

# 2022 FINANCIAL STATEMENTS

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# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2022  
(Expressed in millions of Hong Kong dollars)

		2022	2021
	note		
Interest income calculated using effective interest method		39,316	28,030
Interest income – others		915	477
Interest income	3	40,231	28,507
Interest expense	3	(11,250)	(4,685)
<b>Net interest income</b>		<b>28,981</b>	<b>23,822</b>
Fee income		7,606	9,151
Fee expense		(2,537)	(2,574)
<b>Net fee income</b>	4	<b>5,069</b>	<b>6,577</b>
Net income/(loss) from financial instruments measured at fair value through profit or loss	5	(429)	4,346
Gains less losses from financial investments	6	75	206
Dividend income	7	225	176
Net insurance premium income	8	20,551	14,083
Other operating income/(loss)	9	(1,274)	322
<b>Total operating income</b>		<b>53,198</b>	<b>49,532</b>
Net insurance claims and benefits paid and movement in liabilities to policyholders	10	(19,226)	(16,350)
<b>Net operating income before change in expected credit losses and other credit impairment charges</b>		<b>33,972</b>	<b>33,182</b>
Change in expected credit losses and other credit impairment charges	11	(7,626)	(2,807)
<b>Net operating income</b>		<b>26,346</b>	<b>30,375</b>
Employee compensation and benefits		(6,445)	(6,311)
General and administrative expenses		(5,657)	(5,285)
Depreciation expenses		(1,974)	(2,066)
Amortisation of intangible assets		(702)	(472)
<b>Operating expenses</b>	12	<b>(14,778)</b>	<b>(14,134)</b>
Impairment loss on intangible assets		(11)	(10)
<b>Operating profit</b>		<b>11,557</b>	<b>16,231</b>
Net surplus/(deficit) on property revaluation	16	(108)	82
Share of profits/(losses) of associates		(10)	72
<b>Profit before tax</b>		<b>11,439</b>	<b>16,385</b>
Tax expense	17	(1,288)	(2,439)
<b>Profit for the year</b>		<b>10,151</b>	<b>13,946</b>
<b>Profit attributable to:</b>			
Shareholders of the Bank		10,165	13,960
Non-controlling interests		(14)	(14)
(Figures in HK\$)			
Earnings per share – basic and diluted	18	4.95	6.93

The notes on pages 185 to 253 form part of these Financial Statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022  
(Expressed in millions of Hong Kong dollars)

	2022	2021
<b>Profit for the year</b>	<b>10,151</b>	13,946
<b>Other comprehensive income</b>		
<b>Items that will be reclassified subsequently to the Consolidated Income Statement when specific conditions are met:</b>		
Debt instruments at fair value through other comprehensive income ('FVOCI'):		
– fair value gains/(losses) taken to equity	(1,416)	(1,391)
– fair value (gains)/losses transferred to the Consolidated Income Statement:		
– on hedged items	550	829
– on disposal	(85)	(98)
– release of expected credit losses recognised in the Consolidated Income Statement	(1)	–
– deferred taxes	137	41
– exchange differences	118	349
Cash flow hedge reserve:		
– fair value gains/(losses) taken to equity	2,213	2,207
– fair value (gains)/losses transferred to the Consolidated Income Statement	(3,245)	(2,464)
– deferred taxes	170	43
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and associates	(1,302)	522
<b>Items that will not be reclassified subsequently to the Consolidated Income Statement:</b>		
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	(6)	4
– deferred taxes	1	(1)
Equity instruments designated at fair value through other comprehensive income:		
– fair value gains/(losses) taken to equity	320	(1,961)
– exchange differences	(430)	173
Premises:		
– unrealised surplus/(deficit) on revaluation of premises	690	1,310
– deferred taxes	(118)	(220)
– exchange differences	(25)	9
Defined benefit plans:		
– actuarial gains/(losses) on defined benefit plans	(18)	352
– deferred taxes	3	(58)
Exchange differences and others	(2)	(3)
<b>Other comprehensive income for the year, net of tax</b>	<b>(2,446)</b>	<b>(357)</b>
<b>Total comprehensive income for the year</b>	<b>7,705</b>	<b>13,589</b>
<b>Total comprehensive income for the year attributable to:</b>		
– shareholders of the Bank	7,719	13,603
– non-controlling interests	(14)	(14)
	<b>7,705</b>	<b>13,589</b>

The notes on pages 185 to 253 form part of these Financial Statements.

# CONSOLIDATED BALANCE SHEET

at 31 December 2022

(Expressed in millions of Hong Kong dollars)

		2022	2021
	note		
<b>ASSETS</b>			
Cash and balances at central banks	22	17,609	16,896
Trading assets	23	47,373	47,433
Derivative financial instruments	24	22,761	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	25	28,861	31,326
Reverse repurchase agreements – non-trading		42,364	18,821
Placings with and advances to banks	26	62,326	72,493
Loans and advances to customers	27	931,334	997,397
Financial investments	28	622,616	500,386
Interest in associates	31	2,256	2,341
Investment properties	32	11,998	9,545
Premises, plant and equipment	32	27,498	31,205
Intangible assets	33	24,514	25,486
Other assets	34	52,295	53,632
<b>Total assets</b>		<b>1,893,805</b>	<b>1,820,185</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits from banks		5,205	5,333
Current, savings and other deposit accounts	35	1,249,486	1,230,216
Repurchase agreements – non-trading		11,304	16,592
Trading liabilities	36	46,323	44,291
Derivative financial instruments	24	20,992	12,252
Financial liabilities designated at fair value	37	46,309	27,399
Certificates of deposit and other debt securities in issue	38	93,379	81,567
Other liabilities	39	36,739	31,179
Liabilities under insurance contracts	40	165,594	154,551
Current tax liabilities	41	389	603
Deferred tax liabilities	41	6,645	7,302
Subordinated liabilities	42	27,479	24,484
<b>Total liabilities</b>		<b>1,709,844</b>	<b>1,635,769</b>
<b>Equity</b>			
Share capital	43	9,658	9,658
Retained profits		142,680	140,100
Other equity instruments	44	11,744	11,744
Other reserves		19,814	22,830
Total shareholders' equity		183,896	184,332
Non-controlling interests		65	84
<b>Total equity</b>		<b>183,961</b>	<b>184,416</b>
<b>Total equity and liabilities</b>		<b>1,893,805</b>	<b>1,820,185</b>

**Diana Cesar** *Executive Director and Chief Executive*

**Clement K M Kwok** *Director*

**Say Pin Saw** *Executive Director and Chief Financial Officer*

The notes on pages 185 to 253 form part of these Financial Statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

(Expressed in millions of Hong Kong dollars)

	Share capital	Other equity instruments	Retained profits <sup>1</sup>	Other reserves					Total shareholders' equity	Non-controlling interests	Total equity
				Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others <sup>2</sup>			
<b>At 1 January 2022</b>	<b>9,658</b>	<b>11,744</b>	<b>140,100</b>	<b>18,428</b>	<b>2,499</b>	<b>46</b>	<b>1,180</b>	<b>677</b>	<b>184,332</b>	<b>84</b>	<b>184,416</b>
Profit for the year	-	-	10,165	-	-	-	-	-	10,165	(14)	10,151
Other comprehensive income (net of tax)	-	-	(17)	547	(807)	(862)	(1,302)	(5)	(2,446)	-	(2,446)
Debt instruments at fair value through other comprehensive income	-	-	-	-	(697)	-	-	-	(697)	-	(697)
Equity instruments designated at fair value through other comprehensive income	-	-	-	-	(110)	-	-	-	(110)	-	(110)
Cash flow hedges	-	-	-	-	-	(862)	-	-	(862)	-	(862)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Property revaluation	-	-	-	547	-	-	-	-	547	-	547
Actuarial losses on defined benefit plans	-	-	(15)	-	-	-	-	-	(15)	-	(15)
Exchange differences and others	-	-	(2)	-	-	-	(1,302)	-	(1,304)	-	(1,304)
Total comprehensive income for the year	-	-	10,148	547	(807)	(862)	(1,302)	(5)	7,719	(14)	7,705
Dividends paid <sup>3</sup>	-	-	(7,455)	-	-	-	-	-	(7,455)	-	(7,455)
Coupons paid on AT1 capital instruments	-	-	(710)	-	-	-	-	-	(710)	-	(710)
Movement in respect of share-based payment arrangements	-	-	5	-	-	-	-	5	10	-	10
Others	-	-	-	-	-	-	-	-	-	(5)	(5)
Transfers <sup>4</sup>	-	-	592	(637)	45	-	-	-	-	-	-
<b>At 31 December 2022</b>	<b>9,658</b>	<b>11,744</b>	<b>142,680</b>	<b>18,338</b>	<b>1,737</b>	<b>(816)</b>	<b>(122)</b>	<b>677</b>	<b>183,896</b>	<b>65</b>	<b>183,961</b>

<sup>1</sup> 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 has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2022, the Group is not required to restrict any reserves which can be distributed to shareholders (2021: HK\$441m) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the expected regulatory reserve balance.

<sup>2</sup> 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.

<sup>3</sup> Dividends paid represented the payment of fourth interim dividend of 2021 and the first three interim dividends of 2022 amounted to HK\$3,441m and HK\$4,014m respectively.

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued

for the year ended 31 December 2022

(Expressed in millions of Hong Kong dollars)

	Share capital	Other equity instruments	Retained profits <sup>1</sup>	Other reserves					Total shareholders' equity	Non-controlling interests	Total equity
				Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others <sup>2</sup>			
At 1 January 2021	9,658	11,744	137,580	17,960	4,557	260	658	683	183,100	95	183,195
Profit for the year	-	-	13,960	-	-	-	-	-	13,960	(14)	13,946
Other comprehensive income (net of tax)	-	-	291	1,099	(2,058)	(214)	522	3	(357)	-	(357)
Debt instruments at fair value through other comprehensive income	-	-	-	-	(270)	-	-	-	(270)	-	(270)
Equity instruments designated at fair value through other comprehensive income	-	-	-	-	(1,788)	-	-	-	(1,788)	-	(1,788)
Cash flow hedges	-	-	-	-	-	(214)	-	-	(214)	-	(214)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	-	-	-	-	-	-	-	3	3	-	3
Property revaluation	-	-	-	1,099	-	-	-	-	1,099	-	1,099
Actuarial gains on defined benefit plans	-	-	294	-	-	-	-	-	294	-	294
Exchange differences and others	-	-	(3)	-	-	-	522	-	519	-	519
Total comprehensive income for the year	-	-	14,251	1,099	(2,058)	(214)	522	3	13,603	(14)	13,589
Dividends paid	-	-	(11,662)	-	-	-	-	-	(11,662)	-	(11,662)
Coupons paid on AT1 capital instruments	-	-	(703)	-	-	-	-	-	(703)	-	(703)
Movement in respect of share-based payment arrangements	-	-	3	-	-	-	-	(9)	(6)	-	(6)
Others	-	-	-	-	-	-	-	-	-	3	3
Transfers	-	-	631	(631)	-	-	-	-	-	-	-
At 31 December 2021	9,658	11,744	140,100	18,428	2,499	46	1,180	677	184,332	84	184,416

<sup>1</sup> 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 has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2022, the Group is not required to restrict any reserves which can be distributed to shareholders (2021: HK\$441m) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the expected regulatory reserve balance.

<sup>2</sup> 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.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2022  
(Expressed in millions of Hong Kong dollars)

	2022	2021
<b>Profit before tax</b>	<b>11,439</b>	16,385
<b>Adjustments for non-cash items:</b>		
Depreciation and amortisation	2,676	2,538
Net interest income	(28,981)	(23,822)
Dividend income	(225)	(176)
Gains less losses from financial investment	(75)	(206)
Share of (profits)/losses in associates	10	(72)
Net (surplus)/deficit on property revaluation	108	(82)
Change in expected credit losses and other credit impairment charges	7,626	2,807
Impairment loss on intangible assets	11	10
Loans and advances written off net of recoveries	(768)	(1,066)
Movement in present value of in-force long-term insurance business ('PVIF')	1,743	188
Interest received	37,775	28,059
Interest paid	(7,415)	(4,195)
Elimination of exchange differences and other non-cash items	10,213	2,995
<b>Changes in operating assets and liabilities</b>		
Change in trading assets	60	(10,316)
Change in derivative financial instruments	(797)	(4,652)
Change in financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,465	(10,631)
Change in reverse repurchase agreements – non-trading maturing after one month	(10,189)	804
Change in placings with and advances to banks maturing after one month	(9,052)	(21,390)
Change in loans and advances to customers	58,158	(56,634)
Change in other assets	733	4,048
Change in repurchase agreements – non trading	(5,288)	10,322
Change in deposits from banks	(128)	(7,610)
Change in current, savings and other deposit accounts	19,270	20,744
Change in trading liabilities	2,032	13,354
Change in financial liabilities designated at fair value	18,910	(5,131)
Change in certificates of deposit and other debt securities in issue	11,812	19,067
Change in other liabilities	3,732	661
Change in liabilities under insurance contract	11,043	11,871
Dividends received from financial investments	229	178
Tax paid	(2,225)	(2,227)
<b>Net cash from operating activities</b>	<b>134,902</b>	<b>(14,179)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS continued

for the year ended 31 December 2022  
(Expressed in millions of Hong Kong dollars)

	2022	2021
Purchase of financial investments	(847,112)	(648,479)
Proceeds from sale or redemption of financial investments	763,250	672,930
Repayment of shareholders' loan from an associated company	–	2
Purchase of property, plant and equipment and intangible assets (excluding PVIF)	(1,887)	(2,146)
Net cash inflow from the disposal of other assets	8	–
Net cash inflow from the sales of loan portfolio	1,441	2,267
<b>Net cash from investing activities</b>	<b>(84,300)</b>	<b>24,574</b>
Interest paid for subordinated liabilities	(691)	(336)
Principal and interest elements of lease payments	(547)	(584)
Dividends paid	(7,455)	(11,662)
Coupons paid on AT1 capital instruments	(710)	(703)
Proceeds from issuance of subordinated liabilities	3,000	5,000
<b>Net cash from financing activities</b>	<b>(6,403)</b>	<b>(8,285)</b>
Net increase in cash and cash equivalents	44,199	2,110
Cash and cash equivalents at 1 January	111,134	109,615
Exchange differences in respect of cash and cash equivalents	(2,515)	(591)
<b>Cash and cash equivalents at 31 December</b>	<b>152,818</b>	<b>111,134</b>
Cash and cash equivalents comprise <sup>1</sup> :		
– Cash and balances at central banks	17,609	16,896
– Balances with banks	8,605	10,078
– Items in the course of collection from other banks	5,598	3,744
– Placings with and advances to banks maturing within one month	15,458	33,202
– Reverse repurchase agreements with banks maturing within one month	24,028	10,674
– Treasury bills	78,220	28,873
– Net settlement accounts and cash collateral to banks within one month	8,932	13,769
– Less: items in the course of transmission to other banks	(5,632)	(6,102)
	<b>152,818</b>	<b>111,134</b>

<sup>1</sup> At 31 December 2022, the amount of cash and cash equivalents that was not available for use by the Group was HK\$11,902m (2021: HK\$14,040m), of which HK\$7,024m (2021: HK\$8,153m) was related to mandatory deposits at central banks.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022

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

## 1. Basis of preparation

### (a) Compliance with Hong Kong Financial Reporting Standards

Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') are engaged in the provision of banking and related financial services. The Bank is a limited liability company incorporated in Hong Kong. The address of its registered office and principal place of business is 83 Des Voeux Road Central, Hong Kong.

The consolidated financial statements comprise the financial statements of the Group made up to 31 December 2022. 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 significant accounting policies adopted by the Group is set out in note 2.

### Standards adopted during the year ended 31 December 2022

There were no new standards applied during the year ended 31 December 2022. During 2022, 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'):

- Disclosure under HKFRS 4 '*Insurance Contracts*' concerning the nature and extent of risks relating to insurance contracts under Insurance Risk in 'Risk' section.
- Disclosure 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.
- Capital disclosures under HKAS 1 '*Presentation of Financial Statement*' in 'Capital Management' under Treasury Risk in 'Risk' section.
- IBOR transition in 'Areas of special interest' section.

In accordance with the Group's policy to provide disclosures that help stakeholders to understand the Group's performance, financial position and changes thereto, the information provided in the Notes to the Financial Statements and the Risk disclosures in the MD&A goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

### (c) Consolidation

The Group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup.

Where an entity is governed by voting rights, the Group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over relevant activities or holding the power as agent or principal.

All intra-group transactions are eliminated on consolidation.

The consolidated financial statements also include the attributable share of the results and reserves of associates based on the financial statements prepared at dates not earlier than three months prior to 31 December 2022.

### 1. Basis of preparation continued

#### (d) Future Accounting Developments

The HKICPA has issued a number of new standards which are not yet effective for the year ended 31 December 2022 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

##### HKFRS 17 'Insurance Contracts'

HKFRS 17 'Insurance contracts' is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively.

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

The Group is at an advanced stage in the implementation of HKFRS 17, having put in place accounting policies, data and models, and made progress with preparing 2022 comparative data. Below set out the expectations of the impact of HKFRS 17, compared with the Group's current accounting policy for insurance contracts which is set out in note 2(t).

Under HKFRS 17, no present value of in-force business ('PVIF') asset will be recognised. Instead, the measurement of the insurance contract liability is based on groups of insurance contracts and will include the fulfilment cash flows, as well as the contractual service margin ('CSM'), which represents the unearned profit.

To identify groups of insurance contracts, individual contracts subject to similar dominant risk and managed together are identified as a portfolio of insurance contracts. Each portfolio is further separated by profitability group and issue date into periodic cohorts.

The fulfilment cash flows comprise of:

- the best estimates of future cash flows, including amounts expected to be collected from premiums and payouts for claims, benefits and expenses, which are projected using assumptions based on demographic and operating experience;
- an adjustment for time value of money and financial risks associated with the future cash flows; and
- an adjustment for non-financial risk that reflects the uncertainty about the amount and timing of the future cash flows.

In contrast to the Group's HKFRS 4 accounting where profits are recognised up front, the CSM will be systematically recognised in revenue, as services are provided over the expected coverage period of the group of contracts without any change to the overall profit of the contracts. Losses resulting from the recognition of onerous contracts are recognised in income statement immediately.

The CSM is adjusted depending on the measurement model of the group of insurance contracts. While the general measurement model ('GMM') is the default measurement model under HKFRS 17, the Group expects that the majority of its contracts will be accounted for under the variable fee approach ('VFA') which is mandatory to apply for insurance contracts with direct participation features upon meeting the eligibility criteria.

HKFRS 17 requires entities to apply HKFRS 17 retrospectively as if HKFRS 17 had always been applied, using the full retrospective approach ('FRA') unless it is impracticable. When FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The Group will apply the FRA for new business from 2019 at the earliest, subject to practicability, and FVA for the majority of contracts for which FRA is impracticable. Where the FVA is used, the measurement takes into account the cost of the capital that a market participant within the jurisdiction would be expected to hold based on the asset and liability positions on the transition date.

The Group decided to make use of the option to re-designate eligible financial assets held to support insurance liabilities currently measured at amortised cost, as financial assets measured at fair value through profit or loss.

The Group will also make use of the risk mitigation option for a number of economic offsets between the VFA contracts and reinsurance contracts held that meet the requirements.

##### Impact of HKFRS 17

Changes to equity on transition are driven by elimination of the PVIF asset, the re-designation of certain eligible financial assets in the scope of HKFRS 9, the remeasurement of insurance liabilities and assets under HKFRS 17, and the recognition of the CSM.

HKFRS 17 requires use of current market values for the measurement of insurance liabilities. The shareholder's share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under VFA. For contracts measured under GMM, the shareholder's share of the investment volatility is recorded in profit or loss as it arises. Under HKFRS 17, operating expenses will be lower as directly attributable costs will be incorporated in the CSM and recognised in the results of insurance service result.

While the profit over the life of an individual contract will be unchanged, its emergence will be later under HKFRS 17.

All these impacts will be subject to deferred tax.

## 1. Basis of preparation continued

### (d) Future Accounting Developments continued

#### Impact of HKFRS 17 continued

Estimates of the opening balance sheet as at 1 January 2022 have been calculated and are presented below, showing separately the impact on the total assets, liabilities and equity of our insurance manufacturing operations and Group equity. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change.

Impact of transition to HKFRS 17, at 1 January 2022	Insurance manufacturing operations			Group
	Assets	Liabilities	Equity	Equity
	HK\$ bn	HK\$ bn	HK\$ bn	HK\$ bn
Balance sheet values at 1 January 2022 under HKFRS 4	207.3	172.9	34.4	184.4
Removal of PVIF*	(22.4)	(3.7)	(18.7)	(18.7)
Replacement of HKFRS 4 liabilities with HKFRS 17	(1.3)	12.6	(13.9)	(14.3)
– Removal of HKFRS 4 liabilities and recording of HKFRS 17 fulfilment cash flows	(1.0)	(9.9)	8.9	8.8
– HKFRS 17 contractual service margin	(0.3)	22.5	(22.8)	(23.1)
Remeasurement effect of HKFRS 9 re-designations	6.5	–	6.5	6.5
Tax effect*	1.1	(0.1)	1.2	1.3
Estimated balance sheet values at 1 January 2022 under HKFRS 17	191.2	181.7	9.5	159.2

\* PVIF of HK\$22.4bn less deferred tax of HK\$3.7bn constitute the overall estimated reduction in intangible assets, after tax, of HK\$18.7bn on transition to HKFRS 17.

The Group's accounting for insurance contracts considers a broader set of cash flows than those arising within the insurance manufacturing entities. This includes the effect of eliminating intra-group fees associated with distribution of policies through the Group's banking channel and directly attributable costs incurred by other Group entities. These factors lead to an increase to the Group CSM after inclusion of distribution activities of approximately HK\$0.3bn, with a consequential reduction to Group equity of approximately HK\$0.3bn after inclusion of deferred tax.

### (e) Critical accounting 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 accounting estimates and judgements in note 2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purpose of 2022 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.

## 2. Significant accounting policies

### (a) Interest income and expense

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' respectively in the income statement. Effective interest method is used for those financial instruments that are not at fair value through profit or loss. Other interest income and expense that are not using effective interest method for calculation arise from non-derivative financial assets and liabilities carried at FVTPL.

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.

## 2. Significant accounting policies continued

### (b) Non-interest income

#### (i) Fee income

Fee income is earned from a diverse range of services provided by the Group to its customers and is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party); and
- income earned from the provision of services is recognised as revenue when the services are provided (for example, asset management services).

#### (ii) Net income from financial instruments measured at fair value

##### (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 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 and other transactions 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 separately in equity in the foreign exchange reserve in accordance with the accounting policy set out in note 2(v).

##### (b) Net income/(loss) from financial instruments designated at fair value

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. Dividends 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 measured at fair value comprises of income in respect of financial assets and liabilities measured at fair value and derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.

#### (iii) Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

#### (iv) Rental income from operating lease

Rental income, net of incentives, under an operating lease is recognised in 'Other operating income' in equal instalments over the reporting periods covered by the lease term.

### (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. Significant accounting policies continued

### (d) Valuation of financial instruments continued

#### Critical accounting 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 is depicted in note 51 '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 assets 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 below.

### (f) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held 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 the trade date when the Group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are 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 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. 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;
- 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; and
- where the financial liability contains one or more non-closely related embedded derivatives.

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, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair value are recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

## 2. Significant accounting policies continued

### (h) Financial instruments designated at fair value continued

Under the above criterion, the main classes of financial instruments designated at fair value by the Group are:

#### – Debt instruments for funding purposes that are designated to reduce an accounting mismatch

The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

#### – Financial assets and financial liabilities under unit-linked and non-linked investment contracts

A contract under which the Group does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. 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.

### (i) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying item such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

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.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated separately in equity. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement within 'Net income from financial instruments measured at fair value through profit or loss'.

The accumulated gains and losses recognised in other comprehensive income are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

#### (iii) Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

## 2. Significant accounting policies continued

### (i) Derivatives continued

#### Hedge accounting continued

##### (iii) Hedge effectiveness testing continued

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 that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

#### Credit-impaired (stage 3)

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are 90 days past due or above;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; or
- the loan is otherwise considered to be in default.

If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

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.

#### Forbearance

Loans are identified as forbore and classified as either performing or non-performing when the Group modify the contractual payment terms due to financial difficulty of the borrower. Non-performing forbore 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 forbore loans are initially stage 2 and remain classified as forbore until they meet applicable cure criteria (for example, they continue not to 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).

**2. Significant accounting policies** continued

**(j) Impairment of amortised cost and FVOCI financial assets** continued

**Forbearance** continued

A forbore 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 forbore 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 forbore.

**Loan modifications other than forbore loans**

Loan modifications that are not identified as forbore 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, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average probability of default ('PD') for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgment, 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

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



## 2. Significant accounting policies continued

### (j) Impairment of amortised cost and FVOCI financial assets continued

#### Significant increase in credit risk (stage 2) continued

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date PD derived from credit history which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts 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 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

#### 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. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. For wholesale portfolios, renegotiated loans that are not POCI will continue to be in stage 3 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. While for retail portfolios, renegotiated loans remain in stage 3 for their renegotiated lifetime. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

#### 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.

In general, the Group calculates ECL using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

**2. Significant accounting policies** continued

**(j) Impairment of amortised cost and FVOCI financial assets** continued

**Measurement of ECL** continued

The Group leverages the Basel framework where possible, with recalibration to meet the differing HKFRS 9 requirements as follows:

Model	Regulatory capital	HKFRS 9
PD	<ul style="list-style-type: none"> <li>- Through the cycle (represents long-run average PD throughout a full economic cycle)</li> <li>- The definition of default includes a backstop of 90+ days past due</li> <li>- Regulatory floors may apply according to regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD)</li> <li>- An obligor/an account being 90 days past due or above is considered as defaulted</li> <li>- No floors is required under HKFRS 9</li> </ul>
EAD	<ul style="list-style-type: none"> <li>- Cannot be lower than current balance</li> </ul>	<ul style="list-style-type: none"> <li>- Amortisation captured for term products</li> </ul>
LGD	<ul style="list-style-type: none"> <li>- Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn)</li> <li>- Regulatory floors may apply according to regulatory requirements</li> <li>- Discounted using cost of capital</li> <li>- All collection costs included</li> </ul>	<ul style="list-style-type: none"> <li>- Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral)</li> <li>- No floors is required under HKFRS 9</li> <li>- Discounted using the effective interest rate of the loan</li> <li>- Only costs associated with obtaining/selling collateral included</li> </ul>
Other		<ul style="list-style-type: none"> <li>- Discounted back from point of default to balance sheet date</li> </ul>

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 three 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.

**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'.

## 2. Significant accounting policies continued

### (j) Impairment of amortised cost and FVOCI financial assets continued

#### Critical accounting estimates and judgements

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should be further extrapolated. Risk Management section (a) 'Credit Risk' under MD&A sets out the assumptions underlying the Central scenario and information about how scenarios are developed in relation to the Group's top and emerging risks and its judgements, informed by consensus forecasts of professional industry forecasters. The adjustment from the ECL determined by using the Central scenario alone, which is used to calculate an unbiased expected loss, provides an indication of the overall sensitivity of ECL 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. Property interests which are held under operating leases to earn rentals, or for capital appreciation, or both, are classified and accounted for as investment property on a property-by-property basis.

The Group previously elected to apply HKAS 40 'Investment Properties' to account for all its leasehold properties that were held for investment purposes.

## 2. Significant 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 at the greater of 2% per annum on the straight-line basis or over the unexpired terms of the leases or over 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 of the leasehold land as owned assets.

#### (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. Significant accounting policies continued

### (o) Goodwill and intangible assets continued

#### (ii) Intangible assets

Intangible assets include PVIF, acquired software licences and capitalised development costs of computer software programmes.

- The PVIF is stated at a valuation determined at the reporting date by using the methodology as described in note 2(t).
- 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, except for the PVIF, 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

- 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.
- 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. Significant 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.

A contract issued by the Group that transfers financial risk, without significant insurance risk, is classified as an investment contract, and is accounted for as a financial instrument. The financial assets held by the Group for the purpose of meeting liabilities under insurance and investment contracts are classified and accounted for based on their classifications as set out in notes 2(e) to 2(i).

Insurance contracts are accounted for as follows:

#### Net earned insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are recognised.

Reinsurance premiums, netted by the reinsurers' share of provision for unearned premiums, are accounted for in the same reporting period as the premiums for the direct insurance contracts to which they relate.

#### Claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of all claims arising during the reporting period, including policyholder cash dividend payment upon policy anniversary and payments of maturities, surrenders and death claims. Reinsurance recoveries are accounted for in the same period as the related claims.

#### Present value of in-force long-term insurance business ('PVIF')

A value is placed on insurance contracts that are classified as long-term insurance business or long-term investment contracts with discretionary participating features ('DPF') and in force at the reporting date. This asset represents the present value of the shareholders' interest in the profits expected to emerge from those insurance contracts written at the reporting date.

The PVIF is determined by discounting future earnings expected to emerge from business currently in force, using appropriate assumptions in assessing factors such as future mortality and morbidity, lapse rates, levels of expenses and a risk discount rate that reflects the risk premium attributable to the respective long-term insurance business. The valuation has also included explicit risk margins for non-economic risks in the projection assumptions, and explicit allowances for financial options and guarantees using stochastic methods. Risk discount rates are set on an active basis with reference to market risk free yields and incorporate the explicit margins and allowances for certain risks and uncertainties in place of implicit adjustments. Movements in the PVIF are included in other operating income on a pre-tax basis. The PVIF is reported under 'Intangible assets' in the balance sheet.

## 2. Significant accounting policies continued

### (t) Insurance contracts continued

#### Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Some insurance contracts may contain discretionary participation features whereby the policyholder is entitled to additional payments whose amount and/or timing is at the discretion of the issuer. The discretionary element of these contracts is included in 'Liabilities under insurance contracts'.

Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices.

A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all expected cash flows are discounted and compared with the carrying value of the liability. When a shortfall is identified it is charged immediately to the income statement.

#### Critical accounting estimates and judgements

##### *Classification*

HKFRS 4 requires the Group to determine whether a contract that transfers both insurance risk and financial risk is classified as an insurance contract, or as a financial instrument under HKFRS 9, or whether the insurance and non-insurance elements of the contract should be accounted for separately. This process involves judgement and estimation of the amounts of different types of risks that are transferred or assumed under a contract. The estimation of such risks often involves the use of assumptions about future events and is thus subject to a degree of uncertainty.

##### *Present value of in-force long-term insurance business ('PVIF')*

The value of PVIF, which is recorded as an intangible asset, depends upon assumptions regarding future events. These are described in more detail in note 33(a). The assumptions are reassessed at each reporting date and changes in the estimates which affect the value of PVIF are reflected in the income statement.

##### *Insurance liabilities*

The estimation of insurance liabilities involves selecting statistical models and making assumptions about future events which need to be frequently calibrated against experience and forecasts. The sensitivity of insurance liabilities to potential changes in key assumptions is set out in the MD&A.

### (u) Investment contracts

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 the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of branches, subsidiaries and associates not reporting in Hong Kong dollars are translated into Hong Kong dollars at the average rates of exchange for the reporting period. Exchange differences arising from the re-translation of opening foreign currency net investments and the related cost of hedging, if any, and exchange differences arising from re-translation of the result for the reporting period from the average rate to the exchange rate ruling at the period-end, are recognised in other comprehensive income and accumulated separately in equity in the foreign exchange reserve.

Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in the income statement of separate subsidiary's financial statements. In the consolidated financial statements, the corresponding exchange differences are recognised in other comprehensive income and accumulated separately in equity in the foreign exchange reserve. On disposal of a foreign operation, exchange differences relating thereto previously recognised in reserves are recognised in the income statement.

## 2. Significant accounting policies continued

### (w) Operating segments

The Group's operating segments are determined to be customer group segment because the chief operating decision maker uses customer group information in order to make decisions about allocating resources and assessing performance.

HKFRS 8 '*Operating Segments*' requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decision about operating matters.

### (x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are members of the same group. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities which are under the significant influence of related parties of the Group or post-employment benefit scheme. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and its holding companies, directly or indirectly, including any directors (whether executive or otherwise) and Executive Committee members of the Group and its holding companies.

## 3. Interest income/interest expense

### (a) Interest income

	2022	2021
Interest income arising from:		
– financial assets that are not at fair value through profit and loss	39,316	28,030
– trading assets	915	461
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	–	16
	<b>40,231</b>	<b>28,507</b>
of which:		
– interest income from impaired financial assets	346	42

### (b) Interest expense

	2022	2021
Interest expense arising from:		
– financial liabilities that are not at fair value through profit and loss	9,231	3,311
– trading liabilities	738	331
– financial liabilities designated at fair value	1,281	1,043
	<b>11,250</b>	<b>4,685</b>
of which:		
– interest expense from subordinated liabilities	779	338



## 4. Net fee income

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other	Total
<b>2022<sup>1</sup></b>						
– securities broking and related services	1,322	92	1	20	–	1,435
– retail investment funds	911	15	–	–	–	926
– insurance	333	72	76	–	–	481
– account services	265	126	7	3	–	401
– remittances	80	164	34	–	–	278
– cards	2,582	26	–	–	–	2,608
– credit facilities	16	306	140	–	–	462
– imports/exports	–	311	37	–	–	348
– other	126	146	51	9	335	667
Fee income	5,635	1,258	346	32	335	7,606
Fee expense	(2,410)	(34)	(3)	(90)	–	(2,537)
	3,225	1,224	343	(58)	335	5,069
<b>2021 (re-presented)<sup>1</sup></b>						
– securities broking and related services	1,866	162	6	6	–	2,040
– retail investment funds	1,539	28	–	–	–	1,567
– insurance	339	85	78	–	–	502
– account services	247	116	7	1	–	371
– remittances	53	181	34	–	–	268
– cards	2,656	23	–	–	–	2,679
– credit facilities	18	476	188	–	–	682
– imports/exports	–	364	52	–	–	416
– other	199	116	31	7	273	626
Fee income	6,917	1,551	396	14	273	9,151
Fee expense	(2,449)	(28)	(6)	(93)	2	(2,574)
	4,468	1,523	390	(79)	275	6,577

<sup>1</sup> To align with the presentation of relevant segmental information for business management and operation, the segmental information of Global Banking and Global Markets have been split. Comparative figures have been re-presented to conform with current year's presentation.

	2022	2021
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)	1,645	1,880
– fee income	3,873	4,179
– fee expense	(2,228)	(2,299)
Net fee income on trust and other fiduciary activities where the Group holds or invests assets on behalf of its customers	668	903
– fee income	806	1,022
– fee expense	(138)	(119)

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

	2022	2021
Net trading income	1,828	1,557
– trading income	1,834	1,560
– other trading income/(expense) from ineffective fair value hedges	(6)	(3)
Net income/(expense) from financial instruments designated at fair value through profit or loss	(217)	182
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value through profit or loss	(2,049)	2,610
– financial assets held to meet liabilities under insurance and investment contracts	(2,058)	2,611
– liabilities to customers under investment contracts	9	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	9	(3)
	(429)	4,346

**6. Gains less losses from financial investments**

	2022	2021
Net gains/(losses) from disposal of debt securities measured at amortised cost	(10)	108
Net gains/(losses) from disposal of debt securities measured at fair value through other comprehensive income	85	98
	75	206

**7. Dividend income**

	2022	2021
Dividend income:		
– listed investments	195	160
– unlisted investments	30	16
	225	176

**8. Net insurance premium income**

	Non-linked	Unit-linked	Total
<b>2022</b>			
Gross insurance premium income	21,325	3	21,328
Reinsurers' share of gross insurance premium income	(777)	–	(777)
Net insurance premium income	20,548	3	20,551
<b>2021</b>			
Gross insurance premium income	15,296	3	15,299
Reinsurers' share of gross insurance premium income	(1,216)	–	(1,216)
Net insurance premium income	14,080	3	14,083

## 9. Other operating income/(loss)

	2022	2021
Rental income from investment properties	276	269
Movement in present value of in-force long-term insurance business (note 33(a))	(1,743)	(188)
Net gains/(losses) from disposal of fixed assets	(15)	(48)
Net gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	2	4
Others	206	285
	(1,274)	322

## 10. Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked	Unit-linked	Total
<b>2022</b>			
Claims, benefits and surrenders paid	12,553	3	12,556
Movement in liabilities	7,454	(14)	7,440
Gross claims and benefits paid and movement in liabilities to policyholders	20,007	(11)	19,996
Reinsurers' share of claims, benefits and surrenders paid	(633)	–	(633)
Reinsurers' share of movement in liabilities	(137)	–	(137)
Reinsurers' share of claims and benefits paid and movement in liabilities to policyholders	(770)	–	(770)
Net insurance claims and benefits paid and movement in liabilities to policyholders	19,237	(11)	19,226
<b>2021</b>			
Claims, benefits and surrenders paid	11,901	4	11,905
Movement in liabilities	5,672	2	5,674
Gross claims and benefits paid and movement in liabilities to policyholders	17,573	6	17,579
Reinsurers' share of claims, benefits and surrenders paid	(868)	–	(868)
Reinsurers' share of movement in liabilities	(361)	–	(361)
Reinsurers' share of claims and benefits paid and movement in liabilities to policyholders	(1,229)	–	(1,229)
Net insurance claims and benefits paid and movement in liabilities to policyholders	16,344	6	16,350

## 11. Change in expected credit losses and other credit impairment charges

	2022	2021
Loans and advances to banks and customers	7,669	2,844
– new allowances net of allowance releases	7,367	2,983
– recoveries of amounts previously written off	(131)	(167)
– other movements	433	28
Loan commitments and guarantees	(8)	(43)
Other financial assets	(35)	6
	7,626	2,807

## 12. Operating expenses

	2022	2021
Employee compensation and benefits:		
– salaries and other costs*	5,941	5,811
– retirement benefit costs		
– defined benefit scheme (note 48(a))	149	169
– defined contribution scheme (note 48(b))	355	331
	6,445	6,311
General and administrative expenses:		
– rental expenses	18	22
– other premises and equipment	1,875	1,795
– marketing and advertising expenses	440	378
– other operating expenses	3,324	3,090
	5,657	5,285
Depreciation of premises, plant and equipment (note 32)	1,460	1,492
Depreciation of right-of-use assets	514	574
Amortisation of intangible assets (note 33)	702	472
	14,778	14,134
* of which:		
– share-based payments (note 49(c))	35	36
Cost efficiency ratio	43.5%	42.6%

## 13. The emoluments of the five highest paid individuals

### (a) The aggregate emoluments

	2022	2021
Salaries, allowances and benefits in kind	28	28
Retirement scheme contributions	3	1
Variable bonuses		
– Cash bonus	11	8
– Share-based payment	11	9
	53	46

### (b) The numbers of the five highest paid individuals with emoluments within the following bands are:

HK\$	2022 Number of Individuals	2021 Number of Individuals
5,500,001 – 6,000,000	1	–
7,000,001 – 7,500,000	2	1
7,500,001 – 8,000,000	–	2
8,000,001 – 8,500,000	–	1
13,000,001 – 13,500,000	1	–
14,500,001 – 15,000,000	–	1
19,500,001 – 20,000,000	1	–
	5	5

The emoluments of the five highest paid individuals set out above include the emoluments of one (2021: two) Executive Directors which are included in note 14. There is no Non-Executive Director included in the table above (2021: Nil).

## 14. Directors' remunerations

The emoluments of the Directors of the Bank disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation were set out below:

	Emoluments							Total 2022 '000	Total 2021 '000
	Fees '000	Salaries, allowances and benefits in kind <sup>(6)</sup> '000	Contribution to retirement benefit schemes <sup>(4)</sup> '000	Variable bonus <sup>(5)</sup>					
				Cash		Shares			
			Deferred '000	Non- deferred '000	Deferred '000	Non- deferred '000			
<b>Executive Directors</b>									
Diana Cesar, Chief Executive <sup>(1)</sup>	–	9,827	685	2,652	1,768	3,074	1,768	19,774	6,868
Louisa Cheang, Chief Executive <sup>(1)</sup> (Resigned on 1 Sep 2021)	–	–	–	–	–	–	–	–	8,375
Margaret W H Kwan <sup>(1)</sup> (Resigned on 1 Feb 2022)	–	1,150	2	–	–	–	–	1,152	7,875
Say Pin Saw <sup>(1)</sup> (Appointed on 7 Nov 2022)	–	540	63	–	226	151	–	980	–
<b>Non-Executive Directors</b>									
Raymond K F Ch'ien <sup>(3)</sup> (Resigned on 27 May 2021)	–	–	–	–	–	–	–	–	451
John C C Chan <sup>(3)</sup> (Resigned on 5 May 2022)	479	–	–	–	–	–	–	479	1,070
L Y Chiang <sup>(3)</sup>	1,142	–	–	–	–	–	–	1,142	1,091
Cordelia Chung <sup>(3)</sup> (Appointed on 23 Feb 2022)	771	–	–	–	–	–	–	771	–
Kathleen C H Gan <sup>(2)</sup>	660	–	–	–	–	–	–	660	660
Clement K M Kwok <sup>(3)</sup>	1,178	–	–	–	–	–	–	1,178	773
Patricia S W Lam <sup>(3)</sup> (Appointed on 1 Jul 2022)	430	–	–	–	–	–	–	430	–
Irene Y L Lee <sup>(3)</sup>	2,032	–	–	–	–	–	–	2,032	1,818
Eric K C Li <sup>(3)</sup> (Resigned on 27 May 2021)	–	–	–	–	–	–	–	–	537
David Y C Liao <sup>(2)</sup>	860	–	–	–	–	–	–	860	287
Huey Ru Lin <sup>(3)</sup> (Appointed on 1 Jul 2022)	378	–	–	–	–	–	–	378	–
Vincent H S Lo (Resigned on 5 May 2022)	275	–	–	–	–	–	–	275	660
Kenneth S Y Ng <sup>(3)</sup>	1,312	–	–	–	–	–	–	1,312	960
Xiao Bin Wang <sup>(3)</sup> (Appointed on 23 Feb 2022)	840	–	–	–	–	–	–	840	–
Peter T S Wong <sup>(2)</sup> (Resigned on 1 Sep 2021)	–	–	–	–	–	–	–	–	553
Michael W K Wu <sup>(3)</sup>	1,377	–	–	–	–	–	–	1,377	1,091
<b>Past Directors</b>	–	–	1,693	–	–	–	–	1,693	1,677
	<b>11,734</b>	<b>11,517</b>	<b>2,443</b>	<b>2,652</b>	<b>1,994</b>	<b>3,225</b>	<b>1,768</b>	<b>35,333</b>	<b>34,746</b>
2021	9,951	15,342	2,380	1,698	1,727	1,921	1,727		

Notes:

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Independent Non-Executive Director.

<sup>(4)</sup> The Bank made contributions during 2022 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\$1.693m in 2022.

<sup>(5)</sup> 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.

<sup>(6)</sup> Benefits in kind mainly include estimated money value of other non-cash benefits: accommodation, car, insurance premium.

<sup>(7)</sup> Remunerations/emoluments for Executive Directors are for services in connection with management of the affairs of the Hang Seng Bank and its subsidiary undertakings.

### 15. Auditors' remuneration

	2022	2021
Statutory audit services	28	27
Non-statutory audit services and others	16	10
	44	37

### 16. Net surplus/(deficit) on property revaluation

	2022	2021
Surplus/(deficit) on investment property revaluation	(108)	82

### 17. Tax expense

#### (a) Taxation in the Consolidated Income Statement represents:

	2022	2021
<b>Current tax – provision for Hong Kong profits tax</b>		
Tax for the year	1,845	2,391
Adjustment in respect of prior years	(23)	75
	1,822	2,466
<b>Current tax – taxation outside Hong Kong</b>		
Tax for the year	204	77
Adjustment in respect of prior years	1	–
	205	77
<b>Deferred tax (note 41(b))</b>		
Origination and reversal of temporary differences	(739)	(104)
<b>Total tax expense</b>	<b>1,288</b>	<b>2,439</b>

The current tax provision is based on the estimated assessable profit for 2022, 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 (2021: 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.

#### (b) Reconciliation between taxation charge and accounting profit at applicable tax rates:

	2022	2021
Profit before tax	11,439	16,385
Notional tax on profit before tax, calculated at Hong Kong profits tax rate of 16.5% (2021: 16.5%)	1,887	2,704
Tax effect of:		
– different tax rates in other countries/areas	11	87
– non-taxable income and non-deductible expenses	(523)	(362)
– share of (profits)/losses of associates	2	(12)
– others	(89)	22
Actual charge for taxation	1,288	2,439

### 18. Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK\$9,455m in 2022 (2021: HK\$13,257m), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2021).

## 19. Dividends/Distributions

### (a) Dividends attributable to the year:

	2022		2021	
	per share HK\$	HK\$m	per share HK\$	HK\$m
First interim	0.70	1,338	1.10	2,103
Second interim	0.70	1,338	1.10	2,103
Third interim	0.70	1,338	1.10	2,103
Fourth interim	2.00	3,824	1.80	3,441
	4.10	7,838	5.10	9,750

The fourth interim dividend is proposed after the balance sheet date, and has not been recognised as a liability at the balance sheet date.

### (b) Dividends attributable to the previous year, approved and paid during the year:

	2022	2021
Fourth interim dividend in respect of the previous year, approved and paid during the year, of HK\$1.80 per share (2021: HK\$2.80 per share)	3,441	5,353

### (c) Distributions to holders of AT1 capital instruments classified as equity

	2022	2021
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)	427	423
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)	283	280
	710	703

## 20. 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 a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, time deposits, mortgages and personal loans, credit cards, insurance, investment and other wealth management services;
- **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and small and medium-sized enterprises ('SME') customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;
- **Global Banking** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking and transaction banking, corporate lending, deposit and cash management;
- **Global Markets** provides tailored solutions and services in foreign exchange, bullion, equities, fixed income and securities financing as well as managing the funding and 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 the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost of central support services and functions are allocated to business segments based on cost drivers which reflect or correlate with the use of services. Bank-owned premises apart from outlets dedicated for Wealth and Personal Banking are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

**20. Segmental analysis** *continued*

**(a) Segmental result** *continued*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other <sup>2,4</sup>	Total
<b>2022<sup>1</sup></b>						
Net interest income/(expense)	17,160	8,149	2,411	1,524	(263)	28,981
Net fee income/(expense)	3,225	1,224	343	(58)	335	5,069
Net income/(loss) from financial instruments measured at fair value through profit or loss	(1,888)	241	–	1,120	98	(429)
Gains less losses from financial investments	(10)	–	–	85	–	75
Dividend income	–	–	–	–	225	225
Net insurance premium income	18,838	1,713	–	–	–	20,551
Other operating income/(loss)	(1,462)	(52)	2	–	238	(1,274)
<b>Total operating income</b>	<b>35,863</b>	<b>11,275</b>	<b>2,756</b>	<b>2,671</b>	<b>633</b>	<b>53,198</b>
Net insurance claims and benefits paid and movement in liabilities to policyholders	(17,576)	(1,650)	–	–	–	(19,226)
<b>Net operating income before change in expected credit losses and other credit impairment charges</b>	<b>18,287</b>	<b>9,625</b>	<b>2,756</b>	<b>2,671</b>	<b>633</b>	<b>33,972</b>
– of which: – external	11,255	10,859	4,983	7,502	(627)	33,972
– inter-segment	7,032	(1,234)	(2,227)	(4,831)	1,260	–
Change in expected credit losses and other credit impairment charges	(497)	(5,436)	(1,688)	(4)	(1)	(7,626)
<b>Net operating income</b>	<b>17,790</b>	<b>4,189</b>	<b>1,068</b>	<b>2,667</b>	<b>632</b>	<b>26,346</b>
Operating expenses*	(9,083)	(3,414)	(688)	(643)	(950)	(14,778)
Impairment loss on intangible assets	–	–	–	–	(11)	(11)
<b>Operating profit/(loss)</b>	<b>8,707</b>	<b>775</b>	<b>380</b>	<b>2,024</b>	<b>(329)</b>	<b>11,557</b>
Net surplus/(deficit) on property revaluation	–	–	–	–	(108)	(108)
Share of profits/(losses) of associates	(10)	–	–	–	–	(10)
<b>Profit/(loss) before tax</b>	<b>8,697</b>	<b>775</b>	<b>380</b>	<b>2,024</b>	<b>(437)</b>	<b>11,439</b>
Share of profit/(loss) before tax	76.0%	6.8%	3.3%	17.7%	(3.8)%	100.0%
* Depreciation/amortisation included in operating expenses	(803)	(11)	(2)	(1)	(1,859)	(2,676)
<b>As at 31 December 2022</b>						
Total assets	610,343	366,837	211,807	674,297	30,521	1,893,805
of which: Gross loans and advances to customers	382,727	353,172	208,829	–	–	944,728
Total liabilities	1,102,134	341,490	126,329	106,656	33,235	1,709,844
of which: Customer deposits <sup>3</sup>	931,170	319,090	123,229	15,352	–	1,388,841
Interest in associates	2,256	–	–	–	–	2,256
Non-current assets acquired during the year	168	29	–	4	1,686	1,887



## 20. Segmental analysis continued

### (a) Segmental result continued

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other <sup>2,4</sup>	Total
2021 (re-presented) <sup>1</sup>						
Net interest income/(expense)	13,013	7,037	2,369	1,792	(389)	23,822
Net fee income/(expense)	4,468	1,523	390	(79)	275	6,577
Net income from financial instruments measured at fair value through profit or loss	3,095	370	–	858	23	4,346
Gains less losses from financial investments	104	4	–	98	–	206
Dividend income	–	–	–	–	176	176
Net insurance premium income	13,059	1,024	–	–	–	14,083
Other operating income/(loss)	126	(31)	(2)	–	229	322
<b>Total operating income</b>	<b>33,865</b>	<b>9,927</b>	<b>2,757</b>	<b>2,669</b>	<b>314</b>	<b>49,532</b>
Net insurance claims and benefits paid and movement in liabilities to policyholders	(15,359)	(991)	–	–	–	(16,350)
<b>Net operating income before change in expected credit losses and other credit impairment charges</b>	<b>18,506</b>	<b>8,936</b>	<b>2,757</b>	<b>2,669</b>	<b>314</b>	<b>33,182</b>
– of which: – external	16,961	9,195	3,451	3,277	298	33,182
– inter-segment	1,545	(259)	(694)	(608)	16	–
Change in expected credit losses and other credit impairment charges	(314)	(1,326)	(1,165)	(2)	–	(2,807)
<b>Net operating income</b>	<b>18,192</b>	<b>7,610</b>	<b>1,592</b>	<b>2,667</b>	<b>314</b>	<b>30,375</b>
Operating expenses*	(8,582)	(3,463)	(630)	(664)	(795)	(14,134)
Impairment loss on intangible assets	–	–	–	–	(10)	(10)
<b>Operating profit/(loss)</b>	<b>9,610</b>	<b>4,147</b>	<b>962</b>	<b>2,003</b>	<b>(491)</b>	<b>16,231</b>
Net surplus on property revaluation	–	–	–	–	82	82
Share of profits of associates	72	–	–	–	–	72
<b>Profit/(loss) before tax</b>	<b>9,682</b>	<b>4,147</b>	<b>962</b>	<b>2,003</b>	<b>(409)</b>	<b>16,385</b>
Share of profit/(loss) before tax	59.1%	25.3%	5.9%	12.2%	(2.5)%	100.0%
* Depreciation/amortisation included in operating expenses	(820)	(10)	(1)	(2)	(1,705)	(2,538)
As at 31 December 2021 (re-presented)						
Total assets	593,093	416,717	227,226	594,239	(11,090)	1,820,185
of which: Gross loans and advances to customers	375,095	402,067	227,163	–	–	1,004,325
Total liabilities	1,036,077	352,129	119,799	136,775	(9,011)	1,635,769
of which: Customer deposits <sup>3</sup>	874,709	334,003	117,776	26,188	(13,876)	1,338,800
Interest in associates	2,341	–	–	–	–	2,341
Non-current assets acquired during the year	129	14	–	2	2,001	2,146

<sup>1</sup> To align with the presentation of relevant segmental information for business management and operation, the segmental information of Global Banking and Global Markets have been split. Additional information on external/inter-segment of net operating income before change in expected credit losses and other credit impairment charges has also been included. Comparative figures have been re-presented to conform with current year's presentation.

<sup>2</sup> Deposits balances under 'Other' segment, as applicable, mainly relating to the consolidated elimination of Negotiable Certificates of Deposits ('NCDs') issued by Hang Seng Bank (China) Limited to Hang Seng Bank Limited.

<sup>3</sup> Customer deposits balances include current, savings and other deposit accounts, certificates of deposit and other debt securities in issue.

<sup>4</sup> Including inter-segment elimination, of which total assets amounted to HK\$33.9bn (2021: HK\$79.4bn) and total liabilities amounted to HK\$24.4bn (2021: HK\$68.7bn).

## 20. 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
<b>Year ended 31 December 2022</b>					
Total operating income/(loss)	49,862	3,111	255	(30)	53,198
Profit before tax	11,050	219	170	-	11,439
<b>At 31 December 2022</b>					
Total assets	1,766,884	139,595	22,337	(35,011)	1,893,805
Total liabilities	1,590,976	123,633	20,713	(25,478)	1,709,844
Interest in associates	2,256	-	-	-	2,256
Non-current assets*	62,503	1,468	39	-	64,010
Contingent liabilities and commitments	506,097	72,291	5,496	(40,087)	543,797
<b>Year ended 31 December 2021</b>					
Total operating income/(loss)	46,284	3,001	278	(31)	49,532
Profit before tax	15,047	1,161	177	-	16,385
<b>At 31 December 2021</b>					
Total assets	1,697,609	179,392	22,820	(79,636)	1,820,185
Total liabilities	1,521,858	162,429	21,348	(69,866)	1,635,769
Interest in associates	2,341	-	-	-	2,341
Non-current assets*	64,535	1,652	49	-	66,236
Contingent liabilities and commitments	495,857	75,212	5,516	(32,715)	543,870

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

## 21. Maturity analysis of assets and liabilities

The following table provides an analysis of consolidated total assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'Not more than 1 month' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Over 5 years' time bucket. Non-financial assets mainly include premises, plant and equipment of HK\$27,498m (2021: HK\$31,205m), intangible assets of HK\$24,514m (2021: HK\$25,486m), investment properties of HK\$11,998m (2021: HK\$9,545m), bullion of HK\$6,887m (2021: HK\$8,470m) and reinsurers' share of liabilities under insurance contracts of HK\$6,020m (2021: HK\$5,848m). Non-financial liabilities mainly include liabilities under insurance contracts of HK\$165,594m (2021: HK\$154,551m) and deferred tax liabilities of HK\$6,645m (2021: HK\$7,302m).
- Liabilities under insurance contracts and reinsurer's share of liabilities under insurance contracts are irrespective of contractual maturity included in the 'Over 5 years' time bucket in the maturity table provided below. An analysis of the expected maturity of liabilities under insurance contracts based on undiscounted cash flows is provided under the 'Insurance manufacturing operation risk' in the Risk section of the Management Discussion and Analysis. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket.

## 21. Maturity analysis of assets and liabilities continued

### Maturity analysis of assets and liabilities

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
<b>2022</b>									
<b>Assets</b>									
Cash and balances at central banks	17,609	-	-	-	-	-	-	-	17,609
Trading assets	47,373	-	-	-	-	-	-	-	47,373
Derivative financial instruments	20,705	512	153	27	400	456	508	-	22,761
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	77	-	-	-	-	-	460	28,324	28,861
Reverse repurchase agreements – non-trading	25,731	12,908	3,725	-	-	-	-	-	42,364
Placings with and advances to banks	24,061	26,007	8,354	-	2,423	-	1,481	-	62,326
Loans and advances to customers	90,077	61,158	81,851	48,575	38,562	144,907	178,541	287,663	931,334
Financial investments	134,545	213,141	47,307	16,473	14,474	41,725	58,717	96,234	622,616
Accrued income and other financial assets	22,316	5,875	5,448	2,229	1,509	375	172	714	38,638
<b>Financial assets</b>	<b>382,494</b>	<b>319,601</b>	<b>146,838</b>	<b>67,304</b>	<b>57,368</b>	<b>187,463</b>	<b>239,879</b>	<b>412,935</b>	<b>1,813,882</b>
Non-financial assets	-	-	-	-	-	-	-	79,923	79,923
<b>Total assets</b>	<b>382,494</b>	<b>319,601</b>	<b>146,838</b>	<b>67,304</b>	<b>57,368</b>	<b>187,463</b>	<b>239,879</b>	<b>492,858</b>	<b>1,893,805</b>
<b>Liabilities</b>									
Deposits from banks	4,978	1	-	226	-	-	-	-	5,205
Current, savings and other deposit accounts	909,173	167,283	142,972	8,281	9,665	2,521	9,591	-	1,249,486
Repurchase agreements – non-trading	8,520	1,072	1,712	-	-	-	-	-	11,304
Trading liabilities	46,323	-	-	-	-	-	-	-	46,323
Derivative financial instruments	20,509	4	62	56	68	161	132	-	20,992
Financial liabilities designated at fair value	13,856	13,824	4,345	4,506	2,476	6,972	-	330	46,309
Certificates of deposit and other debt securities in issue	7,054	30,472	35,501	19,832	520	-	-	-	93,379
Subordinated liabilities <sup>1</sup>	-	-	-	-	-	-	19,680	7,799	27,479
Accruals and other financial liabilities	17,286	8,172	5,636	1,730	1,657	566	641	161	35,849
<b>Financial liabilities</b>	<b>1,027,699</b>	<b>220,828</b>	<b>190,228</b>	<b>34,631</b>	<b>14,386</b>	<b>10,220</b>	<b>30,044</b>	<b>8,290</b>	<b>1,536,326</b>
Non-financial liabilities	-	-	-	-	-	-	-	173,518	173,518
<b>Total liabilities</b>	<b>1,027,699</b>	<b>220,828</b>	<b>190,228</b>	<b>34,631</b>	<b>14,386</b>	<b>10,220</b>	<b>30,044</b>	<b>181,808</b>	<b>1,709,844</b>

<sup>1</sup> The maturity for subordinated liabilities is based on the earliest date on which the Group is required to pay, i.e. the callable date.

**21. Maturity analysis of assets and liabilities** *continued*

**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
2021									
<b>Assets</b>									
Cash and balances at central banks	16,896	-	-	-	-	-	-	-	16,896
Trading assets	47,433	-	-	-	-	-	-	-	47,433
Derivative financial instruments	12,048	104	217	184	80	316	275	-	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	77	-	-	-	-	-	591	30,658	31,326
Reverse repurchase agreements – non-trading	11,049	4,633	3,139	-	-	-	-	-	18,821
Placings with and advances to banks	43,279	18,299	4,577	1,520	2,277	2,541	-	-	72,493
Loans and advances to customers	80,268	65,580	80,432	61,706	56,970	134,349	245,160	272,932	997,397
Financial investments	69,561	123,195	56,896	22,275	9,394	51,568	75,186	92,311	500,386
Accrued income and other financial assets	26,601	5,328	4,006	1,503	198	534	200	696	39,066
<b>Financial assets</b>	<b>307,212</b>	<b>217,139</b>	<b>149,267</b>	<b>87,188</b>	<b>68,919</b>	<b>189,308</b>	<b>321,412</b>	<b>396,597</b>	<b>1,737,042</b>
Non-financial assets	-	-	-	-	-	-	-	83,143	83,143
<b>Total assets</b>	<b>307,212</b>	<b>217,139</b>	<b>149,267</b>	<b>87,188</b>	<b>68,919</b>	<b>189,308</b>	<b>321,412</b>	<b>479,740</b>	<b>1,820,185</b>
<b>Liabilities</b>									
Deposits from banks	5,333	-	-	-	-	-	-	-	5,333
Current, savings and other deposit accounts	1,116,818	83,294	19,196	3,592	4,987	566	1,763	-	1,230,216
Repurchase agreements – non-trading	13,391	729	627	1,041	-	804	-	-	16,592
Trading liabilities	44,291	-	-	-	-	-	-	-	44,291
Derivative financial instruments	11,831	12	47	132	31	84	115	-	12,252
Financial liabilities designated at fair value	8,138	9,897	4,432	2,075	2,465	15	-	377	27,399
Certificates of deposit and other debt securities in issue	19,685	22,929	28,009	4,448	6,496	-	-	-	81,567
Subordinated liabilities	-	-	-	-	-	-	11,225	13,259	24,484
Accruals and other financial liabilities	16,972	6,774	3,735	985	363	435	761	265	30,290
<b>Financial liabilities</b>	<b>1,236,459</b>	<b>123,635</b>	<b>56,046</b>	<b>12,273</b>	<b>14,342</b>	<b>1,904</b>	<b>13,864</b>	<b>13,901</b>	<b>1,472,424</b>
Non-financial liabilities	-	-	-	-	-	-	-	163,345	163,345
<b>Total liabilities</b>	<b>1,236,459</b>	<b>123,635</b>	<b>56,046</b>	<b>12,273</b>	<b>14,342</b>	<b>1,904</b>	<b>13,864</b>	<b>177,246</b>	<b>1,635,769</b>

## 22. Cash and balances at central banks

	2022	2021
Cash in hand	8,505	7,230
Balances at central banks	9,104	9,666
	<b>17,609</b>	16,896

## 23. Trading assets

	2022	2021
Treasury bills	17,568	26,004
Other debt securities	29,749	21,388
Debt securities	47,317	47,392
Investment funds/equity shares	43	41
Reverse repurchase agreements	13	–
	<b>47,373</b>	47,433

## 24. Derivative financial instruments

### Use of derivatives

The Group transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge the Group's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Group employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

The following table shows the notional contract amounts and fair value of assets and liabilities by each class of derivatives.

	Notional contract amount			Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total
Foreign exchange	1,166,859	13,920	1,180,779	10,649	1,491	12,140	10,973	12	10,985
Interest rate	697,187	78,127	775,314	9,472	667	10,139	9,231	485	9,716
Equity and other	25,738	–	25,738	482	–	482	291	–	291
<b>At 31 December 2022</b>	<b>1,889,784</b>	<b>92,047</b>	<b>1,981,831</b>	<b>20,603</b>	<b>2,158</b>	<b>22,761</b>	<b>20,495</b>	<b>497</b>	<b>20,992</b>
Foreign exchange	1,108,621	21,949	1,130,570	8,099	1,068	9,167	7,822	148	7,970
Interest rate	609,565	38,128	647,693	3,345	229	3,574	3,293	316	3,609
Equity and other	23,480	–	23,480	483	–	483	673	–	673
At 31 December 2021	1,741,666	60,077	1,801,743	11,927	1,297	13,224	11,788	464	12,252

## 24. 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

Hedged risk	Hedging instrument				
	Carrying amount				
	Notional amount <sup>1</sup>	Assets	Liabilities	Balance sheet presentation	Change in fair value <sup>2</sup>
Interest rate	23,177	579	17	Derivatives	544
<b>At 31 December 2022</b>	<b>23,177</b>	<b>579</b>	<b>17</b>		<b>544</b>
Hedged risk	Hedging instrument				
	Carrying amount				
	Notional amount	Assets	Liabilities	Balance sheet presentation	Change in fair value
Interest rate	34,428	220	309	Derivatives	826
<b>At 31 December 2021</b>	<b>34,428</b>	<b>220</b>	<b>309</b>		<b>826</b>

<sup>1</sup> 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.

<sup>2</sup> Used in effectiveness testing, which uses the full fair value change of the hedging instrument not excluding any component.

## 24. Derivative financial instruments continued

### (a) Fair value hedges continued

Hedged item by hedged risk

Hedged risk	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount			Change in fair value <sup>1</sup>	Recognised in profit and loss	Profit and loss presentation
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation			
Interest rate	22,878	–	(541)	–	Financial investments measured at fair value through other comprehensive income	(550)	(6)	Net income from financial instruments measured at fair value through profit or loss
At 31 December 2022	22,878	–	(541)	–		(550)	(6)	

Hedged risk	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount			Change in fair value <sup>1</sup>	Recognised in profit and loss	Profit and loss presentation
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation			
Interest rate	34,836	–	(27)	–	Financial investments measured at fair value through other comprehensive income	(829)	(3)	Net income from financial instruments measured at fair value through profit or loss
At 31 December 2021	34,836	–	(27)	–		(829)	(3)	

<sup>1</sup> 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.

**24. Derivative financial instruments** *continued*

**(b) Cash flow hedges** *continued*

*Hedging instrument by hedged risk*

Hedged risk	Hedging instrument				Change in fair value <sup>2</sup>	Hedged item Change in fair value <sup>3</sup>	Ineffectiveness	
	Carrying amount						Recognised in profit and loss	Profit and loss presentation
	Notional amount <sup>1</sup>	Assets	Liabilities	Balance sheet presentation				
Foreign currency	13,920	1,491	12	Derivatives	2,783	2,783	–	Net income from financial instruments measured at fair value through profit or loss
Interest rate	54,950	88	468	Derivatives	(570)	(570)	–	Net income from financial instruments measured at fair value through profit or loss
<b>At 31 December 2022</b>	<b>68,870</b>	<b>1,579</b>	<b>480</b>		<b>2,213</b>	<b>2,213</b>	<b>–</b>	

Hedged risk	Hedging instrument				Change in fair value	Hedged item Change in fair value	Ineffectiveness	
	Carrying amount						Recognised in profit and loss	Profit and loss presentation
	Notional amount	Assets	Liabilities	Balance sheet presentation				
Foreign currency	21,949	1,068	148	Derivatives	2,216	2,216	–	Net income from financial instruments measured at fair value through profit or loss
Interest rate	3,700	9	7	Derivatives	(9)	(9)	–	Net income from financial instruments measured at fair value through profit or loss
<b>At 31 December 2021</b>	<b>25,649</b>	<b>1,077</b>	<b>155</b>		<b>2,207</b>	<b>2,207</b>	<b>–</b>	

<sup>1</sup> 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.

<sup>2</sup> Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.

<sup>3</sup> Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.



## 24. 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 2022	(2)	48	46
fair value gains/(losses)	(570)	2,783	2,213
fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss	8	(3,253)	(3,245)
Income taxes	92	78	170
<b>At 31 December 2022</b>	<b>(472)</b>	<b>(344)</b>	<b>(816)</b>
At 1 January 2021	51	209	260
fair value gains/(losses)	(9)	2,216	2,207
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	(55)	(2,409)	(2,464)
Income taxes	11	32	43
At 31 December 2021	(2)	48	46

### (c) Interest Rate Benchmark Reform

At 31 December 2022, HK\$58,610m (2021: HK\$24,447m) of the notional amounts of interest rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the Group but they are expected to be directly affected by market-wide IBOR reform and in scope of Phase 1 amendments. The Group has also designated hedge accounting relationships which involve cross currency swaps, although the amount is not significant.

Risks and governance regarding the impact of the market-wide benchmarks reform is set out in the Management Discussion and Analysis of the 2022 Annual Report.

## 25. Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2022	2021
Debt securities	8	18
Equity shares	4,075	7,422
Investment funds	23,920	22,863
Other	858	1,023
	<b>28,861</b>	<b>31,326</b>

## 26. Placings with and advances to banks

	2022	2021
Balances with banks	8,605	10,078
Placings with and advances to banks maturing within one month	15,458	33,202
Placings with and advances to banks maturing after one month but less than one year	36,785	26,673
Placings with and advances to banks maturing after one year	1,481	2,541
Less: Allowances for expected credit losses	(3)	(1)
	<b>62,326</b>	<b>72,493</b>
of which:		
Placings with and advances to central banks	9,129	7,554

There were no overdue advances, impaired advances and rescheduled advances to banks at 31 December 2022 (2021: Nil).

## 27. Loans and advances to customers

### (a) Loans and advances to customers

	2022	2021
Gross loans and advances to customers	944,728	1,004,325
Less: Allowances for expected credit losses	(13,394)	(6,928)
	<b>931,334</b>	<b>997,397</b>
	%	%
Expected credit losses as a percentage of gross loans and advances to customers	<b>1.42</b>	0.69
	2022	2021
Gross impaired loans and advances	24,212	10,429
	%	%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	<b>2.56</b>	1.04

### (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:

	2022			2021		
	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	322	204	526	376	141	517
– over one year to two years	357	180	537	392	124	516
– over two years to three years	342	173	515	389	125	514
– over three years to four years	345	175	520	372	119	491
– over four years to five years	351	178	529	374	119	493
– after five years	5,532	1,294	6,826	5,839	890	6,729
	<b>7,249</b>	<b>2,204</b>	<b>9,453</b>	7,742	1,518	9,260
Allowances for expected credit losses	(112)			(103)		
Net investments in finance leases and hire purchase contracts	<b>7,137</b>			7,639		

## 28. Financial investments

	2022	2021
Financial investments measured at fair value through other comprehensive income:		
– treasury bills	267,413	225,910
– debt securities	88,645	127,982
– equity shares	4,933	5,267
	<b>360,991</b>	359,159
Debt instruments measured at amortised cost:		
– treasury bills	89,968	2,300
– debt securities	171,751	139,080
Less: Allowances for expected credit losses	(94)	(153)
	<b>261,625</b>	141,227
	<b>622,616</b>	500,386

### Equity instruments measured at fair value through other comprehensive income

	2022	2021
Type of equity instruments		
– business facilitation	4,933	5,267

There was no overdue debt securities at 31 December 2022 (2021: Nil). The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations in 2022 and 2021.

There was no financial investments determined to be impaired at 31 December 2022 (2021: Nil).

## 29. Assets pledged, assets transferred and collateral received

### Assets pledged

#### Financial assets pledged to secure liabilities

	2022	2021
Trading assets and financial investments	64,065	61,451
Amount of liabilities secured	<b>64,296</b>	62,718

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.

## 29. Assets pledged, assets transferred and collateral received continued

### Assets transferred

#### Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2022		2021	
	Carrying amount of		Carrying amount of	
	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
Repurchase agreements	11,724	10,717	13,078	12,374
Securities lending agreements	1,830	–	438	–
	<b>13,554</b>	<b>10,717</b>	<b>13,516</b>	<b>12,374</b>

The financial assets shown above include amounts transferred to third parties that do not qualify for derecognition, notably debt securities held by counterparties as collateral under repurchase agreements and debt securities lent under securities lending agreements. As the substance of these transactions is secured borrowings, the collateral assets continue to be recognised in full and the related liabilities, reflecting the Group's obligation to repurchase the transferred assets for a fixed price at a future date, are also recognised on the balance sheet. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transactions. The Group remains exposed to interest rate risk, credit risk and market risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

### Collateral received

Assets accepted as collateral related primarily to standard securities lending, reverse repurchase agreements and derivative margining. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

### Fair value of collateral accepted as security for assets

	2022	2021
Fair value of collateral permitted to sell or repledge in the absence of default	42,867	18,865
Fair value of collateral actually sold or repledged	589	4,226

## 30. 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 2022. The class of shares held is ordinary.

Name of company	Place of incorporation & operation	Principal activities	Issued equity capital	Percentage of shareholding
Hang Seng Bank (China) Limited <sup>1</sup>	People's Republic of China	Banking	RMB8,317,500,000	100%
Hang Seng Insurance Company Limited	Hong Kong SAR	Retirement benefits and life assurance	HK\$6,426,184,570	100%
Hang Seng Investment Management Limited	Hong Kong SAR	Fund management	HK\$10,000,000	100%
Hang Seng Securities Limited	Hong Kong SAR	Stockbroking	HK\$26,000,000	100%
Yan Nin Development Company Limited	Hong Kong SAR	Investment holding	HK\$100,000	100%
Hang Seng Indexes Company Limited	Hong Kong SAR	Index compilation and licensing	HK\$10,000	100%
High Time Investments Limited	Hong Kong SAR	Investment holding	HK\$2,250,010,000	100%
Hang Seng Qianhai Fund Management Company Limited <sup>2</sup>	People's Republic of China	Fund raising, fund sales and asset management	RMB500,000,000	70%

<sup>1</sup> Represents a wholly foreign owned limited liability company registered under the laws of People's Republic of China.

<sup>2</sup> Represents a foreign-majority-owned contractual joint venture registered under the laws of People's Republic of China.

### 30. 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 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.

### 31. Interest in associates

	2022	2021
Share of net assets	2,256	2,341

The associates are:

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Group's interest in equity capital
<b>Unlisted</b>				
Barrowgate Limited	Hong Kong SAR	Property investment	HK\$10,000	24.64%
GZHS Research Co., Ltd.	People's Republic of China	Conduct market/securities analysis and publish research reports	RMB44,680,000	33.00%

The interests in Barrowgate Limited and GZHS Research Co., Ltd. ('GZHS') are owned by the subsidiaries of the Bank.

The above two associates are accounted for using the equity method in the Consolidated Financial Statements as at 31 December 2022 and 2021.

	Assets	Liabilities	Equity	Revenue	Expenses	Revenue Less Expenses
<b>2022</b>						
100 per cent	10,183	1,028	9,155	115	155	(40)
The Group's effective interest	2,509	253	2,256	28	38	(10)
<b>2021</b>						
100 per cent	10,501	999	9,502	455	164	291
The Group's effective interest	2,587	246	2,341	112	40	72

At 31 December 2022, the investment in associates were tested for impairment by estimating the recoverable amount of the investment based on 'Value in use'. No impairment loss was recognised since the recoverable amount exceeded the carrying amount (2021: Nil).

### 32. Property, plant and equipment

	2022	2021
Premises	24,287	27,281
Plant and equipment <sup>1</sup>	1,832	2,090
Other right of use assets	1,379	1,834
Premises, plant and equipment	27,498	31,205
Investment properties	11,998	9,545
	<b>39,496</b>	<b>40,750</b>

<sup>1</sup> 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
<b>2022</b>				
Cost or valuation:				
At 1 January	27,281	9,545	4,465	41,291
Additions	32	4	351	387
Disposals and write-offs	-	-	(233)	(233)
Elimination of accumulated depreciation on revalued premises	(994)	-	-	(994)
Surplus on revaluation:				
- credited to premises revaluation reserve	690	-	-	690
- debited to income statement	-	(134)	-	(134)
Transfer	(2,682)	2,668	-	(14)
Exchange adjustments and other	(40)	(85)	(308)	(433)
At 31 December	24,287	11,998	4,275	40,560
Accumulated depreciation:				
At 1 January	-	-	(2,375)	(2,375)
Charge for the year (note 12)	(1,008)	-	(452)	(1,460)
Attributable to assets sold or written off	-	-	216	216
Elimination of accumulated depreciation on revalued premises	994	-	-	994
Exchange adjustments and other	14	-	168	182
At 31 December	-	-	(2,443)	(2,443)
Net book value at 31 December	24,287	11,998	1,832	38,117
Representing:				
- measure at cost	-	-	1,832	1,832
- measure at valuation	24,287	11,998	-	36,285
	<b>24,287</b>	<b>11,998</b>	<b>1,832</b>	<b>38,117</b>

## 32. Property, plant and equipment continued

### (a) Movement in owned property, plant and equipment continued

	Premises	Investment properties	Plant and equipment	Total
2021				
Cost or valuation:				
At 1 January	26,898	9,415	3,982	40,295
Additions	46	2	681	729
Disposals and write-offs	-	-	(212)	(212)
Elimination of accumulated depreciation on revalued premises	(1,001)	-	-	(1,001)
Surplus on revaluation:				
- credited to premises revaluation reserve	1,310	-	-	1,310
- credited to income statement	-	125	-	125
Transfer	(3)	3	-	-
Exchange adjustments and other	31	-	14	45
At 31 December	27,281	9,545	4,465	41,291
Accumulated depreciation:				
At 1 January	-	-	(2,038)	(2,038)
Charge for the year (note 12)	(1,001)	-	(491)	(1,492)
Attributable to assets sold or written off	-	-	164	164
Elimination of accumulated depreciation on revalued premises	1,001	-	-	1,001
Exchange adjustments and other	-	-	(10)	(10)
At 31 December	-	-	(2,375)	(2,375)
Net book value at 31 December	27,281	9,545	2,090	38,916
Representing:				
- measure at cost	-	-	2,090	2,090
- measure at valuation	27,281	9,545	-	36,826
	27,281	9,545	2,090	38,916

### (b) Terms of lease

	Premises		Investment properties	
	2022	2021	2022	2021
<b>Leaseholds</b>				
Held in Hong Kong:				
- long leases (over 50 years unexpired)	2,081	2,524	1,093	1,666
- medium leases (10 to 50 years unexpired)	21,271	23,742	10,536	7,504
- short leases (below 10 years unexpired)	-	-	369	375
Held outside Hong Kong:				
- long leases (over 50 years unexpired)	-	-	-	-
- medium leases (10 to 50 years unexpired)	935	1,015	-	-
- short leases (below 10 years unexpired)	-	-	-	-
	24,287	27,281	11,998	9,545

**32. 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:

	2022	2021
Cost less accumulated depreciation at 31 December	<b>5,923</b>	6,699

(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.

	2022	2021
Direct operating expenses arising from investment properties	<b>56</b>	41
Direct operating expenses arising from investment properties that generated rental income	<b>47</b>	38

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2022	2021
Within one year	<b>239</b>	227
One to two years	<b>114</b>	106
Over two years to three years	<b>24</b>	50
	<b>377</b>	383

**(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, at 5 December 2022, and were updated by C&W for any material changes in the valuation as at 31 December 2022. It was confirmed that there was no material change in value since 5 December 2022. The valuations were carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of valuations of premises and investment properties were market value which is consistent with the definition of fair value under HKFRS 13 '*Fair Value Measurement*' and take into account the highest and best use of the property from the perspective of market participants.

**(i) Fair value hierarchy**

The level into which a fair value measurement is classified for properties is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Fair value measured using observable inputs and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3: Fair value measured using significant unobservable inputs.

The resultant values of both investment properties and properties held for own use for the Group were Level 3 in the fair value hierarchy as defined in HKFRS 13 '*Fair Value Measurement*'. During the year ended 31 December 2022, there were no transfers into or out of Level 3 (2021: Nil).

The fair value of tenanted investment properties is determined using Income Approach (also known as Investment Approach) on the basis of capitalisation of net incomes with due allowance for outgoings and reversionary income potential.

The fair values of the majorities of properties owned and occupied by the Group or vacant investment properties in Hong Kong and mainland China are determined using Market Approach (also known as Direct Comparison Approach) assuming sale with immediate vacant possession and by making reference to comparable sales evidence.

For properties with development potentials, their values are on redevelopment basis and reported upon the assessment on the basis that each of these properties will be developed to its full potential and completed to a good standard. The fair values are determined using Market Approach (also known as Direct Comparison Approach) by making reference to comparable sales transactions as available in the relevant market and have also taken into account the development costs that will be expended to complete the development.



## 32. Property, plant and equipment continued

### (e) Fair value measurement of properties continued

#### (i) Fair value hierarchy continued

##### Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Reconciliation of the movement between opening and closing balances of Level 3 properties measured at fair value using a valuation technique with significant unobservable inputs is under note 32(a). 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
<b>2022</b>		
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period		
– other operating income/(loss)	–	(26)
– net surplus/(deficit) on property revaluation	–	(108)
– depreciation of premises, plant and equipment	(1,008)	–
<b>2021</b>		
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)	–	43
– net surplus/(deficit) on property revaluation	–	82
– depreciation of premises, plant and equipment	(1,001)	–

#### (ii) Information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range	
			2022	2021
Investment properties	Income approach (also known as Investment approach)	Market yields (reversionary yield)	2.20% to 4.90%	2.20% to 4.90%
		Market rental	HK\$14.6 to HK\$316 per square foot	HK\$14.9 to HK\$320 per square foot
	Market approach (also known as Direct Comparison approach)	Premium (discount) on characteristic of the properties	-20% to +20%	-20% to +20%
Premises	Market approach (also known as Direct Comparison approach)	Premium (discount) on characteristic of the properties	-20% to +20%	-20% to +20%

The fair value measurement for tenanted investment properties is positively correlated to the market rental but inversely correlated to the market yields. The valuations for premises held for own use or vacant investment properties take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and other factors collectively. Higher premium for properties with better characteristics will result in a higher fair value measurement.

### 33. Intangible assets

	2022	2021
Present value of in-force long-term insurance business	20,620	22,363
Internally developed software	3,485	2,704
Acquired software	80	90
Goodwill	329	329
	<b>24,514</b>	<b>25,486</b>

#### (a) Movement of present value of in-force long-term insurance business ('PVIF')

	2022	2021
At 1 January	22,363	22,551
Movement in present value of in-force long-term insurance business (note 9)	(1,743)	(188)
– Addition from current year new business	2,062	2,332
– Expected return	(1,269)	(1,625)
– Experience variances	710	288
– Changes in operating assumptions	(1,215)	42
– Investment return variances	(57)	(606)
– Changes in investment assumptions	(1,903)	(604)
– Other adjustments	(71)	(15)
At 31 December	<b>20,620</b>	<b>22,363</b>

The key assumptions used in the computation of PVIF are as follows:

	2022	2021
Risk discount rate	7.1%	5.4%
Expenses inflation	3.0%	3.0%
Average lapse rate:		
– 1 <sup>st</sup> year	2.3%	2.6%
– 2 <sup>nd</sup> year onwards	2.4%	3.6%

The sensitivity of PVIF valuation to changes in individual assumptions at the balance sheet dates is shown in the Management Discussion and Analysis.

#### (b) Goodwill

	2022	2021
At 1 January and at 31 December	<b>329</b>	<b>329</b>

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 2022, there was no impairment of goodwill (2021: Nil). Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of cash generating unit based on appraisal value with the carrying amount of its net assets, including attributable goodwill.

The appraisal value comprises HSIC's net assets (other than value of business acquired and goodwill), the PVIF and the expected value of future business as at 31 December 2022. The PVIF is determined by discounting future earnings expected from the current business, taking into account factors such as future mortality, lapse rates, levels of expenses and risk discount rate. The above details are shown in note 33(a) and the Management Discussion and Analysis.

### 33. Intangible assets continued

#### (c) Movement of internally developed application software and acquired software

	2022	2021
Cost:		
At 1 January	4,711	3,277
Additions	1,500	1,417
Amounts written off	(5)	(4)
Exchange and others	(32)	21
At 31 December	6,174	4,711
Accumulated amortisation:		
At 1 January	(1,917)	(1,424)
Charge for the year (note 12)	(702)	(472)
Impairment	(11)	(10)
Amounts written off	5	4
Exchange and others	16	(15)
At 31 December	(2,609)	(1,917)
Net book value at 31 December	3,565	2,794

### 34. Other assets

	2022	2021
Items in the course of collection from other banks	5,598	3,744
Bullion	6,887	8,470
Prepayments and accrued income	5,820	4,732
Acceptances and endorsements	12,799	11,121
Less: Allowances for expected credit losses	(23)	(12)
Reinsurers' share of liabilities under insurance contracts (note 40)	6,020	5,848
Settlement accounts	8,119	13,711
Cash collateral	3,105	2,343
Other accounts	3,970	3,675
	52,295	53,632

Other accounts included 'Assets held for sale' of HK\$217m (2021: HK\$35m).

### 35. Current, savings and other deposit accounts

	2022	2021
Current, savings and other deposit accounts:		
– as stated in Consolidated Balance Sheet	1,249,486	1,230,216
– structured deposits reported as financial liabilities designated at fair value (note 37)	37,138	24,012
	1,286,624	1,254,228
By type:		
– demand and current accounts	103,397	150,127
– savings accounts	656,190	871,281
– time and other deposits	527,037	232,820
	1,286,624	1,254,228

### 36. Trading liabilities

	2022	2021
Short positions in securities	46,323	44,291

### 37. Financial liabilities designated at fair value

	2022	2021
Certificates of deposit in issue (note 38)	6,945	–
Structured deposits (note 35)	37,138	24,012
Other structured debt securities in issue (note 38)	1,893	3,005
Liabilities to customers under investment contracts	333	382
	46,309	27,399

At 31 December 2022, the accumulated loss in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was HK\$9m (2021: accumulated loss HK\$2m).

### 38. Certificates of deposit and other debt securities in issue

	2022	2021
Certificates of deposit and other debt securities in issue:		
– as stated in Consolidated Balance Sheet	93,379	81,567
– certificates of deposit in issue designated at fair value (note 37)	6,945	–
– other structured debt securities in issue reported as financial liabilities designated at fair value (note 37)	1,893	3,005
	102,217	84,572
By type:		
– certificates of deposit in issue	100,324	81,567
– other debt securities in issue	1,893	3,005
	102,217	84,572

### 39. Other liabilities

	2022	2021
Items in the course of transmission to other banks	5,632	6,102
Accruals	6,640	3,762
Acceptances and endorsements	12,799	11,121
Retirement benefit liabilities (note 48(a))	414	339
Settlement accounts	1,400	1,874
Cash collateral	3,766	2,232
Lease liabilities	1,426	1,880
Other	4,662	3,869
	36,739	31,179

## 40. Liabilities under insurance contracts

	Gross	Reinsurers' share <sup>1</sup>	Net
<b>2022</b>			
<b>Non-linked</b>			
At 1 January	154,480	(5,848)	148,632
Claims and benefits paid	(12,553)	633	(11,920)
Increase/(decrease) in liabilities to policyholders	20,007	(770)	19,237
Foreign exchange and other movements	3,602	(35)	3,567
At 31 December	165,536	(6,020)	159,516
<b>Unit-linked</b>			
At 1 January	71	–	71
Claims and benefits paid	(3)	–	(3)
Decrease in liabilities to policyholders	(11)	–	(11)
Foreign exchange and other movements	1	–	1
At 31 December	58	–	58
	<b>165,594</b>	<b>(6,020)</b>	<b>159,574</b>
<b>2021</b>			
<b>Non-linked</b>			
At 1 January	142,611	(5,471)	137,140
Claims and benefits paid	(11,901)	868	(11,033)
Increase/(decrease) in liabilities to policyholders	17,573	(1,229)	16,344
Foreign exchange and other movements	6,197	(16)	6,181
At 31 December	154,480	(5,848)	148,632
<b>Unit-linked</b>			
At 1 January	69	–	69
Claims and benefits paid	(4)	–	(4)
Increase in liabilities to policyholders	6	–	6
At 31 December	71	–	71
	<b>154,551</b>	<b>(5,848)</b>	<b>148,703</b>

<sup>1</sup> Amounts recoverable from reinsurance of liabilities under insurance contracts are included in the Consolidated Balance Sheet in 'Other assets'.

#### 41. Current tax and deferred tax

##### (a) Current tax and deferred tax are represented in the balance sheet:

	2022	2021
Included in 'Other assets':		
Current taxation recoverable	2	9
Deferred tax assets	346	90
	<b>348</b>	<b>99</b>
Current tax liabilities:		
Provision for Hong Kong profits tax	240	580
Provision for taxation outside Hong Kong	149	23
	<b>389</b>	<b>603</b>
Deferred tax liabilities	6,645	7,302
	<b>7,034</b>	<b>7,905</b>

##### (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
<b>At 1 January 2022</b>	<b>711</b>	<b>3,743</b>	<b>(852)</b>	<b>3</b>	<b>9</b>	<b>3,598</b>	<b>7,212</b>
Exchange adjustment and others	2	(8)	25	(3)	–	3	19
Charged/(credited) to income statement (note 17(a))	93	(131)	(412)	–	–	(289)	(739)
Charged/(credited) to reserves	–	118	–	(137)	(170)	(4)	(193)
<b>At 31 December 2022</b>	<b>806</b>	<b>3,722</b>	<b>(1,239)</b>	<b>(137)</b>	<b>(161)</b>	<b>3,308</b>	<b>6,299</b>
At 1 January 2021	546	3,643	(693)	45	51	3,527	7,119
Exchange adjustment and others	(1)	3	1	(1)	1	(1)	2
Charged/(credited) to income statement (note 17(a))	166	(123)	(160)	–	–	13	(104)
Charged/(credited) to reserves	–	220	–	(41)	(43)	59	195
At 31 December 2021	711	3,743	(852)	3	9	3,598	7,212

##### (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\$445m (2021: HK\$474m). Of these amounts, HK\$161m (2021: HK\$187m) have no expiry date and the remaining will expire within 5 years.

There was no other temporary difference for which no deferred tax asset is recognised in the balance sheet as at 31 December 2022 (2021: Nil).

##### (d) Deferred tax liabilities not recognised

There were no deferred tax liabilities not recognised as at 31 December 2022 (2021: Nil).

## 42. Subordinated liabilities

Nominal value	Description	2022	2021
HK\$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027 <sup>1</sup>	5,460	5,460
HK\$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028 <sup>2</sup>	4,680	4,680
HK\$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025 <sup>3</sup>	6,240	6,240
US\$400 million	Floating rate subordinated loan due June 2030, callable from 2029 <sup>4</sup>	3,119	3,119
HK\$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026 <sup>5</sup>	4,988	4,985
HK\$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027 <sup>6</sup>	2,992	–
		<b>27,479</b>	<b>24,484</b>
Representing:			
– measured at amortised cost		<b>27,479</b>	<b>24,484</b>

<sup>1</sup> Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.

<sup>2</sup> Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.

<sup>3</sup> Interest rate at three-month HK dollar HIBOR plus 1.342 per cent per annum, payable quarterly, to the maturity date.

<sup>4</sup> During the year, the interest rate is transited to compounded SOFR plus 2.0478 per cent per annum from previous three-month US dollar LIBOR plus 1.789 per cent per annum upon the interest rate benchmark migration, payable quarterly, to the maturity date.

<sup>5</sup> Interest rate at three-month HK dollar HIBOR plus 1.000 per cent per annum, payable quarterly, to the maturity date.

<sup>6</sup> Interest rate at three-month HK dollar HIBOR plus 1.680 per cent per annum, payable quarterly, to the maturity date.

During the year, the Bank has issued non-capital loss-absorbing capacity debt instrument totalling HK\$3bn which rank higher than additional tier 1 capital instruments in the event of a winding-up (2021: HK\$5bn).

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during 2022 (2021: Nil).

## 43. Share capital

	2022		2021	
	No. of shares	HK\$	No. of shares	HK\$
<b>Ordinary shares, issued and fully paid</b>				
At 1 January and 31 December	<b>1,911,842,736</b>	<b>9,658</b>	1,911,842,736	9,658

## 44. Other equity instruments

Nominal value	Description	2022	2021
US\$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024 <sup>1</sup>	7,044	7,044
US\$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024 <sup>2</sup>	4,700	4,700
		<b>11,744</b>	<b>11,744</b>

<sup>1</sup> Coupon rate is 6.03% and then three-month US dollar LIBOR plus 4.02 per cent from the first call date.

<sup>2</sup> Coupon rate is 6.00% and then three-month US dollar LIBOR plus 4.06 per cent from the first call date.

The additional tier 1 capital instruments, 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.

## 45. Contingent liabilities, contractual commitments and guarantees

### (a) Off-balance sheet contingent liabilities and commitments

	2022	2021
<b>Contingent liabilities and financial guarantee contracts</b>		
Financial guarantees <sup>1</sup>	1,727	2,431
Performance and other guarantees <sup>2</sup>	23,216	26,439
Other contingent liabilities	16	80
	<b>24,959</b>	<b>28,950</b>
<b>Commitments<sup>3</sup></b>		
Documentary credits and short-term trade-related transactions	1,995	3,233
Forward asset purchases and forward deposits placed	11,824	10,633
Undrawn formal standby facilities, credit lines and other commitments to lend	505,019	501,054
	<b>518,838</b>	<b>514,920</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Includes commitments of HK\$357,265m at 31 December 2022 (2021: HK\$365,054m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements.

It also reflects the Group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures from guarantees are captured and managed in accordance with the Group's overall credit risk management policies and procedures. Guarantees are subject to an annual credit review process.

### (b) Contingencies

There is no material litigation expected to result in a significant adverse effect on the financial position of the Group, either collectively or individually. Management believes that adequate provisions have been made in respect of such litigation.

## 46. Other commitments

### Capital commitments

At 31 December 2022, capital commitments, mainly related to the commitment for renovation of branches and offices, were HK\$270m (2021: HK\$868m).



## 47. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

The 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar arrangements, cash and non-cash collaterals has been received and pledged.

	Amounts subject to enforceable netting arrangements								Balance sheet total
	Effects of offsetting in the balance sheet			Amounts not set off in the balance sheet				Amounts not subject to enforceable netting arrangements <sup>1</sup>	
	Gross amounts	Amounts offset	Net Amounts reported in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount		
<b>Financial assets<sup>2</sup></b>									
Derivatives	19,816	–	19,816	(9,537)	(256)	(3,405)	6,618	2,945	22,761
Reverse repos, stock borrowing and similar agreements classified as:	40,704	–	40,704	–	(40,691)	–	13	1,673	42,377
– trading assets	13	–	13	–	–	–	13	–	13
– non-trading assets	40,691	–	40,691	–	(40,691)	–	–	1,673	42,364
Other assets	1,325	(892)	433	–	–	–	433	–	433
<b>At 31 December 2022</b>	<b>61,845</b>	<b>(892)</b>	<b>60,953</b>	<b>(9,537)</b>	<b>(40,947)</b>	<b>(3,405)</b>	<b>7,064</b>	<b>4,618</b>	<b>65,571<sup>2</sup></b>
Derivatives	11,098	–	11,098	(6,822)	(314)	(2,138)	1,824	2,126	13,224
Reverse repos, stock borrowing and similar agreements classified as:	17,495	–	17,495	–	(17,436)	(59)	–	1,326	18,821
– trading assets	–	–	–	–	–	–	–	–	–
– non-trading assets	17,495	–	17,495	–	(17,436)	(59)	–	1,326	18,821
Other assets	1,647	(1,054)	593	–	–	–	593	–	593
At 31 December 2021	30,240	(1,054)	29,186	(6,822)	(17,750)	(2,197)	2,417	3,452	32,638 <sup>2</sup>
<b>Financial liabilities<sup>3</sup></b>									
Derivatives	17,954	–	17,954	(9,537)	(321)	(2,511)	5,585	3,038	20,992
Repos, stock lending and similar agreements classified as:	5,548	–	5,548	–	(5,399)	(149)	–	5,756	11,304
– trading liabilities	–	–	–	–	–	–	–	–	–
– non-trading liabilities	5,548	–	5,548	–	(5,399)	(149)	–	5,756	11,304
Other liabilities	1,233	(892)	341	–	–	–	341	–	341
<b>At 31 December 2022</b>	<b>24,735</b>	<b>(892)</b>	<b>23,843</b>	<b>(9,537)</b>	<b>(5,720)</b>	<b>(2,660)</b>	<b>5,926</b>	<b>8,794</b>	<b>32,637<sup>3</sup></b>
Derivatives	10,256	–	10,256	(6,822)	(396)	(2,077)	961	1,996	12,252
Repos, stock lending and similar agreements classified as:	8,631	–	8,631	–	(8,631)	–	–	7,961	16,592
– trading liabilities	–	–	–	–	–	–	–	–	–
– non-trading liabilities	8,631	–	8,631	–	(8,631)	–	–	7,961	16,592
Other liabilities	1,309	(1,054)	255	–	–	–	255	–	255
At 31 December 2021	20,196	(1,054)	19,142	(6,822)	(9,027)	(2,077)	1,216	9,957	29,099 <sup>3</sup>

<sup>1</sup> 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.

<sup>2</sup> Amounts presented in the balance sheet included balances due from HSBC entities of HK\$11,113m (2021: HK\$4,018m).

<sup>3</sup> Amounts presented in the balance sheet included balances due to HSBC entities of HK\$11,371m (2021: HK\$5,770m).

## 48. 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 15 per cent of the Group's employees. HSBDBS was closed to new entrants with effect from 1 April 1999. Since the defined benefit section of the HSBDBS is a final salary lump sum scheme, its exposure to longevity risk and interest rate risk is limited.

HSBDBS is registered under Occupational Retirement Schemes Ordinance (Cap. 426 of the law of Hong Kong) ('the Ordinance'). The trustee assumes the overall responsibility for the HSBDBS but a management committee has also been established to broaden the governance. Its assets are held separately from the assets of the Group. The trustees are required by the Trust Deed to act in the best interest of the scheme participants.

HSBDBS is predominantly a funded scheme with assets which are held in trust funds separate from the Group. The actuarial funding valuation of the HSBDBS is reviewed at least on a triennial basis in accordance with local regulations. The actuarial assumptions used to conduct the actuarial funding valuation of the HSBDBS vary according to the economic conditions.

The investment strategy of the HSBDBS is to invest in a diversified portfolio of assets, both equities and bonds, with low investment and liquidity risk. The assets of the Scheme will be diversified across the different asset classes to reflect the liabilities and performance objectives of the Scheme. The Strategic Asset Allocation percentages for the asset types are as follows: Bonds (0 – 62%) and equity/alternative credit funds (0 – 38%).

### (i) Cumulative actuarial gains/(losses) recognised in other comprehensive income in respect of defined benefit scheme

	2022	2021
At 1 January	(857)	(1,209)
Actuarial gains/(losses) recognised in other comprehensive income	(18)	352
<b>At 31 December</b>	<b>(875)</b>	<b>(857)</b>

### (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
<b>At 1 January 2022</b>	<b>4,361</b>	<b>(4,700)</b>	<b>(339)</b>
Current service cost (note 12)	–	(138)	(138)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 12)	53	(56)	(3)
Remeasurement effects recognised in other comprehensive income	(404)	386	(18)
– Actuarial gains/(losses) from changes in demographic assumptions	–	(2)	(2)
– Actuarial gains/(losses) from changes in financial assumptions	–	481	481
– Actuarial gains/(losses) from experience	(404)	(93)	(497)
Contributions by the Group	92	–	92
Benefits paid	(589)	589	–
Others	–	–	–
Administrative costs and taxes paid by scheme (note 12)	–	(8)	(8)
<b>At 31 December 2022</b>	<b>3,513</b>	<b>(3,927)</b>	<b>(414)</b>
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 39)	3,513	(3,927)	(414)
Present value of defined benefit obligation relating to:			
– Actives		(3,823)	
– Pensioners		(104)	

The Group expects to make HK\$90m of contributions to defined benefit scheme during 2023 (2021: expected contributions for 2022 was HK\$98m).

## 48. 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 2021	4,679	(5,302)	(623)
Current service cost (note 12)	–	(158)	(158)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 12)	20	(23)	(3)
Remeasurement effects recognised in other comprehensive income	228	124	352
– Actuarial gains/(losses) from changes in demographic assumptions	–	66	66
– Actuarial gains/(losses) from changes in financial assumptions	–	–	–
– Actuarial gains/(losses) from experience	228	58	286
Contributions by the Group	101	–	101
Benefits paid	(659)	659	–
Others	–	–	–
Administrative costs and taxes paid by scheme (note 12)	(8)	–	(8)
At 31 December 2021	4,361	(4,700)	(339)
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 39)	4,361	(4,700)	(339)
Present value of defined benefit obligation relating to:			
– Actives		(4,576)	
– Pensioners		(124)	

#### (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:

	2023	2024	2025	2026	2027	2028-2032
HSBDBS	367	443	447	396	475	2,066

The duration of the HSBDBS is 5.4 years (2021: 6.0 years) under the disclosure assumptions adopted.

#### (iv) Fair value of scheme assets by asset classes

	2022			2021		
	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group
Fair value of scheme assets						
– Index ETFs/Funds	1,367	1,367	–	1,575	1,575	–
– Bonds	2,106	2,106	–	2,652	2,652	–
– Other*	40	40	20	134	134	40
	3,513	3,513	20	4,361	4,361	40

\* Other mainly consists of cash and deposits.

**48. 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 assets held separately from those of the Group. The latest annual actuarial valuation at 31 December 2022 was performed by Mandy Chan, Fellow of the Society of Actuaries of the United States, of Mercer (Hong Kong) Limited, using the Attained Age Method.

The Ordinance requires that registered retirement benefit schemes shall at all time be fully funded to meet its aggregate vested liability (i.e. on a wind-up basis) in accordance with the recommendations contained in an actuarial certificate supplied under the Ordinance. Any shortfall must be made up within the specified time under the Ordinance. Any deficits to meet the aggregate past service liability (i.e. on an on-going basis) can however be eliminated over a period of time in accordance with the funding recommendations of an actuary.

On an on-going basis, the value of the scheme assets of HSBDBS represented 95 per cent (2021: 103 per cent) of the benefits accrued to scheme members, after allowing for expected future increases in salaries, and the resulting deficits amounted to HK\$193m (surplus in 2021: HK\$130m). On a wind-up basis, the actuarial value of the HSBDBS assets represented 95 per cent (2021: 112 per cent) of the members' vested benefits, based on salaries at that date, and the resulting deficits amounted to HK\$189m (surplus in 2021: HK\$474m).

The determinations for actuarial funding valuation purposes are based on different methods and assumptions from those used for financial reporting purposes, and as a result should neither be compared nor related to other determinations included in these financial statements.

The present value of the scheme's obligation was a final lump sum salary and payment of HK\$3,927m (2021: HK\$4,700m). 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*

	2022	2021
	%	%
Discount rate	3.40	1.25
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	
	2022	2021
Discount rate		
– change in retirement benefit obligation at year end from a 25bps increase	(50)	(69)
– change in retirement benefit obligation at year end from a 25bps decrease	51	71
Rate of salary increase		
– change in retirement benefit obligation at year end from a 25bps increase	56	74
– change in retirement benefit obligation at year end from a 25bps decrease	(55)	(73)

## 48. 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:

	2022	2021
Amounts charged to the income statement (note 12)	355	331

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 (2021: HK\$0.03m).

## 49. 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	<ul style="list-style-type: none"><li>- Vesting of awards generally subject to continued employment with the Group</li><li>- Vesting often staggered over a period ranging from three to seven years</li><li>- Vested shares may be subject to a retention requirement post-vesting</li><li>- Awards are generally subject to the rules of Share Plan and any performance conditions</li><li>- Awards granted from 2010 onwards are subject to a malus provision prior to vesting</li><li>- Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post-vesting</li></ul>
International Employee Share Purchase Plan ('Sharematch')	<ul style="list-style-type: none"><li>- The plan was introduced in 2013</li><li>- Shares are purchased in the market each quarter up to a maximum of GBP750, or the equivalent in local currency</li><li>- Matching shares are added at a ratio of one free share for every three purchased</li><li>- Matching awards vest subject to continued employment and retention of the purchased shares for a maximum period of two years and nine months.</li></ul>

**49. Share-based payments** *continued*

**(a) HSBC share awards**

	2022 Number ('000)	2021 Number ('000)
Outstanding at 1 January	1,506	1,378
Additions during the year	917	962
Less: Released/lapsed in the year	(1,079)	(834)
Outstanding at 31 December	<b>1,344</b>	1,506

The closing price of the HSBC Holdings plc share at 31 December 2022 was £5.16 (2021: £4.49).

The weighted average remaining vesting period as at 31 December 2022 was 1.13 years (2021: 0.96 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**

	2022	2021
Equity-settled share-based payments	31	34
Cash-settled share-based payments	4	2
Income statement charge for restricted share awards (note 12)	<b>35</b>	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.

## 50. Material related-party transactions

### (a) Immediate holding company and its subsidiaries and fellow subsidiaries

The Group entered into transactions with its immediate holding company and its subsidiaries as well as its fellow subsidiaries in the ordinary course of business, mainly including lending activities, the acceptance and placement of interbank deposits, correspondent banking transactions, off-balance sheet transactions and the provision of other banking and financial services. The activities were on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The Group used the IT service of, and shared an automated teller machine network with, its immediate holding company. The Group also shares the costs of certain IT projects with and used certain processing services of fellow subsidiaries.

The Group maintained a staff retirement benefit scheme for which a fellow subsidiary company acts as trustee and custodian and the Group's immediate holding company acts as administrator.

Fellow subsidiaries were appointed as fund managers to manage the Group's life insurance investment portfolios. There was an arrangement whereby a fellow subsidiary provided certain management services to the Group's insurance subsidiary. These transactions and services were on substantially the same terms as for comparable transactions with third-party counterparties.

The Bank acted as agent for promoting Mandatory Provident Fund products administered by its immediate holding company and distributed retail investment funds for a fellow subsidiary company.

During 2022, the Bank has paid coupons on AT1 capital instruments of HK\$710m to its immediate holding company (2021: HK\$703m).

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 and its subsidiaries		Fellow subsidiaries	
	2022	2021 (restated) <sup>1</sup>	2022	2021
Interest income	193	87	144	61
Interest expense	(1,901)	(522)	–	–
Other operating income/(expenses)	92	120	(42)	(37)
Operating expenses*	(1,173)	(1,105)	(3,533)	(2,921)
<b>Amounts due from:</b>				
Reverse repurchase agreements – non-trading	1,868	1,094	–	–
Placings with and advances to banks	10,506	20,196	4,766	7,334
Derivative financial instruments	9,183	2,770	62	154
Other assets	7,093	10,343	643	874
	<b>28,650</b>	<b>34,403</b>	<b>5,471</b>	<b>8,362</b>
<b>Amounts due to:</b>				
Current, savings and other deposit accounts	2,011	2,018	–	–
Deposits from banks	498	304	–	94
Repurchase agreements – non-trading	3,624	2,471	–	–
Derivative financial instruments	7,630	2,920	117	379
Certificates of deposit and other debt securities in issue <sup>1</sup>	68,002	65,000	–	–
Subordinated liabilities	27,479	24,484	–	–
Other liabilities	2,196	587	528	422
	<b>111,440</b>	<b>97,784</b>	<b>645</b>	<b>895</b>
<b>Derivative contracts:</b>				
Contract amount	585,027	450,551	12,204	28,095
Guarantees	392	392	–	–
Commitments	800	3,763	–	–

\* Representing the operating expenses paid to immediate holding company and its subsidiaries and fellow subsidiaries, of which HK\$1,207m was capitalised as intangible assets in the Group's consolidated balance sheet (2021: HK\$1,046m).

<sup>1</sup> The comparative figure has been restated to include certain balances which was previously classified as balances with third parties.

**50. Material related-party transactions** continued

**(b) Key management personnel remuneration**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and Bank. It includes members of the Board of Directors and Executive Committee of the Bank. During the year, the members of the Bank's Executive Committee has increased from 16 to 20. 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:

	2022	2021
Salaries, allowances and benefits in kind	70	68
Retirement scheme contributions	6	5
Variable bonuses		
– Cash bonus	21	20
– Share-based payment	16	14
	<b>113</b>	<b>107</b>

**(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:

	2022	2021
<b>For the year</b>		
Interest income	886	445
Interest expense	20	35
Fees and commission income	8	9
Maximum aggregate amount of loans and advances	56,894	60,112
<b>At the year-end</b>		
Loans and advances	40,764	47,031
Deposits	8,655	9,197
Guarantees issued	339	526
Undrawn commitments	2,614	4,589

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.



## 50. Material related-party transactions continued

### (d) Loans to Directors

Particulars of loans to directors disclosed pursuant to section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulations for the year ended 31 December 2022 are shown as below.

	2022		2021	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
– Loans and advances	15,460	9,999	17,392	13,751
– Guarantees issued	8	3	305	205

The above relevant transactions in 2022 and 2021 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:

	2022		2021	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
Amounts due from associates <sup>#</sup>	9,184	8,093	7,465	7,465
Amounts due to associates <sup>#</sup>	1,762	876	4,238	106

#### For the year

	2022	2021
Total operating income	141	16

<sup>#</sup> Representing associates in HSBC Group

The disclosure of the year-end balance and the highest amounts outstanding during the year is considered to be the most meaningful information to represent the amount of transactions and outstanding balances during the year.

The transactions resulting in outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

### (g) Ultimate holding company

The Group participates in various share option and share plans operated by HSBC Holdings plc whereby share options or shares of HSBC Holdings plc are granted to employees of the Group. As disclosed in note 49, 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 2022 amounted to HK\$684m comprising HK\$668m relating to share option schemes and HK\$16m relating to share award schemes (2021: HK\$679m comprising HK\$668m relating to share option schemes and HK\$11m relating to share award schemes).

## 51. 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 the appropriate IBOR-based or risk free rate-based 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.

## 51. Fair value of financial instruments continued

### (a) Fair value of financial instruments carried at fair value continued

The accounting policies, control framework and hierarchy used to determine fair values in 2022 are consistent with those applied for the Annual Report 2021. The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy			Third party total	Amounts with HSBC entities*	Total
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3			
<b>Recurring fair value measurements</b>						
<b>2022</b>						
<b>Assets</b>						
Trading assets	41,117	6,256	–	47,373	–	47,373
Derivative financial instruments	258	13,254	4	13,516	9,245	22,761
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	6,993	1,588	20,280	28,861	–	28,861
Financial investments	296,176	63,182	1,633	360,991	–	360,991
<b>Liabilities</b>						
Trading liabilities	46,323	–	–	46,323	–	46,323
Derivative financial instruments	10	13,231	4	13,245	7,747	20,992
Financial liabilities designated at fair value	–	24,287	22,022	46,309	–	46,309
<b>2021</b>						
<b>Assets</b>						
Trading assets	43,574	3,859	–	47,433	–	47,433
Derivative financial instruments	244	10,039	17	10,300	2,924	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	10,481	5,774	15,071	31,326	–	31,326
Financial investments	287,573	70,217	1,369	359,159	–	359,159
<b>Liabilities</b>						
Trading liabilities	44,291	–	–	44,291	–	44,291
Derivative financial instruments	17	8,936	–	8,953	3,299	12,252
Financial liabilities designated at fair value	–	21,376	6,023	27,399	–	27,399

\* 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 designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
<b>2022</b>							
Transfer from Level 1 to Level 2	9,922	310	–	–	–	–	–
Transfer from Level 2 to Level 1	19,467	866	–	–	–	–	–
<b>2021</b>							
Transfer from Level 1 to Level 2	17,130	1,207	–	–	–	–	–
Transfer from Level 2 to Level 1	6,011	481	–	–	–	–	–

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarter. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

## 51. 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.

## 51. 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	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Financial liabilities designated at fair value	Derivatives
<b>2022</b>					
Investment funds and equity shares	1,633	20,280	–	–	–
Structured notes	–	–	–	22,022	–
Derivatives	–	–	4	–	4
	<b>1,633</b>	<b>20,280</b>	<b>4</b>	<b>22,022</b>	<b>4</b>
<b>2021</b>					
Investment funds and equity shares	1,369	15,071	–	–	–
Structured notes	–	–	–	6,023	–
Derivatives	–	–	17	–	–
	<b>1,369</b>	<b>15,071</b>	<b>17</b>	<b>6,023</b>	<b>–</b>

**51. 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	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Financial liabilities designated at fair value	Derivatives
<b>At 1 January 2022</b>	<b>1,369</b>	<b>15,071</b>	<b>17</b>	<b>6,023</b>	<b>-</b>
Total gains or losses recognised in profit or loss					
- net income/(loss) from financial instruments measured at fair value through profit or loss	-	491	(14)	56	4
Total gains or losses recognised in other comprehensive income					
- fair value gains	264	-	-	-	-
- exchange differences	-	-	-	(237)	-
Purchases	-	5,540	-	-	-
Issues/deposit taking	-	-	-	37,085	-
Sales	-	(1)	-	-	-
Settlements	-	(821)	-	(20,848)	-
Transfers out	-	-	-	(115)	-
Transfers in	-	-	1	58	-
<b>At 31 December 2022</b>	<b>1,633</b>	<b>20,280</b>	<b>4</b>	<b>22,022</b>	<b>4</b>
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period					
- net income/(loss) from financial instruments measured at fair value through profit or loss	-	49	2	(52)	2

## 51. Fair value of financial instruments continued

### (a) Fair value of financial instruments carried at fair value continued

#### Movement in Level 3 financial instruments continued

	Assets			Liabilities	
	Financial Investments	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Financial liabilities designated at fair value	Derivatives
At 1 January 2021	2,907	8,933	3	5,702	–
Total gains or losses recognised in profit or loss					
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	2,923	(1)	(2)	3
Total gains or losses recognised in other comprehensive income					
– fair value losses	(1,538)	–	–	(2)	–
– exchange differences	–	–	–	93	–
Purchases	–	4,922	–	–	–
Issues/deposit taking	–	–	–	12,155	–
Settlements	–	(1,707)	–	(12,198)	–
Transfers out	–	–	–	(152)	(3)
Transfers in	–	–	15	427	–
At 31 December 2021	1,369	15,071	17	6,023	–
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period					
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	2,923	(1)	(12)	(1)

In 2022, the transfer in/out of Level 3 derivative assets and liabilities were predominantly resulted from change in observability in equity volatilities and stock correlation. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatility for pricing the instrument.

**51. Fair value of financial instruments** continued

**(a) Fair value of financial instruments carried at fair value** continued

*Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type*

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
<b>2022</b>				
Investment funds and equity shares	1,015	(1,015)	82	(82)
<b>2021</b>				
Investment funds and equity shares	754	(754)	68	(68)

When the fair value of a financial instrument is affected by more than one unobservable assumptions, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

*Quantitative information about significant unobservable inputs in Level 3 valuations*

	Fair value at 31 December 2022	Valuation technique(s)	Unobservable input(s)	Range
<b>Assets</b>				
Investment funds and equity shares	21,913	Net asset value	N/A	N/A
		Market-comparable approach	Earnings Multiple	31 – 34
			P/B ratios	0.26 – 1.30
			Liquidity Discount	10% – 60%
Derivatives	4	Option model	Equity Volatility	58.89% – 58.89%
<b>Liabilities</b>				
Structured notes	22,022	Option model	Equity Volatility	2.14% – 92.18%
			FX Volatility	3.81% – 14.13%
Derivatives	4	Option model	Equity Volatility	58.89% – 58.89%
	Fair value at 31 December 2021	Valuation technique(s)	Unobservable input(s)	Range
<b>Assets</b>				
Investment funds and equity shares	16,440	Net asset value	N/A	N/A
		Market-comparable approach	Earnings Multiple	42 – 47
			P/B ratios	0.29 – 1.91
			Liquidity Discount	10% – 60%
Derivatives	17	Option model	Equity Volatility	22.89% – 56.99%
<b>Liabilities</b>				
Structured notes	6,023	Option model	Equity Volatility	7.08% – 32.46%
			FX Volatility	2.72% – 19.69%



## 51. 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
<b>2022</b>					
<b>Financial Assets</b>					
Reverse repurchase agreements – non-trading	42,364	–	42,360	–	42,360
Placings with and advances to banks	62,326	–	62,327	–	62,327
Loans and advances to customers	931,334	–	–	926,376	926,376
Financial investments – at amortised cost	261,625	116,605	125,936	–	242,541
<b>Financial Liabilities</b>					
Deposits from banks	5,205	–	5,205	–	5,205
Current, savings and other deposit accounts	1,249,486	–	1,249,574	–	1,249,574
Repurchase agreements – non-trading	11,304	–	11,304	–	11,304
Certificates of deposit and other debt securities in issue	93,379	–	93,390	–	93,390
Subordinated liabilities	27,479	–	27,053	–	27,053
<b>2021</b>					
<b>Financial Assets</b>					
Reverse repurchase agreements – non-trading	18,821	–	18,820	–	18,820
Placings with and advances to banks	72,493	–	72,505	–	72,505
Loans and advances to customers	997,397	–	–	994,164	994,164
Financial investments – at amortised cost	141,227	20,168	127,852	–	148,020
<b>Financial Liabilities</b>					
Deposits from banks	5,333	–	5,333	–	5,333
Current, savings and other deposit accounts	1,230,216	–	1,230,279	–	1,230,279
Repurchase agreements – non-trading	16,592	–	16,591	–	16,591
Certificates of deposit and other debt securities in issue	81,567	–	81,588	–	81,588
Subordinated liabilities	24,484	–	25,148	–	25,148

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.

### 51. 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.

### 52. 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 2022, the total asset value of unconsolidated structured entities amounted to HK\$5,146.8bn (2021: HK\$1,914.3bn). The Group's interests were recognised in financial assets mandatorily measured at fair value through profit or loss of HK\$23,920m and trading assets of HK\$43m (2021: financial assets mandatorily measured at fair value through profit or loss of HK\$22,863m and trading assets of HK\$41m). 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\$11,824m (2021: HK\$7,671m) to invest in several alternative investment funds for funding future alternative investments in global companies under respective investment mandates.

### 53. 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.

## 54. Bank balance sheet and statement of changes in equity

### Bank balance sheet at 31 December

	2022	2021
<b>ASSETS</b>		
Cash and balances at central banks	17,595	13,339
Trading assets	44,006	46,324
Derivative financial instruments	19,786	10,891
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	77	77
Reverse repurchase agreements – non-trading	42,364	18,821
Placings with and advances to banks	49,112	51,299
Loans and advances to customers	852,555	908,267
Amounts due from subsidiaries	15,070	46,177
Financial investments	446,223	330,121
Investments in subsidiaries	19,929	20,166
Investment properties	4,262	4,058
Premises, plant and equipment	23,965	25,111
Intangible assets	3,345	2,616
Other assets	29,869	33,178
<b>Total assets</b>	<b>1,568,158</b>	<b>1,510,445</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposits from banks	4,244	1,160
Current, savings and other deposit accounts	1,192,590	1,163,170
Repurchase agreements – non-trading	3,032	6,160
Trading liabilities	46,323	44,291
Derivative financial instruments	17,945	10,083
Financial liabilities designated at fair value	23,246	4,335
Certificates of deposit and other debt securities in issue	78,027	69,255
Amounts due to subsidiaries	5,906	20,882
Other liabilities	22,159	19,378
Current tax liabilities	214	155
Deferred tax liabilities	2,407	2,788
Subordinated liabilities	27,479	24,484
<b>Total liabilities</b>	<b>1,423,572</b>	<b>1,366,141</b>
<b>Equity</b>		
Share capital	9,658	9,658
Retained profits	107,065	105,140
Other equity instruments	11,744	11,744
Other reserves	16,119	17,762
Shareholders' equity	144,586	144,304
<b>Total equity and liabilities</b>	<b>1,568,158</b>	<b>1,510,445</b>

**Diana Cesar** *Executive Director and Chief Executive*

**Clement K M Kwok** *Director*

**Say Pin Saw** *Executive Director and Chief Financial Officer*

**54. Bank balance sheet and statement of changes in equity** continued

**Bank statement of changes in equity for the year ended 31 December**

	Share capital	Other equity instruments	Retained profits <sup>1</sup>	Other reserves					Total equity
				Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others <sup>2</sup>	
<b>At 1 January 2022</b>	<b>9,658</b>	<b>11,744</b>	<b>105,140</b>	<b>14,651</b>	<b>2,371</b>	<b>46</b>	<b>17</b>	<b>677</b>	<b>144,304</b>
Profit for the year	-	-	9,597	-	-	-	-	-	9,597
Other comprehensive income (net of tax)	-	-	(17)	513	(788)	(862)	1	(5)	(1,158)
Debt instruments at fair value through other comprehensive income	-	-	-	-	(678)	-	-	-	(678)
Equity instruments designated at fair value through other comprehensive income	-	-	-	-	(110)	-	-	-	(110)
Cash flow hedges	-	-	-	-	-	(862)	-	-	(862)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	-	-	-	-	-	-	-	(5)	(5)
Property revaluation	-	-	-	513	-	-	-	-	513
Actuarial gains on defined benefit plans	-	-	(15)	-	-	-	-	-	(15)
Exchange differences and others	-	-	(2)	-	-	-	1	-	(1)
Total comprehensive income for the year	-	-	9,580	513	(788)	(862)	1	(5)	8,439
Dividends paid <sup>3</sup>	-	-	(7,455)	-	-	-	-	-	(7,455)
Coupons paid on AT1 capital instruments	-	-	(710)	-	-	-	-	-	(710)
Movement in respect of share-based payment arrangements	-	-	5	-	-	-	-	5	10
Others	-	-	(2)	-	-	-	-	-	(2)
Transfers <sup>4</sup>	-	-	507	(552)	45	-	-	-	-
<b>At 31 December 2022</b>	<b>9,658</b>	<b>11,744</b>	<b>107,065</b>	<b>14,612</b>	<b>1,628</b>	<b>(816)</b>	<b>18</b>	<b>677</b>	<b>144,586</b>

<sup>1</sup> 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 2022, the Group is not required to restrict any reserves which can be distributed to shareholders (2021: HK\$363m) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the expected regulatory reserve balance.

<sup>2</sup> 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.

<sup>3</sup> Dividends paid in 2022 represented the payment of fourth interim dividend of 2021 and the first three interim dividends of 2022 amounted to HK\$3,441m and HK\$4,014m respectively.

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

## 54. Bank balance sheet and statement of changes in equity continued

### Bank statement of changes in equity for the year ended 31 December continued

	Share capital	Other equity instruments	Retained profits <sup>1</sup>	Other reserves					Total equity
				Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others <sup>2</sup>	
At 1 January 2021	9,658	11,744	106,200	14,277	4,311	260	17	686	147,153
Profit for the year	-	-	10,488	-	-	-	-	-	10,488
Other comprehensive income (net of tax)	-	-	290	898	(1,940)	(214)	-	-	(966)
Debt instruments at fair value through other comprehensive income	-	-	-	-	(378)	-	-	-	(378)
Equity instruments designated at fair value through other comprehensive income	-	-	-	-	(1,560)	-	-	-	(1,560)
Cash flow hedges	-	-	-	-	-	(214)	-	-	(214)
Property revaluation	-	-	-	898	-	-	-	-	898
Actuarial gains on defined benefit plans	-	-	294	-	-	-	-	-	294
Exchange differences and others	-	-	(4)	-	(2)	-	-	-	(6)
Total comprehensive income for the year	-	-	10,778	898	(1,940)	(214)	-	-	9,522
Dividends paid	-	-	(11,662)	-	-	-	-	-	(11,662)
Coupons paid on AT1 capital instruments	-	-	(703)	-	-	-	-	-	(703)
Movement in respect of share-based payment arrangements	-	-	3	-	-	-	-	(9)	(6)
Transfers	-	-	524	(524)	-	-	-	-	-
At 31 December 2021	9,658	11,744	105,140	14,651	2,371	46	17	677	144,304

<sup>1</sup> 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 2022, the Group is not required to restrict any reserves which can be distributed to shareholders (2021: HK\$363m) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the expected regulatory reserve balance.

<sup>2</sup> 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.

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 2022, 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\$101,000m (2021: HK\$99,320m). After considering regulatory capital requirement and business development needs, an amount of HK\$3,824m (2021: HK\$3,441m) has been declared as the proposed fourth interim dividend in respect of the financial year ended 31 December 2022. The difference between the aggregate distributable reserves of HK\$101,000m and the Bank's retained profit of HK\$107,065m as reported above mainly represents the exclusion of unrealised revaluation gain on investment properties and the regulatory reserve of the Bank.

## 55. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 21 February 2023.