2023 FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

	note	2023	2022 (restated)
Interest income[1]	4	59,439	34,782
Interest expense	4	(27,144)	(9,231)
Net interest income		32,295	25,551
Fee income		7,829	7,506
Fee expense		(2,909)	(2,280)
Net fee income	5	4,920	5,226
Net income/(loss) from financial instruments measured at fair value through profit or loss	6	11,330	(21,455)
Gains less losses from financial investments	7	(3)	85
Dividend income	8	253	225
Insurance finance income/(expenses)	9	(10,805)	22,720
Insurance service results	9	2,049	1,660
– Insurance revenue		2,913	2,766
– Insurance service expense		(864)	(1,106)
Other operating income/(loss)	10	783	387
Net operating income before change in expected credit losses and other credit impairment charges		40,822	34,399
Change in expected credit losses and other credit impairment charges	11	(6,248)	(7,694)
Net operating income		34,574	26,705
Employee compensation and benefits		(5,795)	(5,909)
General and administrative expenses		(5,980)	(5,210)
Depreciation expenses		(1,915)	(1,974)
Amortisation of intangible assets		(934)	(702)
Operating expenses	12	(14,624)	(13,795)
Impairment loss on intangible assets		(4)	(11)
Operating profit		19,946	12,899
Net surplus/(deficit) on property revaluation		(34)	(108)
Share of profits/(losses) of associates		193	(10)
Profit before tax		20,105	12,781
Tax expense	16	(2,267)	(1,509)
Profit for the year		17,838	11,272
Profit attributable to:			
Shareholders of the Bank		17,848	11,286
Non-controlling interests		(10)	(14)
(Figures in HK$)			
Earnings per share – basic and diluted	17	8.97	5.53

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

The notes on pages 193 to 276 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

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

The notes on pages 193 to 276 form part of these Financial Statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2023
(Expressed in millions of Hong Kong dollars)

	note	At 31 December 2023	At 31 December 2022 (restated)	At 1 January 2022 (restated)
ASSETS				
Cash and balances at central banks	21	10,564	17,609	16,896
Trading assets	22	44,018	47,373	47,433
Derivative financial instruments	23	14,959	22,761	13,224
Financial assets mandatorily measured at fair value through profit or loss	24	156,872	152,957	160,479
Reverse repurchase agreements – non-trading		30,202	42,364	18,821
Placings with and advances to banks	25	83,756	62,203	72,252
Loans and advances to customers	26	860,406	931,334	997,397
Financial investments	27	405,792	480,698	377,972
Interest in associates	30	2,363	2,256	2,341
Investment properties	31	12,000	11,998	9,545
Premises, plant and equipment	31	27,075	27,498	31,205
Intangible assets	32	4,335	3,894	3,123
Other assets	33	39,752	51,501	53,442
Total assets		1,692,094	1,854,446	1,804,130
LIABILITIES AND EQUITY				
Liabilities				
Deposits from banks		19,707	5,205	5,333
Current, savings and other deposit accounts	34	1,153,062	1,249,486	1,230,216
Repurchase agreements – non-trading		12,767	11,304	16,592
Trading liabilities	35	35,227	46,323	44,291
Derivative financial instruments	23	14,478	20,992	12,252
Financial liabilities designated at fair value	36	45,633	46,309	27,399
Certificates of deposit in issue		9,857	93,379	81,567
Other liabilities	37	33,759	38,040	33,745
Insurance contract liabilities	38	167,264	152,374	164,899
Current tax liabilities	39	990	389	603
Deferred tax liabilities	39	3,675	3,168	3,547
Subordinated liabilities	40	27,491	27,479	24,484
Total liabilities		1,523,910	1,694,448	1,644,928
Equity				
Share capital	41	9,658	9,658	9,658
Retained profits		126,624	118,717	114,886
Other equity instruments	42	11,744	11,744	11,744
Other reserves		20,105	19,814	22,830
Total shareholders' equity		168,131	159,933	159,118
Non-controlling interests		53	65	84
Total equity		168,184	159,998	159,202
Total equity and liabilities		1,692,094	1,854,446	1,804,130

Irene Y L Lee *Independent Non-executive Chairman*
Diana Cesar *Executive Director and Chief Executive*

Say Pin Saw *Executive Director and Chief Financial Officer*

The notes on pages 193 to 276 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

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

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

	2023	2022 (restated)[1]
Profit before tax	**20,105**	12,781
Adjustments for non-cash items:		
Depreciation and amortisation	**2,849**	2,676
Net interest income	**(32,295)**	(25,551)
Dividend income	**(253)**	(225)
Gains less losses from financial investment	**3**	(85)
Share of (profits)/losses in associates	**(193)**	10
Net (surplus)/deficit on property revaluation	**34**	108
Change in expected credit losses and other credit impairment charges	**6,248**	7,694
Impairment loss on intangible assets	**4**	11
Loans and advances written off net of recoveries	**(5,371)**	(768)
Elimination of exchange differences and other non-cash items	**(8,753)**	9,487
Changes in operating assets and liabilities		
Change in trading assets	**3,355**	60
Change in derivative financial instruments	**1,288**	(797)
Change in financial assets mandatorily measured at fair value through profit or loss	**(3,869)**	7,134
Change in reverse repurchase agreements – non-trading maturing after one month	**2,009**	(10,189)
Change in placings with and advances to banks maturing after one month	**(15,171)**	(9,170)
Change in loans and advances to customers	**70,689**	59,597
Change in financial investments of insurance business	**(306)**	1,907
Change in other assets	**16,441**	991
Change in repurchase agreements – non trading	**1,463**	(5,288)
Change in deposits from banks	**14,502**	(128)
Change in current, savings and other deposit accounts	**(96,424)**	19,270
Change in trading liabilities	**(11,096)**	2,032
Change in financial liabilities designated at fair value	**(676)**	18,910
Change in certificates of deposit in issue	**(83,522)**	11,812
Change in other liabilities	**(2,317)**	4,485
Change in insurance contract liabilities	**14,890**	(12,525)
Interest received	**49,842**	32,712
Interest paid	**(26,058)**	(7,415)
Dividends received from financial investments	**247**	229
Tax paid	**(2,129)**	(2,225)
Net cash from/(used in) operating activities	**(84,464)**	117,540

[1] HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively. Comparative figures have been restated. In addition, the cash flow statement has also been restated to reclassify the change in financial investments of insurance business from investing activities to operating activities in view of the nature of the insurance business.

CONSOLIDATED STATEMENT OF CASH FLOWS continued

for the year ended 31 December 2023
(Expressed in millions of Hong Kong dollars)

	2023	2022 (restated)[1]
Purchase of financial investments	(783,419)	(815,941)
Proceeds from sale or redemption of financial investments	825,715	750,855
Repayment of shareholders' loan to an associated company	10	–
Purchase of property, plant and equipment and intangible assets	(1,750)	(1,887)
Net cash from/(used in) investing activities	**40,556**	(66,973)
Interest paid for subordinated liabilities	(1,700)	(691)
Principal and interest elements of lease payments	(515)	(547)
Dividends paid	(10,133)	(7,455)
Coupons paid on AT1 capital instruments	(708)	(710)
Proceeds from issuance of subordinated liabilities	–	3,000
Net cash from/(used in) financing activities	**(13,056)**	(6,403)
Net (decrease)/increase in cash and cash equivalents	(56,964)	44,164
Cash and cash equivalents at 1 January	152,818	111,134
Exchange differences in respect of cash and cash equivalents	1,337	(2,480)
Cash and cash equivalents at 31 December	**97,191**	152,818
Cash and cash equivalents comprise[2]:		
– Cash and balances at central banks	10,564	17,609
– Balances with banks	4,012	8,605
– Items in the course of collection from other banks	3,748	5,598
– Placings with and advances to banks maturing within one month	26,433	15,458
– Reverse repurchase agreements with banks maturing within one month	13,876	24,028
– Treasury bills	37,985	78,220
– Net settlement accounts and cash collateral to banks within one month	5,109	8,932
– less: items in the course of transmission to other banks	(4,536)	(5,632)
	97,191	152,818

1 HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively. Comparative figures have been restated. In addition, the cash flow statement has also been restated to reclassify the change in financial investments of insurance business from investing activities to operating activities in view of the nature of the insurance business.

2 At 31 December 2023, the amount of cash and cash equivalents that was not available for use by the Group was HK$10,561 m (31 December 2022: HK$11,902m), of which HK$4,333m (31 December 2022: HK$7,024m) was related to mandatory deposits at central banks.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2023
(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

1. Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards

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

The consolidated financial statements comprise the financial statements of the Group made up to 31 December 2023. The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ('HKFRS'), the provisions of the Hong Kong Companies Ordinance and accounting principles generally accepted in Hong Kong. HKFRS comprises Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ('HKAS'), and interpretations issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). In addition, these financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the material accounting policies adopted by the Group is set out in note 2.

Standards adopted during the year ended 31 December 2023

HKFRS 17 'Insurance Contracts'

On 1 January 2023, the Group adopted the requirements of HKFRS 17 '*Insurance Contracts*' retrospectively with comparatives restated from the transition date, 1 January 2022. This include comparative data presented in the primary financial statements and all impacted Notes to the Financial Statements. At transition, the Group's total equity reduced by HK$25.2bn. For further details, see note 3 'Effect of adoption of HKFRS 17'.

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

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

1. Basis of preparation continued

(a) Compliance with Hong Kong Financial Reporting Standards continued

Standards adopted during the year ended 31 December 2023 continued

The key differences between HKFRS 4 and HKFRS 17 are summarised in the following table:

	HKFRS 4	HKFRS 17
Balance sheet	• Insurance contract liabilities for non-linked life insurance contracts are calculated based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulations. • An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in force insurance contracts.	• Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. • The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk. • The CSM represents the unearned profit.
Profit emergence/ recognition	• The value of new business is reported as revenue on Day 1 as an increase in PVIF. • The impact of the majority of assumption changes is recognised immediately in the income statement. • Variances between actual and expected cash flows are recognised in the period they arise.	• The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). • Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the Group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the Group's share of the investment volatility is recorded in profit or loss as it arises. • Losses from onerous contracts are recognised in the income statement immediately.
Investment return assumptions (discount rate)	• PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	• Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities.
Expenses	• Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. • Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those costs released from the PVIF simultaneously.	• Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. • Non-attributable costs are reported in operating expenses.

1. Basis of preparation continued

(a) Compliance with Hong Kong Financial Reporting Standards continued

Standards adopted during the year ended 31 December 2023 continued

Transition

In applying HKFRS 17 for insurance contracts retrospectively, the full retrospective approach ('FRA') has been used unless it is impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The Group has applied the FRA for new business from 2019 at the earliest, subject to practicability, and the FVA for which the FRA is impracticable.

Under the FVA, the valuation of insurance liabilities on transition is based on the requirements of HKFRS 13 '*Fair Value Measurement*'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using HKFRS 17 principles.

In determining the fair value, the Group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of 'matching' between the Group's assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

Amendments to HKAS 12 'International Tax Reform – Pillar Two Model Rules'

In July 2023, the HKICPA issued amendments to HKAS 12 '*International Tax Reform – Pillar Two Model Rules*', which became effective immediately. The Hong Kong Qualified Domestic Minimum Top-up Tax is expected to be effective from 1 January 2025. Information about the Group's exposure to Pillar Two income taxes is described in Note 16(a).

(b) Presentation of information

The following have been included in the audited sections of the 'Management Discussion and Analysis' ('MD&A'):

- Certain disclosures under HKFRS 17 '*Insurance Contracts*' concerning the nature and extent of risks relating to insurance activities are included under Insurance Manufacturing Operation Risk in 'Risk' section as specified as 'Audited'.
- Certain disclosures under HKFRS 7 '*Financial Instruments: Disclosures*' concerning the nature and extent of risks relating to financial instruments under Credit Risk, Treasury Risk and Market Risk in 'Risk' section as specified as 'Audited'.
- Certain capital disclosures under HKAS 1 '*Presentation of Financial Statement*' in 'Capital Risk' under Treasury Risk in 'Risk' section as specified as 'Audited'.

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

(c) Consolidation

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

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

All intra-group transactions are eliminated on consolidation.

The consolidated financial statements also include the attributable share of the results and reserves of associates based on the financial statements prepared at dates not earlier than three months prior to 31 December 2023.

(d) Future Accounting Developments

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

1. Basis of preparation continued

(e) Critical estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical estimates and judgements in note 2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purpose of 2023 consolidated financial statements. Management's selection of the Group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on the Group's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 we do not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term.

2. Material accounting policies

(a) Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the Group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

On 1 January 2023, the Group has adopted HKFRS 17 retrospectively with comparative figures restated. The restatement includes reclassification of interest income arising from trading assets, interest expense arising from trading liabilities and financial liabilities designated at fair value to 'Net income / (loss) from financial instruments measured at fair value through profit or loss'. For further details of the impact of the updated accounting policies, please refer to note 4 'Net interest income'.

(b) Non-interest income

(i) Fee income

The Group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Group delivers a specific transaction at a point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the Group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The Group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The Group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the Group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

(ii) Net income from financial instruments measured at fair value through profit or loss

(a) Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest and dividend. Gains or losses arising from changes in fair value of derivatives are recognised in 'Net trading income' to the extent as described in the accounting policy set out in note 2(i). Gains and losses on foreign exchange trading are also reported as net trading income except for those gains and losses on translation of foreign currencies recognised in other comprehensive income and accumulated subsequently in equity in the foreign exchange reserve or financial assets at FVOCI reserve.

2. Material accounting policies continued

(b) Non-interest income continued

(ii) Net income from financial instruments measured at fair value through profit or loss continued

(b) Net income/(expenses) from financial instruments designated at fair value through profit or loss

Net income/(expenses) from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value, including derivatives managed in conjunction with the financial assets and liabilities designated at fair value. Interest and dividend arising on those financial instruments are also included.

(c) Net income from assets and liabilities of insurance businesses measured at fair value

Net income from assets and liabilities of insurance businesses, including derivatives, measured at fair value through profit or loss comprises of all gains and losses from changes in the fair value, together with relevant interest income, expense and dividends in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.

(iii) Dividend income

Dividend income from equity investments measured at fair value through other comprehensive income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

(iv) Rental income from operating lease

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

The accounting policies for insurance service result and insurance finance income / (expense) are disclosed in note 2(t).

(c) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash and balances at central banks, placings with and advances to banks maturing within one month, treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition and items in the course of collection from or in transmission to other banks.

(d) Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is the fair value of the consideration given or received). However, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the Group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the Group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the HKFRS offsetting criteria.

Critical estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs.
- 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The Group's details of valuation of financial instruments are depicted in note 49 'Fair value of financial instruments'.

2. Material accounting policies continued

(e) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial instruments at initial recognition includes the directly attributed transactions costs.

The Group may commit to underwrite loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group intends to hold the loan, the loan commitment is included in the impairment calculations set out in note 2(j) below.

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

Financial assets managed within for a business model that is achieved by both selling and collecting contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on trade date when the Group enters into contractual arrangements to purchase and are generally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value with changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'. Financial assets measured at FVOCI are included in the impairment calculations set out in note 2(j) below and impairment is recognised in profit or loss.

(g) Equity securities measured at fair value with fair value movement presented in OCI

The equity securities for which fair value movements are shown in OCI are for business facilitation and other similar investments where the Group holds the investments other than to generate a capital return. Dividends from such investments are recognised in profit or loss. Gains or losses on derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(h) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch; and
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Designated financial assets are recognised when the Group enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred.

Designated financial liabilities are recognised when the Group enters into contracts with counterparties, and are normally derecognised when extinguished. Subsequent changes in fair value are recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

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

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

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

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

A contract under which the Group does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiary are determined based on the fair value of the assets held in the linked funds or valuation model. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation of the financial assets and related liabilities at fair value allows changes in fair values to be recorded in the income statement and presented in the same line.

– Financial liabilities that contain both deposit and derivative components

These financial liabilities are managed and their performance evaluated on at fair value basis.

2. Material accounting policies continued

(i) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying item such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Where the derivatives are managed with debt securities issued by the Group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

The Group designates certain derivatives as either (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge').

At the inception of a hedging relationship, the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments are recorded in the income statement within 'Net income from financial instruments measured at fair value through profit or loss', along with changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued. The cumulative adjustment to the carrying amount of a hedged item is amortised to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised.

(ii) Cash flow hedge

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

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

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

(iii) Hedge effectiveness testing

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

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by the Group to assess hedge effectiveness depends on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression as effectiveness testing methodology. For cash flow hedge relationships, the Group utilises the change in variable cash flow method, capacity test or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For retrospective effectiveness, the change in fair value or cash flows must offset each other in the range of 80% to 125%. Hedge ineffectiveness is recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

(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.

2. Material accounting policies continued

(j) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

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

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

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less allowance for ECL.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when we modify the contractual payment terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructuring is at market rates and no payment related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

2. Material accounting policies continued

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

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly considers if the financial instrument has experienced a significant increase in credit risk, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument, the borrower and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRR up to 3.3, significant increase in credit risk is measured by comparing the average probability of default ('PD') for the remaining term estimated at origination with the equivalent estimation at reporting date.

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of HKFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notches
8.3	0 notches

A CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD').

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit history which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are divided into account level and homogeneous segment level measurement. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

2. Material accounting policies continued

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

Significant increase in credit risk (stage 2) continued

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments. These enhancements resulted in significant migrations of gross carrying amounts of loans to customers from stage 1 to stage 2, but did not have a significant impact on the overall ECL for these portfolios in 2023 due to low loan-to-value ratios.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired ('POCI')

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different stages (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

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

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

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

2. Material accounting policies continued

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

Measurement of ECL continued

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

Model	Regulatory capital	HKFRS 9
PD	– Through the cycle (represents long-run average PD throughout a full economic cycle) – The definition of default includes a backstop of 90+ days past due	– Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) – An obligor/an account being 90 days past due or above is considered as defaulted
EAD	– Cannot be lower than current balance	– Amortisation captured for term products
LGD	– Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) – Regulatory floors may apply according to regulatory requirements – Discounted using cost of capital – All collection costs included	– Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) – No floors is required under HKFRS 9 – Discounted using the effective interest rate of the loan – Only costs associated with obtaining/selling collateral included
Other		– Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail revolving loan, overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL in excess of the carrying amount of the financial asset is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis subject to certain extension criteria.

Forward-looking economic forecast

The Group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit loss in most economic environments. In certain economic environments, additional analysis may be necessary and result in additional scenarios or adjustments, to reflect a range of possible economic outcomes for an unbiased expected credit loss estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' of Credit Risk in 'Risk' section.

2. Material accounting policies continued

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

Measurement of ECL continued

Critical estimates and judgements

In determining ECL, the Group is required to make a number of judgements, assumptions and estimates which are set out below:

- Defining what is considered to be a significant increase in credit risk.
- Determining the lifetime and point of initial recognition of revolving facilities.
- Selecting and calibrating the PD, LGD and EAD models which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.
- Making management adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.
- Selecting applicable recovery strategies for certain wholesale credit-impaired loans.

The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' marked as audited, set out the assumptions used in determining ECL and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(k) Sale and repurchase agreements

Where securities are sold subject to commitment to repurchase them at a pre-determined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received in 'Repurchase agreements-non-trading'. Conversely, securities purchased under analogous commitments to resell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded in 'Reverse repurchase agreements-non-trading'. The difference between the sale and repurchase price is treated as interest income and recognised over the life of the agreement.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties under these agreements is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

(l) Subsidiaries and associates

The Group classifies investments in entities which it controls as subsidiaries. The Group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangement, as associates.

The Group's investments in subsidiaries and associates are stated at cost less any impairment losses. Investment in associates is recognised using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the Group's share of net assets less any impairment losses. An impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount of the investment since the last impairment loss was recognised.

(m) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment properties are stated at fair value with changes in fair value being recognised in the income statement. Fair values are determined by independent professional valuers, primarily on the basis of capitalisation of net incomes with due allowance for outgoings and reversionary income potential.

2. Material accounting policies continued

(n) Premises, plant and equipment

(i) Land and buildings

The following land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses:

- leasehold land and buildings where the fair value of the land cannot be reliably separated from the value of the building at inception of the lease and the premises are not clearly held under an operating lease; and
- leasehold land and buildings where the value of the land can be reliably separated from the value of the building at inception of the lease and the term of the lease is not less than 50 years.

Revaluations are performed by professionally qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value at the reporting date. Surpluses arising on revaluation are credited firstly to the income statement to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same land and buildings, and are thereafter taken to other comprehensive income and are accumulated separately in the 'Premises revaluation reserve'. Deficits arising on revaluation, are firstly set off against any previous revaluation surpluses included in the 'Premises revaluation reserve' in respect of the same land and buildings, and are thereafter recognised in the income statement.

Depreciation is calculated to write off the valuation of the land and buildings over their estimated useful lives as follows:

- freehold land is not depreciated;
- leasehold land is depreciated over the unexpired terms of the leases; and
- buildings and improvements thereto are depreciated on straight-line basis or over the shorter of the unexpired terms of the leases or the remaining estimated useful lives of the buildings.

On revaluation of the land and buildings, depreciation accumulated during the year will be eliminated. Depreciation charged on revaluation surplus of the land and buildings is transferred from 'Premises revaluation reserve' to 'Retained profits'.

On disposal of the land and buildings, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount and recognised in the income statement. Surpluses relating to the land and buildings disposed of included in the 'Premises revaluation reserve' are transferred as movements in reserves to 'Retained profits'.

The land owned by Hong Kong Government permits its use under leasehold arrangements. Similar arrangements exist in mainland China. The Group accounts for its interests in own use leasehold land and land rights in accordance with HKFRS 16 but discloses these as owned assets when the right of use are considered sufficient to constitute control.

(ii) Other plant and equipment

Furniture, plant and equipment, are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 3 and 20 years. On disposal, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount.

Plant and equipment are subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(o) Goodwill and intangible assets

(i) Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries or associates when the cost of acquisition exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired and is reported in the consolidated balance sheet. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost of acquisition, the excess is recognised immediately in the income statement. Goodwill on acquisitions of associates is included in 'Interest in associates' and is not tested separately for impairment.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that the CGU may be impaired, by comparing the recoverable amount of a CGU with the carrying value of its net assets, including attributable goodwill. The recoverable amount of an asset is the higher of, its fair value less cost to sell, and its value in use. Value in use is the present value of the expected future cash flows from a CGU. If the recoverable amount of the CGU is less than the carrying value, an impairment loss is charged to the income statement. Any write-off in excess of the carrying value of goodwill is limited to the fair value of the individual assets and liabilities of the CGU. Goodwill is stated at cost less any accumulated impairment losses, if any.

At the date of disposal of a business, attributable goodwill is included in the Group's share of net assets in the calculation of the gain or loss on disposal.

2. Material accounting policies continued

(o) Goodwill and intangible assets continued

(ii) Intangible assets

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

Computer software acquired is stated at cost less amortisation and impairment allowances. Amortisation of computer software is charged to the income statement over its estimated useful life. Costs incurred in the development phase of a project to produce application software for internal use are capitalised and amortised over the software's estimated useful life, usually five years.

Intangible assets that have an indefinite estimated useful life or are not yet ready for use are tested for impairment annually. Intangible assets that have a finite estimated useful life are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are settled on an individual taxable entity basis.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised at each reporting date.

Deferred tax is calculated using the tax rates that are expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

(q) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Provision is made in respect of paid leave entitlement accumulated during the year, which can be carried forward into future periods for compensated absence or payment in lieu if the employee leaves employment.

(ii) The Group provides retirement benefits for staff members and operates defined benefit and defined contribution schemes and participates in mandatory provident fund schemes in accordance with the relevant laws and regulations.

Payments to defined contribution plans and state-managed retirement benefit plans, where the Group's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as the employees render service.

The costs recognised for funding defined benefit plans are determined using the projected unit credit method, with annual actuarial valuations performed on each plan. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit liability and is presented in operating expenses. Service cost comprises current service cost, past service cost, and gain or loss on settlement.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

2. Material accounting policies continued

(r) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made as to the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the loans or debt instruments.

Financial guarantee liabilities are initially recognised at their fair value, and subsequently carried at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 '*Financial Instruments*' and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 '*Revenue from Contracts with Customers*'.

Financial guarantees are included within other liabilities.

(t) Insurance contracts

Through its insurance subsidiary, the Group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the Group issues investment contracts with discretionary participation features ('DPF'), which are also accounted under HKFRS 17 '*Insurance Contracts*'.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. The portfolios are split by their profitability into (i) contracts that are onerous at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Group issues being grouped into calendar quarter cohorts.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing unearned profit. The Group has elected to update the estimates used in the measurement on a year-to-date basis.

Fulfilment cash flows

The fulfilment cash flows comprise the followings:

(i) Best estimates of future cash flows

These cash flows within the contract boundary of each contract in the Group include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using assumptions based on the Group's demographic and operating experience along with external mortality data where the Group's own experience data is not sufficiently large in size to be credible.

(ii) Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The Group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

2. Material accounting policies continued

(t) Insurance contracts continued

Fulfilment cash flows continued

(iii) Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows. It is calculated as a 75th percentile level stress over one-year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The 75th percentile is estimated to be equivalent to 60th percentile (2022: 57th percentile) for the insurance manufacturing entity in the group, determined on the basis of an ultimate view over the whole duration of the of the contract.

The Group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

Measurement models

The variable fee approach ('VFA') measurement model is used for most of contracts issued by the Group, which is mandatory upon meeting the following eligibility criteria at inception:

a. the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

b. the Group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Group considers that a substantial share is a majority of returns; and

c. the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Group considers that a substantial proportion is a majority proportion of change on a present value probability weight average of all scenarios.

The risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition unless a group is onerous. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in noneconomic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the Group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not affect the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the Group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss. The risk mitigation instruments are primarily reinsurance contracts held.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The Group identifies the quantity of the benefits provided as follows:

- For insurance coverage – based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund or surrender value.
- For investment services (including both investment-return service and investment-related service) – based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

Insurance service result

Insurance revenue reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

2. Material accounting policies continued

(t) Insurance contracts continued

Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

Presentation

The amounts presented in the income statement under HKFRS 17 include:

- insurance revenue that reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components).
- insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.
- insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein.

The Group elected to re-calculate its results each period on a year-to-date basis, thereby re-calculating the results for periods already disclosed.

In measuring multi-currency groups of contracts, the Group considers its groups of contracts (including the CSM) as being denominated in a single currency. Changes in exchange rates between the currency of the cash flows and the currency of each group of contracts are treated as changes in financial risk. Changes in exchange rates between the currency of each group of contracts and the functional currency are treated as exchange differences.

Critical estimates and judgements

The measurement of insurance contract liabilities under HKFRS 17 involves significant judgements that are set out below:

The VFA measurement model is used for most of the contracts issued by the Group. In applying the VFA eligibility criteria, the Group determined that a substantial share of the fair value returns on the underlying items that are expected to be paid to the policyholder is a majority of the returns, and a substantial proportion of change in the amounts that are expected to be paid to the policyholder to vary with the change in fair value of the underlying items is a majority proportion of the change on a present value probability-weight average of all scenarios.

The CSM is systematically recognised in insurance revenue based on the coverage units of the group of contracts. The Group determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time, and therefore the quantity of benefit selected is a constant measure. The coverage units are reviewed and updated at each reporting date.

(u) Investment contracts without discretionary participation feature

Customer liabilities under linked investment contracts are measured at fair value and reported under 'Financial liabilities designated at fair value'. The linked financial assets are measured at fair value and the movements in fair value are recognised in the income statement in 'Net income from financial instruments designated at fair value through profit or loss'. Deposits receivable and amounts withdrawn are accounted for as increases or decreases in the liability recorded in respect of investment contracts.

Investment management fee receivables are recognised in the income statement over the period of the provision of the investment management services, in 'Net fee income'.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at each reporting date. Any resulting exchange differences are recognised in other comprehensive income or the income statement depending on where the gain or loss on the underlying item is recognised. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

2. Material accounting policies continued

(v) Translation of foreign currencies continued

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

(w) Operating segments

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

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

(x) Related parties

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

3. Effect of adoption of HKFRS 17

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

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

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

3. Effect of adoption of HKFRS 17 continued

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

Transition drivers

Removal of HKFRS 4 based revenue items

As a result of the removal of the PVIF intangible asset, the associated expense of HK$1,743m in 2022 that was previously reported within Other operating income is no longer reported under HKFRS 17. This includes the removal of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances.

On the implementation of HKFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported HKFRS 4 line items 'Net insurance premium income', and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

HKFRS 9 re-designations

Following the re-designation of financial assets supporting policyholder liabilities to fair value through profit or loss classification, the related income statement reporting also changed. Under our previous HKFRS 4 based reporting convention, these assets generated interest income of HK$4,534m which was reported in net interest income in 2022. To the extent that this interest income was shared with policyholders, the corresponding policyholder sharing obligation was previously included within the 'net insurance claims and benefits paid and movement in liabilities to policyholders' line.

Following re-designation to fair value through profit or loss, gains and losses from changes in the fair value of underlying assets, together with interest income earned, are both reported within 'Net income/(loss) from financial instruments measured at fair value through profit or loss'. Similar to an HKFRS 4 basis, HKFRS 17 accounting provides for an offset. While this offset was reported within the claims line under HKFRS 4, under HKFRS 17 it is reported within the 'Insurance finance income/(expenses)' line described below.

Introduction of HKFRS 17 income statement line items

Insurance finance income/(expenses)

Insurance finance income/(expenses) of HK$22,720m in 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For VFA contracts, which represent more than 90% of the Group's insurance contracts, the insurance finance income/(expenses) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net income/(loss) from financial instruments measured at fair value through profit or loss'.

CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 8% during 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned on underlying assets, or changes to assumptions.

Onerous contracts

Losses on onerous contracts are taken to the income statement as incurred.

Experience variance and other

Experience variance and other represents the expected expenses, claims and amortisation of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and recovery of acquisition cash flows.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads which are included within the fulfilment cash flows and are no longer shown on the operating expenses line.

3. Effect of adoption of HKFRS 17 continued

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

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

3. Effect of adoption of HKFRS 17 continued

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

Removal of PVIF and HKFRS 4 balances

The PVIF intangible asset of HK$22,363m previously reported under HKFRS 4 within 'Intangible assets' arose from the upfront recognition of future profits associated with in force insurance contracts. PVIF is no longer reported following the transition to HKFRS 17, as future profits are deferred as unearned revenue within the CSM. Other HKFRS 4 insurance assets (shown above within 'Other assets') and insurance contract liabilities are removed on transition, to be replaced with HKFRS 17 equivalents.

HKFRS 9 asset re-designation

Loans and receivables and debt securities supporting policyholder liabilities of HK$122,655m were re-designated from an amortised cost classification to fair value through profit and loss. The re-designations were made in order to more closely align the asset accounting with the valuation of the associated insurance liabilities. The re-designation of amortised cost assets generated a net increase to assets of HK$6,498m because the new fair value measurement on transition was higher than the previous amortised cost carrying amount.

Recognition of the HKFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under HKFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the contractual obligations associated with the insurance contract, such as premiums, expenses, insurance benefits and claims including policyholder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment.

Recognition of the HKFRS 17 CSM

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to profit or loss over the insurance coverage period.

Tax effect

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

3. Effect of adoption of HKFRS 17 continued

(c) Consolidated Balance Sheet

	HKFRS 17 At 31 December 2022	HKFRS 17 At 1 January 2022	HKFRS 4 At 31 December 2022	HKFRS 4 At 31 December 2021
ASSETS				
Cash and balances at central banks	17,609	16,896	17,609	16,896
Trading assets	47,373	47,433	47,373	47,433
Derivative financial instruments	22,761	13,224	22,761	13,224
Financial assets mandatorily measured at fair value through profit or loss	152,957	160,479	28,861	31,326
Reverse repurchase agreements – non-trading	42,364	18,821	42,364	18,821
Placings with and advances to banks	62,203	72,252	62,326	72,493
Loans and advances to customers	931,334	997,397	931,334	997,397
Financial investments	480,698	377,972	622,616	500,386
Interest in associates	2,256	2,341	2,256	2,341
Investment properties	11,998	9,545	11,998	9,545
Premises, plant and equipment	27,498	31,205	27,498	31,205
Intangible assets	3,894	3,123	24,514	25,486
Other assets	51,501	53,442	52,295	53,632
Total assets	1,854,446	1,804,130	1,893,805	1,820,185
LIABILITIES AND EQUITY				
Liabilities				
Deposits from banks	5,205	5,333	5,205	5,333
Current, savings and other deposit accounts	1,249,486	1,230,216	1,249,486	1,230,216
Repurchase agreements – non-trading	11,304	16,592	11,304	16,592
Trading liabilities	46,323	44,291	46,323	44,291
Derivative financial instruments	20,992	12,252	20,992	12,252
Financial liabilities designated at fair value	46,309	27,399	46,309	27,399
Certificates of deposit in issue	93,379	81,567	93,379	81,567
Other liabilities	38,040	33,745	36,739	31,179
Insurance contract liabilities	152,374	164,899	165,594	154,551
Current tax liabilities	389	603	389	603
Deferred tax liabilities	3,168	3,547	6,645	7,302
Subordinated liabilities	27,479	24,484	27,479	24,484
Total liabilities	1,694,448	1,644,928	1,709,844	1,635,769
Equity				
Share capital	9,658	9,658	9,658	9,658
Retained profits	118,717	114,886	142,680	140,100
Other equity instruments	11,744	11,744	11,744	11,744
Other reserves	19,814	22,830	19,814	22,830
Total shareholders' equity	159,933	159,118	183,896	184,332
Non-controlling interests	65	84	65	84
Total equity	159,998	159,202	183,961	184,416
Total equity and liabilities	1,854,446	1,804,130	1,893,805	1,820,185

4. Net interest income

	2023	2022 (restated)[1]
Interest income arising from:		
– financial assets measured at amortised cost	48,879	30,650
– financial assets measured at FVOCI	10,560	4,132
	59,439	34,782
Interest expense arising from financial liabilities measured at amortised cost	(27,144)	(9,231)
Net interest income	32,295	25,551
of which:		
– interest income from impaired financial assets	920	346
– interest expense from subordinated liabilities	(1,707)	(779)

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

5. Net fee income

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other	Total
2023						
– securities broking and related services	1,190	65	1	21	–	1,277
– retail investment funds	955	13	–	–	–	968
– insurance	130	153	74	–	–	357
– account services	314	143	7	1	–	465
– remittances	50	162	35	–	–	247
– cards	3,080	27	–	–	–	3,107
– credit facilities	16	246	132	–	–	394
– imports/exports	–	228	26	–	–	254
– other	153	153	42	23	389	760
Fee income	5,888	1,190	317	45	389	7,829
Fee expense	(2,797)	(25)	(4)	(83)	–	(2,909)
	3,091	1,165	313	(38)	389	4,920
2022 (restated)						
– securities broking and related services	1,322	92	1	20	–	1,435
– retail investment funds	911	15	–	–	–	926
– insurance	127	178	76	–	–	381
– account services	265	126	7	3	–	401
– remittances	80	164	34	–	–	278
– cards	2,582	26	–	–	–	2,608
– credit facilities	16	306	140	–	–	462
– imports/exports	–	311	37	–	–	348
– other	128	144	51	9	335	667
Fee income	5,431	1,362	346	32	335	7,506
Fee expense	(2,163)	(24)	(3)	(90)	–	(2,280)
	3,268	1,338	343	(58)	335	5,226

5. Net fee income continued

	2023	2022 (restated)
of which:		
Net fee income on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	1,442	1,696
– fee income	4,244	3,873
– fee expense	(2,802)	(2,177)
Net fee income on trust and other fiduciary activities where the Group holds or invests assets on behalf of its customers	813	668
– fee income	902	806
– fee expense	(89)	(138)

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

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

7. Gains less losses from financial investments

	2023	2022 (restated)
Net gains/(losses) from disposal of debt securities measured at FVOCI	(3)	85
	(3)	85

8. Dividend income

	2023	2022
Dividend income:		
– listed investments	211	195
– unlisted investments	42	30
	253	225

In 2023, there was HK$11m dividend recognised related to equity investments measured at fair value through other comprehensive income being disposed during the year.

9. Insurance business

(a) Insurance service results

	2023			2022 (restated)		
	Life direct participating contracts[1]	Life other contracts[2]	Total	Life direct participating contracts	Life other contracts	Total
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	2,550	104	2,654	2,486	231	2,717
– CSM recognised for services provided	1,862	50	1,912	1,610	147	1,757
– Change in risk adjustment for non-financial risk for risk expired	8	2	10	7	3	10
– Expected incurred claims and other insurance service expenses	680	52	732	655	81	736
– Other	–	–	–	214	–	214
Recovery of insurance acquisition cash flows	228	31	259	43	6	49
Total insurance revenue	2,778	135	2,913	2,529	237	2,766
Insurance service expenses						
Incurred claims and other insurance service expenses	(519)	(69)	(588)	(534)	(285)	(819)
Amortisation of insurance acquisition cash flows	(228)	(31)	(259)	(43)	(6)	(49)
Losses and reversal of losses on onerous contracts	37	(44)	(7)	(154)	(72)	(226)
Adjustments to liabilities for incurred claims	(9)	(1)	(10)	(11)	(1)	(12)
Total insurance service expenses	(719)	(145)	(864)	(742)	(364)	(1,106)
Total insurance service results	2,059	(10)	2,049	1,787	(127)	1,660

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

2 Life other contracts are measured under the general measurement model.

9. Insurance business continued

(b) Net investment return[1]

	2023			2022 (restated)		
	Life direct participating contracts	Life other contracts	Total	Life direct participating contracts	Life other contracts	Total
Total investment return[2]	10,269	544	10,813	(21,291)	(1,118)	(22,409)
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	(10,269)	–	(10,269)	21,291	–	21,291
Effect of risk mitigation option	(79)	–	(79)	367	–	367
Interest accreted	–	(381)	(381)	–	(260)	(260)
Effect of changes in interest rates and other financial assumptions	–	(95)	(95)	–	1,297	1,297
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	–	19	19	–	25	25
Total net finance income/(expenses) from insurance contracts	(10,348)	(457)	(10,805)	21,658	1,062	22,720
Total net investment results	(79)	87	8	367	(56)	311

1 All items are recognised in the income statement.

2 Total investment return for the year ended 31 December 2023 included a gain of HK$10,813m (2022: loss of HK$22,409m) reported under 'Net income/(loss) from financial instruments measured at fair value through profit or loss' in the income statement.

10. Other operating income/(loss)

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

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

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

12. Operating expenses

	2023	2022 (restated)
Employee compensation and benefits:		
– salaries and other costs*	5,986	5,941
– retirement benefit costs	506	504
– *of which: defined benefit scheme (note 46(a))*	*134*	*149*
– *of which: defined contribution scheme (note 46(b))*	*372*	*355*
Total employee compensation and benefits	6,492	6,445
Less: Cost directly attributable to insurance business	(697)	(536)
	5,795	5,909
General and administrative expenses:		
– rental expenses	23	18
– other premises and equipment	1,998	1,875
– marketing and advertising expenses	461	440
– other operating expenses	3,813	3,324
Total general and administrative expenses	6,295	5,657
Less: Cost directly attributable to insurance business	(315)	(447)
	5,980	5,210
Depreciation of premises, plant and equipment (note 31)	1,445	1,460
Depreciation of right-of-use assets	470	514
Amortisation of intangible assets (note 32)	934	702
	14,624	13,795
* of which:		
share-based payments (note 47(c))	36	35
Cost efficiency ratio[1]	35.8%	40.1%

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

13. The emoluments of the five highest paid individuals

(a) The aggregate emoluments

	2023	2022
Salaries, allowances and benefits in kind	29	28
Retirement scheme contributions	3	3
Variable bonuses		
– Cash bonus	12	11
– Share-based payment	11	11
	55	53

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

HK$	2023 Number of Individuals	2022 Number of Individuals
5,500,001 – 6,000,000	–	1
6,500,001 – 7,000,000	1	–
7,000,001 – 7,500,000	1	2
7,500,001 – 8,000,000	1	–
11,500,001 – 12,000,000	1	–
13,000,001 – 13,500,000	–	1
19,500,001 – 20,000,000	–	1
21,500,001 – 22,000,000	1	–
	5	5

The emoluments of the five highest paid individuals set out above include the emoluments of one (2022: one) Executive Director which is included in note 14. There is no Non-Executive Director included in the table above (2022: Nil).

14. Directors' remunerations

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

	Emoluments								
				Variable bonus[5]					
				Cash		Shares			
	Fees '000	Salaries, allowances and benefits in kind [6] '000	Contribution to retirement benefit schemes [4] '000	Deferred '000	Non-deferred '000	Deferred '000	Non-deferred '000	Total 2023 '000	Total 2022 '000
Executive Directors									
Diana Cesar, Chief Executive[1]	–	9,961	685	3,113	2,076	3,741	2,076	21,652	19,774
Margaret W H Kwan[1] (Resigned on 1 Feb 2022)	–	–	–	–	–	–	–	–	1,152
Say Pin Saw[1]	–	3,064	455	588	881	685	881	6,554	980
Non-Executive Directors									
John C C Chan[3] (Resigned on 5 May 2022)	–	–	–	–	–	–	–	–	479
L Y Chiang[3] (Resigned on 1 Jan 2023)	–	–	–	–	–	–	–	–	1,142
Cordelia Chung[3]	1,037	–	–	–	–	–	–	1,037	771
Kathleen C H Gan[2]	660	–	–	–	–	–	–	660	660
Clement K M Kwok[3]	1,270	–	–	–	–	–	–	1,270	1,178
Patricia S W Lam[3]	993	–	–	–	–	–	–	993	430
Irene Y L Lee[3]	2,090	–	–	–	–	–	–	2,090	2,032
David Y C Liao[2]	860	–	–	–	–	–	–	860	860
Huey Ru Lin[3]	950	–	–	–	–	–	–	950	378
Vincent H S Lo (Resigned on 5 May 2022)	–	–	–	–	–	–	–	–	275
Kenneth S Y Ng[3]	1,470	–	–	–	–	–	–	1,470	1,312
Xiao Bin Wang[3]	1,071	–	–	–	–	–	–	1,071	840
Michael W K Wu[3] (Resigned on 4 May 2023)	621	–	–	–	–	–	–	621	1,377
Past Directors	–	–	1,718	–	–	–	–	1,718	1,693
	11,022	13,025	2,858	3,701	2,957	4,426	2,957	40,946	35,333
2022	11,734	11,517	2,443	2,652	1,994	3,225	1,768		

Notes:
(1) In line with the HSBC Group's remuneration policy, no Director's fees were paid to those Directors who were full time employees of the Bank or its subsidiaries.
(2) Fees receivable as a Director of Hang Seng Bank Limited were surrendered to The Hongkong and Shanghai Banking Corporation Limited in accordance with the HSBC Group's internal policy.
(3) Independent Non-Executive Director.
(4) The Bank made contributions during 2023 into the retirement benefit schemes of which the Bank's Directors/past Directors are among their members. The aggregate amount of pensions received by the past Directors of the Bank under the relevant pension schemes amounted to HK$1.718m in 2023.
(5) The amount of variable bonus (deferred and non-deferred) comprises the cash and the estimated purchase cost of the award of HSBC Holdings plc Restricted Share.
(6) Benefits in kind mainly include estimated money value of other non-cash benefits: accommodation, car, insurance premium.
(7) Remunerations/emoluments for Executive Directors are for services in connection with management of the affairs of the Hang Seng Bank and its subsidiaries undertakings.

15. Auditors' remuneration

	2023	2022
Statutory audit services	35	28
Non-statutory audit services and others	15	16
	50	44

16. Tax expense

(a) Taxation in the Consolidated Income Statement represents:

	2023	2022 (restated)
Current tax – provision for Hong Kong profits tax		
Tax for the year	2,604	1,845
Adjustment in respect of prior years	(65)	(23)
	2,539	1,822
Current tax – taxation outside Hong Kong		
Tax for the year	194	204
Adjustment in respect of prior years	(5)	1
	189	205
Deferred tax (note 39(b))		
Origination and reversal of temporary differences	(461)	(518)
Total tax expense	2,267	1,509

The current tax provision is based on the estimated assessable profit for 2023, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2022: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in July 2023.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the entity's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the Organisation for Economic Cooperation and Development's ('OECD') Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024. Additionally, in the Asia-Pacific region the governments of Hong Kong and Singapore, have announced their intention to introduce Pillar Two legislation and a Qualified Domestic Minimum Top-up Tax ('QDMTT') from year 2025.

Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any additional tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any resulting tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to the UK tax authority.

For those jurisdictions that have announced their intention to introduce Pillar Two legislation and a QDMTT, a top-up tax liability is expected to arise in Hong Kong due to low effective tax rate, driven primarily by income from tax-exempt instruments. The exact impact on the entity is dependent upon the ongoing evolution of the relevant rules and guidance. The Hong Kong QDMTT is expected to be effective from 1 January 2025.

16. Tax expense continued

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

	2023	2022 (restated)
Profit before tax	20,105	12,781
Notional tax on profit before tax, calculated at Hong Kong profits tax rate of 16.5% (2022: 16.5%)	3,317	2,108
Tax effect of:		
– different tax rates in other countries/areas	30	11
– non-taxable income	(933)	(545)
– non-deductible expenses	18	22
– share of (profits)/losses of associates	(32)	2
– others	(133)	(89)
Actual charge for taxation	2,267	1,509

17. Earnings per share – basic and diluted

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

18. Dividends/Distributions

(a) Dividends attributable to the year:

	2023		2022	
	per share HK$	HK$m	per share HK$	HK$m
First interim	1.10	2,103	0.70	1,338
Second interim	1.10	2,103	0.70	1,338
Third interim	1.10	2,103	0.70	1,338
Fourth interim	3.20	6,118	2.00	3,824
	6.50	12,427	4.10	7,838

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

18. Dividends/Distributions continued

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

	2023	2022
Fourth interim dividend in respect of the previous year, approved and paid during the year, of HK$2.00 per share (2022: HK$1.80 per share)	3,824	3,441

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

	2023	2022
US$900 million fixed to floating rate perpetual capital instrument (coupon rate at 6.03 per cent and then three-month US dollar LIBOR plus 4.02 per cent from the first call date)	426	427
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.00 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)	282	283
	708	710

19. Segmental analysis

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

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

(a) Segmental result

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

19. Segmental analysis continued

(a) Segmental result continued

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[2]	Total
2023[1]						
Net interest income/(expense)	17,324	9,364	2,709	1,162	1,736	32,295
Net fee income/(expense)	3,091	1,165	313	(38)	389	4,920
Net income/(loss) from financial instruments measured at fair value through profit or loss	11,510	167	(46)	1,292	(1,593)	11,330
Gains less losses from financial investments	–	–	–	(3)	–	(3)
Dividend income	–	–	–	–	253	253
Insurance finance income/(expenses)	(10,805)	–	–	–	–	(10,805)
Insurance service results	2,049	–	–	–	–	2,049
– *of which:* – *insurance revenue*	*2,913*	–	–	–	–	*2,913*
– *insurance service expense*	*(864)*	–	–	–	–	*(864)*
Other operating income/(loss)	471	6	1	–	305	783
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	23,640	10,702	2,977	2,413	1,090	40,822
– *of which:* – *external*	*3,107*	*11,777*	*8,473*	*17,828*	*(363)*	*40,822*
– *inter-segment*	*20,533*	*(1,075)*	*(5,496)*	*(15,415)*	*1,453*	–
Change in expected credit losses and other credit impairment charges	(805)	(4,664)	(783)	4	–	(6,248)
Net operating income/(loss)	22,835	6,038	2,194	2,417	1,090	34,574
Operating expenses*	(8,642)	(3,596)	(786)	(740)	(860)	(14,624)
Impairment loss on intangible assets	–	–	–	–	(4)	(4)
Operating profit/(loss)	14,193	2,442	1,408	1,677	226	19,946
Net surplus/(deficit) on property revaluation	–	–	–	–	(34)	(34)
Share of profits/(losses) of associates	193	–	–	–	–	193
Profit/(loss) before tax	14,386	2,442	1,408	1,677	192	20,105
Share of profit/(loss) before tax	71.6%	12.1%	7.0%	8.3%	1.0%	100.0%
* *Depreciation/amortisation included in operating expenses*	(810)	(12)	(2)	(1)	(2,024)	(2,849)
As at 31 December 2023						
Total assets	605,718	278,658	207,882	578,704	21,132	1,692,094
of which: Gross loans and advances to customers	399,878	278,055	196,106	–	–	874,039
Total liabilities	1,066,147	266,297	60,266	101,330	29,870	1,523,910
of which: Customer deposits[3]	867,583	255,937	57,091	–	–	1,180,611
Interest in associates	2,363	–	–	–	–	2,363
Non-current assets acquired during the year	144	22	3	2	1,579	1,750

19. Segmental analysis continued

(a) Segmental result continued

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

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

2 Including inter-segment elimination, of which total assets amounted to HK$29.0bn as at 31 December 2023 (HK$33.9bn as at 31 December 2022) and total liabilities amounted to HK$19.5bn as at 31 December 2023 (HK$24.4bn as at 31 December 2022).

3 Customer deposits balances include current, savings and other deposit accounts as well as structured deposits.

19. Segmental analysis continued

(b) Information by geographical region

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

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

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

20. Maturity analysis of assets and liabilities

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

- Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'Not more than 1 month' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Over 5 years' time bucket. Non-financial assets mainly include premises, plant and equipment of HK$27,075m (2022: HK$27,498m), intangible assets of HK$4,335m (2022: HK$3,894m), investment properties of HK$12,000m (2022: HK$11,998m), bullion of HK$1,161m (2022: HK$6,887m) and reinsurance contract assets of HK$5,377m (2022: HK$5,663m). Non-financial liabilities mainly include insruance contracts liabilities of HK$167,264m (2022: HK$152,374m) and deferred tax liabilities of HK$3,675m (2022: HK$3,168m).
- Liabilities under insurance contracts and reinsurer's share of liabilities under insurance contracts are irrespective of contractual maturity included in the 'Over 5 years' time bucket in the maturity table provided below. An analysis of the present value of expected future cash flows of insurance contract liabilities and is provided under note 38(d). Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket.

20. 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
2023									
Assets									
Cash and balances at central banks	10,564	–	–	–	–	–	–	–	10,564
Trading assets	43,980	38	–	–	–	–	–	–	44,018
Derivative financial instruments	13,492	54	518	224	–	382	289	–	14,959
Financial assets mandatorily measured at fair value through profit or loss	2,174	1,085	1,125	1,390	898	11,756	24,432	114,012	156,872
Reverse repurchase agreements – non-trading	24,801	4,031	1,370	–	–	–	–	–	30,202
Placings with and advances to banks	30,443	37,236	8,934	135	1,655	5,353	–	–	83,756
Loans and advances to customers	82,964	53,016	67,842	58,189	48,914	103,300	152,434	293,747	860,406
Financial investments	90,644	116,427	83,157	13,724	17,126	30,577	46,966	7,171	405,792
Accrued income and other financial assets	17,307	5,950	5,196	1,461	218	301	139	96	30,668
Financial assets	316,369	217,837	168,142	75,123	68,811	151,669	224,260	415,026	1,637,237
Non-financial assets	–	–	–	–	–	–	–	54,857	54,857
Total assets	316,369	217,837	168,142	75,123	68,811	151,669	224,260	469,883	1,692,094
Liabilities									
Deposits from banks	19,690	17	–	–	–	–	–	–	19,707
Current, savings and other deposit accounts	810,766	184,211	128,202	10,685	5,485	9,677	4,036	–	1,153,062
Repurchase agreements – non-trading	11,799	968	–	–	–	–	–	–	12,767
Trading liabilities	35,227	–	–	–	–	–	–	–	35,227
Derivative financial instruments	13,785	56	40	55	231	10	301	–	14,478
Financial liabilities designated at fair value	13,888	13,842	7,953	3,725	2,268	3,696	–	261	45,633
Certificates of deposit in issue	115	2,571	3,630	2,198	1,343	–	–	–	9,857
Subordinated liabilities[1]	–	–	–	–	–	6,240	18,125	3,126	27,491
Accruals and other financial liabilities	16,531	7,996	5,275	359	292	713	608	96	31,870
Financial liabilities	921,801	209,661	145,100	17,022	9,619	20,336	23,070	3,483	1,350,092
Non-financial liabilities	–	–	–	–	–	–	–	173,818	173,818
Total liabilities	921,801	209,661	145,100	17,022	9,619	20,336	23,070	177,301	1,523,910

[1] The maturity for subordinated liabilities is based on the earliest date on which the Group can call, i.e. the callable date.

20. Maturity analysis of assets and liabilities continued

Maturity analysis of assets and liabilities continued

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
2022 (restated)									
Assets									
Cash and balances at central banks	17,609	–	–	–	–	–	–	–	17,609
Trading assets	47,373	–	–	–	–	–	–	–	47,373
Derivative financial instruments	20,705	512	153	27	400	456	508	–	22,761
Financial assets mandatorily measured at fair value through profit or loss	2,771	4,595	3,727	1,783	1,571	4,687	32,935	100,888	152,957
Reverse repurchase agreements – non-trading	25,731	12,908	3,725	–	–	–	–	–	42,364
Placings with and advances to banks	24,061	26,007	8,354	–	2,300	–	1,481	–	62,203
Loans and advances to customers	90,077	61,158	81,851	48,575	38,562	144,907	178,541	287,663	931,334
Financial investments	131,851	208,536	43,547	14,677	13,004	36,999	24,331	7,753	480,698
Accrued income and other financial assets	21,612	5,529	5,448	2,229	1,509	375	172	95	36,969
Financial assets	381,790	319,245	146,805	67,291	57,346	187,424	237,968	396,399	1,794,268
Non-financial assets	–	–	–	–	–	–	–	60,178	60,178
Total assets	381,790	319,245	146,805	67,291	57,346	187,424	237,968	456,577	1,854,446
Liabilities									
Deposits from banks	4,978	1	–	226	–	–	–	–	5,205
Current, savings and other deposit accounts	909,173	167,283	142,972	8,281	9,665	2,521	9,591	–	1,249,486
Repurchase agreements – non-trading	8,520	1,072	1,712	–	–	–	–	–	11,304
Trading liabilities	46,323	–	–	–	–	–	–	–	46,323
Derivative financial instruments	20,509	4	62	56	68	161	132	–	20,992
Financial liabilities designated at fair value	13,856	13,824	4,345	4,506	2,476	6,972	–	330	46,309
Certificates of deposit in issue	7,054	30,472	35,501	19,832	520	–	–	–	93,379
Subordinated liabilities	–	–	–	–	–	–	19,680	7,799	27,479
Accruals and other financial liabilities	17,269	7,625	5,618	1,730	1,595	468	641	161	35,107
Financial liabilities	1,027,682	220,281	190,210	34,631	14,324	10,122	30,044	8,290	1,535,584
Non-financial liabilities	–	–	–	–	–	–	–	158,864	158,864
Total liabilities	1,027,682	220,281	190,210	34,631	14,324	10,122	30,044	167,154	1,694,448

21. Cash and balances at central banks

	2023	2022
Cash in hand	7,899	8,505
Balances at central banks	2,665	9,104
	10,564	17,609

22. Trading assets

	2023	2022
Treasury bills	18,191	17,568
Other debt securities	25,757	29,749
Debt securities	43,948	47,317
Investment funds/equity shares	33	43
Reverse repurchase agreements	37	13
	44,018	47,373

23. Derivative financial instruments

Use of derivatives

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

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

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

	Notional contract amount			Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total
Foreign exchange	1,051,190	34,189	1,085,379	6,053	1,020	7,073	6,674	416	7,090
Interest rate	830,159	62,925	893,084	6,881	592	7,473	6,414	331	6,745
Equity and other	27,433	–	27,433	413	–	413	643	–	643
At 31 December 2023	1,908,782	97,114	2,005,896	13,347	1,612	14,959	13,731	747	14,478
Foreign exchange	1,166,859	13,920	1,180,779	10,649	1,491	12,140	10,973	12	10,985
Interest rate	697,187	78,127	775,314	9,472	667	10,139	9,231	485	9,716
Equity and other	25,738	–	25,738	482	–	482	291	–	291
At 31 December 2022	1,889,784	92,047	1,981,831	20,603	2,158	22,761	20,495	497	20,992

23. Derivative financial instruments continued

Trading derivatives

Most of the Group's trading derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Derivatives valued using models with unobservable inputs

Any initial gain or loss on financial instruments where the valuation dependent on unobservable parameters is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable. All derivatives that are part of qualifying hedging relationships have valuations based on observable market parameters.

Hedge accounting derivatives

The Group applies hedge accounting to manage the following risks: interest rate, foreign exchange and net investment in foreign operations. The Group uses derivatives (principally interest rate and currency swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the Group to optimise the overall costs to the Group of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities. The accounting treatment of hedging transactions varies according to the nature of the instrument hedged and the type of hedging transaction. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges.

(a) Fair value hedges

The Group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss, including debt securities held and issued.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

For some debt securities held, the Group manages interest rate risk in a dynamic risk management strategy. The assets in scope of this strategy are high quality fixed-rate debt securities, which may be sold to meet liquidity and funding requirements.

Hedging instrument by hedged risk

	Hedging instrument				
	Carrying amount				
Hedged risk	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Interest rate	**28,625**	**428**	**185**	**Derivatives**	**(405)**
At 31 December 2023	**28,625**	**428**	**185**		**(405)**

	Hedging instrument				
	Carrying amount				
Hedged risk	Notional amount	Assets	Liabilities	Balance sheet presentation	Change in fair value
Interest rate	23,177	579	17	Derivatives	544
At 31 December 2022	23,177	579	17		544

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

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

23. Derivative financial instruments continued

(a) Fair value hedges continued

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
Hedged risk	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Interest rate	28,551	–	(151)	–	Financial investments measured at fair value through other comprehensive income	390	(14)	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2023	28,551	–	(151)	–		390	(14)	

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

[1] Used in effectiveness testing, which comprise an amount attributable to the designated hedged risk that can be a risk component.

(b) Cash flow hedges

The Group's cash flow hedging instruments consist principally of interest rate swaps and cross currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign currency basis.

The Group applies macro cash flow hedging for interest rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The Group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross currency swaps; these are considered non-dynamic hedges.

23. Derivative financial instruments continued

(b) Cash flow hedges continued

Hedging instrument by hedged risk

	Hedging instrument					Hedged item	Ineffectiveness	
	Carrying amount							
Hedged risk	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**	**Change in fair value[3]**	**Recognised in profit and loss**	**Profit and loss presentation**
Foreign currency	**34,189**	**1,020**	**416**	**Derivatives**	**823**	**823**	–	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
Interest rate	**34,300**	**164**	**146**	**Derivatives**	**121**	**121**	–	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
At 31 December 2023	**68,489**	**1,184**	**562**		**944**	**944**	–	

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

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

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

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

23. Derivative financial instruments continued

(b) Cash flow hedges continued

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign exchange	Total
At 1 January 2023	(472)	(344)	(816)
Fair value gains/(losses)	121	823	944
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss	393	(475)	(82)
Income taxes	(85)	(57)	(142)
At 31 December 2023	(43)	(53)	(96)
At 1 January 2022	(2)	48	46
Fair value gains/(losses)	(570)	2,783	2,213
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss	8	(3,253)	(3,245)
Income taxes	92	78	170
At 31 December 2022	(472)	(344)	(816)

(c) Interest Rate Benchmark Reform

At 31 December 2022, the Hong Kong interbank offered rate ('HIBOR') was included given that the reform of this benchmark was considered possible. At 31 December 2023, HIBOR is no longer expected to be directly affected by ibors reform following the successful transition of all major LIBOR settings and the HKMA affirmation that there were no plans to discontinue HIBOR.

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

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

25. Placings with and advances to banks

	2023	2022 (restated)
Balances with banks	4,012	8,605
Placings with and advances to banks maturing within one month	26,433	15,458
Placings with and advances to banks maturing after one month but less than one year	47,962	36,662
Placings with and advances to banks maturing after one year	5,353	1,481
Less: Allowances for expected credit losses	(4)	(3)
	83,756	62,203
of which:		
Placings with and advances to central banks	6,901	9,129

There were no overdue advances, impaired advances and rescheduled advances to banks at 31 December 2023 (2022: Nil).

26. Loans and advances to customers

(a) Loans and advances to customers

	2023	2022
Gross loans and advances to customers	874,039	944,728
Less: Allowances for expected credit losses	(13,633)	(13,394)
	860,406	931,334
	%	%
Expected credit losses as a percentage of gross loans and advances to customers	1.56	1.42

	2023	2022
Gross impaired loans and advances	24,749	24,212
	%	%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	2.83	2.56

(b) Net investments in finance leases and hire purchase contracts

Loans and advances to customers include net investments in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 5 to 25 years, with an option for acquiring by the lessee the leased asset at nominal value at the end of the lease period. The total minimum lease payments receivable and their present value at the year-end are as follows:

	2023			2022		
	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	286	241	527	322	204	526
– over one year to two years	313	200	513	357	180	537
– over two years to three years	335	214	549	342	173	515
– over three years to four years	344	220	564	345	175	520
– over four years to five years	350	223	573	351	178	529
– after five years	5,658	1,623	7,281	5,532	1,294	6,826
	7,286	2,721	10,007	7,249	2,204	9,453
Allowances for expected credit losses	(83)			(112)		
Net investments in finance leases and hire purchase contracts	7,203			7,137		

27. Financial investments

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

Equity instruments measured at fair value through other comprehensive income

	2023	2022
Type of equity instruments		
– business facilitation	4,060	4,933

There was no overdue debt securities at 31 December 2023 (2022: Nil). The Group did not hold any asset–backed securities, mortgage–backed securities and collateralised debt obligations in 2023 and 2022.

There was no financial investments determined to be impaired at 31 December 2023 (2022: Nil).

28. Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2023	2022
Trading assets and financial investments	50,140	64,065
Amount of liabilities secured	48,226	64,296

The table above shows assets where a charge has been granted to secure liabilities on a legal and contractual basis. These transactions are conducted under terms that are usual and customary to collateralised transactions including sale and repurchase agreements and securities lending, derivative margining, and include assets pledged to cover short positions and to facilitate settlement processes with clearing houses.

28. Assets pledged, assets transferred and collateral received continued

Assets transferred

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

	2023		2022	
	Carrying amount of		Carrying amount of	
	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
Repurchase agreements	9,204	8,852	11,724	10,717
Securities lending agreements	1,317	–	1,830	–
	10,521	8,852	13,554	10,717

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

Collateral received

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

Fair value of collateral accepted as security for assets

	2023	2022
Fair value of collateral permitted to sell or repledge in the absence of default	31,561	42,867
Fair value of collateral actually sold or repledged	4,063	589

29. Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31 December 2023. The class of shares held is ordinary.

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

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

2 Represents a foreign–majority–owned contractual joint venture registered under the laws of People's Republic of China.

29. Subsidiaries continued

All the above companies are unlisted. All principal subsidiaries are held directly by the Bank except for Hang Seng Indexes Company Limited. The principal places of operation are the same as the places of incorporation.

Some of the principal subsidiaries are regulated banking and insurance entities and as such, are required to maintain certain minimum levels of capital and liquid assets to support their operations. The effect of these regulatory requirements is to limit the extent to which the subsidiaries may transfer funds to the Bank in the form of repayment of certain shareholder loans or cash dividends.

30. Interest in associates

	2023	2022
Share of net assets	**2,363**	2,256

The associates are:

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Group's interest in equity capital
Unlisted				
Barrowgate Limited	Hong Kong SAR	Property investment	HK$10,000	24.64%
GZHS Research Co., Ltd. (liquidated during 2023)	People's Republic of China	Conduct market/securities analysis and publish research reports	RMB44,680,000	33.00%

The interests in Barrowgate Limited are owned by a subsidiary of the Bank.

The above associates are accounted for using the equity method in the Consolidated Financial Statements as at 31 December 2023 and 2022.

During the year, the associate, GZHS Research Co., Ltd. was liquidated and the proceeds from liquidation net of the carrying amount of the investment at the date when the equity method was discontinued was recognised in the income statement as part of the other operating income/(loss).

	Assets	Liabilities	Equity	Revenue	Expenses	Profit or loss
2023						
100 per cent	**10,618**	**1,029**	**9,589**	**951**	**167**	**784**
The Group's effective interest	**2,616**	**253**	**2,363**	**234**	**41**	**193**
2022						
100 per cent	10,183	1,028	9,155	115	155	(40)
The Group's effective interest	2,509	253	2,256	28	38	(10)

At 31 December 2023, the investment in an associate was tested for impairment by estimating the recoverable amount of the investment based on 'Value in use'. No impairment loss was recognised since the recoverable amount exceeded the carrying amount (2022: Nil).

31. Property, plant and equipment

	2023	2022
Premises	24,268	24,287
Plant and equipment[1]	1,657	1,832
Other right of use assets	1,150	1,379
Premises, plant and equipment	27,075	27,498
Investment properties	12,000	11,998
	39,075	39,496

[1] Represents leasehold land and building assets for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.

(a) Movement in owned property, plant and equipment

	Premises	Investment properties	Plant and equipment	Total
2023				
Cost or valuation:				
At 1 January	24,287	11,998	4,275	40,560
Additions	6	57	301	364
Disposals and write–offs	–	–	(151)	(151)
Elimination of accumulated depreciation on revalued premises	(980)	–	–	(980)
Surplus/(Deficit) on revaluation:				
– credited to premises revaluation reserve	984	–	–	984
– debited to income statement	–	(57)	–	(57)
Transfer	(3)	3	–	–
Exchange adjustments and other	(26)	(1)	(10)	(37)
At 31 December	24,268	12,000	4,415	40,683
Accumulated depreciation:				
At 1 January	–	–	(2,443)	(2,443)
Charge for the year (note 12)	(980)	–	(465)	(1,445)
Attributable to assets sold or written off	–	–	144	144
Elimination of accumulated depreciation on revalued premises	980	–	–	980
Exchange adjustments and other	–	–	6	6
At 31 December	–	–	(2,758)	(2,758)
Net book value at 31 December	24,268	12,000	1,657	37,925
Representing:				
– measure at cost	–	–	1,657	1,657
– measure at valuation	24,268	12,000	–	36,268
	24,268	12,000	1,657	37,925

31. Property, plant and equipment continued

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

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

(b) Terms of lease

	Premises		Investment properties	
	2023	2022	**2023**	2022
Leaseholds				
Held in Hong Kong:				
– long leases (over 50 years unexpired)	**2,101**	2,081	**1,093**	1,093
– medium leases (10 to 50 years unexpired)	**21,301**	21,271	**10,536**	10,536
– short leases (below 10 years unexpired)	**–**	–	**369**	369
Held outside Hong Kong:				
– long leases (over 50 years unexpired)	**–**	–	**–**	–
– medium leases (10 to 50 years unexpired)	**866**	935	**2**	–
– short leases (below 10 years unexpired)	**–**	–	**–**	–
	24,268	24,287	**12,000**	11,998

31. Property, plant and equipment continued

(c) The carrying amount of all premises which have been stated in the balance sheet would have been as follows had they been stated at cost less accumulated depreciation:

	2023	2022
Cost less accumulated depreciation at 31 December	5,705	5,923

(d) The Group leases out investment properties under operating leases. The leases typically run for an initial period of 2 to 3 years, and may contain an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

	2023	2022
Direct operating expenses arising from investment properties	67	56
Direct operating expenses arising from investment properties that generated rental income	59	47

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

	2023	2022
Within one year	255	239
One to two years	150	114
Over two years to three years	49	24
Three to four years	22	–
Four to five years	22	–
After five years	4	–
	502	377

(e) Fair value measurement of properties

The Group's premises and investment properties were revalued by Cushman & Wakefield Limited ('C&W'), an independent professional valuer, before the year end, and were updated by C&W for any material changes in the valuation as at 31 December 2023. It was confirmed that there was no material change in value as at 31 Decemeber 2023 since the last valuation. The valuations were carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of valuations of premises and investment properties were market value which is consistent with the definition of fair value under HKFRS 13 *'Fair Value Measurement'* and take into account the highest and best use of the property from the perspective of market participants.

(i) Fair value hierarchy

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

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

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

Level 3: Fair value measured using significant unobservable inputs.

The resultant values of both investment properties and properties held for own use for the Group were Level 3 in the fair value hierarchy as defined in HKFRS 13 *'Fair Value Measurement'*. During the year ended 31 December 2023, there were no transfers into or out of Level 3 (2022: Nil).

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

The fair values of the majorities of properties owned and occupied by the Group or vacant investment properties in Hong Kong and the PRC are determined using Market Approach assuming sale with immediate vacant possession and by making reference to comparable sales evidence.

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

31. 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 31(a). The following table details the gains or losses recognised in profit or loss in relation to the Level 3 premises and investment properties:

	Premises	Investment properties
2023		
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period		
– other operating income/(loss)	–	(23)
– net surplus/(deficit) on property revaluation	–	(34)
– depreciation of premises, plant and equipment	(980)	–
2022		
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period		
– other operating income/(loss)	–	(26)
– net surplus/(deficit) on property revaluation	–	(108)
– depreciation of premises, plant and equipment	(1,008)	–

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

	Valuation technique(s)	Unobservable input(s)	Range 2023	Range 2022
Investment properties	Income approach	Market yields (reversionary yield)	2.20% to 4.90%	2.20% to 4.90%
		Market rental	HK$6.6 to HK$312 per square foot	HK$14.6 to HK$316 per square foot
	Market approach	Premium (discount) on characteristic of the properties	–20% to +20%	–20% to +20%
Premises	Income approach	Market yields (reversionary yield)	5.00% to 6.50%	N/A
		Market rental	HK$38.5 to HK$74.8 per square foot	N/A
	Market approach	Premium (discount) on characteristic of the properties	–20% to +20%	–20% to +20%

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

32. Intangible assets

	2023	2022 (restated)
Internally developed software	3,870	3,485
Acquired software	136	80
Goodwill	329	329
	4,335	3,894

(a) Goodwill

	2023	2022
At 1 January and at 31 December	329	329

Goodwill arising from acquisition of the remaining 50 per cent of Hang Seng Life Limited from HSBC Insurance (Asia–Pacific) Holdings Limited amounted to HK$329m is allocated to cash–generating units of Life Insurance – Hang Seng Insurance Company Limited ('HSIC') for the purpose of impairment testing.

During 2023, there was no impairment of goodwill (2022: Nil). Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of cash generating unit based on HSIC's appraisal value (which is deemed to be its value in use) and carrying value of its net assets.

For the purposes of the impairment test, only a part of the appraisal value was calculated which was determined by discounting future earnings expected from the current business, taking into account factors such as future mortality and morbidity, lapse rates, levels of expenses, risk free rate and risk discount rate that reflects the investment risk and operational risk attributable to the respective long–term insurance business uncertainty in future investment return under different economic scenarios.

(b) Movement of internally developed application software and acquired software

	2023	2022
Cost:		
At 1 January	6,174	4,711
Additions	1,386	1,500
Amounts written off	(1)	(5)
Exchange differences	(13)	(32)
At 31 December	7,546	6,174
Accumulated amortisation:		
At 1 January	(2,609)	(1,917)
Charge for the year (note 12)	(934)	(702)
Impairment	(4)	(11)
Amounts written off	1	5
Exchange differences	6	16
At 31 December	(3,540)	(2,609)
Net book value at 31 December	4,006	3,565

33. Other assets

	2023	2022 (restated)
Items in the course of collection from other banks	3,748	5,598
Bullion	1,161	6,887
Prepayments and accrued income	7,356	5,820
Acceptances and endorsements	9,531	12,799
Less: Allowances for expected credit losses	(31)	(23)
Reinsurance contract assets	5,377	5,663
Settlement accounts	3,917	8,119
Cash collateral	3,653	3,105
Other accounts	5,040	3,533
	39,752	51,501

Other accounts included 'Assets held for sale' of HK$247m (2022: HK$217m).

34. Current, savings and other deposit accounts

	2023	2022
Current, savings and other deposit accounts:		
– as stated in Consolidated Balance Sheet	1,153,062	1,249,486
– structured deposits reported as financial liabilities designated at fair value (note 36)	27,549	37,138
	1,180,611	1,286,624
By type:		
– demand and current accounts	82,597	103,397
– savings accounts	546,220	656,190
– time and other deposits	551,794	527,037
	1,180,611	1,286,624

35. Trading liabilities

	2023	2022
Short positions in securities	35,227	46,323

36. Financial liabilities designated at fair value

	2023	2022
Certificates of deposit in issue	14,646	6,945
Structured deposits (note 34)	27,549	37,138
Other structured debt securities in issue	3,174	1,893
Liabilities to customers under investment contracts	264	333
	45,633	46,309

At 31 December 2023, the accumulated gain in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was HK$2m (2022: accumulated loss HK$9m).

37. Other liabilities

	2023	2022 (restated)
Items in the course of transmission to other banks	4,536	5,632
Accruals	9,299	7,578
Acceptances and endorsements	9,531	12,799
Reinsurance contract liabilities	1,110	1,112
Retirement benefit liabilities (note 46(a))	76	414
Settlement accounts	1,598	1,400
Cash collateral	2,177	3,766
Lease liabilities	1,206	1,426
Other	4,226	3,913
	33,759	38,040

38. Insurance contract liabilities

(a) Movements in carrying amounts of insurance contracts – Analysis by remaining coverage and incurred claims

	Life direct participating contracts				Life other contracts				
	Liabilities for remaining coverage				Liabilities for remaining coverage				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
2023									
Opening assets	–	–	–	–	(9)	–	4	(5)	(5)
Opening liabilities	143,320	72	453	143,845	8,208	120	201	8,529	152,374
Net opening balance at 1 January 2023	143,320	72	453	143,845	8,199	120	205	8,524	152,369
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(500)	–	–	(500)	(70)	–	–	(70)	(570)
Other contracts	(2,278)	–	–	(2,278)	(65)	–	–	(65)	(2,343)
Total insurance revenue (note 9(a))	(2,778)	–	–	(2,778)	(135)	–	–	(135)	(2,913)
Insurance service expenses									
Incurred claims and other insurance service expenses	–	(1)	520	519	–	(35)	104	69	588
Amortisation of insurance acquisition cash flows	228	–	–	228	31	–	–	31	259
Losses and reversal of losses on onerous contracts	–	(37)	–	(37)	–	44	–	44	7
Adjustments to liabilities for incurred claims	–	–	9	9	–	–	1	1	10
Total insurance service expenses (note 9(a))	228	(38)	529	719	31	9	105	145	864
Investment components	(11,309)	–	11,309	–	(1,140)	–	1,140	–	–
Insurance service results (note 9(a))	(13,859)	(38)	11,838	(2,059)	(1,244)	9	1,245	10	(2,049)
Net finance (income)/expenses from insurance contracts (note 9(b))	10,348	–	–	10,348	452	5	–	457	10,805
Effect of movements in exchange rates	(56)	(1)	(5)	(62)	(17)	(1)	(3)	(21)	(83)
Total changes in the statement of profit or loss and OCI	(3,567)	(39)	11,833	8,227	(809)	13	1,242	446	8,673
Cash flows									
Premiums received	19,056	–	–	19,056	997	–	–	997	20,053
Claims and other insurance service expenses paid, including investment components	121	–	(11,811)	(11,690)	(1)	–	(1,313)	(1,314)	(13,004)
Insurance acquisition cash flows	(783)	–	–	(783)	(54)	–	–	(54)	(837)
Transfer	32	(32)	–	–	3	(3)	–	–	–
Total cash flows	18,426	(32)	(11,811)	6,583	945	(3)	(1,313)	(371)	6,212
Others	–	–	–	–	–	–	–	–	–
Net closing balance at 31 December 2023	158,179	1	475	158,655	8,335	130	134	8,599	167,254
Closing assets	–	–	–	–	(22)	2	10	(10)	(10)
Closing liabilities	158,179	1	475	158,655	8,357	128	124	8,609	167,264
Net closing balance at 31 December 2023	158,179	1	475	158,655	8,335	130	134	8,599	167,254

38. Insurance contract liabilities continued

(a) Movements in carrying amounts of insurance contracts – Analysis by remaining coverage and incurred claims continued

	Life direct participating contracts				Life other contracts				
	Liabilities for remaining coverage				Liabilities for remaining coverage				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
2022									
Opening assets	–	–	–	–	(9)	–	2	(7)	(7)
Opening liabilities	154,108	135	387	154,630	10,126	53	90	10,269	164,899
Net opening balance at 1 January 2022	154,108	135	387	154,630	10,117	53	92	10,262	164,892
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(1,610)	–	–	(1,610)	(172)	–	–	(172)	(1,782)
Other contracts	(919)	–	–	(919)	(65)	–	–	(65)	(984)
Total insurance revenue (note 9(a))	(2,529)	–	–	(2,529)	(237)	–	–	(237)	(2,766)
Insurance service expenses									
Incurred claims and other insurance service expenses	–	(1)	535	534	–	(2)	287	285	819
Amortisation of insurance acquisition cash flows	43	–	–	43	6	–	–	6	49
Losses and reversal of losses on onerous contracts	–	154	–	154	–	72	–	72	226
Adjustments to liabilities for incurred claims	–	–	11	11	–	–	1	1	12
Total insurance service expenses (note 9(a))	43	153	546	742	6	70	288	364	1,106
Investment components	(5,764)	–	5,764	–	(1,420)	–	1,420	–	–
Insurance service results (note 9(a))	(8,250)	153	6,310	(1,787)	(1,651)	70	1,708	127	(1,660)
Net finance (income)/expenses from insurance contracts (note 9(b))	(21,658)	–	–	(21,658)	(1,065)	3	–	(1,062)	(22,720)
Effect of movements in exchange rates	(372)	(1)	(1)	(374)	(90)	–	(2)	(92)	(466)
Total changes in the statement of profit or loss and OCI	(30,280)	152	6,309	(23,819)	(2,806)	73	1,706	(1,027)	(24,846)
Cash flows									
Premiums received	19,962	–	–	19,962	938	–	–	938	20,900
Claims and other insurance service expenses paid, including investment components	80	–	(6,243)	(6,163)	1	–	(1,593)	(1,592)	(7,755)
Insurance acquisition cash flows	(780)	–	–	(780)	(57)	–	–	(57)	(837)
Transfer	215	(215)	–	–	6	(6)	–	–	–
Total cash flows	19,477	(215)	(6,243)	13,019	888	(6)	(1,593)	(711)	12,308
Others	15	–	–	15	–	–	–	–	15
Net closing balance at 31 December 2022	143,320	72	453	143,845	8,199	120	205	8,524	152,369
Closing assets	–	–	–	–	(9)	–	4	(5)	(5)
Closing liabilities	143,320	72	453	143,845	8,208	120	201	8,529	152,374
Net closing balance at 31 December 2022	143,320	72	453	143,845	8,199	120	205	8,524	152,369

38. Insurance contract liabilities continued

(b) Movements in carrying amounts of insurance contracts – Analysis by measurement component

	Life direct participating contracts					Life other contracts					
			Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Total
2023											
Opening assets	–	–	–	–	–	(31)	2	16	8	(5)	(5)
Opening liabilities	125,681	210	12,810	5,144	143,845	7,427	24	932	146	8,529	152,374
Net opening balance at 1 January 2023	125,681	210	12,810	5,144	143,845	7,396	26	948	154	8,524	152,369
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	–	–	(135)	(1,727)	(1,862)	–	–	(34)	(16)	(50)	(1,912)
Change in risk adjustment for non-financial risk for risk expired	–	(8)	–	–	(8)	–	(2)	–	–	(2)	(10)
Experience adjustments and other	(161)	–	–	–	(161)	17	–	–	–	17	(144)
	(161)	(8)	(135)	(1,727)	(2,031)	17	(2)	(34)	(16)	(35)	(2,066)
Changes that relate to future services											
Contracts initially recognised in the year	(1,971)	43	–	1,928	–	(56)	2	–	55	1	1
Changes in estimates that adjust the CSM	(2,070)	177	(94)	1,987	–	34	5	10	(49)	–	–
Changes in estimates that result in losses and reversal of losses on onerous contracts	(38)	1	–	–	(37)	42	1	–	–	43	6
	(4,079)	221	(94)	3,915	(37)	20	8	10	6	44	7
Changes that relate to past services											
Adjustments to liabilities for incurred claims	9	–	–	–	9	1	–	–	–	1	10
Insurance service result (note 9(a))	(4,231)	213	(229)	2,188	(2,059)	38	6	(24)	(10)	10	(2,049)
Net finance (income)/ expenses from insurance contracts (note 9(b))	10,348	–	–	–	10,348	433	–	20	4	457	10,805
Effect of movements in exchange rates	(59)	–	(4)	1	(62)	(21)	–	–	–	(21)	(83)
Total changes in the statement of profit or loss and OCI	6,058	213	(233)	2,189	8,227	450	6	(4)	(6)	446	8,673
Cash flows											
Premiums received	19,056	–	–	–	19,056	997	–	–	–	997	20,053
Claims and other insurance service expenses paid, including investment components	(11,690)	–	–	–	(11,690)	(1,314)	–	–	–	(1,314)	(13,004)
Insurance acquisition cash flows	(783)	–	–	–	(783)	(54)	–	–	–	(54)	(837)
Total cash flows	6,583	–	–	–	6,583	(371)	–	–	–	(371)	6,212
Others	–	–	–	–	–	–	–	–	–	–	–
Net closing balance at 31 December 2023	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254
Closing assets	–	–	–	–	–	(49)	3	23	13	(10)	(10)
Closing liabilities	138,322	423	12,577	7,333	158,655	7,524	29	921	135	8,609	167,264
Net closing balance at 31 December 2023	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254

38. Insurance contract liabilities continued

(b) Movements in carrying amounts of insurance contracts – Analysis by measurement component continued

	Life direct participating contracts					Life other contracts					
			Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Total
2022											
Opening assets	–	–	–	–	–	(37)	2	20	8	(7)	(7)
Opening liabilities	133,135	200	16,900	4,395	154,630	9,094	27	1,009	139	10,269	164,899
Net opening balance at 1 January 2022	133,135	200	16,900	4,395	154,630	9,057	29	1,029	147	10,262	164,892
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	–	–	(1,003)	(607)	(1,610)	–	–	(112)	(35)	(147)	(1,757)
Change in risk adjustment for non-financial risk for risk expired	–	(7)	–	–	(7)	–	(3)	–	–	(3)	(10)
Experience adjustments and other	(120)	–	(215)	–	(335)	204	–	–	–	204	(131)
	(120)	(7)	(1,218)	(607)	(1,952)	204	(3)	(112)	(35)	54	(1,898)
Changes that relate to future services											
Contracts initially recognised in the year	(1,974)	53	–	1,921	–	(62)	4	–	62	4	4
Changes in estimates that adjust the CSM	3,466	(35)	(2,871)	(560)	–	8	(4)	18	(22)	–	–
Changes in estimates that result in losses and reversal of losses on onerous contracts	154	–	–	–	154	68	–	–	–	68	222
	1,646	18	(2,871)	1,361	154	14	–	18	40	72	226
Changes that relate to past services											
Adjustments to liabilities for incurred claims	11	–	–	–	11	1	–	–	–	1	12
Insurance service results (note 9(a))	1,537	11	(4,089)	754	(1,787)	219	(3)	(94)	5	127	(1,660)
Net finance (income)/ expenses from insurance contracts (note 9(b))	(21,648)	–	–	(10)	(21,658)	(1,079)	–	13	4	(1,062)	(22,720)
Effect of movements in exchange rates	(362)	(1)	(1)	(10)	(374)	(90)	–	–	(2)	(92)	(466)
Total changes in the statement of profit or loss and OCI	(20,473)	10	(4,090)	734	(23,819)	(950)	(3)	(81)	7	(1,027)	(24,846)
Cash flows											
Premiums received	19,962	–	–	–	19,962	938	–	–	–	938	20,900
Claims and other insurance service expenses paid, including investment components	(6,163)	–	–	–	(6,163)	(1,592)	–	–	–	(1,592)	(7,755)
Insurance acquisition cash flows	(780)	–	–	–	(780)	(57)	–	–	–	(57)	(837)
Total cash flows	13,019	–	–	–	13,019	(711)	–	–	–	(711)	12,308
Others	–	–	–	15	15	–	–	–	–	–	15
Net closing balance at 31 December 2022	125,681	210	12,810	5,144	143,845	7,396	26	948	154	8,524	152,369
Closing assets	–	–	–	–	–	(31)	2	16	8	(5)	(5)
Closing liabilities	125,681	210	12,810	5,144	143,845	7,427	24	932	146	8,529	152,374
Net closing balance at 31 December 2022	125,681	210	12,810	5,144	143,845	7,396	26	948	154	8,524	152,369

38. Insurance contract liabilities continued

(c) Effect of contracts initially recognised in the year

	2023			2022		
	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total
Life direct participating contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	1,028	–	1,028	391	–	391
– Claims and other insurance service expenses payable	17,906	–	17,906	13,683	–	13,683
Estimates of present value of cash inflows	(20,905)	–	(20,905)	(16,048)	–	(16,048)
Risk adjustment for non-financial risk	43	–	43	53	–	53
CSM	1,928	–	1,928	1,921	–	1,921
Losses recognised on initial recognition	–	–	–	–	–	–
Life other contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	4	–	4	5	–	5
– Claims and other insurance service expenses payable	533	114	647	213	76	289
Estimates of present value of cash inflows	(594)	(113)	(707)	(284)	(72)	(356)
Risk adjustment for non-financial risk	2	–	2	4	–	4
CSM	55	–	55	62	–	62
Losses recognised on initial recognition	–	1	1	–	4	4
	–	1	1	–	4	4

38. Insurance contract liabilities continued

(d) Present value of expected future cash flows of insurance contract liabilities and contractual service margin

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
At 31 December 2023									
Insurance liability future cash flows									
Life direct participating contracts	(6,417)	(174)	6,048	4,988	7,848	19,453	32,302	74,274	138,322
Life other contracts	441	596	229	204	806	1,483	1,403	2,313	7,475
Insurance liability future cash flows	(5,976)	422	6,277	5,192	8,654	20,936	33,705	76,587	145,797
Remaining contractual service margin									
Life direct participating contracts	1,651	1,514	1,389	1,288	1,184	4,616	4,843	3,425	19,910
Life other contracts	116	108	99	89	78	262	209	131	1,092
Remaining contractual service margin	1,767	1,622	1,488	1,377	1,262	4,878	5,052	3,556	21,002
At 31 December 2022									
Insurance liability future cash flows									
Life direct participating contracts	(11,595)	(3,671)	(889)	5,294	4,688	26,470	42,318	63,066	125,681
Life other contracts	304	113	630	275	213	1,519	1,200	3,142	7,396
Insurance liability future cash flows	(11,291)	(3,558)	(259)	5,569	4,901	27,989	43,518	66,208	133,077
Remaining contractual service margin									
Life direct participating contracts	1,510	1,376	1,257	1,153	1,059	4,111	4,419	3,069	17,954
Life other contracts	115	104	97	89	81	274	214	128	1,102
Remaining contractual service margin	1,625	1,480	1,354	1,242	1,140	4,385	4,633	3,197	19,056

(e) Discount rates

The Group has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for an illiquidity premium as set out in the note 2(t). The blended average of discount rates used within our insurance manufacturing entities are as follows:

	2023		2022	
	HKD	USD	HKD	USD
10-year discount rate (%)	4.16	4.62	4.70	4.80
20-year discount rate (%)	4.34	5.06	4.76	5.17

39. Current tax and deferred tax

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

	2023	2022 (restated)
Included in 'Other assets':		
Current taxation recoverable	6	2
Deferred tax assets	2,092	1,574
	2,098	1,576
Current tax liabilities:		
Provision for Hong Kong profits tax	942	240
Provision for taxation outside Hong Kong	48	149
	990	389
Deferred tax liabilities	3,675	3,168
	4,665	3,557

(b) Deferred tax assets and liabilities recognised

The major components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Expected credit losses	Fair value adjustments for financial assets at FVOCI	Cash flow hedge	Other	Total
At 1 January 2023	806	3,722	(1,225)	(137)	(161)	(1,411)	1,594
Exchange adjustment and others	2	(3)	8	–	–	51	58
Charged/(credited) to income statement (note 16(a))	91	(128)	70	–	–	(494)	(461)
Charged/(credited) to other comprehensive income	–	163	–	70	142	17	392
At 31 December 2023	899	3,754	(1,147)	(67)	(19)	(1,837)	1,583
At 31 December 2021, as previously reported	711	3,743	(852)	3	9	3,598	7,212
Impact on transition to HKFRS 17	–	–	25	–	–	(4,977)	(4,952)
At 1 January 2022, as restated	711	3,743	(827)	3	9	(1,379)	2,260
Exchange adjustment and others	2	(8)	25	(3)	–	29	45
Charged/(credited) to income statement (note 16(a))	93	(131)	(423)	–	–	(57)	(518)
Charged/(credited) to other comprehensive income	–	118	–	(137)	(170)	(4)	(193)
At 31 December 2022	806	3,722	(1,225)	(137)	(161)	(1,411)	1,594

(c) Deferred tax assets not recognised

The amounts of unused tax losses for which no deferred tax asset is recognised in the balance sheet are HK$449m (2022: HK$445m). Of these amounts, HK$201m (2022: HK$161m) have no expiry date and the remaining will expire within 5 years.

There was no other temporary difference for which no deferred tax asset is recognised in the balance sheet as at 31 December 2023 (2022: Nil).

(d) Deferred tax liabilities not recognised

There were no deferred tax liabilities not recognised as at 31 December 2023 (2022: Nil).

40. Subordinated liabilities

Nominal value	Description	2023	2022
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,126**	3,119
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,991**	4,988
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,994**	2,992
		27,491	27,479
Representing:			
– measured at amortised cost		**27,491**	27,479

1 Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.
2 Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.
3 Interest rate at three-month HK dollar HIBOR plus 1.342 per cent per annum, payable quarterly, to the maturity date.
4 Interest rate at compounded SOFR plus 2.0478 per cent per annum, payable quarterly, to the maturity date.
5 Interest rate at three-month HK dollar HIBOR plus 1.000 per cent per annum, payable quarterly, to the maturity date.
6 Interest rate at three-month HK dollar HIBOR plus 1.680 per cent per annum, payable quarterly, to the maturity date.

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during 2023 (2022: Nil).

41. Share capital

	2023		2022	
	No. of shares	HK$	No. of shares	HK$
Ordinary shares, issued and fully paid				
At 1 January and 31 December	**1,911,842,736**	**9,658**	1,911,842,736	9,658

42. Other equity instruments

Nominal value	Description	2023	2022
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**7,044**	7,044
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[2]	**4,700**	4,700
		11,744	11,744

1 Coupon rate is 6.03% and then three-month US dollar LIBOR plus 4.02 per cent from the first call date.
2 Coupon rate is 6.00% and then three-month US dollar LIBOR plus 4.06 per cent from the first call date.

The additional tier 1 capital instruments above are held by our immediate holding company. They, which are qualified as loss-absorbing capacity, are perpetual and subordinated. The coupon payments of these capital instruments may be cancelled at the sole discretion of the Bank. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

43. Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	2023	2022
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	1,882	1,727
Performance and other guarantees[2]	21,087	23,216
Other contingent liabilities	4	16
	22,973	24,959
Commitments[3]		
Documentary credits and short-term trade-related transactions	3,422	1,995
Forward asset purchases and forward forward deposits placed	15,087	11,824
Undrawn formal standby facilities, credit lines and other commitments to lend	485,123	505,019
	503,632	518,838

1 Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.

2 Performance and other guarantees include re-insurance letters of credit related to particular transactions, trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment, performance bonds, bid bonds, standby letters of credit and other transaction-related guarantees.

3 Includes commitments of HK$345,932m at 31 December 2023 (2022: HK$357,265m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.

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

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

(b) Contingencies

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

44. Other commitments

Capital commitments

At 31 December 2023, capital commitments, mainly related to the commitment for renovation of branches and offices, were HK$239m (2022: HK$270m).

45. Offsetting of financial assets and financial liabilities

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

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

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

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting in the balance sheet			Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net Amounts reported in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[1]	Balance sheet total
Financial assets[2]									
Derivatives	12,727	–	12,727	(5,906)	(279)	(2,033)	4,509	2,232	14,959
Reverse repos, stock borrowing and similar agreements classified as:	27,569	–	27,569	–	(27,569)	–	–	2,670	30,239
– trading assets	37	–	37	–	(37)	–	–	–	37
– non-trading assets	27,532	–	27,532	–	(27,532)	–	–	2,670	30,202
Other assets	1,062	(495)	567	–	–	–	567	–	567
At 31 December 2023	41,358	(495)	40,863	(5,906)	(27,848)	(2,033)	5,076	4,902	45,765[2]
Derivatives	19,816	–	19,816	(9,537)	(256)	(3,405)	6,618	2,945	22,761
Reverse repos, stock borrowing and similar agreements classified as:	40,704	–	40,704	–	(40,691)	–	13	1,673	42,377
– trading assets	13	–	13	–	–	–	13	–	13
– non-trading assets	40,691	–	40,691	–	(40,691)	–	–	1,673	42,364
Other assets	953	(891)	62	–	–	–	62	–	62
At 31 December 2022 (restated)	61,473	(891)	60,582	(9,537)	(40,947)	(3,405)	6,693	4,618	65,200[2]
Financial liabilities[3]									
Derivatives	11,848	–	11,848	(5,906)	(396)	(2,429)	3,117	2,630	14,478
Repos, stock lending and similar agreements classified as:	6,903	–	6,903	–	(6,903)	–	–	5,864	12,767
– trading liabilities	–	–	–	–	–	–	–	–	–
– non-trading liabilities	6,903	–	6,903	–	(6,903)	–	–	5,864	12,767
Other liabilities	495	(495)	–	–	–	–	–	–	–
At 31 December 2023	19,246	(495)	18,751	(5,906)	(7,299)	(2,429)	3,117	8,494	27,245[3]
Derivatives	17,954	–	17,954	(9,537)	(321)	(2,511)	5,585	3,038	20,992
Repos, stock lending and similar agreements classified as:	5,548	–	5,548	–	(5,399)	(149)	–	5,756	11,304
– trading liabilities	–	–	–	–	–	–	–	–	–
– non-trading liabilities	5,548	–	5,548	–	(5,399)	(149)	–	5,756	11,304
Other liabilities	999	(891)	108	–	–	–	108	–	108
At 31 December 2022 (restated)	24,501	(891)	23,610	(9,537)	(5,720)	(2,660)	5,693	8,794	32,404[3]

1 These exposures continue to be secured by financial collateral, but the Bank may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.
2 Amounts presented in the balance sheet included balances due from HSBC entities of HK$14,533m (2022: HK$11,113m).
3 Amounts presented in the balance sheet included balances due to HSBC entities of HK$5,533m (2022: HK$11,371m).

46. Employee retirement benefits

(a) Defined benefit scheme

The Group operates one defined benefit scheme, the Hang Seng Bank Limited Defined Benefit Scheme ('HSBDBS'), which covers about 13 per cent of the Group's employees. HSBDBS was closed to new entrants with effect from 1 April 1999. Since the defined benefit section of the HSBDBS is a final salary lump sum scheme, its exposure to longevity risk and interest rate risk is limited.

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

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

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

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

	2023	2022
At 1 January	(875)	(857)
Actuarial gains/(losses) recognised in other comprehensive income	89	(18)
At 31 December	(786)	(875)

(ii) Movements in the scheme assets and present value of the defined benefit obligations

Net asset/(liability) under defined benefit scheme

	Fair value of scheme assets	Present value of defined benefit obligations	Net defined benefit (liability)/asset
At 1 January 2023	3,513	(3,927)	(414)
Current service cost (note 12)	–	(115)	(115)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 12)	115	(127)	(12)
Remeasurement effects recognised in other comprehensive income	203	(114)	89
– Return on plan assets	203	–	203
– Actuarial gains/(losses) from changes in demographic assumptions	–	–	–
– Actuarial gains/(losses) from changes in financial assumptions	–	(93)	(93)
– Actuarial gains/(losses) from experience	–	(21)	(21)
Contributions by the Group	383	–	383
Benefits paid	(566)	566	–
Others	(7)	7	–
Administrative costs and taxes paid by scheme (note 12)	–	(7)	(7)
At 31 December 2023	3,641	(3,717)	(76)
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 37)	3,641	(3,717)	(76)
Present value of defined benefit obligation relating to:			
– Actives		(3,614)	
– Pensioners		(103)	

The Group expects to make HK$82m of contributions to defined benefit scheme during 2024 (2022: expected contributions for 2023 was HK$90m).

46. Employee retirement benefits continued

(a) Defined benefit scheme continued

(ii) Movements in the scheme assets and present value of the defined benefit obligations continued

Net asset/(liability) under defined benefit scheme continued

	Fair value of scheme assets	Present value of defined benefit obligations	Net defined benefit (liability)/asset
At 1 January 2022	4,361	(4,700)	(339)
Current service cost (note 12)	–	(138)	(138)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 12)	53	(56)	(3)
Remeasurement effects recognised in other comprehensive income	(404)	386	(18)
– Return on plan assets	(404)	–	(404)
– Actuarial gains/(losses) from changes in demographic assumptions	–	(2)	(2)
– Actuarial gains/(losses) from changes in financial assumptions	–	481	481
– Actuarial gains/(losses) from experience	–	(93)	(93)
Contributions by the Group	92	–	92
Benefits paid	(589)	589	–
Administrative costs and taxes paid by scheme (note 12)	–	(8)	(8)
At 31 December 2022	3,513	(3,927)	(414)
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 37)	3,513	(3,927)	(414)
Present value of defined benefit obligation relating to:			
– Actives		(3,823)	
– Pensioners		(104)	

(iii) Benefits expected to be paid

Benefits expected to be paid from the HSBDBS to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

	2024	2025	2026	2027	2028	2029-2033
HSBDBS	323	437	390	448	397	2,006

The duration of the HSBDBS is 5.3 years (2022: 5.4 years) under the disclosure assumptions adopted.

(iv) Fair value of scheme assets by asset classes

	2023			2022		
	Value	**Quoted market price in active market**	**Of which placed with the Group and HSBC Group**	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group
Fair value of scheme assets						
– Index ETFs/Funds	**1,518**	**1,518**	**–**	1,367	1,367	–
– Bonds	**2,073**	**2,073**	**–**	2,106	2,106	–
– Other*	**50**	**50**	**6**	40	40	20
	3,641	**3,641**	**6**	3,513	3,513	20

* Other mainly consists of cash and deposits.

46. Employee retirement benefits continued

(a) Defined benefit scheme continued

(v) Key actuarial financial assumptions

The scheme is funded defined benefit scheme and is administered by trustees with asset held separately from those of the Group. The latest annual actuarial valuation as at 31 December 2023 were performed by Mandy Chan, Fellow of the Society of Actuaries of the United States, of Mercer (Hong Kong) Limited, using the Attained Age Method.

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

On an on-going basis, the value of the scheme assets of HSBDBS represented 108 per cent (2022: 95 per cent) of the benefits accrued to scheme members, after allowing for expected future increases in salaries, and the resulting surplus amounted to HK$261m (deficits in 2022: HK$193m). On a wind-up basis, the actuarial value of the HSBDBS assets represented 108 per cent (2022: 95 per cent) of the members' vested benefits, based on salaries at that date, and the resulting surplus amounted to HK$264m (deficits in 2022: HK$189m).

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

The present value of the scheme's obligation was a final lump sum salary and payment of HK$3,717m (2022: HK$3,927m). The principal actuarial assumptions used to calculate the Group's obligations for the HSBDBS for each year, and used as the basis for measuring the expenses in relation to the scheme, were as follows:

Principal actuarial assumptions for the scheme

	2023	2022
	%	%
Discount rate	2.90	3.40
Expected rate of salary increases	4.00	4.00

The Group determines the discount rates to be applied to its obligations in consultation with the scheme's actuaries, on the basis of current average yields of high quality (AA rated or equivalent) debt instruments, with maturities consistent with those of the defined benefit obligations. Where there is not a deep market in corporate bonds, government bond yields have been used, and this is the case for HSBDBS. The yield curve has been extrapolated where the term of the liabilities is longer than the duration of available bonds and the discount rate used then takes into account the term of the liabilities and the shape of the yield curve.

(vi) Actuarial assumption sensitivities

The discount rate and rate of salary increase are sensitive to changes in market conditions arising during the reporting year. The following table shows the effect of changes in these on the HSBDBS:

The effect of changes in key assumptions:

	HSBDBS	
	2023	2022
Discount rate		
– change in retirement benefit obligation at year end from a 25bps increase	(47)	(50)
– change in retirement benefit obligation at year end from a 25bps decrease	48	51
Rate of salary increase		
– change in retirement benefit obligation at year end from a 25bps increase	51	56
– change in retirement benefit obligation at year end from a 25bps decrease	(52)	(55)

46. Employee retirement benefits continued

(b) Defined contribution schemes

The principal defined contribution scheme for Group employees joining on or after 1 April 1999 is the HSBC Group Hong Kong Local Staff Defined Contribution Scheme. The Bank and relevant Group entities also participate in mandatory provident fund schemes ('MPF schemes') registered under the Hong Kong Mandatory Provident Fund Ordinance, which are also defined contribution schemes.

Contributions made in accordance with the relevant scheme rules to these defined contribution schemes (including MPF schemes) are charged to the income statement as below:

	2023	2022
Amounts charged to the income statement (note 12)	372	355

Under the schemes, the Group's contributions are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully. The forfeited contributions utilised during the year or available at the year-end to reduce future contributions is HK$0.03m (2022: HK$0.03m).

47. Share-based payments

The Group participated in various share compensation plans as listed in the following tables that are operated by the HSBC Group for acquiring of HSBC Holdings plc shares. These are to be settled by the delivery of shares of HSBC Holdings plc.

Share awards and option plans

Award	Policy
Deferred Share Awards	– Vesting of awards generally subject to continued employment with the Group – Vesting often staggered over a period ranging from three to seven years – Vested shares may be subject to a retention requirement post-vesting – Awards are generally subject to the rules of Share Plan and any performance conditions – Awards granted from 2010 onwards are subject to a malus provision prior to vesting – Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post-vesting
International Employee Share Purchase Plan ('Sharematch')	– The plan was introduced in 2013 – Shares are purchased in the market each quarter up to a maximum of GBP750, or the equivalent in local currency – Matching shares are added at a ratio of one free share for every three purchased – Matching awards vest subject to continued employment and retention of the purchased shares for a maximum period of two years and nine months

47. Share-based payments continued

(a) HSBC share awards

	2023 Number ('000)	2022 Number ('000)
Outstanding at 1 January	1,344	1,506
Additions during the year	771	917
Less: Released in the year	(770)	(942)
Less: Lapsed in the year	(69)	(137)
Outstanding at 31 December	1,276	1,344

The closing price of the HSBC Holdings plc share at 31 December 2023 was £6.36 (2022: £5.16).

The weighted average remaining vesting period as at 31 December 2023 was 1.09 years (2022: 1.13 years).

(b) Calculation of fair value

The fair value of a share award is based on the share price at the date of the grant.

(c) Reconciliation of total incentive awards to income statement charge

	2023	2022
Equity-settled share-based payments	33	31
Cash-settled share-based payments	3	4
Income statement charge for restricted share awards (note 12)	36	35

The above charge was computed from the fair values of the share-based payment transaction when contracted, that arose under employee share awards made in accordance with HSBC's reward structures

48. Material related-party transactions

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

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

The Group used the IT service of, and shared an automated teller machine network with, its immediate holding company. The Group also shares the costs of certain IT projects with and used certain processing services of fellow subsidiaries. These costs are reported under 'General and administrative expenses – other operating expenses' in the income statement.

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

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

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

During 2023, the Bank has paid coupons on AT1 capital instruments of HK$708m to its immediate holding company (2022: HK$710m).

The aggregate amount of income and expenses arising from these transactions during the year, the balances of amounts due to and from the relevant related parties, and the total contract amount of off-balance sheet transactions at the year-end are as follows:

	Immediate holding company[1]		Subsidiaries of immediate holding company[1]		Other fellow subsidiaries	
(re-presented)	2023	2022	2023	2022	2023	2022
Interest income	127	25	274	168	233	144
Interest expense	(2,789)	(1,867)	(91)	(34)	–	–
Other operating income/(loss)	155	114	4	(22)	(16)	(42)
Operating expenses*	(171)	(900)	(233)	(273)	(4,782)	(3,533)
Amounts due from:						
Reverse repurchase agreements – non-trading	–	266	8,676	1,602	–	–
Placings with and advances to banks	5,814	6,244	30	4,262	5,623	4,766
Derivative financial instruments	5,776	9,025	62	158	19	62
Other assets	1,339	7,060	50	33	1,203	643
	12,929	22,595	8,818	6,055	6,845	5,471
Amounts due to:						
Current, savings and other deposit accounts	–	–	1,846	2,011	–	–
Deposits from banks	1,568	498	–	–	7	–
Repurchase agreements – non-trading	387	2,516	–	1,108	–	–
Derivative financial instruments	5,067	7,539	38	91	40	117
Certificates of deposit in issue	–	68,002	–	–	–	–
Subordinated liabilities	27,491	27,479	–	–	–	–
Other liabilities	1,547	2,150	33	46	854	528
	36,060	108,184	1,917	3,256	901	645
Derivative contracts:						
Contract amount	624,010	571,468	13,209	13,559	13,634	12,204
Guarantees	390	389	3	3	–	–
Commitments	–	–	800	800	–	–

* Representing the operating expenses paid to immediate holding company and its subsidiaries and other fellow subsidiaries, of which HK$1,080m was capitalised as intangible assets in the Group's consolidated balance sheet (2022: HK$1,207m).

1 The disclosure has been enhanced to report balances with immediate holding company and subsidiaries of immediate holding company separately. Comparatives have been re-presented accordingly.

48. Material related-party transactions continued

(b) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and Bank. It includes members of the Board of Directors and Executive Committee of the Bank. During the year, the members of the Bank's Executive Committee has decreased from 20 to 18. The amount of remuneration paid to key management personnel was pro-rata from the date of being appointed as Directors of the Bank or members of Executive Committee, if any. The aggregate amount of remuneration of the key management personnel during the year are as follows:

	2023	2022
Salaries, allowances and benefits in kind	72	70
Retirement scheme contributions	8	6
Variable bonuses		
– Cash bonus	23	21
– Share-based payment	16	16
	119	113

(c) Material transactions with key management personnel

During the year, the Group provided credit facilities to and accepted deposits from key management personnel of the Bank and its holding companies, their close family members and companies controlled or significantly influenced by them. The credit facilities extended and deposit taken were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

Material transactions conducted with key management personnel of the Bank and its holding companies and parties related to them are as follows:

	2023	2022
For the year		
Interest income	1,834	886
Interest expense	41	20
Fees and commission income	32	8
Maximum aggregate amount of loans and advances	44,731	56,894
At the year-end		
Loans and advances	39,618	40,764
Deposits	6,795	8,655
Guarantees issued	338	339
Undrawn commitments	2,242	2,614

Change in expected credit losses recognised for the year and impairment allowances against balances outstanding at the end of the year as required under HKFRS 9, in respect of Key Management Personnel were insignificant in both years.

The Group adheres to Part 8 of Banking (Exposure Limits) Rules made under Section 81A of Banking Ordinance regarding exposures to connected parties.

48. Material related-party transactions continued

(d) Loans to Directors

Particulars of loans to directors disclosed pursuant to section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulations for the year ended 31 December 2023 are shown as below.

	2023		2022	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
– Loans and advances	12,351	10,965	15,460	9,999
– Guarantees issued	3	2	8	3

The above relevant transactions in 2023 and 2022 were all transacted by the Bank.

(e) Directors' material interests in transactions, arrangements or contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank had, directly or indirectly, a material interest, subsisted as at the end of the year or at any time during the year.

(f) Associates

The Group provides certain banking and financial services to associates, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. Transactions and balances during the year with associates were as follows:

	2023		2022	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
Amounts due from associates#	9,419	9,157	9,184	8,093
Amounts due to associates#	1,309	1,073	1,762	876

For the year	2023	2022
Total operating income	355	141

Representing associates in HSBC Group

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

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

(g) Ultimate holding company

The Group participates in various share option and share plans operated by HSBC Holdings plc whereby share options or shares of HSBC Holdings plc are granted to employees of the Group. As disclosed in note 47, the Group recognises an expense in respect of these share options and share awards. The cost borne by the ultimate holding company in respect of these share options and share awards is treated as a capital contribution and is recorded under 'Other reserves'. The balance of this reserve as at 31 December 2023 amounted to HK$666m comprising HK$668m relating to share option schemes and negative reserve of HK$2m relating to share award schemes (2022: HK$684m comprising HK$668m relating to share option schemes and HK$16m relating to share award schemes).

49. Fair value of financial instruments

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

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. For inactive markets, the Group sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

The majority of financial instruments measured at fair value are in Global Markets ('GM'). GM's fair value governance structure comprises its Finance function and Valuation Committee. Finance is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Valuation Committees, which consist of independent support functions.

Financial liabilities measured at fair value

In certain circumstances, the Group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to the Group's liabilities. The change in fair value of issued debt securities attributable to the Group's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using an appropriate market discount curve. The difference in the valuations is attributable to the Group's own credit spread. This methodology is applied consistently across all securities.

Structured notes issued and certain other hybrid instruments are included within 'Financial liabilities designated at fair value' and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the Group can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

49. Fair value of financial instruments continued

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

The accounting policies, control framework and hierarchy used to determine fair values in 2023 are consistent with those applied for the Annual Report 2022. The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Third party total	Amounts with HSBC entities*	Total
Recurring fair value measurements						
2023						
Assets						
Trading assets	39,932	4,086	–	44,018	–	44,018
Derivative financial instruments	286	8,816	–	9,102	5,857	14,959
Financial assets mandatorily measured at fair value through profit or loss	22,688	106,709	27,475	156,872	–	156,872
Financial investments	258,834	45,448	1,072	305,354	–	305,354
Liabilities						
Trading liabilities	35,227	–	–	35,227	–	35,227
Derivative financial instruments	82	9,251	–	9,333	5,145	14,478
Financial liabilities designated at fair value	–	31,884	13,749	45,633	–	45,633
2022 (restated)						
Assets						
Trading assets	41,117	6,256	–	47,373	–	47,373
Derivative financial instruments	258	13,254	4	13,516	9,245	22,761
Financial assets mandatorily measured at fair value through profit or loss	21,980	110,697	20,280	152,957	–	152,957
Financial investments	296,176	63,182	1,633	360,991	–	360,991
Liabilities						
Trading liabilities	46,323	–	–	46,323	–	46,323
Derivative financial instruments	10	13,231	4	13,245	7,747	20,992
Financial liabilities designated at fair value	–	24,287	22,022	46,309	–	46,309

* Included derivative contracts transacted with HSBC entities which are mainly classified within Level 2 of the valuation hierarchy.

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
2023							
Transfer from Level 1 to Level 2	6,903	1,961	–	–	–	–	–
Transfer from Level 2 to Level 1	4,916	2,092	–	–	–	–	–
2022							
Transfer from Level 1 to Level 2	9,922	310	–	–	–	–	–
Transfer from Level 2 to Level 1	19,467	866	–	–	–	–	–

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

49. Fair value of financial instruments continued

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

Fair value adjustments

We adopt the use of fair value adjustments when we take into consideration additional factors not incorporated within the valuation model that would otherwise be considered by a market participant. We classify fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to GM. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Bid-offer

HKFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of, or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the Group's valuation model.

Credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and the Group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the Group may default, and that the Group may not pay the full market value of the transactions.

The Group calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group entities.

The Group calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying the PD of the Group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products the Group uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the Group or the counterparty.

49. Fair value of financial instruments continued

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

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets			Liabilities	
	Financial investments	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Financial liabilities designated at fair value	Derivatives
2023					
Investment funds and equity shares	**1,072**	**24,798**	**–**	**–**	**–**
Debt securities	**–**	**2,677**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**13,749**	**–**
	1,072	**27,475**	**–**	**13,749**	**–**
2022					
Investment funds and equity shares	1,633	20,280	–	–	–
Structured notes	–	–	–	22,022	–
Derivatives	–	–	4	–	4
	1,633	20,280	4	22,022	4

49. Fair value of financial instruments continued

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

Movement in Level 3 financial instruments

	Assets			Liabilities	
	Financial investments	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Financial liabilities designated at fair value	Derivatives
At 1 January 2023	1,633	20,280	4	22,022	4
Total gains or losses recognised in profit or loss					
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	1,149	(4)	(76)	(4)
Total gains or losses recognised in other comprehensive income					
– fair value losses	(350)	–	–	–	–
– exchange differences	–	–	–	77	–
Purchases	–	3,931	–	–	–
Issues/deposit taking	–	–	–	58,066	–
Sales	(211)	–	–	–	–
Settlements	–	(562)	–	(65,346)	–
Transfers out	–	–	–	(1,105)	–
Transfers in	–	2,677	–	111	–
At 31 December 2023	1,072	27,475	–	13,749	–
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period					
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	1,122	–	(9)	–

49. Fair value of financial instruments continued

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

Movement in Level 3 financial instruments continued

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

In 2023, there was transfer in to level 3 financial assets mandatorily measured at fair value through profit or loss which are primarily attributable to re-assessment of the observability of valuation inputs and price transparency. The transfer in/out of Level 3 derivative assets and liabilities were predominantly resulted from change in observability in equity volatilities and stock correlation. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatility for pricing the instrument.

49. Fair value of financial instruments continued

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

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

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2023				
Investment funds and equity shares	1,239	(1,239)	79	(79)
Debt securities	134	(134)	–	–
	1,373	(1,373)	79	(79)
2022				
Investment funds and equity shares	1,015	(1,015)	82	(82)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

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

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value at 31 December 2023	Valuation technique(s)	Unobservable input(s)	Range
Assets				
Investment funds and equity shares	25,870	Net asset value	N/A	N/A
		Market-comparable approach	Earnings Multiple	30 - 36
			Liquidity Discount	50%
Debt securities	2,677	Discounted cash flow	Credit Spread	0.27% – 5.74%
Liabilities				
Structured notes	13,749	Option model	Equity Volatility	8.75% – 8.90%
			Equity Correlation	40.66% – 94.00%
			FX Volatility	3.23% – 18.43%

	Fair value at 31 December 2022	Valuation technique(s)	Unobservable input(s)	Range
Assets				
Investment funds and equity shares	21,913	Net asset value	N/A	N/A
		Market-comparable approach	Earnings Multiple	31 – 34
			P/B ratios	0.26 – 1.30
			Liquidity Discount	10% – 60%
Derivatives	4	Option model	Equity Volatility	58.89% – 58.89%
Liabilities				
Structured notes	22,022	Option model	Equity Volatility	21.38% – 92.18%
			FX Volatility	3.81% – 14.13%
Derivatives	4	Option model	Equity Volatility	58.89% – 58.89%

49. Fair value of financial instruments continued

(b) Fair value of financial instruments not carried at fair value

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	Carrying amount	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Fair value
2023					
Financial Assets					
Reverse repurchase agreements – non-trading	30,202	–	30,197	–	30,197
Placings with and advances to banks	83,756	–	83,761	–	83,761
Loans and advances to customers	860,406	–	–	844,587	844,587
Financial investments – at amortised cost	100,438	83,130	16,917	–	100,047
Financial Liabilities					
Deposits from banks	19,707	–	19,707	–	19,707
Current, savings and other deposit accounts	1,153,062	–	1,153,614	–	1,153,614
Repurchase agreements – non-trading	12,767	–	12,768	–	12,768
Certificates of deposit in issue	9,857	–	9,856	–	9,856
Subordinated liabilities	27,491	–	27,795	–	27,795
2022 (restated)					
Financial Assets					
Reverse repurchase agreements – non-trading	42,364	–	42,360	–	42,360
Placings with and advances to banks	62,203	–	62,206	–	62,206
Loans and advances to customers	931,334	–	–	926,376	926,376
Financial investments – at amortised cost	119,707	101,618	16,926	–	118,544
Financial Liabilities					
Deposits from banks	5,205	–	5,205	–	5,205
Current, savings and other deposit accounts	1,249,486	–	1,249,574	–	1,249,574
Repurchase agreements – non-trading	11,304	–	11,304	–	11,304
Certificates of deposit in issue	93,379	–	93,390	–	93,390
Subordinated liabilities	27,479	–	27,053	–	27,053

Other financial instruments not carried at fair value are typically short-term in nature or reprice to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

The calculation of fair values of financial instruments that are not carried at fair value is described below.

The calculation of fair value incorporates the Group's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Group expects to flow from the instruments' cash flows over their expected future lives.

49. Fair value of financial instruments continued

(b) Fair value of financial instruments not carried at fair value continued

(i) Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

(ii) Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Group believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(iii) Deposits from banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(iv) Debt securities in issue

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the Group as a going concern.

50. Unconsolidated structured entities

The Group enters into transactions with unconsolidated structured entities in the normal course of business through the holding of collective investment funds established by HSBC Group and third parties. The majority of these funds held related to the insurance business. At 31 December 2023, the total asset value of unconsolidated structured entities amounted to HK$2,253.3bn (2022: HK$5,146.8bn). The Group's interests were recognised in financial assets mandatorily measured at fair value through profit or loss of HK$28,963m and trading assets of HK$33m (2022: financial assets mandatorily measured at fair value through profit or loss of HK$23,920m and trading assets of HK$43m). These collective investment funds include investment in unit trusts, private equity funds and infrastructure funds which provide the Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment funds regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments and the outstanding capital commitments of HK$15,087m (2022: HK$11,824m) to invest in several alternative investment funds for funding future alternative invesments in global companies under respective investment mandates.

51. Immediate and ultimate holding companies

The immediate and ultimate holding companies of the Bank are The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong) and HSBC Holdings plc (incorporated in England) respectively.

52. Bank balance sheet and statement of changes in equity

Bank balance sheet at 31 December

	2023	2022
ASSETS		
Cash and balances at central banks	10,549	17,595
Trading assets	42,655	44,006
Derivative financial instruments	12,723	19,786
Financial assets mandatorily measured at fair value through profit or loss	156	77
Reverse repurchase agreements – non-trading	29,152	42,364
Placings with and advances to banks	69,826	49,112
Loans and advances to customers	805,807	852,555
Amounts due from subsidiaries	10,635	15,070
Financial investments	372,849	446,223
Investments in subsidiaries	19,883	19,929
Investment properties	4,282	4,262
Premises, plant and equipment	23,634	23,965
Intangible assets	3,620	3,345
Other assets	19,255	29,869
Total assets	1,425,026	1,568,158
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	18,397	4,244
Current, savings and other deposit accounts	1,104,289	1,192,590
Repurchase agreements – non-trading	6,903	3,032
Trading liabilities	35,227	46,323
Derivative financial instruments	11,815	17,945
Financial liabilities designated at fair value	37,035	23,246
Certificates of deposit in issue	1,340	78,027
Amounts due to subsidiaries	5,289	5,906
Other liabilities	21,469	22,159
Current tax liabilities	568	214
Deferred tax liabilities	2,895	2,407
Subordinated liabilities	27,491	27,479
Total liabilities	1,272,718	1,423,572
Equity		
Share capital	9,658	9,658
Retained profits	114,042	107,065
Other equity instruments	11,744	11,744
Other reserves	16,864	16,119
Shareholders' equity	152,308	144,586
Total equity and liabilities	1,425,026	1,568,158

Irene Y L Lee *Independent Non-executive Chairman*
Diana Cesar *Executive Director and Chief Executive*

Say Pin Saw *Executive Director and Chief Financial Officer*

52. Bank balance sheet and statement of changes in equity continued

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

				Other reserves					
	Share capital	Other equity instruments	Retained profits[1]	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]	Total equity
At 1 January 2023	9,658	11,744	107,065	14,612	1,628	(816)	18	677	144,586
Profit for the year	–	–	17,216	–	–	–	–	–	17,216
Other comprehensive income (net of tax)	–	–	72	761	(190)	720	–	8	1,371
Debt instruments at fair value through other comprehensive income	–	–	–	–	358	–	–	–	358
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(548)	–	–	–	(548)
Cash flow hedges	–	–	–	–	–	720	–	–	720
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	8	8
Property revaluation	–	–	–	761	–	–	–	–	761
Actuarial gains on defined benefit plans	–	–	74	–	–	–	–	–	74
Others	–	–	(2)	–	–	–	–	–	(2)
Total comprehensive income for the year	–	–	17,288	761	(190)	720	–	8	18,587
Dividends paid[3]	–	–	(10,133)	–	–	–	–	–	(10,133)
Coupons paid on AT1 capital instruments	–	–	(708)	–	–	–	–	–	(708)
Movement in respect of share-based payment arrangements	–	–	(6)	–	–	–	–	(18)	(24)
Others	–	–	–	–	–	–	–	–	–
Transfers[4]	–	–	536	(573)	37	–	–	–	–
At 31 December 2023	9,658	11,744	114,042	14,800	1,475	(96)	18	667	152,308

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

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

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

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

52. Bank balance sheet and statement of changes in equity continued

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

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

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

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

The Bank and its banking subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios and which could therefore potentially restrict the amount of realised profits which can be distributed to shareholders.

At 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance (Cap. 622) amounted to HK$108,316m (2022: HK$101,000m). After considering regulatory capital requirement and business development needs, an amount of HK$6,118m (2022: HK$3,824m) has been declared as the proposed fourth interim dividend in respect of the financial year ended 31 December 2023. The difference between the aggregate distributable reserves of HK$108,316m and the Bank's retained profit of HK$114,042m as reported above mainly represents the exclusion of unrealised revaluation gain on investment properties.

53. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 21 February 2024.