FINANCIAL REVIEW

Financial Performance

Income Analysis

Summary of financial performance

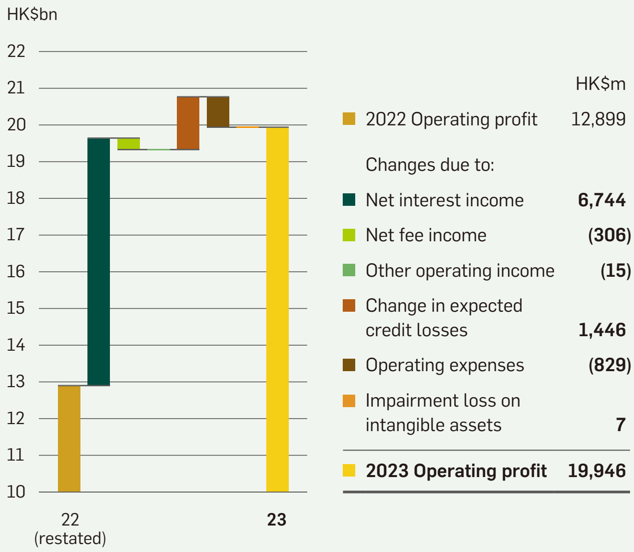
Figures in HK$m	2023	2022 (restated)
Net operating income before change in expected credit losses and other credit impairment charges	**40,822**	34,399
Operating expenses	**14,624**	13,795
Operating profit	**19,946**	12,899
Profit before tax	**20,105**	12,781
Profit attributable to shareholders	**17,848**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

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

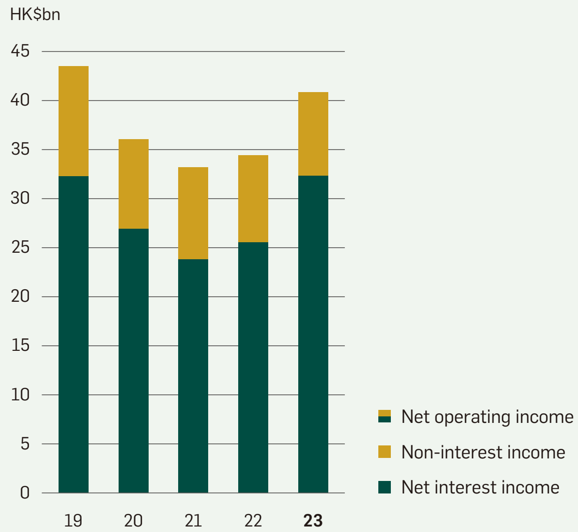
The Group adopted HKFRS 17 *'Insurance Contracts'* on 1 January 2023. The impact of the change on comparative figures previously published under HKFRS 4 *'Insurance Contracts'* is set out in the 'Additional Information' section of the press release.

Net operating income before change in expected credit losses and other credit impairment charges was HK$40,822m, up 19%. Net interest income rose by 26% as a result of higher market interest rates, more than offsetting the decline in the loan portfolio. This rise was partly offset by a 4% decrease in non-interest income, mainly due to lower securities broking-related income reflecting reduced stock turnover volumes and higher credit card fee expenses to support card business expansion. Operating expenses increased by 6% compared with 2022, mainly due to increases in data processing and administrative services fees, coupled with technology investments to support

Operating Profit Analysis



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



Financial results of 2023 and 2022 are prepared on HKFRS 17 basis and that of 2019/2020/2021 are prepared on HKFRS 4 basis and are not comparable.

innovation and operational efficiency. The change in ECL decreased by HK$1,446m to HK$6,248m, reflecting the net release of HK$1,071m for Stage 1 and Stage 2 exposure in 2023 compared with net charges of HK$1,350m in 2022, offset by higher ECL charges for wholesale Stage 3 customers. **Operating profit** increased by 55% to HK$19,946m. **Profit before tax** rose by 57% to HK$20,105m and **profit attributable to shareholders** was up by 58% at HK$17,848m.

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

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

Figures in HK$m	2023	2022 (restated)
Interest income arising from:		
– financial assets measured at amortised cost	**48,879**	30,650
– financial assets measured at fair value through other comprehensive income	**10,560**	4,132
	59,439	34,782
Interest expense arising from financial liabilities measured at amortised cost	**(27,144)**	(9,231)
Net interest income	**32,295**	25,551
Average interest-earning assets	**1,406,183**	1,462,548
Net interest spread	**1.89%**	1.62%
Net interest margin	**2.30%**	1.75%

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

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

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

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

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

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

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

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

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

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

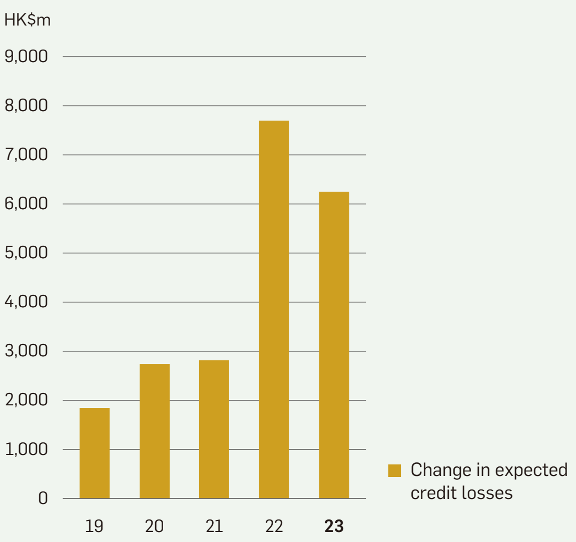
Change in ECL for Stage 1 and Stage 2 unimpaired credit exposures resulted in net releases of HK$1,071m, in contrast to net charges of HK$1,350m in 2022. This turnaround is due to a decline in loan balances stemming from subdued credit demand and higher customer repayments, along with the migration of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

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

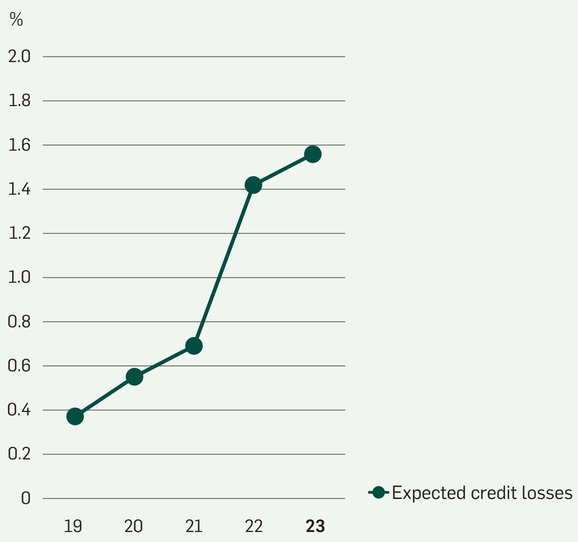
Change in ECL (Stage 1 to 3) for Wealth and Personal banking increased by HK$246m to HK$805m. Conversely, Commercial Banking and Global Banking recorded reduced change in ECL (Stages 1 to 3) by HK$1,683m to HK$5,447m.

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

Change in expected credit losses and other credit impairment charges



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



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

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

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

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

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

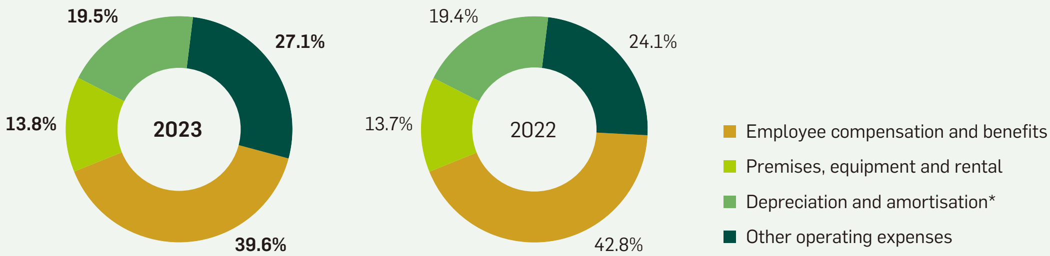
The cost efficiency ratio improved by 4.3 percentage points to 35.8%.

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

2H 2023 compared with 1H 2023

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

Operating Expenses



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

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

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

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

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

Segmental Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Balance sheet Analysis

Assets

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

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

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

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

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

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

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

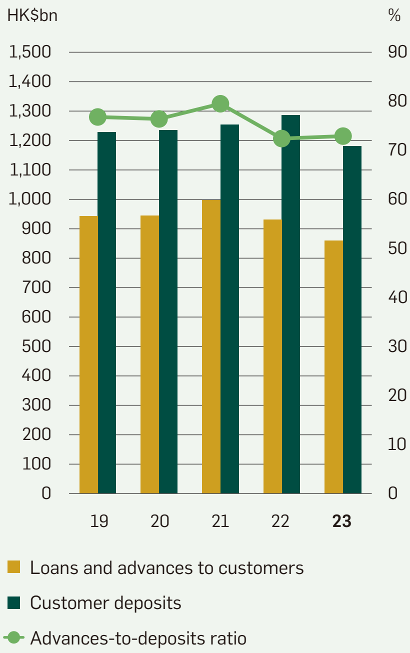
Loans for use outside Hong Kong were down by 22%, reflecting the de-risking of mainland China CRE by the Group's mainland banking subsidiary and loans for use outside Hong Kong granted by the Hong Kong office.

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

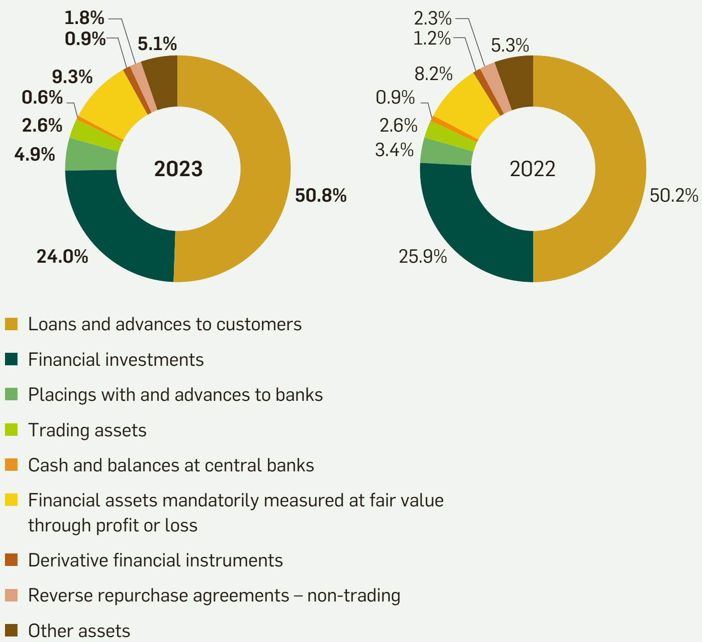
Assets Deployment

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

Loans and Advances to Customers and Customer Deposits



Assets Deployment



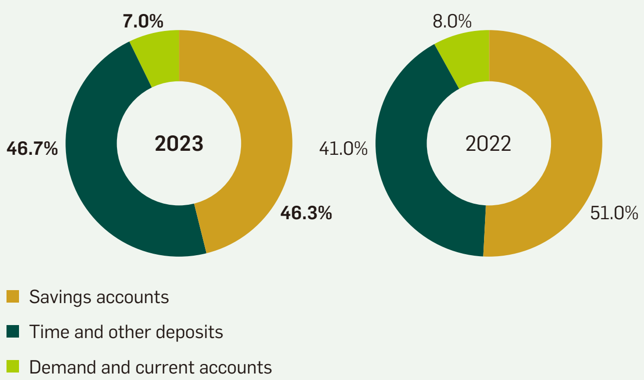
Liabilities and equity

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

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

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

Customer Deposits



Shareholders' equity

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

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