2,164**	**107**	**2,271**	2,059	(10)	2,049

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.

8. Insurance business continued

(b) Net investment return[1]

	2024			2023		
	Life direct participating contracts	Life other contracts	Total	Life direct participating contracts	Life other contracts	Total
Total investment return[2]	**5,576**	**289**	**5,865**	10,269	544	10,813
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	**(5,576)**	**–**	**(5,576)**	(10,269)	–	(10,269)
Effect of risk mitigation option	**283**	**–**	**283**	(79)	–	(79)
Interest accreted	**–**	**(379)**	**(379)**	–	(381)	(381)
Effect of changes in interest rates and other financial assumptions	**–**	**142**	**142**	–	(95)	(95)
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	**–**	**(29)**	**(29)**	–	19	19
Total net finance income/(expenses) from insurance contracts	**(5,293)**	**(266)**	**(5,559)**	(10,348)	(457)	(10,805)
Total net investment results	**283**	**23**	**306**	(79)	87	8

1 All items are recognised in the income statement.

2 Total investment return for the year ended 31 December 2024 included a gain of HK$5,865m (2023: gain of HK$10,813m) reported under 'Net income/(loss) from financial instruments measured at fair value through profit or loss' in the income statement.

9. Other operating income/(loss)

	2024	2023
Rental income from investment properties	**353**	334
Income/(expense) arising from reinsurance contracts held	**336**	231
Net losses from disposal of fixed assets	**(9)**	(7)
Others	**104**	225
	784	783

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

	2024	2023
Loans and advances to banks and customers	**4,825**	6,304
– new allowances net of allowance releases	**4,921**	6,420
– recoveries of amounts previously written off	**(179)**	(229)
– other movements	**83**	113
Loan commitments and guarantees	**(26)**	(65)
Other financial assets	**(26)**	9
	4,773	6,248

11. Operating expenses

	2024	2023
Employee compensation and benefits:		
– salaries and other costs*	**6,306**	5,986
– retirement benefit costs	**496**	506
– *of which: defined benefit scheme (note 46(a))*	***116***	*134*
– *of which: defined contribution scheme (note 46(b))*	***380***	*372*
Total employee compensation and benefits	**6,802**	6,492
Less: Cost directly attributable to insurance business	**(884)**	(697)
	5,918	5,795
General and administrative expenses:		
– rental expenses	**18**	23
– other premises and equipment	**2,137**	1,998
– marketing and advertising expenses	**452**	461
– other operating expenses	**3,928**	3,813
Total general and administrative expenses	**6,535**	6,295
Less: Cost directly attributable to insurance business	**(393)**	(315)
	6,142	5,980
Depreciation of premises, plant and equipment (note 31)	**1,459**	1,445
Depreciation of right-of-use assets	**504**	470
Amortisation of intangible assets (note 32)	**1,170**	934
	15,193	14,624
* of which:		
share-based payments (note 47(c))	**35**	36
Cost efficiency ratio[1]	**36.6%**	35.8%

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

12. The emoluments of the five highest paid individuals

(a) The aggregate emoluments

	2024	2023
Salaries, allowances and benefits in kind	**31**	29
Retirement scheme contributions	**3**	3
Variable bonuses		
– Cash bonus	**11**	12
– Share-based payment	**12**	11
	57	55

(b) The numbers of the five highest paid individuals with emoluments within the following bands are:

HK$	2024 Number of Individuals	2023 Number of Individuals
6,500,001 – 7,000,000	**–**	1
7,000,001 – 7,500,000	**–**	1
7,500,001 – 8,000,000	**1**	1
8,000,001 – 8,500,000	**2**	–
10,500,001 – 11,000,000	**1**	–
11,500,001 – 12,000,000	**–**	1
21,500,001 – 22,000,000	**1**	1
	5	5

The emoluments of the five highest paid individuals set out above include the emoluments of one (2023: one) Executive Director which is included in note 13. There is no Non-executive Director included in the table above (2023: Nil).

13. 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								
				Variable bonus[5]					
				Cash		Shares			
	Fees '000	Salaries, allowances and benefits in kind[6] '000	Contribution to retirement benefit schemes[4] '000	Deferred '000	Non-deferred '000	Deferred '000	Non-deferred '000	Total 2024 '000	Total 2023 '000
Executive Directors									
Diana Ferreira CESAR, Chief Executive[1]	–	10,353	685	2,998	1,999	3,732	1,999	21,766	21,652
SAW Say Pin[1]	–	3,248	481	647	969	777	969	7,091	6,554
Non-executive Directors									
Cordelia CHUNG[3]	1,287	–	–	–	–	–	–	1,287	1,037
Kathleen GAN Chieh Huey[2]	693	–	–	–	–	–	–	693	660
Clement KWOK King Man[3]	1,303	–	–	–	–	–	–	1,303	1,270
Patricia LAM Sze Wan[3]	1,120	–	–	–	–	–	–	1,120	993
Irene LEE Yun Lien[3]	2,163	–	–	–	–	–	–	2,163	2,090
David LIAO Yi Chien[2]	892	–	–	–	–	–	–	892	860
LIN Huey Ru[3]	983	–	–	–	–	–	–	983	950
Kenneth NG Sing Yip[3] (Resigned on 8 May 2024)	613	–	–	–	–	–	–	613	1,470
WANG Xiao Bin[3]	1,487	–	–	–	–	–	–	1,487	1,071
Michael WU Wei Kuo[3] (Resigned on 4 May 2023)	–	–	–	–	–	–	–	–	621
Catherine ZHOU Rong[2] (Appointed on 25 Oct 2024)	132	–	–	–	–	–	–	132	–
Past Directors	–	–	1,744	–	–	–	–	1,744	1,718
	10,673	13,601	2,910	3,645	2,968	4,509	2,968	41,274	40,946
2023	11,022	13,025	2,858	3,701	2,957	4,426	2,957		

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 2024 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$1.744m in 2024.

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.

14. Auditor's remuneration

	2024	2023
Statutory audit services	**37**	35
Non-statutory audit services and others	**15**	15
	52	50

15. Net surplus/(deficit) on property revaluation

	2024	2023
Surplus/(deficit) on investment property revaluation	**(581)**	(34)
Revaluation deficit on premises	**(2)**	–
	(583)	(34)

16. Tax expense

(a) Taxation in the Consolidated Income Statement

	2024	2023
Current tax – provision for Hong Kong profits tax		
– Tax for the year	**3,578**	2,604
– Adjustment in respect of prior years	**89**	(65)
Current tax – taxation outside Hong Kong		
– Tax for the year	**27**	194
– Adjustment in respect of prior years	**(67)**	(5)
Deferred tax (note 39(b))		
– Origination and reversal of temporary differences	**(982)**	(461)
Total tax expense	**2,645**	2,267

The current tax provision is based on the estimated assessable profit for 2024, 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 (2023: 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 (the 'model rules') of the Organisation for Economic Cooperation and Development ('OECD') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS') and a Qualified Domestic Minimum top-up tax ('QDMTT'), with effect from 1 January 2024.

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 top-up 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, the top-up tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to the UK tax authority.

The Hong Kong government has issued the draft Pillar Two legislations including a QDMTT, which shall be effective from 1 January 2025 once substantively enacted during 2025. Based on the Group's forecasts, 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. Nonetheless, the impact is dependent upon the ongoing evolution of rules and guidance in Hong Kong.

16. Tax expense continued

(b) Reconciliation between taxation charge and accounting profit at applicable tax rates:

	2024	2023
Profit before tax	**21,014**	20,105
Notional tax on profit before tax, calculated at Hong Kong profits tax rate of 16.5% (2023: 16.5%)	**3,467**	3,317
Tax effect of:		
– different tax rates in other countries/areas	**16**	30
– non-taxable income	**(796)**	(933)
– non-deductible expenses	**20**	18
– share of (profits)/losses of associates	**(6)**	(32)
– others	**(56)**	(133)
Actual charge for taxation	**2,645**	2,267

17. Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$17,680m (2023: HK$17,140m), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue, excluding own shares held, of 1,895,522,605 shares (2023: 1,911,842,736 shares).

18. Dividends/Distributions

(a) Dividends to ordinary shareholders

	2024		2023	
	per share HK$	HK$m	per share HK$	HK$m
First interim	**1.20**	**2,282**	1.10	2,103
Second interim	**1.20**	**2,264**	1.10	2,103
Third interim	**1.20**	**2,259**	1.10	2,103
Fourth interim	**3.20**	**6,023**	3.20	6,118
	6.80	**12,828**	6.50	12,427

The fourth interim dividend is proposed after the balance sheet date, and has not been recognised as a liability at the balance sheet date.

All dividend decisions made by the Board were made in accordance with the Bank's dividend policy. The dividend payout, as a percentage of reported EPS, slightly increased to 72.9% in 2024 (72.5% in 2023), as the Bank is fully committed in rewarding our shareholders through capital returns while retaining flexibility to invest and grow in business in the future.

18. Dividends/Distributions continued

(b) Dividends attributable to previous year, approved and paid during the year:

	2024	2023
Fourth interim dividend in respect of the previous year, approved and paid during the year, of HK$3.20 per share (2023: HK$2.00 per share)	**6,118**	3,824

(c) Distributions to holders of AT1 capital instruments classified as equity

	2024	2023
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)	**417**	426
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**	282
	699	708

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.

19. Segmental analysis continued

(a) Segmental result continued

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Year ended 31 December 2024						
Net interest income/(expense)	16,972	8,762	2,698	1,804	548	30,784
Net fee income/(expense)	3,479	1,165	295	(53)	430	5,316
Net income/(loss) from financial instruments measured at fair value through profit or loss	6,795	294	(4)	1,410	(814)	7,681
Gains less losses from financial investments	–	–	–	53	–	53
Dividend income	6	–	–	–	201	207
Insurance finance income/(expenses)	(5,559)	–	–	–	–	(5,559)
Insurance service results	2,271	–	–	–	–	2,271
– Insurance revenue	3,377	–	–	–	–	3,377
– Insurance service expense	(1,106)	–	–	–	–	(1,106)
Other operating income/(loss)	300	5	2	–	477	784
Net operating income before change in expected credit losses and other credit impairment charges	24,264	10,226	2,991	3,214	842	41,537
– External	947	8,404	8,813	22,483	890	41,537
– Inter-segment	23,317	1,822	(5,822)	(19,269)	(48)	–
Change in expected credit losses and other credit impairment charges	(577)	(3,926)	(270)	–	–	(4,773)
Net operating income	23,687	6,300	2,721	3,214	842	36,764
Operating expenses	(9,083)	(3,609)	(848)	(739)	(914)	(15,193)
Impairment loss on intangible assets	–	–	–	–	(13)	(13)
Operating profit/(loss)	14,604	2,691	1,873	2,475	(85)	21,558
Net surplus/(deficit) on property revaluation	–	–	–	–	(583)	(583)
Share of profits/(losses) of associate	39	–	–	–	–	39
Profit/(loss) before tax	14,643	2,691	1,873	2,475	(668)	21,014
Share of profit/(loss) before tax	69.7%	12.8%	8.9%	11.8%	(3.2%)	100.0%
As at 31 December 2024						
Total assets	613,587	259,991	197,337	708,388	15,893	1,795,196
– of which: Gross loans and advances to customers	386,481	259,245	183,966	2,417	–	832,109
Total liabilities	1,161,191	281,270	50,983	109,224	22,964	1,625,632
– of which: Customer deposits[2]	948,064	270,284	48,673	–	–	1,267,021
Interest in an associate	2,321	–	–	–	–	2,321
Non-current assets acquired during the year	221	26	4	1	1,496	1,748
Year ended 31 December 2024						
Net fee income/(expense) by segment						
– securities broking and related services	1,436	73	–	17	–	1,526
– retail investment funds	1,333	17	–	–	–	1,350
– insurance	52	164	82	–	–	298
– account services	320	154	9	1	–	484
– remittances	44	172	30	–	–	246
– cards	3,045	27	–	–	(9)	3,063
– credit facilities	11	225	123	–	–	359
– imports/exports	–	215	20	–	–	235
– other	57	143	35	13	439	687
Fee income	6,298	1,190	299	31	430	8,248
Fee expense	(2,819)	(25)	(4)	(84)	–	(2,932)
	3,479	1,165	295	(53)	430	5,316

19. Segmental analysis continued

(a) Segmental result continued

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Year ended 31 December 2023						
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
– Insurance revenue	2,913	–	–	–	–	2,913
– Insurance service expense	(864)	–	–	–	–	(864)
Other operating income/(loss)	471	6	1	–	305	783
Net operating income before change in expected credit losses and other credit impairment charges	23,640	10,702	2,977	2,413	1,090	40,822
– External	3,107	11,777	8,473	17,828	(363)	40,822
– Inter-segment	20,533	(1,075)	(5,496)	(15,415)	1,453	–
Change in expected credit losses and other credit impairment charges	(805)	(4,664)	(783)	4	–	(6,248)
Net operating income	22,835	6,038	2,194	2,417	1,090	34,574
Operating expenses	(8,642)	(3,596)	(786)	(740)	(860)	(14,624)
Impairment loss on intangible assets	–	–	–	–	(4)	(4)
Operating profit/(loss)	14,193	2,442	1,408	1,677	226	19,946
Net surplus/(deficit) on property revaluation	–	–	–	–	(34)	(34)
Share of profits/(losses) of associate	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%
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[2]	867,583	255,937	57,091	–	–	1,180,611
Interest in an associate	2,363	–	–	–	–	2,363
Non-current assets acquired during the year	144	22	3	2	1,579	1,750
Year ended 31 December 2023						
Net fee income/(expense) by segment						
– securities broking and related services	1,190	65	1	21	–	1,277
– retail investment funds	955	13	–	–	–	968
– insurance	130	153	74	–	–	357
– account services	314	143	7	1	–	465
– remittances	50	162	35	–	–	247
– cards	3,080	27	–	–	–	3,107
– credit facilities	16	246	132	–	–	394
– imports/exports	–	228	26	–	–	254
– other	153	153	42	23	389	760
Fee income	5,888	1,190	317	45	389	7,829
Fee expense	(2,797)	(25)	(4)	(83)	–	(2,909)
	3,091	1,165	313	(38)	389	4,920

1 Including inter-segment elimination, of which total assets amounted to HK$33.7bn as at 31 December 2024 (HK$29.0bn as at 31 December 2023) and total liabilities amounted to HK$24.2bn as at 31 December 2024 (HK$19.5bn as at 31 December 2023).

2 Customer deposits balances include current, savings and other deposit accounts, as well as structured deposit.

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 2024					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**39,444**	**1,952**	**160**	**(19)**	**41,537**
Profit before tax	**20,834**	**179**	**1**	**–**	**21,014**
At 31 December 2024					
Total assets	**1,702,417**	**108,673**	**18,481**	**(34,375)**	**1,795,196**
Total liabilities	**1,540,658**	**92,997**	**16,888**	**(24,911)**	**1,625,632**
Interest in an associate	**2,321**	**–**	**–**	**–**	**2,321**
Non-current assets*	**39,356**	**1,254**	**18**	**–**	**40,628**
Contingent liabilities and commitments	**467,970**	**62,877**	**6,047**	**(18,954)**	**517,940**
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 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 an associate	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

* 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$24,943m (2023: HK$27,075m), intangible assets of HK$4,465m (2023: HK$4,335m), investment properties of HK$11,220m (2023: HK$12,000m), bullion of HK$2,194m (2023: HK$1,161m) and reinsurance contract assets of HK$12,867m (2023: HK$5,377m). Non-financial liabilities mainly include insurance contracts liabilities of HK$188,481m (2023: HK$167,264m) and deferred tax liabilities of HK$3,717m (2023: HK$3,675m).
- Liabilities under insurance contracts and reinsurer's share of liabilities under insurance contracts reported under 'Non-financial liabilities' are, irrespective of contractual maturity, included in the 'Over 5 years' time bucket in the maturity table provided below. An analysis of the expected maturity of insurance contract liabilities based on discounted cash flows is provided in 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, however, such contracts are subject to surrender and transfer options by the policyholders.

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
2024									
Assets									
Cash and balances at central banks	10,433	–	–	–	–	–	–	–	10,433
Trading assets	39,640	–	–	–	–	–	–	–	39,640
Derivative financial instruments	15,401	1,489	1,317	342	17	405	1,230	–	20,201
Financial assets mandatorily measured at fair value through profit or loss	1,250	1,249	4,133	1,363	3,048	8,257	19,842	125,415	164,557
Reverse repurchase agreements – non-trading	26,709	6,536	234	–	–	–	–	–	33,479
Placings with and advances to banks	44,806	17,271	6,313	1,835	4,055	1,941	–	–	76,221
Loans and advances to customers	80,862	58,295	66,775	44,817	49,713	102,826	140,167	275,681	819,136
Financial investments	90,695	205,734	111,018	17,265	8,480	25,225	68,336	14,402	541,155
Accrued income and other financial assets	16,598	4,906	4,318	1,779	381	130	182	92	28,386
Financial assets	326,394	295,480	194,108	67,401	65,694	138,784	229,757	415,590	1,733,208
Non-financial assets	–	–	–	–	–	–	–	61,988	61,988
Total assets	326,394	295,480	194,108	67,401	65,694	138,784	229,757	477,578	1,795,196
Liabilities									
Deposits from banks	14,258	21	–	–	–	–	–	–	14,279
Current, savings and other deposit accounts	835,073	304,464	73,633	9,146	10,887	4,701	320	–	1,238,224
Repurchase agreements – non-trading	18,393	994	–	–	–	–	–	–	19,387
Trading liabilities	18,093	–	–	–	–	–	–	–	18,093
Derivative financial instruments	13,045	–	–	5	2	60	405	–	13,517
Financial liabilities designated at fair value	14,674	13,062	3,364	2,385	3,398	1,511	–	242	38,636
Certificates of deposit in issue	459	4,467	22	–	–	–	–	–	4,948
Subordinated liabilities[1]	–	–	6,240	–	–	4,994	16,241	–	27,475
Accruals and other financial liabilities	41,334	8,053	3,982	570	788	510	383	21	55,641
Financial liabilities	955,329	331,061	87,241	12,106	15,075	11,776	17,349	263	1,430,200
Non-financial liabilities	–	–	–	–	–	–	–	195,432	195,432
Total liabilities	955,329	331,061	87,241	12,106	15,075	11,776	17,349	195,695	1,625,632

[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
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.

21. Cash and balances at central banks

	2024	2023
Cash in hand	**6,241**	7,899
Balances at central banks	**4,192**	2,665
	10,433	10,564

22. Trading assets

	2024	2023
Treasury bills	**19,897**	18,191
Other debt securities	**19,716**	25,757
Debt securities	**39,613**	43,948
Investment funds/equity shares	**27**	33
Reverse repurchase agreements	**–**	37
	39,640	44,018

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 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.

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	**1,125,256**	**73,288**	**1,198,544**	**8,029**	**3,553**	**11,582**	**6,409**	**8**	**6,417**
Interest rate	**707,550**	**102,586**	**810,136**	**6,707**	**1,323**	**8,030**	**6,110**	**463**	**6,573**
Equity and other	**26,543**	**–**	**26,543**	**589**	**–**	**589**	**527**	**–**	**527**
At 31 December 2024	**1,859,349**	**175,874**	**2,035,223**	**15,325**	**4,876**	**20,201**	**13,046**	**471**	**13,517**
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

23. Derivative financial instruments continued

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.

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	**37,756**	**379**	**220**	**Derivatives**	**27**
At 31 December 2024	**37,756**	**379**	**220**		**27**
Interest rate	28,625	428	185	Derivatives	(405)
At 31 December 2023	28,625	428	185		(405)

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.

23. Derivative financial instruments continued

(a) Fair value hedges continued

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	**37,860**	**–**	**(132)**	**–**	**Financial investments measured at fair value through other comprehensive income**	**(31)**	**(4)**	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
At 31 December 2024	**37,860**	**–**	**(132)**	**–**		**(31)**	**(4)**	
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.

(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.

23. Derivative financial instruments continued

(b) Cash flow hedges continued

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	**73,288**	**3,553**	**8**	**Derivatives**	**5,367**	**5,367**	**–**	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
Interest rate	**64,830**	**944**	**243**	**Derivatives**	**(471)**	**(471)**	**–**	
At 31 December 2024	**138,118**	**4,497**	**251**		**4,896**	**4,896**	**–**	
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	–	
At 31 December 2023	68,489	1,184	562		944	944	–	

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 2024	**(43)**	**(53)**	**(96)**
Fair value gains/(losses)	**(471)**	**5,367**	**4,896**
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[1]	**371**	**(5,332)**	**(4,961)**
Deferred taxes	**17**	**(6)**	**11**
At 31 December 2024	**(126)**	**(24)**	**(150)**
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)
Deferred taxes	(85)	(57)	(142)
At 31 December 2023	(43)	(53)	(96)

[1] Hedged items that have affected profit or loss are primarily recorded within 'Net income/(loss) from financial instruments measured at fair value through profit or loss' and 'Net interest income'.

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

	2024	2023
Treasury bills	**924**	1,958
Other debt securities	**112,669**	116,993
Equity shares	**12,802**	8,125
Investment funds	**37,387**	28,963
Other	**775**	833
	164,557	156,872

25. Placings with and advances to banks

	2024	2023
Balances with banks	**4,129**	4,012
Placings with and advances to banks maturing within one month	**40,677**	26,433
Placings with and advances to banks maturing after one month but less than one year	**29,476**	47,962
Placings with and advances to banks maturing after one year	**1,941**	5,353
Less: Allowances for expected credit losses	**(2)**	(4)
	76,221	83,756
of which:		
Placings with and advances to central banks	**8,147**	6,901

There were no overdue advances, impaired advances and rescheduled advances to banks at 31 December 2024 (2023: Nil).

26. Loans and advances to customers

(a) Loans and advances to customers

	2024	2023
Gross loans and advances to customers	**832,109**	874,039
Less: Allowances for expected credit losses	**(12,973)**	(13,633)
	819,136	860,406
Expected credit losses as a percentage of gross loans and advances to customers	**1.56%**	1.56%
Gross impaired loans and advances	**50,964**	24,749
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**6.12%**	2.83%

(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:

	2024			2023		
	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
Amounts receivable:						
– within one year	**321**	**187**	**508**	286	241	527
– over one year to two years	**339**	**161**	**500**	313	200	513
– over two years to three years	**349**	**165**	**514**	335	214	549
– over three years to four years	**354**	**167**	**521**	344	220	564
– over four years to five years	**358**	**170**	**528**	350	223	573
– after five years	**5,262**	**1,234**	**6,496**	5,658	1,623	7,281
	6,983	**2,084**	**9,067**	7,286	2,721	10,007
Allowances for expected credit losses	**(181)**			(83)		
Net investments in finance leases and hire purchase contracts	**6,802**			7,203		

27. Financial investments

	2024	2023
Financial investments measured at FVOCI		
– treasury bills	**312,094**	221,746
– other debt securities	**94,612**	79,548
– equity shares	**4,410**	4,060
	411,116	305,354
Debt instruments measured at amortised cost		
– treasury bills	**66,591**	41,293
– other debt securities	**63,451**	59,159
Less: Allowances for expected credit losses	**(3)**	(14)
	130,039	100,438
	541,155	405,792

Equity instruments measured at fair value through other comprehensive income

	2024	2023
Type of equity instruments		
– business facilitation	**4,410**	4,060

There was no overdue debt securities at 31 December 2024 (2023: Nil). The Group did not hold any asset–backed securities, mortgage–backed securities and collateralised debt obligations in 2024 and 2023. There was no financial investments determined to be impaired at 31 December 2024 (2023: Nil).

28. Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2024	2023
Trading assets and financial investments	**37,898**	50,140
Amount of liabilities secured	**36,067**	48,226

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.

28. Assets pledged, assets transferred and collateral received continued

Assets transferred

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2024		2023	
	Carrying amount of		Carrying amount of	
	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
Repurchase agreements	**15,471**	**15,037**	9,204	8,852
Securities lending agreements	**–**	**–**	1,317	–
	15,471	**15,037**	10,521	8,852

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.

Collaterals 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

	2024	2023
Fair value of collateral permitted to sell or repledge in the absence of default	**34,508**	31,561
Fair value of collateral actually sold or repledged	**4,337**	4,063

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 2024. The class of shares held is ordinary.

Name of company	Place of incorporation & operation	Principal activities	Issued share 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	Trading and dealing in securities	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.

29. Subsidiaries continued

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, regulatory solvency requirement 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 an associate

	2024	2023
Share of net assets	**2,321**	2,363

The associate is :

Name of company	Place of incorporation & operation	Principal activities	Issued share capital	Percentage of shareholding
Barrowgate Limited	Hong Kong SAR	Property investment	HK$10,000	24.64%

The interest in Barrowgate Limited is owned by a wholly-subsidiary of the Bank and accounted for using the equity method in the Consolidated Financial Statements as at 31 December 2024 and 2023.

	Assets	Liabilities	Equity	Revenue	Expenses	Profit or loss
2024						
100 per cent	**10,398**	**980**	**9,418**	**327**	**169**	**158**
The Group's effective interest	**2,562**	**241**	**2,321**	**81**	**42**	**39**
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

Investment in associate is assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired, by comparing the recoverable amount of the relevant investment to its carrying amount. At 31 December 2024, the Group has concluded there is no indication of impairment and thus no impairment loss was recognised (2023: Nil).

31. Property, plant and equipment

	2024	2023
Premises	**22,442**	24,268
Plant and equipment[1]	**1,602**	1,657
Other right of use assets	**899**	1,150
Premises, plant and equipment	**24,943**	27,075
Investment properties	**11,220**	12,000
	36,163	39,075

[1] Includes 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
Cost or valuation:				
At 1 January 2024	**24,268**	**12,000**	**4,415**	**40,683**
Additions	**–**	**15**	**412**	**427**
Disposals and write-offs	**–**	**–**	**(165)**	**(165)**
Elimination of accumulated depreciation on revalued premises	**(1,001)**	**–**	**–**	**(1,001)**
Surplus/(Deficit) on revaluation:				
– credited/(charged) to premises revaluation reserve	**(713)**	**–**	**–**	**(713)**
– debited to income statement	**(2)**	**(871)**	**–**	**(873)**
Transfer	**(79)**	**76**	**–**	**(3)**
Exchange adjustments and other	**(31)**	**–**	**(10)**	**(41)**
At 31 December 2024	**22,442**	**11,220**	**4,652**	**38,314**
Accumulated depreciation:				
At 1 January 2024	**–**	**–**	**(2,758)**	**(2,758)**
Charge for the year (note 11)	**(1,004)**	**–**	**(455)**	**(1,459)**
Attributable to assets sold or written off	**–**	**–**	**156**	**156**
Elimination of accumulated depreciation on revalued premises	**1,001**	**–**	**–**	**1,001**
Exchange adjustments and other	**3**	**–**	**7**	**10**
At 31 December 2024	**–**	**–**	**(3,050)**	**(3,050)**
Net book value at 31 December 2024	**22,442**	**11,220**	**1,602**	**35,264**
Representing:				
– measure at cost	**–**	**–**	**1,602**	**1,602**
– measure at valuation	**22,442**	**11,220**	**–**	**33,662**
	22,442	**11,220**	**1,602**	**35,264**

31. Property, plant and equipment continued

(a) Movement in owned property, plant and equipment continued

	Premises	Investment properties	Plant and equipment	Total
Cost or valuation:				
At 1 January 2023	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/(charged) 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 2023	24,268	12,000	4,415	40,683
Accumulated depreciation:				
At 1 January 2023	–	–	(2,443)	(2,443)
Charge for the year (note 11)	(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 2023	–	–	(2,758)	(2,758)
Net book value at 31 December 2023	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

(b) Terms of lease

	Premises		Investment properties	
	2024	2023	**2024**	2023
Leaseholds				
Held in Hong Kong:				
– long leases (over 50 years unexpired)	**2,005**	2,101	**1,055**	1,093
– medium leases (10 to 50 years unexpired)	**19,647**	21,301	**9,821**	10,536
– short leases (below 10 years unexpired)	**–**	–	**343**	369
Held outside Hong Kong:				
– long leases (over 50 years unexpired)	**–**	–	**–**	–
– medium leases (10 to 50 years unexpired)	**790**	866	**1**	2
– short leases (below 10 years unexpired)	**–**	–	**–**	–
	22,442	24,268	**11,220**	12,000

31. Property, plant and equipment continued

(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:

	2024	2023
Cost less accumulated depreciation at 31 December	**5,455**	5,705

(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.

	2024	2023
Direct operating expenses arising from investment properties	**74**	67
Direct operating expenses arising from investment properties that generated rental income	**67**	59

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2024	2023
Within one year	**336**	255
One to two years	**181**	150
Over two years to three years	**52**	49
Three to four years	**22**	22
Four to five years	**4**	22
After five years	**–**	4
	595	502

(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 2024. It was confirmed that there was no material change in value as at 31 December 2024 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.

The resultant values of both investment properties and properties held for own use for the Group were Level 3 (fair value measured using significant unobservable inputs). During the year ended 31 December 2024, there were no transfers into or out of Level 3 (2023: Nil).

31. Property, plant and equipment continued

(e) Fair value measurement of properties continued

The following table details the gains or losses recognised in profit or loss in relation to the Level 3 premises and investment properties:

	Premises		Investment properties	
	2024	2023	**2024**	2023
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)	**–**	–	**(290)**	(23)
– net surplus/(deficit) on property revaluation	**(2)**	–	**(581)**	(34)
– depreciation of premises, plant and equipment	**(1,004)**	(980)	**–**	–

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range	
			2024	2023
Investment properties	Income approach	Market yields (reversionary yield)	**2.35% to 5.00%**	2.20% to 4.90%
		Market rental	**HK$5.3 to HK$303 per square foot**	HK$6.6 to HK$312 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%**	5.00% to 6.50%
		Market rental	**HK$30.9 to HK$69.2 per square foot**	HK$38.5 to HK$74.8 per square foot
	Market approach	Premium (discount) on characteristic of the properties	**-20% to +20%**	-20% to +20%

The fair value measurement for tenanted investment properties is determined using Income Approach and 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 are determined using Market Approach assuming sale with immediate vacant possession and by making reference to comparable sales evidence. They 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

	2024	2023
Internally developed software	4,062	3,870
Acquired software	74	136
Goodwill	329	329
	4,465	4,335

(a) Goodwill

	2024	2023
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 2024, there was no impairment of goodwill (2023: 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

	2024	2023
Cost:		
At 1 January	7,546	6,174
Additions	1,321	1,386
Amounts written off	(2)	(1)
Exchange differences	(19)	(13)
At 31 December	8,846	7,546
Accumulated amortisation:		
At 1 January	(3,540)	(2,609)
Charge for the year (note 11)	(1,170)	(934)
Impairment	(13)	(4)
Amounts written off	2	1
Exchange differences	11	6
At 31 December	(4,710)	(3,540)
Net book value at 31 December	4,136	4,006

33. Other assets

	2024	2023
Items in the course of collection from other banks	**3,634**	3,748
Bullion	**2,194**	1,161
Prepayments and accrued income	**7,099**	7,356
Acceptances and endorsements	**8,690**	9,531
Less: Allowances for expected credit losses	**(16)**	(31)
Retirement benefits assets (note 46(a))	**287**	–
Reinsurance contract assets	**12,867**	5,377
Settlement accounts	**3,091**	3,917
Cash collateral	**3,148**	3,653
Other	**6,431**	5,040
	47,425	39,752

Other included 'Assets held for sale' of HK$353m (31 December 2023: HK$247m).

34. Current, savings and other deposit accounts

	2024	2023
Current, savings and other deposit accounts:		
– as stated in Consolidated Balance Sheet	**1,238,224**	1,153,062
– structured deposits reported as financial liabilities designated at fair value (note 36)	**28,797**	27,549
	1,267,021	1,180,611
By type:		
– demand and current accounts	**74,446**	82,597
– savings accounts	**552,299**	546,220
– time and other deposits	**640,276**	551,794
	1,267,021	1,180,611

35. Trading liabilities

	2024	2023
Short positions in securities	**18,093**	35,227

36. Financial liabilities designated at fair value

	2024	2023
Certificates of deposit in issue	**7,549**	14,646
Structured deposits (note 34)	**28,797**	27,549
Other structured debt securities in issue	**2,045**	3,174
Liabilities to customers under investment contracts	**245**	264
	38,636	45,633

At 31 December 2024, the accumulated gain/loss in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was insignificant (31 December 2023: accumulated gain of HK$2m).

37. Other liabilities

	2024	2023
Items in the course of transmission to other banks	**4,449**	4,536
Accruals	**8,777**	9,299
Acceptances and endorsements	**8,690**	9,531
Reinsurance contract liabilities	**1,002**	1,110
Retirement benefit liabilities (note 46(a))	**–**	76
Settlement accounts	**19,737**	1,598
Cash collateral	**6,619**	2,177
Lease liabilities	**902**	1,206
Other	**7,223**	4,226
	57,399	33,759

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
2024									
Opening assets	–	–	–	–	(22)	2	10	(10)	(10)
Opening liabilities	158,179	1	475	158,655	8,357	128	124	8,609	167,264
Net opening balance at 1 January 2024	158,179	1	475	158,655	8,335	130	134	8,599	167,254
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(1,336)	–	–	(1,336)	(172)	–	–	(172)	(1,508)
Other contracts	(1,787)	–	–	(1,787)	(82)	–	–	(82)	(1,869)
Total insurance revenue (note 8(a))	(3,123)	–	–	(3,123)	(254)	–	–	(254)	(3,377)
Insurance service expenses									
Incurred claims and other insurance service expenses	–	(1)	575	574	–	(22)	106	84	658
Amortisation of insurance acquisition cash flows	367	–	–	367	37	–	–	37	404
Losses and reversal of losses on onerous contracts	–	3	–	3	–	26	–	26	29
Adjustments to liabilities for incurred claims	–	–	15	15	–	–	–	–	15
Total insurance service expenses (note 8(a))	367	2	590	959	37	4	106	147	1,106
Investment components	(11,459)	–	11,459	–	(1,077)	–	1,077	–	–
Insurance service results (note 8(a))	(14,215)	2	12,049	(2,164)	(1,294)	4	1,183	(107)	(2,271)
Net finance (income)/expenses from insurance contracts (note 8(b))	5,293	–	–	5,293	262	4	–	266	5,559
Effect of movements in exchange rates	(819)	–	–	(819)	(32)	–	–	(32)	(851)
Total changes in the statement of profit or loss and OCI	(9,741)	2	12,049	2,310	(1,064)	8	1,183	127	2,437
Cash flows									
Premiums received	31,021	–	–	31,021	2,469	–	–	2,469	33,490
Claims and other insurance service expenses paid, including investment components	73	–	(12,046)	(11,973)	(2)	–	(1,188)	(1,190)	(13,163)
Insurance acquisition cash flows	(1,495)	–	–	(1,495)	(48)	–	–	(48)	(1,543)
Transfer	–	–	–	–	(2)	2	–	–	–
Total cash flows	29,599	–	(12,046)	17,553	2,417	2	(1,188)	1,231	18,784
Net closing balance at 31 December 2024	178,037	3	478	178,518	9,688	140	129	9,957	188,475
Closing assets	–	–	–	–	(16)	2	8	(6)	(6)
Closing liabilities	178,037	3	478	178,518	9,704	138	121	9,963	188,481
Net closing balance at 31 December 2024	178,037	3	478	178,518	9,688	140	129	9,957	188,475

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
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 8(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 8(a))	228	(38)	529	719	31	9	105	145	864
Investment components	(11,309)	–	11,309	–	(1,140)	–	1,140	–	–
Insurance service results (note 8(a))	(13,859)	(38)	11,838	(2,059)	(1,244)	9	1,245	10	(2,049)
Net finance (income)/expenses from insurance contracts (note 8(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
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

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
2024											
Opening assets	–	–	–	–	–	(49)	3	23	13	(10)	(10)
Opening liabilities	138,322	423	12,577	7,333	158,655	7,524	29	921	135	8,609	167,264
Net opening balance at 1 January 2024	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	–	–	(957)	(977)	(1,934)	–	–	(118)	(29)	(147)	(2,081)
Change in risk adjustment for non-financial risk for risk expired	–	(37)	–	–	(37)	–	(2)	–	–	(2)	(39)
Experience adjustments and other	(211)	–	–	–	(211)	16	–	–	–	16	(195)
	(211)	(37)	(957)	(977)	(2,182)	16	(2)	(118)	(29)	(133)	(2,315)
Changes that relate to future services											
Contracts initially recognised in the year	(4,645)	76	–	4,569	–	(63)	3	–	64	4	4
Changes in estimates that adjust the CSM	(2,218)	11	956	1,251	–	(98)	2	114	(18)	–	–
Changes in estimates that result in losses and reversal of losses on onerous contracts	3	–	–	–	3	23	(1)	–	–	22	25
	(6,860)	87	956	5,820	3	(138)	4	114	46	26	29
Changes that relate to past services											
Adjustments to liabilities for incurred claims	15	–	–	–	15	–	–	–	–	–	15
Insurance service result (note 8(a))	(7,056)	50	(1)	4,843	(2,164)	(122)	2	(4)	17	(107)	(2,271)
Net finance (income)/expenses from insurance contracts (note 8(b))	5,293	–	–	–	5,293	238	–	23	5	266	5,559
Effect of movements in exchange rates	(735)	(3)	(10)	(71)	(819)	(32)	–	–	–	(32)	(851)
Total changes in the statement of profit or loss and OCI	(2,498)	47	(11)	4,772	2,310	84	2	19	22	127	2,437
Cash flows											
Premiums received	31,021	–	–	–	31,021	2,469	–	–	–	2,469	33,490
Claims and other insurance service expenses paid, including investment components	(11,973)	–	–	–	(11,973)	(1,190)	–	–	–	(1,190)	(13,163)
Insurance acquisition cash flows	(1,495)	–	–	–	(1,495)	(48)	–	–	–	(48)	(1,543)
Total cash flows	17,553	–	–	–	17,553	1,231	–	–	–	1,231	18,784
Net closing balance at 31 December 2024	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475
Closing assets	–	–	–	–	–	(16)	2	6	2	(6)	(6)
Closing liabilities	153,377	470	12,566	12,105	178,518	8,806	32	957	168	9,963	188,481
Net closing balance at 31 December 2024	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475

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
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 8(a))	(4,231)	213	(229)	2,188	(2,059)	38	6	(24)	(10)	10	(2,049)
Net finance (income)/ expenses from insurance contracts (note 8(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
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

(c) Effect of contracts initially recognised in the year

	2024			2023		
	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	**1,432**	**–**	**1,432**	1,028	–	1,028
– Claims and other insurance service expenses payable	**27,916**	**8**	**27,924**	17,906	–	17,906
Estimates of present value of cash inflows	**(33,993)**	**(8)**	**(34,001)**	(20,905)	–	(20,905)
Risk adjustment for non-financial risk	**76**	**–**	**76**	43	–	43
CSM	**4,569**	**–**	**4,569**	1,928	–	1,928
Losses recognised on initial recognition	**–**	**–**	**–**	–	–	–
Life other contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	**3**	**1**	**4**	4	–	4
– Claims and other insurance service expenses payable	**1,412**	**862**	**2,274**	533	114	647
Estimates of present value of cash inflows	**(1,481)**	**(860)**	**(2,341)**	(594)	(113)	(707)
Risk adjustment for non-financial risk	**2**	**1**	**3**	2	–	2
CSM	**64**	**–**	**64**	55	–	55
Losses recognised on initial recognition	**–**	**4**	**4**	–	1	1
	–	**4**	**4**	–	1	1

38. Insurance contract liabilities continued

(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 2024									
Insurance liability future cash flows									
Life direct participating contracts	**(1,648)**	**4,299**	**4,218**	**5,999**	**5,129**	**18,618**	**33,687**	**83,075**	**153,377**
Life other contracts	**2,124**	**172**	**146**	**711**	**782**	**1,632**	**1,315**	**1,924**	**8,806**
Insurance liability future cash flows	**476**	**4,471**	**4,364**	**6,710**	**5,911**	**20,250**	**35,002**	**84,999**	**162,183**
Remaining contractual service margin									
Life direct participating contracts	**1,968**	**1,822**	**1,685**	**1,562**	**1,447**	**5,728**	**6,177**	**4,282**	**24,671**
Life other contracts	**126**	**112**	**101**	**88**	**77**	**265**	**222**	**142**	**1,133**
Remaining contractual service margin	**2,094**	**1,934**	**1,786**	**1,650**	**1,524**	**5,993**	**6,399**	**4,424**	**25,804**
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

(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:

	2024		2023	
	HKD	**USD**	HKD	USD
10-year discount rate (%)	**4.43**	**5.25**	4.16	4.62
20-year discount rate (%)	**4.53**	**5.60**	4.34	5.06

39. Current tax and deferred tax

(a) Current tax and deferred tax are represented in the balance sheet:

	2024	2023
Included in 'Other assets':		
Current taxation recoverable	**35**	6
Deferred tax assets	**3,112**	2,092
	3,147	2,098
Current tax liabilities		
Provision for Hong Kong profits tax	**1,476**	942
Provision for taxation outside Hong Kong	**–**	48
	1,476	990
Deferred tax liabilities	**3,717**	3,675
	5,193	4,665

(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 2024	**899**	**3,754**	**(1,147)**	**(67)**	**(19)**	**(1,837)**	**1,583**
Exchange adjustment and others	**4**	**(3)**	**16**	**(1)**	**–**	**–**	**16**
Charged/(credited) to income statement (note 16(a))	**13**	**(163)**	**222**	**–**	**–**	**(1,054)**	**(982)**
Charged/(credited) to other comprehensive income	**–**	**(118)**	**–**	**51**	**(11)**	**66**	**(12)**
At 31 December 2024	**916**	**3,470**	**(909)**	**(17)**	**(30)**	**(2,825)**	**605**
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

(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$366m (2023: HK$449m). Of these amounts, HK$151m (2023: HK$201m) have no expiry date and the remaining will expire within 5 years.

(d) Deferred tax liabilities not recognised

There were no deferred tax liabilities not recognised as at 31 December 2024 (2023: Nil).

40. Subordinated liabilities

Nominal value	Description	2024	2023
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]	**3,105**	3,126
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,994**	4,991
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,996**	2,994
		27,475	27,491
Representing:			
– measured at amortised cost		**27,475**	27,491

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 2024 (2023: Nil).

41. Share capital

	2024		2023	
	number of shares	HK$m	number of shares	HK$m
Ordinary shares issued and fully paid:				
At 1 January	**1,911,842,736**	**9,658**	1,911,842,736	9,658
Less: Share repurchased and cancelled	**(29,575,200)**	**–**	–	–
At 31 December	**1,882,267,536**	**9,658**	1,911,842,736	9,658

During 2024, the total number of ordinary shares repurchased and cancelled was 29,575,200. Except for the share buy-back in 2024, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the Bank's listed securities during the year and 2023.

42. Other equity instruments

Nominal value	Description	2024	2023
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**–**	7,044
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2029[2]	**6,947**	–
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[3]	**–**	4,700
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2029[4]	**4,640**	–
		11,587	11,744

1 Coupon rate is 6.03% each year and then three-month US dollar LIBOR plus 4.02 per cent per annum, payable quarterly, from the first call date. The US$900 million fixed to floating rate perpetual capital instrument was redeemed in September 2024, and was a non-cash transaction.

2 Newly issued in September 2024, and was a non-cash transaction. Coupon rate is 6.875% each year and then US treasury rate plus 3.298 per cent per annum, payable semi-annually, from the first call date.

3 Coupon rate was 6.00% each year and then three-month US dollar LIBOR plus 4.06 per cent per annum, payable quarterly, from the first call date. The US$600 million fixed to floating rate perpetual capital instrument was redeemed in June 2024, and was a non-cash transaction.

4 Newly issued in June 2024, and was a non-cash transaction. Coupon rate is 7.50% each year and then compounded SOFR plus 3.24 per cent per annum, payable quarterly, from the first call date.

42. Other equity instruments continued

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

	2024	2023
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	**1,898**	1,882
Performance and other guarantees[2]	**20,950**	21,087
Other contingent liabilities	**–**	4
	22,848	22,973
Commitments[3]		
Documentary credits and short-term trade-related transactions	**2,353**	3,422
Forward asset purchases and forward forward deposits placed	**12,991**	15,087
Undrawn formal standby facilities, credit lines and other commitments to lend	**479,748**	485,123
	495,092	503,632

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 HK$350,314m of commitments at 31 December 2024 (31 December 2023: HK$345,932m) 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.

(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 2024, capital commitments, mainly related to the commitment for renovation of branches and offices,were HK$212m (31 December 2023: HK$239m).

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 pledge.

	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	**15,108**	**–**	**15,108**	**(4,865)**	**(377)**	**(6,323)**	**3,543**	**5,093**	**20,201**
Reverse repos, stock borrowing and similar agreements classified as:	**32,284**	**–**	**32,284**	**–**	**(32,274)**	**(10)**	**–**	**1,195**	**33,479**
– trading assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading assets	**32,284**	**–**	**32,284**	**–**	**(32,274)**	**(10)**	**–**	**1,195**	**33,479**
Other assets	**1,728**	**(1,193)**	**535**	**–**	**–**	**–**	**535**	**–**	**535**
At 31 December 2024	**49,120**	**(1,193)**	**47,927**	**(4,865)**	**(32,651)**	**(6,333)**	**4,078**	**6,288**	**54,215[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]
Financial liabilities[3]									
Derivatives	**9,064**	**–**	**9,064**	**(4,865)**	**(519)**	**(2,192)**	**1,488**	**4,453**	**13,517**
Repos, stock lending and similar agreements classified as:	**12,584**	**–**	**12,584**	**–**	**(12,584)**	**–**	**–**	**6,803**	**19,387**
– trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading liabilities	**12,584**	**–**	**12,584**	**–**	**(12,584)**	**–**	**–**	**6,803**	**19,387**
Other liabilities	**1,195**	**(1,193)**	**2**	**–**	**–**	**–**	**2**	**–**	**2**
At 31 December 2024	**22,843**	**(1,193)**	**21,650**	**(4,865)**	**(13,103)**	**(2,192)**	**1,490**	**11,256**	**32,906[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]

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$14,733m (2023: HK$14,533m).

3 Amounts presented in the balance sheet included balances due to HSBC entities of HK$6,434m (2023: HK$5,533m).

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 11 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 - 75%) and equity/alternative credit funds (0 - 25%).

At 31 December 2024, HK$2,609m (2023: HK$1,944m) of HSBDBS plan assets were under management by HSBC Group companies, earning management and other fees of HK$6m in 2024 (2023: HK$6m). At 31 December 2024, HSBDBS had placed deposits of HK$25m (2023: HK$6m) with a HSBC Group company, earning interest of HK$1.12m (2023: HK$0.25m). The above balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as comparable transactions with third-party counterparties.

(i) Cumulative actuarial gains/(losses) recognised in OCI in respect of defined benefit scheme

	2024	2023
At 1 January	**(786)**	(875)
Actuarial gains recognised in OCI	**402**	89
At 31 December	**(384)**	(786)

(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 2024	**3,641**	**(3,717)**	**(76)**
Current service cost (note 11)	**–**	**(109)**	**(109)**
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 11)	**102**	**(103)**	**(1)**
Remeasurement effects recognised in other comprehensive income	**205**	**197**	**402**
– Return on plan assets	**205**	**–**	**205**
– Actuarial gains/(losses) from changes in demographic assumptions	**–**	**2**	**2**
– Actuarial gains/(losses) from changes in financial assumptions	**–**	**96**	**96**
– Actuarial gains/(losses) from experience	**–**	**99**	**99**
Contributions by the Group	**77**	**–**	**77**
Benefits paid	**(464)**	**464**	**–**
Others	**(6)**	**6**	**–**
Administrative costs and taxes paid by scheme (note 11)	**–**	**(6)**	**(6)**
At 31 December 2024	**3,555**	**(3,268)**	**287**
Retirement benefit assets recognised in Consolidated Balance Sheet (included in 'Other assets') (note 33)	**3,555**	**(3,268)**	**287**
Present value of defined benefit obligation relating to:			
– Actives		**(3,178)**	
– Pensioners		**(90)**	

The Group expects to make HK$72m of contributions to defined benefit scheme during 2025 (2023: expected contributions for 2024 was HK$82m).

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 2023	3,513	(3,927)	(414)
Current service cost (note 11)	–	(115)	(115)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 11)	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 11)	–	(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)	

(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:

	2025	2026	2027	2028	2029	2030-2034
HSBDBS	326	388	438	391	360	1,949

The duration of the HSBDBS is 4.8 years (2023: 5.3 years) under the disclosure assumptions adopted.

(iv) Fair value of scheme assets by asset classes

	2024			2023		
	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	**942**	**942**	**–**	1,518	1,518	–
– Bonds	**2,516**	**2,516**	**–**	2,073	2,073	–
– Other[1]	**97**	**97**	**25**	50	50	6
	3,555	**3,555**	**25**	3,641	3,641	6

1 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 2024 were performed by Phoebe W.Y. Shair, Fellow of the Society of Actuaries of the United States, of Towers Watson Hong Kong Limited, using the Projected Unit Credit Method.

The present value of the scheme's obligation was a final lump sum salary and payment of HK$3,268m (2023: HK$3,717m). 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

	2024	2023
	%	%
Discount rate	**3.50**	2.90
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	
	2024	2023
Discount rate		
– change in retirement benefit obligation at year end from a 25bps increase	**(39)**	(47)
– change in retirement benefit obligation at year end from a 25bps decrease	**40**	48
Rate of salary increase		
– change in retirement benefit obligation at year end from a 25bps increase	**39**	51
– change in retirement benefit obligation at year end from a 25bps decrease	**(38)**	(52)

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:

	2024	2023
Amounts charged to the income statement (note 11)	**380**	372

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 (2023: HK$0.03m).

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

47. Share-based payments continued

(a) HSBC share awards

	2024 Number ('000)	2023 Number ('000)
Outstanding at 1 January	**1,276**	1,344
Additions during the year	**754**	771
Less: Released in the year	**(705)**	(770)
Less: Lapsed in the year	**(93)**	(69)
Outstanding at 31 December	**1,232**	1,276

The closing price of the HSBC Holdings plc share at 31 December 2024 was £7.85 (2023: £6.36).

The weighted average remaining vesting period as at 31 December 2024 was 1.09 years (2023: 1.09 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

	2024	2023
Equity-settled share-based payments	**28**	33
Cash-settled share-based payments	**7**	3
Income statement charge for restricted share awards (note 11)	**35**	36

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. 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, 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 transactions were performed under the arm's length basis, with reference to various considerations including the relevant cost incurred, nature of services, market practice and prevailing market conditions. The services are provided in the ordinary course of businesses of the Group and on normal commercial terms which are no less favourable than those offered by independent third parties. Some transactions constitute connected transactions as defined in Chapter 14A of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited but exempted from any disclosure requirements under the provisions of the rules.

During 2024, the Group has entered into a suite of Master Agreements with HSBC group to standardise the governing principles and simplify processes for both existing and future continuing connected transactions between Hang Seng Group and HSBC Group. It covers eight categories of transactions including information technology services, outsourced operation services, international supervisory framework related services, group administrative and support services, financial services, insurance related investment management and advisory services, intercompany dealing transactions and trading of financial assets.

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.

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. The Bank also acted as the agent of a fellow subsidiary for the purpose of providing medical insurance agency services, with the exclusive distribution agreement newly signed in 2024.

48. Related party transactions continued

(a) Immediate holding company and its subsidiaries and fellow subsidiaries continued

The Group has engaged with its immediate holding company and its subsidiaries as well as its fellow subsidiaries to perform foreign exchange and cash equities transactions, derivatives transactions, and bond and equity financing transactions.

During 2024, the Bank has paid coupons on AT1 capital instruments of HK$699m to its immediate holding company (2023: HK$708m).

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		Subsidiaries of immediate holding company		Other fellow subsidiaries	
(Re-presented)[1]	**2024**	2023	**2024**	2023	**2024**	2023
Interest income	**256**	127	**295**	274	**344**	233
Interest expense	**(2,117)**	(2,789)	**(91)**	(91)	**–**	–
Fee income	**165**	150	**137**	49	**158**	1
Fee expense	**(47)**	(5)	**(54)**	(45)	**(71)**	(23)
Net income/(loss) from financial instruments measured at fair value through profit or loss	**648**	(384)	**(180)**	(48)	**115**	36
Other operating income/(loss)	**165**	10	**–**	–	**6**	6
Operating expenses*	**(137)**	(171)	**(297)**	(233)	**(5,118)**	(4,782)
Amounts due from:						
Reverse repurchase agreements – non-trading	**–**	–	**9,195**	8,676	**–**	–
Placings with and advances to banks	**7,298**	5,814	**16**	30	**7,419**	5,623
Derivative financial instruments	**5,431**	5,776	**13**	62	**95**	19
Other assets	**2,151**	1,339	**34**	50	**1,386**	1,203
	14,880	12,929	**9,258**	8,818	**8,900**	6,845
Amounts due to:						
Current, savings and other deposit accounts	**–**	–	**1,675**	1,846	**–**	–
Deposits from banks	**2,467**	1,568	**3**	–	**–**	7
Repurchase agreements – non-trading	**1,971**	387	**318**	–	**–**	–
Derivative financial instruments	**4,040**	5,067	**86**	38	**19**	40
Subordinated liabilities	**27,475**	27,491	**–**	–	**–**	–
Other liabilities	**1,886**	1,547	**31**	33	**703**	854
	37,839	36,060	**2,113**	1,917	**722**	901
Derivative contracts:						
Contract amount	**609,066**	624,010	**6,141**	13,209	**23,173**	13,634
Guarantees	**388**	390	**3**	3	**–**	–
Commitments	**–**	–	**800**	800	**–**	–

* Representing the operating expenses paid to immediate holding company and its subsidiaries and other fellow subsidiaries, of which HK$1,056m was capitalised as intangible assets in the Group's consolidated balance sheet (2023: HK$1,080m).

1 The disclosure has been enhanced to segregate the 'Other operating income/(loss)' into 'Fee income', 'Fee expense' and 'Other operating income/(loss)' to align with the presentation of the income statement and include 'Net income/(loss) from financial instruments measured at fair value through profit or loss' with related parties. Comparatives have been re-presented accordingly.

48. 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 18 to 17. 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:

	2024	2023
Salaries, allowances and benefits in kind	**72**	72
Retirement scheme contributions	**8**	8
Variable bonuses		
– Cash bonus	**23**	23
– Share-based payment	**18**	16
	121	119

(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:

	2024	2023
For the year		
Interest income	**1,445**	1,834
Interest expense	**11**	41
Fees and commission income	**6**	32
Maximum aggregate amount of loans and advances	**33,274**	44,731
At the year-end		
Loans and advances	**26,715**	39,618
Deposits	**2,945**	6,795
Guarantees issued	**305**	338
Undrawn commitments	**3,011**	2,242

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. 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 2024 are shown as below.

	2024		2023	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
– Loans and advances	**198**	**142**	12,351	10,965
– Guarantees issued	**–**	**–**	3	2

The above relevant transactions in 2024 and 2023 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:

	2024		2023	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
Amounts due from associates#	**9,157**	**6,318**	9,419	9,157
Amounts due to associates#	**1,432**	**242**	1,309	1,073

For the year	**2024**	2023
Total operating income	**370**	355

Including 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 2024 amounted to HK$657m comprising HK$668m relating to share option schemes and negative reserve of HK$11m relating to share award schemes (2023: HK$666m comprising HK$668m relating to share option schemes and negative reserve of HK$2m 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

Fair value hierarchy continued

The accounting policies, control framework and hierarchy used to determine fair values in 2024 are consistent with those applied for the Annual Report 2023.

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						
2024						
Assets						
Trading assets	**32,210**	**7,430**	**–**	**39,640**	**–**	**39,640**
Derivative financial instruments	**373**	**14,290**	**–**	**14,663**	**5,538**	**20,201**
Financial assets mandatorily measured at fair value through profit or loss	**35,080**	**99,250**	**30,227**	**164,557**	**–**	**164,557**
Financial investments	**324,523**	**85,593**	**1,000**	**411,116**	**–**	**411,116**
Liabilities						
Trading liabilities	**18,093**	**–**	**–**	**18,093**	**–**	**18,093**
Derivative financial instruments	**84**	**9,288**	**–**	**9,372**	**4,145**	**13,517**
Financial liabilities designated at fair value	**–**	**24,237**	**14,399**	**38,636**	**–**	**38,636**
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

* 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
2024							
Transfer from Level 1 to Level 2	**25,865**	**1,015**	**2,000**	**–**	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**15,643**	**571**	**3,755**	**–**	**–**	**–**	**–**
2023							
Transfer from Level 1 to Level 2	6,903	1,961	–	–	–	–	–
Transfer from Level 2 to Level 1	4,916	2,092	–	–	–	–	–

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 changes in 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.

49. Fair value of financial instruments continued

(a) Fair value of financial instruments carried at fair value continued

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.

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	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
2024							
Investment funds and equity shares	**1,000**	**–**	**27,614**	**–**	**–**	**–**	**–**
Debt securities	**–**	**–**	**2,613**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**14,399**	**–**
	1,000	**–**	**30,227**	**–**	**–**	**14,399**	**–**
2023							
Investment funds and equity shares	1,072	–	24,798	–	–	–	–
Debt securities	–	–	2,677	–	–	–	–
Structured notes	–	–	–	–	–	13,749	–
	1,072	–	27,475	–	–	13,749	–

49. Fair value of financial instruments continued

(a) Fair value of financial instruments carried at fair value continued

Movement in Level 3 financial instruments

	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
At 1 January 2024	**1,072**	**–**	**27,475**	**–**	**–**	**13,749**	**–**
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	595	–	–	2	–
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	(72)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	142	–
Purchases	–	–	10,191	–	–	–	–
Issues/deposit taking	–	–	–	–	–	50,621	–
Sales	–	–	(158)	–	–	–	–
Settlements	–	–	(7,404)	–	–	(49,963)	–
Transfers out	–	–	(472)	–	–	(201)	–
Transfers in	–	–	–	–	–	49	–
At 31 December 2024	**1,000**	**–**	**30,227**	**–**	**–**	**14,399**	**–**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(706)	–	–	(8)	–

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	Trading Assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	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 gains/(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 reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,122	–	–	(9)	–

In 2024, 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 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

	2024				2023			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Investment funds and equity shares	**1,381**	**(1,381)**	**67**	**(67)**	1,239	(1,239)	79	(79)
Debt securities	**183**	**(183)**	**–**	**–**	134	(134)	–	–
	1,564	**(1,564)**	**67**	**(67)**	1,373	(1,373)	79	(79)

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 assumption, 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

	Valuation technique(s)	Unobservable input(s)	Range	
			2024	2023
Assets				
Investment funds and equity shares	**See footnote 1**	**See footnote 1**		
Debt securities	**Discount cash flow**	**Credit Spread**	**-2.19% to 5.02%**	0.27% to 5.74%
Liabilities				
Structured notes	**Option model**	**Equity Volatility**	**8.95% to 69.87%**	8.75% to 8.90%
		Equity Correlation	**41.53% to 87.65%**	40.66% to 94.00%
		FX Volatility	**4.56% to 17.44%**	3.23% to 18.43%

[1] Given the bespoke nature of the analysis in respect of each private equity holding, it is not practical to quote a range of key unobservable inputs. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.

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
2024					
Financial Assets					
Reverse repurchase agreements – non-trading	**33,479**	**–**	**33,470**	**–**	**33,470**
Placings with and advances to banks	**76,221**	**–**	**76,223**	**–**	**76,223**
Loans and advances to customers	**819,136**	**–**	**–**	**795,652**	**795,652**
Financial investments – at amortised cost	**130,039**	**108,394**	**20,815**	**–**	**129,209**
Financial Liabilities					
Deposits from banks	**14,279**	**–**	**14,279**	**–**	**14,279**
Current, savings and other deposit accounts	**1,238,224**	**–**	**1,239,100**	**–**	**1,239,100**
Repurchase agreements – non-trading	**19,387**	**–**	**19,387**	**–**	**19,387**
Certificates of deposit in issue	**4,948**	**–**	**4,948**	**–**	**4,948**
Subordinated liabilities	**27,475**	**–**	**27,922**	**–**	**27,922**
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

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.

49. Fair value of financial instruments continued

(b) Fair value of financial instruments not carried at fair value continued

(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 2024, the total asset value of unconsolidated structured entities amounted to HK$2,918.8bn (2023: HK$2,253.3bn). The Group's interests were recognised in financial assets mandatorily measured at fair value through profit or loss of HK$37,387m and trading assets of HK$26m (2023: financial assets mandatorily measured at fair value through profit or loss of HK$28,963m and trading assets of HK$33m). 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$12,991m (2023: HK$15,087m) to invest in several alternative investment funds for funding future alternative investments 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

(a) Bank balance sheet at 31 December 2024

	2024	2023
ASSETS		
Cash and balances at central banks	**10,417**	10,549
Trading assets	**37,406**	42,655
Derivative financial instruments	**15,103**	12,723
Financial assets mandatorily measured at fair value through profit or loss	**215**	156
Reverse repurchase agreements – non-trading	**33,479**	29,152
Placings with and advances to banks	**58,358**	69,826
Loans and advances to customers	**762,743**	805,807
Amounts due from subsidiaries	**10,935**	10,635
Financial investments	**510,417**	372,849
Investments in subsidiaries	**19,859**	19,883
Investment properties	**4,137**	4,282
Premises, plant and equipment	**21,817**	23,634
Intangible assets	**3,730**	3,620
Other assets	**18,940**	19,255
Total assets	**1,507,556**	1,425,026
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**12,378**	18,397
Current, savings and other deposit accounts	**1,182,241**	1,104,289
Repurchase agreements – non-trading	**12,584**	6,903
Trading liabilities	**18,093**	35,227
Derivative financial instruments	**9,046**	11,815
Financial liabilities designated at fair value	**35,344**	37,035
Certificates of deposit in issue	**1,714**	1,340
Amounts due to subsidiaries	**8,741**	5,289
Other liabilities	**42,895**	21,469
Current tax liabilities	**206**	568
Deferred tax liabilities	**2,953**	2,895
Subordinated liabilities	**27,475**	27,491
Total liabilities	**1,353,670**	1,272,718
Equity		
Share capital	**9,658**	9,658
Retained profits	**116,436**	114,042
Other equity instruments	**11,587**	11,744
Other reserves	**16,205**	16,864
Shareholders' equity	**153,886**	152,308
Total equity and liabilities	**1,507,556**	1,425,026

Irene LEE Yun Lien *Independent Non-executive Chairman*
Diana Ferreira CESAR *Executive Director and Chief Executive*

SAW Say Pin *Executive Director and Chief Financial Officer*

52. Bank balance sheet and statement of changes in equity continued

(b) Bank statement of changes in equity for the year ended 31 December 2024

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign exchange reserve	Other reserves: Others[2]	Total equity
At 1 January 2024	**9,658**	**11,744**	**114,042**	**14,800**	**1,475**	**(96)**	**18**	**667**	**152,308**
Profit for the year	–	–	18,062	–	–	–	–	–	18,062
Other comprehensive income (net of tax)	–	–	336	(539)	538	(54)	(1)	(1)	279
Debt instruments at FVOCI	–	–	–	–	120	–	–	–	120
Equity instruments designated at FVOCI	–	–	–	–	418	–	–	–	418
Cash flow hedges	–	–	–	–	–	(54)	–	–	(54)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(1)	(1)
Property revaluation	–	–	–	(539)	–	–	–	–	(539)
Actuarial gains on defined benefit plans	–	–	336	–	–	–	–	–	336
Others	–	–	–	–	–	–	(1)	–	(1)
Total comprehensive income for the year	–	–	18,398	(539)	538	(54)	(1)	(1)	18,341
Redemption and repayment of AT1 capital instruments[3]	–	(11,744)	–	–	–	–	–	–	(11,744)
Issue of new AT1 capital instruments[3]	–	11,587	–	–	–	–	–	–	11,587
Dividends paid[4]	–	–	(12,923)	–	–	–	–	–	(12,923)
Coupon paid on AT1 capital instruments	–	–	(699)	–	–	–	–	–	(699)
Movement in respect of share-based payment arrangements	–	–	(9)	–	–	–	–	(9)	(18)
Share buy-back[5]	–	–	(3,006)	–	–	–	–	–	(3,006)
Others	–	–	40	–	–	–	–	–	40
Transfers[6]	–	–	593	(593)	–	–	–	–	–
At 31 December 2024	**9,658**	**11,587**	**116,436**	**13,668**	**2,013**	**(150)**	**17**	**657**	**153,886**

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 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$831m.

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 The Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m in June 2024 and has redeemed and repaid another AT1 capital instrument of US$900m and issued new AT1 capital instrument of US$900m in September 2024.

4 Dividends paid represented the payment of fourth interim dividend of 2023 and the first three interim dividends of 2024 amounted to HK$6,118m and HK$6,805m respectively.

5 In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which was completed in September 2024.

6 This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.

52. Bank balance sheet and statement of changes in equity continued

(b) Bank statement of changes in equity for the year ended 31 December 2024 continued

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign exchange reserve	Other reserves: Others[2]	Total 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 FVOCI	–	–	–	–	358	–	–	–	358
Equity instruments designated at FVOCI	–	–	–	–	(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)
Coupon 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

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 has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2023, the Bank is not required to restrict any reserves which can be distributed to shareholders 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 included 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.

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 2024, 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$110,214m (2023: HK$108,316m). After considering regulatory capital requirement and business development needs, an amount of HK$6,023m (2023: HK$6,118m) has been declared as the proposed fourth interim dividend in respect of the financial year ended 31 December 2024. The difference between the aggregate distributable reserves of HK$110,214m and the Bank's retained profits of HK$116,436m as reported above mainly represents the exclusion of unrealised revaluation gain on investment properties and the regulatory reserve of the Bank.

53. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 19 February 2025.

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 186 to 268, comprise:

- the consolidated balance sheet as at 31 December 2024;
- 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 2024, 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 2024, 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 2024, the Group recorded allowances for ECL on loans and advances to customers of HK$12,973m.

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 considering the correlations between historical defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions.

The determination of the ECL on non-credit-impaired loans and advances to customers 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. Likewise, there is inherent uncertainty with the consensus economic forecast data from external economists. Significant assumptions also include customer risk ratings.

Impacts related to the Mainland China commercial real estate sector and uncertainty of current macroeconomic conditions affect 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 2024

- Management Discussion and Analysis – Risk, (a) Credit Risk, pages 48 to 78
- Note 2 on the consolidated financial statements: Material accounting policies, (j) Impairment of amortised cost and fair value through other comprehensive income ('FVOCI') financial assets, pages 198 to 202
- Note 10 on the consolidated financial statements: Change in expected credit losses and other credit impairment charges, page 211
- Note 26 (a) on the consolidated financial statements: Loans and advances to customers, page 228

Key Audit Matters continued

Insurance contracts liabilities

Nature of the Key Audit Matter

As at 31 December 2024, the Group recorded insurance contract liabilities of HK$188,481m.

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.

Matters discussed with the Audit Committee

We discussed the appropriateness of the methodologies, their application and significant assumptions with the Audit Committee.

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 2024

- Management Discussion and Analysis – Risk, (i) Insurance manufacturing operation risk, pages 104 to 111
- Note 2 on the consolidated financial statements: Material accounting policies, (t) Insurance contracts, pages 205 to 207
- Note 38 on the consolidated financial statements: Insurance contract liabilities, pages 239 to 244

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 2024 (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 2024, 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 2024, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

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

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

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

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

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

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

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

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

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

19 February 2025

Shareholder Analysis

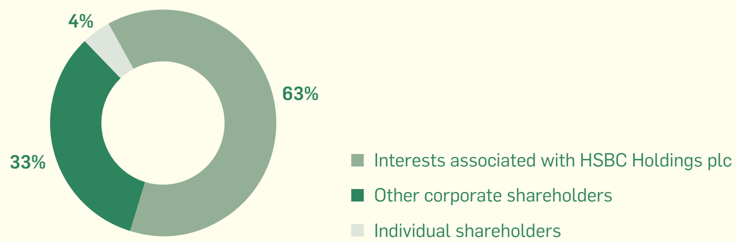
Distribution of Shareholdings

(at 31 December 2024)	Shareholders		Number of Shares	
	Number	Percentage of total	Number in millions	Percentage of total
Number of shares held				
1 – 500	5,752	37.00	1.31	0.07
501 – 2,000	4,732	30.44	5.74	0.31
2,001 – 5,000	2,411	15.51	8.26	0.44
5,001 – 20,000	1,970	12.67	20.04	1.06
20,001 – 50,000	466	3.00	14.69	0.78
50,001 – 100,000	118	0.76	8.34	0.44
100,001 – 200,000	46	0.30	6.82	0.36
Over 200,000	49	0.32	1,817.07	96.54
	15,544	100.00	1,882.27	100.00

Locations of the Shareholders

(at 31 December 2024)	Shareholders		Number of Shares	
	Number	Percentage of total	Number in millions	Percentage of total
Geographical distribution				
Hong Kong	15,306	98.47	1,879.58	99.86
Malaysia	43	0.28	0.28	0.02
Canada	34	0.22	0.06	0.00
Singapore	34	0.22	1.74	0.09
United Kingdom	30	0.19	0.03	0.00
Macau	26	0.17	0.12	0.01
United States of America	25	0.16	0.16	0.01
Australia	18	0.11	0.06	0.00
Others	28	0.18	0.24	0.01
	15,544	100.00	1,882.27	100.00

Types of the Shareholders
(at 31 December 2024)



Shareholder Information

Financial Calendar

2024 Full Year Results	
Announcement date	19 February 2025
2024 Fourth Interim Dividend	
Announcement date	19 February 2025
Ex-dividend date	4 March 2025
Latest time for lodging share transfer documents for registration	5 March 2025 (Not later than 4:30 pm)
Book close and record date	6 March 2025
Payment date	27 March 2025
2024 Annual Report	
To be despatched to Shareholders	At or about the end of March 2025
2025 AGM	May 2025

Dividend

The Board declares the payment of a fourth interim dividend for 2024 of HK$3.20 per share. The fourth interim dividend will be payable in cash on Thursday, 27 March 2025 to Shareholders whose names appear on the Register of Shareholders of the Bank on Thursday, 6 March 2025.

The Register of Shareholders of the Bank will be closed on Thursday, 6 March 2025, 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, all transfer documents accompanied by the relevant share certificates, must be lodged with the Bank's Share 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, 5 March 2025. Ordinary shares of the Bank will be traded ex-dividend as from Tuesday, 4 March 2025.

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 the 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. The 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 Share Registrar reasonable notice in writing or by email to hangseng@computershare.com.hk. The 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 2024 up to the date of this Annual Report are set out below (unless otherwise stated):

Diana Ferreira CESAR
CHAN Ka Lok
Eddie CHAN Ping Chung
CHEN Yu Sheng
CHEUNG Ka Chun
Kathy CHEUNG Ka Wai
Vivien CHIU Wai Man
CHOW Tan Ling
Mabel CHU Wing Lui
CHUI Ying Wai
Gordon FAN
Gregory Thomas HINGSTON*
HO Lok Sze
Hong Mei KNIGHT
Joe LAM Hei Yin
LAM Hoi
Gordon LAM Wai Chung
Jackie LEE Kit Han
LEE Man Lung
LEE Pui Shan
Rannie LEE Wah Lun
LEUNG Chi Wai
LEUNG Kin Ping
LI Chi Chung*
Belle LIANG Chun Fei
LIM Sau Fung*
LIN Kam Tung
LIU Yu
Raymond LUI Man Chung
MA Zhengwei
Theodore MAK Chung Wo
Anita MO Yuen Man
Edward Charles Lawrence MONCREIFFE
MUK Chung Wing*
NIP Tak Kuen
SAW Say Pin
SIT Wing Fai Wilfred*
Dominic Adam SKEVINGTON
Ryan SONG Yue Sheng
Grace SUEN Wai Kwan*
Rachel SUNG Yerk Wan
WANG Xiao Kun
Stuart Kingsley WHITE*
Lincoln WONG Lut Hin
WONG Ti
WONG Wai Hung
YAM Chi Fai
YAM Chi Hei
YUEN Kin Chung*
YUEN Shui Fan
ZHANG Ping
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.

The Board

Independent Non-executive Chairman

Irene LEE Yun Lien

Executive Directors

Diana Ferreira CESAR JP (Chief Executive)
SAW Say Pin

Non-executive Directors

Kathleen GAN Chieh Huey
David LIAO Yi Chien JP
Catherine ZHOU Rong

Independent Non-executive Directors

Edward CHENG Wai Sun GBS JP^
Cordelia CHUNG
Clement KWOK King Man
Patricia LAM Sze Wan
LIN Huey Ru
WANG Xiao Bin

Company Secretary

Maggie CHEUNG Ka Ki

Registered Office

83 Des Voeux Road Central, Hong Kong
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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

^ With effect from 1 April 2025

* 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 2024 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 ambitions, targets, and commitments 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 relevant regulators in Hong Kong, 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 conflict in the Middle East 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 conflict in the Middle East, 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 conflict in the Middle East (including the resurgence, 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 between China and the US, which may extend to and involve 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 trade and tariff policies, as well as 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 changes in government following national elections in the markets where the Group operates); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to 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 ambitions, targets, and commitments (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 outcomes 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; our ability to successfully execute and implement the announced strategic reorganisation of the Group; changes in our ability to manage third-party, fraud, financial crime and reputational risks inherent in our operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel; and changes in our ability to develop sustainable finance and 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 this Annual Report 2024.

This Annual Report 2024 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 2024 as a whole.

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