2024 Financial Statements

Consolidated Financial Statements

Consolidated Income Statement

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

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

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

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

Consolidated Statement of Comprehensive Income

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

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

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

Consolidated Balance Sheet

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

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

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

SAW Say Pin *Executive Director and Chief Financial Officer*

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

Consolidated Statement of Changes in Equity

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

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

1 Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$734m.

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

3 The Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m in June 2024 and has redeemed and repaid another AT1 capital instrument of US$900m and issued new AT1 capital instrument of US$900m in September 2024.

4 Dividends paid represented the payment of fourth interim dividend of 2023 and the first three interim dividends of 2024 amounted to HK$6,118m and HK$6,805m respectively.

5 In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which was completed in September 2024.

6 This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.

Consolidated Statement of Changes in Equity continued

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

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

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

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

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

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

Consolidated Statement of Cash Flows

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

	2024	2023
Profit before tax	**21,014**	20,105
Adjustments for non-cash items:		
Depreciation and amortisation	**3,133**	2,849
Net interest income	**(30,784)**	(32,295)
Dividend income	**(207)**	(253)
Gains less losses from financial investments	**(53)**	3
Share of (profits)/losses of associate	**(39)**	(193)
Net (surplus)/deficit on property revaluation	**583**	34
Change in expected credit losses and other credit impairment charges	**4,773**	6,248
Impairment loss on intangible assets	**13**	4
Loans and advances written off net of recoveries	**(6,138)**	(5,371)
Elimination of exchange differences and other non-cash items	**4,141**	(8,753)
Changes in operating assets and liabilities		
Change in trading assets	**4,378**	3,355
Change in derivative financial instruments	**(6,203)**	1,288
Change in financial assets mandatorily measured at fair value through profit or loss	**(8,719)**	(3,869)
Change in reverse repurchase agreements – non-trading maturing after one month	**1,888**	2,009
Change in placings with and advances to banks maturing after one month	**21,898**	(15,171)
Change in loans and advances to customers	**41,930**	70,689
Change in financial investments of insurance business	**763**	(306)
Change in other assets	**1,205**	16,441
Change in repurchase agreements – non-trading	**6,620**	1,463
Change in deposits from banks	**(5,428)**	14,502
Change in current, savings and other deposit accounts	**85,162**	(96,424)
Change in trading liabilities	**(17,134)**	(11,096)
Change in financial liabilities designated at fair value	**(6,997)**	(676)
Change in certificates of deposit in issue	**(4,909)**	(83,522)
Change in other liabilities	**9,559**	(2,317)
Change in insurance contract liabilities	**21,217**	14,890
Interest received	**51,828**	49,842
Interest paid	**(31,881)**	(26,058)
Dividends received from financial investments	**207**	247
Tax paid	**(3,169)**	(2,129)
Net cash from/(used in) operating activities	**158,651**	(84,464)

Consolidated Statement of Cash Flows continued

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

	2024	2023
Purchase of financial investments	**(841,534)**	(783,419)
Proceeds from sale or redemption of financial investments	**759,463**	825,715
Repayment of shareholders' loan from an associated company	**7**	10
Purchase of property, plant and equipment and intangible assets	**(1,748)**	(1,750)
Net cash from/(used in) investing activities	**(83,812)**	40,556
Interest paid for subordinated liabilities	**(1,732)**	(1,700)
Principal and interest elements of lease payments	**(500)**	(515)
Dividends paid	**(12,923)**	(10,133)
Share buy-back	**(3,006)**	–
Coupons paid to holder on AT1 capital instruments	**(699)**	(708)
Net cash from/(used in) financing activities	**(18,860)**	(13,056)
Net increase/(decrease) in cash and cash equivalents	**55,979**	(56,964)
Cash and cash equivalents at 1 January	**97,191**	152,818
Exchange differences in respect of cash and cash equivalents	**(2,590)**	1,337
Cash and cash equivalents at 31 December	**150,580**	97,191
Cash and cash equivalents comprise[1]:		
– Cash and sight balances at central banks	**10,433**	10,564
– Balances with banks	**4,129**	4,012
– Items in the course of collection from other banks	**3,634**	3,748
– Placings with and advances to banks maturing within one month	**40,677**	26,433
– Reverse repurchase agreements with banks maturing within one month	**19,041**	13,876
– Treasury bills	**91,351**	37,985
– Net settlement accounts and cash collateral to banks within one month	**(14,236)**	5,109
– Less: items in the course of transmission to other banks	**(4,449)**	(4,536)
	150,580	97,191

1 At 31 December 2024, the amount of cash and cash equivalents that was not available for use by the Group was HK$13,041m (31 December 2023: HK$10,561m), of which HK$4,696m (31 December 2023: HK$4,333m) was related to mandatory deposits at central banks.

for the year ended 31 December 2024
(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 2024. The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ('HKFRS'), the provisions of the Hong Kong Companies Ordinance and accounting principles generally accepted in Hong Kong. HKFRS comprises Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ('HKAS'), and interpretations issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). In addition, these financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the material accounting policies adopted by the Group is set out in note 2.

Standards adopted during the year ended 31 December 2024

There were no new standards applied during the year ended 31 December 2024. During 2024, the Group adopted a number of amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

(b) Presentation of information

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

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

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

(c) Consolidation

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

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

All intra-group transactions are eliminated on consolidation.

The consolidated financial statements also include the attributable share of the results and reserves of associates based on the financial statements prepared at dates not earlier than three months prior to 31 December 2024.

(d) Future Accounting Developments

The HKICPA has published minor amendments to HKFRSs that are effective from 1 January 2025, including Lack of Exchangeability (Amendments to HKAS 21). The Group expect they will have an insignificant effect, when adopted, on the consolidated financial statements.

Amendments to HKFRS 9 'Financial Instruments' and HKFRS 7 'Financial Instruments: Disclosures'

In August 2024, the HKICPA issued Amendments to HKFRS 9 *'Financial Instruments'* and HKFRS 7 *'Financial Instruments: Disclosures'*, effective for annual reporting periods beginning on or after 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarifications regarding the classification of financial assets that contain contractual terms that change the timing and amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The Group is undertaking an assessment of the potential impact.

1. Basis of preparation continued

(d) Future Accounting Developments continued

HKFRS 18 'Presentation and Disclosure in Financial Statements'

In July 2024, the HKICPA issued HKFRS 18 *'Presentation and Disclosure in Financial Statements'*, effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about a company's financial performance. It will replace HKAS 1 *'Presentation of Financial Statements'* but carries over many requirements from this HKAS unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While HKFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement. The Group is currently assessing the impact before developing a more detailed implementation plan.

(e) Critical estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical estimates and judgements in note 2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purpose of 2024 consolidated financial statements. Management's selection of the Group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on the Group's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2024 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term.

2. Material accounting policies

(a) Interest income and expense

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

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

(b) Non-interest income

(i) Fee income

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

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

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

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

2. Material accounting policies continued

(b) Non-interest income continued

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

(a) Net trading income

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

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

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

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

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

(iii) Dividend income

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

(iv) Rental income from operating lease

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

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

(c) Cash and cash equivalents

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

(d) Valuation of financial instruments

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

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

2. Material accounting policies continued

(d) Valuation of financial instruments continued

Critical estimates and judgements

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

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

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

(e) Financial instruments measured at amortised cost

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

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

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

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

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

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

(h) Financial instruments designated at fair value

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

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

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

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

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

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

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

2. Material accounting policies continued

(h) Financial instruments designated at fair value continued

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

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

– Financial liabilities that contain both deposit and derivative components

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

(i) Derivatives

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

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

Hedge accounting

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

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

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

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

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

2. Material accounting policies continued

(i) Derivatives continued

Hedge accounting continued

(iii) Hedge effectiveness testing

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

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

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

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

(iv) Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are economic hedges entered into as part of documented interest rate management strategies for which hedge accounting is not applied. Changes in fair value of non-qualifying hedges do not alter the cash flows expected as part of the documented management strategies for both the non-qualifying hedge instruments and the related assets and liabilities. All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

(j) Impairment of amortised cost and FVOCI financial assets

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

Credit-impaired (stage 3)

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

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

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

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

Write-off

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

2. Material accounting policies continued

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

Forbearance

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

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

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

Loan modifications other than forborne loans

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

Significant increase in credit risk (stage 2)

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

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

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

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

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

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

2. Material accounting policies continued

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

Significant increase in credit risk (stage 2) continued

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

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

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

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

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

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

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

Purchased or originated credit-impaired ('POCI')

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

Movement between stages

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

Measurement of ECL

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

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

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

2. Material accounting policies continued

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

Measurement of ECL continued

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

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

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

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

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

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

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

Period over which ECL is measured

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

2. Material accounting policies continued

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

Measurement of ECL continued

Forward-looking economic forecast

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

Critical estimates and judgements

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

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

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

(k) Sale and repurchase agreements

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

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

(l) Subsidiaries and associates

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

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

(m) Investment properties

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

2. Material accounting policies continued

(n) Premises, plant and equipment

(i) Land and buildings

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

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

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

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

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

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

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

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

(ii) Other plant and equipment

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

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

(o) Goodwill and intangible assets

(i) Goodwill

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

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

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

2. Material accounting policies continued

(o) Goodwill and intangible assets continued

(ii) Intangible assets

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

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

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

(p) Income tax

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

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

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

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

(q) Employee benefits

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

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

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

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

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

2. Material accounting policies continued

(r) Provisions

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

(s) Financial guarantees

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

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

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

Financial guarantees are included within other liabilities.

(t) Insurance contracts

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

Aggregation of insurance contracts

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

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

Fulfilment cash flows

The fulfilment cash flows comprise the followings:

(i) Best estimates of future cash flows

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

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

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

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

2. Material accounting policies continued

(t) Insurance contracts continued

Fulfilment cash flows continued

(iii) Risk adjustment for non-financial risk

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

The 75th percentile is estimated to be equivalent to 59th percentile (2023: 60th percentile) for the insurance manufacturing entity in the group, determined on the basis of an ultimate view over the whole duration of the of the contract.

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

Measurement models

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

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

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

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

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

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

CSM and coverage units

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

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

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

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

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

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

Insurance service result

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

2. Material accounting policies continued

(t) Insurance contracts continued

Insurance finance income and expenses

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

Presentation

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

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

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

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

Critical estimates and judgements

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

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

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

(u) Investment contracts without discretionary participation feature

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

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

(v) Translation of foreign currencies

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

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

2. Material accounting policies continued

(v) Translation of foreign currencies continued

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

(w) Operating segments

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

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

(x) Related parties

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

3. Net interest income

	2024	2023
Interest income arising from:		
– financial assets measured at amortised cost	**47,539**	48,879
– financial assets measured at FVOCI	**13,738**	10,560
	61,277	59,439
Interest expense arising from financial liabilities measured at amortised cost	**(30,493)**	(27,144)
Net interest income	**30,784**	32,295
of which:		
– interest income from impaired financial assets	**1,584**	920
– interest expense from subordinated liabilities	**(1,716)**	(1,707)

4. Net fee income

	2024	2023
– securities broking and related services	**1,526**	1,277
– retail investment funds	**1,350**	968
– insurance	**298**	357
– account services	**484**	465
– remittances	**246**	247
– cards	**3,063**	3,107
– credit facilities	**359**	394
– imports/exports	**235**	254
– other	**687**	760
Fee income	**8,248**	7,829
Fee expense	**(2,932)**	(2,909)
	5,316	4,920
of which:		
Net fee income on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**1,342**	1,442
– fee income	**4,160**	4,244
– fee expense	**(2,818)**	(2,802)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**773**	813
– fee income	**950**	902
– fee expense	**(177)**	(89)

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

	2024	2023
Net trading income	**2,978**	1,632
– trading income	**2,982**	1,646
– other trading expense from ineffective fair value hedges	**(4)**	(14)
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(1,976)**	(1,763)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**6,637**	11,478
– financial assets/liabilities held to meet liabilities under insurance contracts	**6,646**	11,476
– liabilities to customers under investment contracts	**(9)**	2
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**42**	(17)
	7,681	11,330

6. Gains less losses from financial investments

	2024	2023
Net gains/(losses) from disposal of debt securities measured at FVOCI	**53**	(3)

7. Dividend income

	2024	2023
Dividend income for financial investments measured at FVOCI:		
– listed investments	**189**	211
– unlisted investments	**18**	42
	207	253

There was nil (2023: HK$11m) dividend recognised related to equity investments measured at fair value through other comprehensive income which were disposed of during the year.

8. Insurance business

(a) Insurance service results

	2024			2023		
	Life direct participating contracts[1]	**Life other contracts[2]**	**Total**	Life direct participating contracts	Life other contracts	Total
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	**2,756**	**217**	**2,973**	2,550	104	2,654
– CSM recognised for services provided	**1,934**	**147**	**2,081**	1,862	50	1,912
– Change in risk adjustment for non-financial risk for risk expired	**37**	**2**	**39**	8	2	10
– Expected incurred claims and other insurance service expenses	**785**	**68**	**853**	680	52	732
Recovery of insurance acquisition cash flows	**367**	**37**	**404**	228	31	259
Total insurance revenue	**3,123**	**254**	**3,377**	2,778	135	2,913
Insurance service expenses						
Incurred claims and other insurance service expenses	**(574)**	**(84)**	**(658)**	(519)	(69)	(588)
Amortisation of insurance acquisition cash flows	**(367)**	**(37)**	**(404)**	(228)	(31)	(259)
Losses and reversal of losses on onerous contracts	**(3)**	**(26)**	**(29)**	37	(44)	(7)
Adjustments to liabilities for incurred claims	**(15)**	**–**	**(15)**	(9)	(1)	(10)
Total insurance service expenses	**(959)**	**(147)**	**(1,106)**	(719)	(145)	(864)
Total insurance service results	**2,164**	**107**	**2,271**	2,059	(10)	2,049

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

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

8. Insurance business continued

(b) Net investment return[1]

	2024			2023		
	Life direct participating contracts	Life other contracts	Total	Life direct participating contracts	Life other contracts	Total
Total investment return[2]	**5,576**	**289**	**5,865**	10,269	544	10,813
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	**(5,576)**	**–**	**(5,576)**	(10,269)	–	(10,269)
Effect of risk mitigation option	**283**	**–**	**283**	(79)	–	(79)
Interest accreted	**–**	**(379)**	**(379)**	–	(381)	(381)
Effect of changes in interest rates and other financial assumptions	**–**	**142**	**142**	–	(95)	(95)
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	**–**	**(29)**	**(29)**	–	19	19
Total net finance income/(expenses) from insurance contracts	**(5,293)**	**(266)**	**(5,559)**	(10,348)	(457)	(10,805)
Total net investment results	**283**	**23**	**306**	(79)	87	8

1 All items are recognised in the income statement.

2 Total investment return for the year ended 31 December 2024 included a gain of HK$5,865m (2023: gain of HK$10,813m) reported under 'Net income/(loss) from financial instruments measured at fair value through profit or loss' in the income statement.

9. Other operating income/(loss)

	2024	2023
Rental income from investment properties	**353**	334
Income/(expense) arising from reinsurance contracts held	**336**	231
Net losses from disposal of fixed assets	**(9)**	(7)
Others	**104**	225
	784	783

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

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

11. Operating expenses

	2024	2023
Employee compensation and benefits:		
– salaries and other costs*	**6,306**	5,986
– retirement benefit costs	**496**	506
– *of which: defined benefit scheme (note 46(a))*	***116***	*134*
– *of which: defined contribution scheme (note 46(b))*	***380***	*372*
Total employee compensation and benefits	**6,802**	6,492
Less: Cost directly attributable to insurance business	**(884)**	(697)
	5,918	5,795
General and administrative expenses:		
– rental expenses	**18**	23
– other premises and equipment	**2,137**	1,998
– marketing and advertising expenses	**452**	461
– other operating expenses	**3,928**	3,813
Total general and administrative expenses	**6,535**	6,295
Less: Cost directly attributable to insurance business	**(393)**	(315)
	6,142	5,980
Depreciation of premises, plant and equipment (note 31)	**1,459**	1,445
Depreciation of right-of-use assets	**504**	470
Amortisation of intangible assets (note 32)	**1,170**	934
	15,193	14,624
* of which:		
share-based payments (note 47(c))	**35**	36
Cost efficiency ratio[1]	**36.6%**	35.8%

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

12. The emoluments of the five highest paid individuals

(a) The aggregate emoluments

	2024	2023
Salaries, allowances and benefits in kind	**31**	29
Retirement scheme contributions	**3**	3
Variable bonuses		
– Cash bonus	**11**	12
– Share-based payment	**12**	11
	57	55

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

HK$	**2024 Number of Individuals**	2023 Number of Individuals
6,500,001 – 7,000,000	**–**	1
7,000,001 – 7,500,000	**–**	1
7,500,001 – 8,000,000	**1**	1
8,000,001 – 8,500,000	**2**	–
10,500,001 – 11,000,000	**1**	–
11,500,001 – 12,000,000	**–**	1
21,500,001 – 22,000,000	**1**	1
	5	5

The emoluments of the five highest paid individuals set out above include the emoluments of one (2023: one) Executive Director which is included in note 13. There is no Non-executive Director included in the table above (2023: Nil).

13. Directors' remunerations

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

	Emoluments								
				Variable bonus[5]					
				Cash		Shares			
	Fees '000	Salaries, allowances and benefits in kind[6] '000	Contribution to retirement benefit schemes[4] '000	Deferred '000	Non-deferred '000	Deferred '000	Non-deferred '000	Total 2024 '000	Total 2023 '000
Executive Directors									
Diana Ferreira CESAR, Chief Executive[1]	–	**10,353**	**685**	**2,998**	**1,999**	**3,732**	**1,999**	**21,766**	21,652
SAW Say Pin[1]	–	**3,248**	**481**	**647**	**969**	**777**	**969**	**7,091**	6,554
Non-executive Directors									
Cordelia CHUNG[3]	**1,287**	–	–	–	–	–	–	**1,287**	1,037
Kathleen GAN Chieh Huey[2]	**693**	–	–	–	–	–	–	**693**	660
Clement KWOK King Man[3]	**1,303**	–	–	–	–	–	–	**1,303**	1,270
Patricia LAM Sze Wan[3]	**1,120**	–	–	–	–	–	–	**1,120**	993
Irene LEE Yun Lien[3]	**2,163**	–	–	–	–	–	–	**2,163**	2,090
David LIAO Yi Chien[2]	**892**	–	–	–	–	–	–	**892**	860
LIN Huey Ru[3]	**983**	–	–	–	–	–	–	**983**	950
Kenneth NG Sing Yip[3] (Resigned on 8 May 2024)	**613**	–	–	–	–	–	–	**613**	1,470
WANG Xiao Bin[3]	**1,487**	–	–	–	–	–	–	**1,487**	1,071
Michael WU Wei Kuo[3] (Resigned on 4 May 2023)	–	–	–	–	–	–	–	–	621
Catherine ZHOU Rong[2] (Appointed on 25 Oct 2024)	**132**	–	–	–	–	–	–	**132**	–
Past Directors	–	–	**1,744**	–	–	–	–	**1,744**	1,718
	10,673	**13,601**	**2,910**	**3,645**	**2,968**	**4,509**	**2,968**	**41,274**	40,946
2023	11,022	13,025	2,858	3,701	2,957	4,426	2,957		

Notes:

1 In line with the HSBC Group's remuneration policy, no Director's fees were paid to those Directors who were full time employees of the Bank or its subsidiaries.

2 Fees receivable as a Director of Hang Seng Bank Limited were surrendered to The Hongkong and Shanghai Banking Corporation Limited in accordance with the HSBC Group's internal policy.

3 Independent Non-executive Director.

4 The Bank made contributions during 2024 into the retirement benefit schemes of which the Bank's Directors/past Directors are among their members. The aggregate amount of pensions received by the past Directors of the Bank under the relevant pension schemes amounted to HK$1.744m in 2024.

5 The amount of variable bonus (deferred and non-deferred) comprises the cash and the estimated purchase cost of the award of HSBC Holdings plc Restricted Share.

6 Benefits in kind mainly include estimated money value of other non-cash benefits: accommodation, car, insurance premium.

7 Remunerations/emoluments for Executive Directors are for services in connection with management of the affairs of the Hang Seng Bank and its subsidiaries undertakings.

14. Auditor's remuneration

	2024	2023
Statutory audit services	**37**	35
Non-statutory audit services and others	**15**	15
	52	50

15. Net surplus/(deficit) on property revaluation

	2024	2023
Surplus/(deficit) on investment property revaluation	**(581)**	(34)
Revaluation deficit on premises	**(2)**	–
	(583)	(34)

16. Tax expense

(a) Taxation in the Consolidated Income Statement

	2024	2023
Current tax – provision for Hong Kong profits tax		
– Tax for the year	**3,578**	2,604
– Adjustment in respect of prior years	**89**	(65)
Current tax – taxation outside Hong Kong		
– Tax for the year	**27**	194
– Adjustment in respect of prior years	**(67)**	(5)
Deferred tax (note 39(b))		
– Origination and reversal of temporary differences	**(982)**	(461)
Total tax expense	**2,645**	2,267

The current tax provision is based on the estimated assessable profit for 2024, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2023: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in July 2023.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the entity's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' Global Minimum Tax model rules (the 'model rules') of the Organisation for Economic Cooperation and Development ('OECD') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS') and a Qualified Domestic Minimum top-up tax ('QDMTT'), with effect from 1 January 2024.

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

The Hong Kong government has issued the draft Pillar Two legislations including a QDMTT, which shall be effective from 1 January 2025 once substantively enacted during 2025. Based on the Group's forecasts, a top-up tax liability is expected to arise in Hong Kong due to low effective tax rate, driven primarily by income from tax-exempt instruments. Nonetheless, the impact is dependent upon the ongoing evolution of rules and guidance in Hong Kong.

16. Tax expense continued

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

	2024	2023
Profit before tax	**21,014**	20,105
Notional tax on profit before tax, calculated at Hong Kong profits tax rate of 16.5% (2023: 16.5%)	**3,467**	3,317
Tax effect of:		
– different tax rates in other countries/areas	**16**	30
– non-taxable income	**(796)**	(933)
– non-deductible expenses	**20**	18
– share of (profits)/losses of associates	**(6)**	(32)
– others	**(56)**	(133)
Actual charge for taxation	**2,645**	2,267

17. Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$17,680m (2023: HK$17,140m), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue, excluding own shares held, of 1,895,522,605 shares (2023: 1,911,842,736 shares).

18. Dividends/Distributions

(a) Dividends to ordinary shareholders

	2024		2023	
	per share HK$	HK$m	per share HK$	HK$m
First interim	**1.20**	**2,282**	1.10	2,103
Second interim	**1.20**	**2,264**	1.10	2,103
Third interim	**1.20**	**2,259**	1.10	2,103
Fourth interim	**3.20**	**6,023**	3.20	6,118
	6.80	**12,828**	6.50	12,427

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

All dividend decisions made by the Board were made in accordance with the Bank's dividend policy. The dividend payout, as a percentage of reported EPS, slightly increased to 72.9% in 2024 (72.5% in 2023), as the Bank is fully committed in rewarding our shareholders through capital returns while retaining flexibility to invest and grow in business in the future.

18. Dividends/Distributions continued

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

	2024	2023
Fourth interim dividend in respect of the previous year, approved and paid during the year, of HK$3.20 per share (2023: HK$2.00 per share)	**6,118**	3,824

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

	2024	2023
US$900 million fixed to floating rate perpetual capital instrument (coupon rate at 6.03 per cent and then three-month US dollar LIBOR plus 4.02 per cent from the first call date)	**417**	426
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.00 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)	**282**	282
	699	708

19. Segmental analysis

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

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

(a) Segmental result

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

19. Segmental analysis continued

(a) Segmental result continued

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Year ended 31 December 2024						
Net interest income/(expense)	16,972	8,762	2,698	1,804	548	30,784
Net fee income/(expense)	3,479	1,165	295	(53)	430	5,316
Net income/(loss) from financial instruments measured at fair value through profit or loss	6,795	294	(4)	1,410	(814)	7,681
Gains less losses from financial investments	–	–	–	53	–	53
Dividend income	6	–	–	–	201	207
Insurance finance income/(expenses)	(5,559)	–	–	–	–	(5,559)
Insurance service results	2,271	–	–	–	–	2,271
– Insurance revenue	3,377	–	–	–	–	3,377
– Insurance service expense	(1,106)	–	–	–	–	(1,106)
Other operating income/(loss)	300	5	2	–	477	784
Net operating income before change in expected credit losses and other credit impairment charges	24,264	10,226	2,991	3,214	842	41,537
– External	947	8,404	8,813	22,483	890	41,537
– Inter-segment	23,317	1,822	(5,822)	(19,269)	(48)	–
Change in expected credit losses and other credit impairment charges	(577)	(3,926)	(270)	–	–	(4,773)
Net operating income	23,687	6,300	2,721	3,214	842	36,764
Operating expenses	(9,083)	(3,609)	(848)	(739)	(914)	(15,193)
Impairment loss on intangible assets	–	–	–	–	(13)	(13)
Operating profit/(loss)	14,604	2,691	1,873	2,475	(85)	21,558
Net surplus/(deficit) on property revaluation	–	–	–	–	(583)	(583)
Share of profits/(losses) of associate	39	–	–	–	–	39
Profit/(loss) before tax	14,643	2,691	1,873	2,475	(668)	21,014
Share of profit/(loss) before tax	69.7%	12.8%	8.9%	11.8%	(3.2%)	100.0%
As at 31 December 2024						
Total assets	613,587	259,991	197,337	708,388	15,893	1,795,196
– of which: Gross loans and advances to customers	386,481	259,245	183,966	2,417	–	832,109
Total liabilities	1,161,191	281,270	50,983	109,224	22,964	1,625,632
– of which: Customer deposits[2]	948,064	270,284	48,673	–	–	1,267,021
Interest in an associate	2,321	–	–	–	–	2,321
Non-current assets acquired during the year	221	26	4	1	1,496	1,748
Year ended 31 December 2024						
Net fee income/(expense) by segment						
– securities broking and related services	1,436	73	–	17	–	1,526
– retail investment funds	1,333	17	–	–	–	1,350
– insurance	52	164	82	–	–	298
– account services	320	154	9	1	–	484
– remittances	44	172	30	–	–	246
– cards	3,045	27	–	–	(9)	3,063
– credit facilities	11	225	123	–	–	359
– imports/exports	–	215	20	–	–	235
– other	57	143	35	13	439	687
Fee income	6,298	1,190	299	31	430	8,248
Fee expense	(2,819)	(25)	(4)	(84)	–	(2,932)
	3,479	1,165	295	(53)	430	5,316

19. Segmental analysis continued

(a) Segmental result continued

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Year ended 31 December 2023						
Net interest income/(expense)	17,324	9,364	2,709	1,162	1,736	32,295
Net fee income/(expense)	3,091	1,165	313	(38)	389	4,920
Net income/(loss) from financial instruments measured at fair value through profit or loss	11,510	167	(46)	1,292	(1,593)	11,330
Gains less losses from financial investments	–	–	–	(3)	–	(3)
Dividend income	–	–	–	–	253	253
Insurance finance income/(expenses)	(10,805)	–	–	–	–	(10,805)
Insurance service results	2,049	–	–	–	–	2,049
– Insurance revenue	2,913	–	–	–	–	2,913
– Insurance service expense	(864)	–	–	–	–	(864)
Other operating income/(loss)	471	6	1	–	305	783
Net operating income before change in expected credit losses and other credit impairment charges	23,640	10,702	2,977	2,413	1,090	40,822
– External	3,107	11,777	8,473	17,828	(363)	40,822
– Inter-segment	20,533	(1,075)	(5,496)	(15,415)	1,453	–
Change in expected credit losses and other credit impairment charges	(805)	(4,664)	(783)	4	–	(6,248)
Net operating income	22,835	6,038	2,194	2,417	1,090	34,574
Operating expenses	(8,642)	(3,596)	(786)	(740)	(860)	(14,624)
Impairment loss on intangible assets	–	–	–	–	(4)	(4)
Operating profit/(loss)	14,193	2,442	1,408	1,677	226	19,946
Net surplus/(deficit) on property revaluation	–	–	–	–	(34)	(34)
Share of profits/(losses) of associate	193	–	–	–	–	193
Profit/(loss) before tax	14,386	2,442	1,408	1,677	192	20,105
Share of profit/(loss) before tax	71.6%	12.1%	7.0%	8.3%	1.0%	100.0%
As at 31 December 2023						
Total assets	605,718	278,658	207,882	578,704	21,132	1,692,094
– of which: Gross loans and advances to customers	399,878	278,055	196,106	–	–	874,039
Total liabilities	1,066,147	266,297	60,266	101,330	29,870	1,523,910
– of which: Customer deposits[2]	867,583	255,937	57,091	–	–	1,180,611
Interest in an associate	2,363	–	–	–	–	2,363
Non-current assets acquired during the year	144	22	3	2	1,579	1,750
Year ended 31 December 2023						
Net fee income/(expense) by segment						
– securities broking and related services	1,190	65	1	21	–	1,277
– retail investment funds	955	13	–	–	–	968
– insurance	130	153	74	–	–	357
– account services	314	143	7	1	–	465
– remittances	50	162	35	–	–	247
– cards	3,080	27	–	–	–	3,107
– credit facilities	16	246	132	–	–	394
– imports/exports	–	228	26	–	–	254
– other	153	153	42	23	389	760
Fee income	5,888	1,190	317	45	389	7,829
Fee expense	(2,797)	(25)	(4)	(83)	–	(2,909)
	3,091	1,165	313	(38)	389	4,920

1 Including inter-segment elimination, of which total assets amounted to HK$33.7bn as at 31 December 2024 (HK$29.0bn as at 31 December 2023) and total liabilities amounted to HK$24.2bn as at 31 December 2024 (HK$19.5bn as at 31 December 2023).

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

19. Segmental analysis continued

(b) Information by geographical region

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

	Hong Kong	Mainland China	Others	Inter-region elimination	Total
Year ended 31 December 2024					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**39,444**	**1,952**	**160**	**(19)**	**41,537**
Profit before tax	**20,834**	**179**	**1**	**–**	**21,014**
At 31 December 2024					
Total assets	**1,702,417**	**108,673**	**18,481**	**(34,375)**	**1,795,196**
Total liabilities	**1,540,658**	**92,997**	**16,888**	**(24,911)**	**1,625,632**
Interest in an associate	**2,321**	**–**	**–**	**–**	**2,321**
Non-current assets*	**39,356**	**1,254**	**18**	**–**	**40,628**
Contingent liabilities and commitments	**467,970**	**62,877**	**6,047**	**(18,954)**	**517,940**
Year ended 31 December 2023					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	38,248	2,462	191	(79)	40,822
Profit before tax	19,609	402	94	–	20,105
At 31 December 2023					
Total assets	1,597,338	106,606	17,541	(29,391)	1,692,094
Total liabilities	1,437,280	90,678	15,855	(19,903)	1,523,910
Interest in an associate	2,363	–	–	–	2,363
Non-current assets*	41,955	1,432	23	–	43,410
Contingent liabilities and commitments	473,284	70,910	5,842	(23,431)	526,605

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

20. Maturity analysis of assets and liabilities

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

- Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'Not more than 1 month' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Over 5 years' time bucket. Non-financial assets mainly include premises, plant and equipment of HK$24,943m (2023: HK$27,075m), intangible assets of HK$4,465m (2023: HK$4,335m), investment properties of HK$11,220m (2023: HK$12,000m), bullion of HK$2,194m (2023: HK$1,161m) and reinsurance contract assets of HK$12,867m (2023: HK$5,377m). Non-financial liabilities mainly include insurance contracts liabilities of HK$188,481m (2023: HK$167,264m) and deferred tax liabilities of HK$3,717m (2023: HK$3,675m).
- Liabilities under insurance contracts and reinsurer's share of liabilities under insurance contracts reported under 'Non-financial liabilities' are, irrespective of contractual maturity, included in the 'Over 5 years' time bucket in the maturity table provided below. An analysis of the expected maturity of insurance contract liabilities based on discounted cash flows is provided in note 38(d). Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket, however, such contracts are subject to surrender and transfer options by the policyholders.

20. Maturity analysis of assets and liabilities continued

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
2024									
Assets									
Cash and balances at central banks	10,433	–	–	–	–	–	–	–	10,433
Trading assets	39,640	–	–	–	–	–	–	–	39,640
Derivative financial instruments	15,401	1,489	1,317	342	17	405	1,230	–	20,201
Financial assets mandatorily measured at fair value through profit or loss	1,250	1,249	4,133	1,363	3,048	8,257	19,842	125,415	164,557
Reverse repurchase agreements – non-trading	26,709	6,536	234	–	–	–	–	–	33,479
Placings with and advances to banks	44,806	17,271	6,313	1,835	4,055	1,941	–	–	76,221
Loans and advances to customers	80,862	58,295	66,775	44,817	49,713	102,826	140,167	275,681	819,136
Financial investments	90,695	205,734	111,018	17,265	8,480	25,225	68,336	14,402	541,155
Accrued income and other financial assets	16,598	4,906	4,318	1,779	381	130	182	92	28,386
Financial assets	326,394	295,480	194,108	67,401	65,694	138,784	229,757	415,590	1,733,208
Non-financial assets	–	–	–	–	–	–	–	61,988	61,988
Total assets	326,394	295,480	194,108	67,401	65,694	138,784	229,757	477,578	1,795,196
Liabilities									
Deposits from banks	14,258	21	–	–	–	–	–	–	14,279
Current, savings and other deposit accounts	835,073	304,464	73,633	9,146	10,887	4,701	320	–	1,238,224
Repurchase agreements – non-trading	18,393	994	–	–	–	–	–	–	19,387
Trading liabilities	18,093	–	–	–	–	–	–	–	18,093
Derivative financial instruments	13,045	–	–	5	2	60	405	–	13,517
Financial liabilities designated at fair value	14,674	13,062	3,364	2,385	3,398	1,511	–	242	38,636
Certificates of deposit in issue	459	4,467	22	–	–	–	–	–	4,948
Subordinated liabilities[1]	–	–	6,240	–	–	4,994	16,241	–	27,475
Accruals and other financial liabilities	41,334	8,053	3,982	570	788	510	383	21	55,641
Financial liabilities	955,329	331,061	87,241	12,106	15,075	11,776	17,349	263	1,430,200
Non-financial liabilities	–	–	–	–	–	–	–	195,432	195,432
Total liabilities	955,329	331,061	87,241	12,106	15,075	11,776	17,349	195,695	1,625,632

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

20. Maturity analysis of assets and liabilities continued

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
2023									
Assets									
Cash and balances at central banks	10,564	–	–	–	–	–	–	–	10,564
Trading assets	43,980	38	–	–	–	–	–	–	44,018
Derivative financial instruments	13,492	54	518	224	–	382	289	–	14,959
Financial assets mandatorily measured at fair value through profit or loss	2,174	1,085	1,125	1,390	898	11,756	24,432	114,012	156,872
Reverse repurchase agreements – non-trading	24,801	4,031	1,370	–	–	–	–	–	30,202
Placings with and advances to banks	30,443	37,236	8,934	135	1,655	5,353	–	–	83,756
Loans and advances to customers	82,964	53,016	67,842	58,189	48,914	103,300	152,434	293,747	860,406
Financial investments	90,644	116,427	83,157	13,724	17,126	30,577	46,966	7,171	405,792
Accrued income and other financial assets	17,307	5,950	5,196	1,461	218	301	139	96	30,668
Financial assets	316,369	217,837	168,142	75,123	68,811	151,669	224,260	415,026	1,637,237
Non-financial assets	–	–	–	–	–	–	–	54,857	54,857
Total assets	316,369	217,837	168,142	75,123	68,811	151,669	224,260	469,883	1,692,094
Liabilities									
Deposits from banks	19,690	17	–	–	–	–	–	–	19,707
Current, savings and other deposit accounts	810,766	184,211	128,202	10,685	5,485	9,677	4,036	–	1,153,062
Repurchase agreements – non-trading	11,799	968	–	–	–	–	–	–	12,767
Trading liabilities	35,227	–	–	–	–	–	–	–	35,227
Derivative financial instruments	13,785	56	40	55	231	10	301	–	14,478
Financial liabilities designated at fair value	13,888	13,842	7,953	3,725	2,268	3,696	–	261	45,633
Certificates of deposit in issue	115	2,571	3,630	2,198	1,343	–	–	–	9,857
Subordinated liabilities[1]	–	–	–	–	–	6,240	18,125	3,126	27,491
Accruals and other financial liabilities	16,531	7,996	5,275	359	292	713	608	96	31,870
Financial liabilities	921,801	209,661	145,100	17,022	9,619	20,336	23,070	3,483	1,350,092
Non-financial liabilities	–	–	–	–	–	–	–	173,818	173,818
Total liabilities	921,801	209,661	145,100	17,022	9,619	20,336	23,070	177,301	1,523,910

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

21. Cash and balances at central banks

	2024	2023
Cash in hand	**6,241**	7,899
Balances at central banks	**4,192**	2,665
	10,433	10,564

22. Trading assets

	2024	2023
Treasury bills	**19,897**	18,191
Other debt securities	**19,716**	25,757
Debt securities	**39,613**	43,948
Investment funds/equity shares	**27**	33
Reverse repurchase agreements	**–**	37
	39,640	44,018

23. Derivative financial instruments

Use of derivatives

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

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

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

	Notional contract amount			**Fair value – Assets**			**Fair value – Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
Foreign exchange	**1,125,256**	**73,288**	**1,198,544**	**8,029**	**3,553**	**11,582**	**6,409**	**8**	**6,417**
Interest rate	**707,550**	**102,586**	**810,136**	**6,707**	**1,323**	**8,030**	**6,110**	**463**	**6,573**
Equity and other	**26,543**	**–**	**26,543**	**589**	**–**	**589**	**527**	**–**	**527**
At 31 December 2024	**1,859,349**	**175,874**	**2,035,223**	**15,325**	**4,876**	**20,201**	**13,046**	**471**	**13,517**
Foreign exchange	1,051,190	34,189	1,085,379	6,053	1,020	7,073	6,674	416	7,090
Interest rate	830,159	62,925	893,084	6,881	592	7,473	6,414	331	6,745
Equity and other	27,433	–	27,433	413	–	413	643	–	643
At 31 December 2023	1,908,782	97,114	2,005,896	13,347	1,612	14,959	13,731	747	14,478

23. Derivative financial instruments continued

Trading derivatives

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

Derivatives valued using models with unobservable inputs

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

Hedge accounting derivatives

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

(a) Fair value hedges

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

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

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

Hedging instrument by hedged risk

	Hedging instrument				
		Carrying amount			
Hedged risk	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Interest rate	**37,756**	**379**	**220**	**Derivatives**	**27**
At 31 December 2024	**37,756**	**379**	**220**		**27**
Interest rate	28,625	428	185	Derivatives	(405)
At 31 December 2023	28,625	428	185		(405)

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

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

23. Derivative financial instruments continued

(a) Fair value hedges continued

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
Hedged risk	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Interest rate	**37,860**	**–**	**(132)**	**–**	**Financial investments measured at fair value through other comprehensive income**	**(31)**	**(4)**	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
At 31 December 2024	**37,860**	**–**	**(132)**	**–**		**(31)**	**(4)**	
Interest rate	28,551	–	(151)	–	Financial investments measured at fair value through other comprehensive income	390	(14)	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2023	28,551	–	(151)	–		390	(14)	

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

(b) Cash flow hedges

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

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

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

23. Derivative financial instruments continued

(b) Cash flow hedges continued

Hedging instrument by hedged risk

	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
Hedged risk	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Foreign currency	**73,288**	**3,553**	**8**	**Derivatives**	**5,367**	**5,367**	**–**	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
Interest rate	**64,830**	**944**	**243**	**Derivatives**	**(471)**	**(471)**	**–**	
At 31 December 2024	**138,118**	**4,497**	**251**		**4,896**	**4,896**	**–**	
Foreign currency	34,189	1,020	416	Derivatives	823	823	–	Net income/(loss) from financial instruments measured at fair value through profit or loss
Interest rate	34,300	164	146	Derivatives	121	121	–	
At 31 December 2023	68,489	1,184	562		944	944	–	

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

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

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

23. Derivative financial instruments continued

(b) Cash flow hedges continued

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

	Interest rate	Foreign exchange	Total
At 1 January 2024	**(43)**	**(53)**	**(96)**
Fair value gains/(losses)	**(471)**	**5,367**	**4,896**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss[1]	**371**	**(5,332)**	**(4,961)**
Deferred taxes	**17**	**(6)**	**11**
At 31 December 2024	**(126)**	**(24)**	**(150)**
At 1 January 2023	(472)	(344)	(816)
Fair value gains/(losses)	121	823	944
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss	393	(475)	(82)
Deferred taxes	(85)	(57)	(142)
At 31 December 2023	(43)	(53)	(96)

[1] Hedged items that have affected profit or loss are primarily recorded within 'Net income/(loss) from financial instruments measured at fair value through profit or loss' and 'Net interest income'.

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

	2024	2023
Treasury bills	**924**	1,958
Other debt securities	**112,669**	116,993
Equity shares	**12,802**	8,125
Investment funds	**37,387**	28,963
Other	**775**	833
	164,557	156,872

25. Placings with and advances to banks

	2024	2023
Balances with banks	**4,129**	4,012
Placings with and advances to banks maturing within one month	**40,677**	26,433
Placings with and advances to banks maturing after one month but less than one year	**29,476**	47,962
Placings with and advances to banks maturing after one year	**1,941**	5,353
Less: Allowances for expected credit losses	**(2)**	(4)
	76,221	83,756
of which:		
Placings with and advances to central banks	**8,147**	6,901

There were no overdue advances, impaired advances and rescheduled advances to banks at 31 December 2024 (2023: Nil).

26. Loans and advances to customers

(a) Loans and advances to customers

	2024	2023
Gross loans and advances to customers	**832,109**	874,039
Less: Allowances for expected credit losses	**(12,973)**	(13,633)
	819,136	860,406
Expected credit losses as a percentage of gross loans and advances to customers	**1.56%**	1.56%
Gross impaired loans and advances	**50,964**	24,749
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**6.12%**	2.83%

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

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

	2024			2023		
	Present value of minimum lease payments receivable	**Interest income relating to future periods**	**Total minimum lease payments receivable**	Present value of minimum lease payments receivable	Interest income relating to future periods	Total minimum lease payments receivable
Amounts receivable:						
– within one year	**321**	**187**	**508**	286	241	527
– over one year to two years	**339**	**161**	**500**	313	200	513
– over two years to three years	**349**	**165**	**514**	335	214	549
– over three years to four years	**354**	**167**	**521**	344	220	564
– over four years to five years	**358**	**170**	**528**	350	223	573
– after five years	**5,262**	**1,234**	**6,496**	5,658	1,623	7,281
	6,983	**2,084**	**9,067**	7,286	2,721	10,007
Allowances for expected credit losses	**(181)**			(83)		
Net investments in finance leases and hire purchase contracts	**6,802**			7,203		

27. Financial investments

	2024	2023
Financial investments measured at FVOCI		
– treasury bills	**312,094**	221,746
– other debt securities	**94,612**	79,548
– equity shares	**4,410**	4,060
	411,116	305,354
Debt instruments measured at amortised cost		
– treasury bills	**66,591**	41,293
– other debt securities	**63,451**	59,159
Less: Allowances for expected credit losses	**(3)**	(14)
	130,039	100,438
	541,155	405,792

Equity instruments measured at fair value through other comprehensive income

	2024	2023
Type of equity instruments		
– business facilitation	**4,410**	4,060

There was no overdue debt securities at 31 December 2024 (2023: Nil). The Group did not hold any asset–backed securities, mortgage–backed securities and collateralised debt obligations in 2024 and 2023. There was no financial investments determined to be impaired at 31 December 2024 (2023: Nil).

28. Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2024	2023
Trading assets and financial investments	**37,898**	50,140
Amount of liabilities secured	**36,067**	48,226

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

28. Assets pledged, assets transferred and collateral received continued

Assets transferred

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

	2024		2023	
	Carrying amount of		Carrying amount of	
	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
Repurchase agreements	**15,471**	**15,037**	9,204	8,852
Securities lending agreements	**–**	**–**	1,317	–
	15,471	**15,037**	10,521	8,852

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

Collaterals received

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

Fair value of collateral accepted as security for assets

	2024	2023
Fair value of collateral permitted to sell or repledge in the absence of default	**34,508**	31,561
Fair value of collateral actually sold or repledged	**4,337**	4,063

29. Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31 December 2024. The class of shares held is ordinary.

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

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

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

29. Subsidiaries continued

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

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

30. Interest in an associate

	2024	2023
Share of net assets	**2,321**	2,363

The associate is :

Name of company	**Place of incorporation & operation**	**Principal activities**	**Issued share capital**	**Percentage of shareholding**
Barrowgate Limited	Hong Kong SAR	Property investment	HK$10,000	24.64%

The interest in Barrowgate Limited is owned by a wholly-subsidiary of the Bank and accounted for using the equity method in the Consolidated Financial Statements as at 31 December 2024 and 2023.

	Assets	**Liabilities**	**Equity**	**Revenue**	**Expenses**	**Profit or loss**
2024						
100 per cent	**10,398**	**980**	**9,418**	**327**	**169**	**158**
The Group's effective interest	**2,562**	**241**	**2,321**	**81**	**42**	**39**
2023						
100 per cent	10,618	1,029	9,589	951	167	784
The Group's effective interest	2,616	253	2,363	234	41	193

Investment in associate is assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired, by comparing the recoverable amount of the relevant investment to its carrying amount. At 31 December 2024, the Group has concluded there is no indication of impairment and thus no impairment loss was recognised (2023: Nil).

31. Property, plant and equipment

	2024	2023
Premises	**22,442**	24,268
Plant and equipment[1]	**1,602**	1,657
Other right of use assets	**899**	1,150
Premises, plant and equipment	**24,943**	27,075
Investment properties	**11,220**	12,000
	36,163	39,075

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

(a) Movement in owned property, plant and equipment

	Premises	Investment properties	Plant and equipment	Total
Cost or valuation:				
At 1 January 2024	**24,268**	**12,000**	**4,415**	**40,683**
Additions	–	**15**	**412**	**427**
Disposals and write-offs	–	–	**(165)**	**(165)**
Elimination of accumulated depreciation on revalued premises	**(1,001)**	–	–	**(1,001)**
Surplus/(Deficit) on revaluation:				
– credited/(charged) to premises revaluation reserve	**(713)**	–	–	**(713)**
– debited to income statement	**(2)**	**(871)**	–	**(873)**
Transfer	**(79)**	**76**	–	**(3)**
Exchange adjustments and other	**(31)**	–	**(10)**	**(41)**
At 31 December 2024	**22,442**	**11,220**	**4,652**	**38,314**
Accumulated depreciation:				
At 1 January 2024	–	–	**(2,758)**	**(2,758)**
Charge for the year (note 11)	**(1,004)**	–	**(455)**	**(1,459)**
Attributable to assets sold or written off	–	–	**156**	**156**
Elimination of accumulated depreciation on revalued premises	**1,001**	–	–	**1,001**
Exchange adjustments and other	**3**	–	**7**	**10**
At 31 December 2024	–	–	**(3,050)**	**(3,050)**
Net book value at 31 December 2024	**22,442**	**11,220**	**1,602**	**35,264**
Representing:				
– measure at cost	–	–	**1,602**	**1,602**
– measure at valuation	**22,442**	**11,220**	–	**33,662**
	22,442	**11,220**	**1,602**	**35,264**

31. Property, plant and equipment continued

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

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

(b) Terms of lease

	Premises		Investment properties	
	2024	2023	**2024**	2023
Leaseholds				
Held in Hong Kong:				
– long leases (over 50 years unexpired)	**2,005**	2,101	**1,055**	1,093
– medium leases (10 to 50 years unexpired)	**19,647**	21,301	**9,821**	10,536
– short leases (below 10 years unexpired)	**–**	–	**343**	369
Held outside Hong Kong:				
– long leases (over 50 years unexpired)	**–**	–	**–**	–
– medium leases (10 to 50 years unexpired)	**790**	866	**1**	2
– short leases (below 10 years unexpired)	**–**	–	**–**	–
	22,442	24,268	**11,220**	12,000

31. Property, plant and equipment continued

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

	2024	2023
Cost less accumulated depreciation at 31 December	**5,455**	5,705

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

	2024	2023
Direct operating expenses arising from investment properties	**74**	67
Direct operating expenses arising from investment properties that generated rental income	**67**	59

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

	2024	2023
Within one year	**336**	255
One to two years	**181**	150
Over two years to three years	**52**	49
Three to four years	**22**	22
Four to five years	**4**	22
After five years	**–**	4
	595	502

(e) Fair value measurement of properties

The Group's premises and investment properties were revalued by Cushman & Wakefield Limited ('C&W'), an independent professional valuer, before the year end, and were updated by C&W for any material changes in the valuation as at 31 December 2024. It was confirmed that there was no material change in value as at 31 December 2024 since the last valuation. The valuations were carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of valuations of premises and investment properties were market value which is consistent with the definition of fair value under HKFRS 13 *'Fair Value Measurement'* and take into account the highest and best use of the property from the perspective of market participants.

The resultant values of both investment properties and properties held for own use for the Group were Level 3 (fair value measured using significant unobservable inputs). During the year ended 31 December 2024, there were no transfers into or out of Level 3 (2023: Nil).

31. Property, plant and equipment continued

(e) Fair value measurement of properties continued

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

	Premises		Investment properties	
	2024	2023	**2024**	2023
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period				
– other operating income/(loss)	**–**	–	**(290)**	(23)
– net surplus/(deficit) on property revaluation	**(2)**	–	**(581)**	(34)
– depreciation of premises, plant and equipment	**(1,004)**	(980)	**–**	–

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range	
			2024	2023
Investment properties	Income approach	Market yields (reversionary yield)	**2.35% to 5.00%**	2.20% to 4.90%
		Market rental	**HK$5.3 to HK$303 per square foot**	HK$6.6 to HK$312 per square foot
	Market approach	Premium (discount) on characteristic of the properties	**-20% to +20%**	-20% to +20%
Premises	Income approach	Market yields (reversionary yield)	**5.00% to 6.50%**	5.00% to 6.50%
		Market rental	**HK$30.9 to HK$69.2 per square foot**	HK$38.5 to HK$74.8 per square foot
	Market approach	Premium (discount) on characteristic of the properties	**-20% to +20%**	-20% to +20%

The fair value measurement for tenanted investment properties is determined using Income Approach and is positively correlated to the market rental but inversely correlated to the market yields.

The valuations for premises held for own use or vacant investment properties are determined using Market Approach assuming sale with immediate vacant possession and by making reference to comparable sales evidence. They take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and other factors collectively. Higher premium for properties with better characteristics will result in a higher fair value measurement.

32. Intangible assets

	2024	2023
Internally developed software	**4,062**	3,870
Acquired software	**74**	136
Goodwill	**329**	329
	4,465	4,335

(a) Goodwill

	2024	2023
At 1 January and at 31 December	**329**	329

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

During 2024, there was no impairment of goodwill (2023: Nil). Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of cash generating unit based on HSIC's appraisal value (which is deemed to be its value in use) and carrying value of its net assets.

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

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

	2024	2023
Cost:		
At 1 January	**7,546**	6,174
Additions	**1,321**	1,386
Amounts written off	**(2)**	(1)
Exchange differences	**(19)**	(13)
At 31 December	**8,846**	7,546
Accumulated amortisation:		
At 1 January	**(3,540)**	(2,609)
Charge for the year (note 11)	**(1,170)**	(934)
Impairment	**(13)**	(4)
Amounts written off	**2**	1
Exchange differences	**11**	6
At 31 December	**(4,710)**	(3,540)
Net book value at 31 December	**4,136**	4,006

33. Other assets

	2024	2023
Items in the course of collection from other banks	**3,634**	3,748
Bullion	**2,194**	1,161
Prepayments and accrued income	**7,099**	7,356
Acceptances and endorsements	**8,690**	9,531
Less: Allowances for expected credit losses	**(16)**	(31)
Retirement benefits assets (note 46(a))	**287**	–
Reinsurance contract assets	**12,867**	5,377
Settlement accounts	**3,091**	3,917
Cash collateral	**3,148**	3,653
Other	**6,431**	5,040
	47,425	39,752

Other included 'Assets held for sale' of HK$353m (31 December 2023: HK$247m).

34. Current, savings and other deposit accounts

	2024	2023
Current, savings and other deposit accounts:		
– as stated in Consolidated Balance Sheet	**1,238,224**	1,153,062
– structured deposits reported as financial liabilities designated at fair value (note 36)	**28,797**	27,549
	1,267,021	1,180,611
By type:		
– demand and current accounts	**74,446**	82,597
– savings accounts	**552,299**	546,220
– time and other deposits	**640,276**	551,794
	1,267,021	1,180,611

35. Trading liabilities

	2024	2023
Short positions in securities	**18,093**	35,227

36. Financial liabilities designated at fair value

	2024	2023
Certificates of deposit in issue	**7,549**	14,646
Structured deposits (note 34)	**28,797**	27,549
Other structured debt securities in issue	**2,045**	3,174
Liabilities to customers under investment contracts	**245**	264
	38,636	45,633

At 31 December 2024, the accumulated gain/loss in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was insignificant (31 December 2023: accumulated gain of HK$2m).

37. Other liabilities

	2024	2023
Items in the course of transmission to other banks	**4,449**	4,536
Accruals	**8,777**	9,299
Acceptances and endorsements	**8,690**	9,531
Reinsurance contract liabilities	**1,002**	1,110
Retirement benefit liabilities (note 46(a))	**–**	76
Settlement accounts	**19,737**	1,598
Cash collateral	**6,619**	2,177
Lease liabilities	**902**	1,206
Other	**7,223**	4,226
	57,399	33,759

38. Insurance contract liabilities

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

	Life direct participating contracts				Life other contracts				
	Liabilities for remaining coverage				Liabilities for remaining coverage				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
2024									
Opening assets	–	–	–	–	(22)	2	10	(10)	(10)
Opening liabilities	158,179	1	475	158,655	8,357	128	124	8,609	167,264
Net opening balance at 1 January 2024	158,179	1	475	158,655	8,335	130	134	8,599	167,254
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(1,336)	–	–	(1,336)	(172)	–	–	(172)	(1,508)
Other contracts	(1,787)	–	–	(1,787)	(82)	–	–	(82)	(1,869)
Total insurance revenue (note 8(a))	(3,123)	–	–	(3,123)	(254)	–	–	(254)	(3,377)
Insurance service expenses									
Incurred claims and other insurance service expenses	–	(1)	575	574	–	(22)	106	84	658
Amortisation of insurance acquisition cash flows	367	–	–	367	37	–	–	37	404
Losses and reversal of losses on onerous contracts	–	3	–	3	–	26	–	26	29
Adjustments to liabilities for incurred claims	–	–	15	15	–	–	–	–	15
Total insurance service expenses (note 8(a))	367	2	590	959	37	4	106	147	1,106
Investment components	(11,459)	–	11,459	–	(1,077)	–	1,077	–	–
Insurance service results (note 8(a))	(14,215)	2	12,049	(2,164)	(1,294)	4	1,183	(107)	(2,271)
Net finance (income)/expenses from insurance contracts (note 8(b))	5,293	–	–	5,293	262	4	–	266	5,559
Effect of movements in exchange rates	(819)	–	–	(819)	(32)	–	–	(32)	(851)
Total changes in the statement of profit or loss and OCI	(9,741)	2	12,049	2,310	(1,064)	8	1,183	127	2,437
Cash flows									
Premiums received	31,021	–	–	31,021	2,469	–	–	2,469	33,490
Claims and other insurance service expenses paid, including investment components	73	–	(12,046)	(11,973)	(2)	–	(1,188)	(1,190)	(13,163)
Insurance acquisition cash flows	(1,495)	–	–	(1,495)	(48)	–	–	(48)	(1,543)
Transfer	–	–	–	–	(2)	2	–	–	–
Total cash flows	29,599	–	(12,046)	17,553	2,417	2	(1,188)	1,231	18,784
Net closing balance at 31 December 2024	178,037	3	478	178,518	9,688	140	129	9,957	188,475
Closing assets	–	–	–	–	(16)	2	8	(6)	(6)
Closing liabilities	178,037	3	478	178,518	9,704	138	121	9,963	188,481
Net closing balance at 31 December 2024	178,037	3	478	178,518	9,688	140	129	9,957	188,475

38. Insurance contract liabilities continued

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

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

38. Insurance contract liabilities continued

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

	Life direct participating contracts					Life other contracts					
			Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Total
2024											
Opening assets	–	–	–	–	–	(49)	3	23	13	(10)	(10)
Opening liabilities	138,322	423	12,577	7,333	158,655	7,524	29	921	135	8,609	167,264
Net opening balance at 1 January 2024	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	–	–	(957)	(977)	(1,934)	–	–	(118)	(29)	(147)	(2,081)
Change in risk adjustment for non-financial risk for risk expired	–	(37)	–	–	(37)	–	(2)	–	–	(2)	(39)
Experience adjustments and other	(211)	–	–	–	(211)	16	–	–	–	16	(195)
	(211)	(37)	(957)	(977)	(2,182)	16	(2)	(118)	(29)	(133)	(2,315)
Changes that relate to future services											
Contracts initially recognised in the year	(4,645)	76	–	4,569	–	(63)	3	–	64	4	4
Changes in estimates that adjust the CSM	(2,218)	11	956	1,251	–	(98)	2	114	(18)	–	–
Changes in estimates that result in losses and reversal of losses on onerous contracts	3	–	–	–	3	23	(1)	–	–	22	25
	(6,860)	87	956	5,820	3	(138)	4	114	46	26	29
Changes that relate to past services											
Adjustments to liabilities for incurred claims	15	–	–	–	15	–	–	–	–	–	15
Insurance service result (note 8(a))	(7,056)	50	(1)	4,843	(2,164)	(122)	2	(4)	17	(107)	(2,271)
Net finance (income)/expenses from insurance contracts (note 8(b))	5,293	–	–	–	5,293	238	–	23	5	266	5,559
Effect of movements in exchange rates	(735)	(3)	(10)	(71)	(819)	(32)	–	–	–	(32)	(851)
Total changes in the statement of profit or loss and OCI	(2,498)	47	(11)	4,772	2,310	84	2	19	22	127	2,437
Cash flows											
Premiums received	31,021	–	–	–	31,021	2,469	–	–	–	2,469	33,490
Claims and other insurance service expenses paid, including investment components	(11,973)	–	–	–	(11,973)	(1,190)	–	–	–	(1,190)	(13,163)
Insurance acquisition cash flows	(1,495)	–	–	–	(1,495)	(48)	–	–	–	(48)	(1,543)
Total cash flows	17,553	–	–	–	17,553	1,231	–	–	–	1,231	18,784
Net closing balance at 31 December 2024	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475
Closing assets	–	–	–	–	–	(16)	2	6	2	(6)	(6)
Closing liabilities	153,377	470	12,566	12,105	178,518	8,806	32	957	168	9,963	188,481
Net closing balance at 31 December 2024	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475

38. Insurance contract liabilities continued

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

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

38. Insurance contract liabilities continued

(c) Effect of contracts initially recognised in the year

	2024			2023		
	Profitable contracts issued	**Onerous contracts issued**	**Total**	Profitable contracts issued	Onerous contracts issued	Total
Life direct participating contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	**1,432**	**–**	**1,432**	1,028	–	1,028
– Claims and other insurance service expenses payable	**27,916**	**8**	**27,924**	17,906	–	17,906
Estimates of present value of cash inflows	**(33,993)**	**(8)**	**(34,001)**	(20,905)	–	(20,905)
Risk adjustment for non-financial risk	**76**	**–**	**76**	43	–	43
CSM	**4,569**	**–**	**4,569**	1,928	–	1,928
Losses recognised on initial recognition	**–**	**–**	**–**	–	–	–
Life other contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	**3**	**1**	**4**	4	–	4
– Claims and other insurance service expenses payable	**1,412**	**862**	**2,274**	533	114	647
Estimates of present value of cash inflows	**(1,481)**	**(860)**	**(2,341)**	(594)	(113)	(707)
Risk adjustment for non-financial risk	**2**	**1**	**3**	2	–	2
CSM	**64**	**–**	**64**	55	–	55
Losses recognised on initial recognition	**–**	**4**	**4**	–	1	1
	–	**4**	**4**	–	1	1

38. Insurance contract liabilities continued

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

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
At 31 December 2024									
Insurance liability future cash flows									
Life direct participating contracts	**(1,648)**	**4,299**	**4,218**	**5,999**	**5,129**	**18,618**	**33,687**	**83,075**	**153,377**
Life other contracts	**2,124**	**172**	**146**	**711**	**782**	**1,632**	**1,315**	**1,924**	**8,806**
Insurance liability future cash flows	**476**	**4,471**	**4,364**	**6,710**	**5,911**	**20,250**	**35,002**	**84,999**	**162,183**
Remaining contractual service margin									
Life direct participating contracts	**1,968**	**1,822**	**1,685**	**1,562**	**1,447**	**5,728**	**6,177**	**4,282**	**24,671**
Life other contracts	**126**	**112**	**101**	**88**	**77**	**265**	**222**	**142**	**1,133**
Remaining contractual service margin	**2,094**	**1,934**	**1,786**	**1,650**	**1,524**	**5,993**	**6,399**	**4,424**	**25,804**
At 31 December 2023									
Insurance liability future cash flows									
Life direct participating contracts	(6,417)	(174)	6,048	4,988	7,848	19,453	32,302	74,274	138,322
Life other contracts	441	596	229	204	806	1,483	1,403	2,313	7,475
Insurance liability future cash flows	(5,976)	422	6,277	5,192	8,654	20,936	33,705	76,587	145,797
Remaining contractual service margin									
Life direct participating contracts	1,651	1,514	1,389	1,288	1,184	4,616	4,843	3,425	19,910
Life other contracts	116	108	99	89	78	262	209	131	1,092
Remaining contractual service margin	1,767	1,622	1,488	1,377	1,262	4,878	5,052	3,556	21,002

(e) Discount rates

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

	2024		2023	
	HKD	**USD**	HKD	USD
10-year discount rate (%)	**4.43**	**5.25**	4.16	4.62
20-year discount rate (%)	**4.53**	**5.60**	4.34	5.06

39. Current tax and deferred tax

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

	2024	2023
Included in 'Other assets':		
Current taxation recoverable	**35**	6
Deferred tax assets	**3,112**	2,092
	3,147	2,098
Current tax liabilities		
Provision for Hong Kong profits tax	**1,476**	942
Provision for taxation outside Hong Kong	**–**	48
	1,476	990
Deferred tax liabilities	**3,717**	3,675
	5,193	4,665

(b) Deferred tax assets and liabilities recognised

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

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Expected credit losses	Fair value adjustments for financial assets at FVOCI	Cash flow hedge	Other	Total
At 1 January 2024	**899**	**3,754**	**(1,147)**	**(67)**	**(19)**	**(1,837)**	**1,583**
Exchange adjustment and others	**4**	**(3)**	**16**	**(1)**	**–**	**–**	**16**
Charged/(credited) to income statement (note 16(a))	**13**	**(163)**	**222**	**–**	**–**	**(1,054)**	**(982)**
Charged/(credited) to other comprehensive income	**–**	**(118)**	**–**	**51**	**(11)**	**66**	**(12)**
At 31 December 2024	**916**	**3,470**	**(909)**	**(17)**	**(30)**	**(2,825)**	**605**
At 1 January 2023	806	3,722	(1,225)	(137)	(161)	(1,411)	1,594
Exchange adjustment and others	2	(3)	8	–	–	51	58
Charged/(credited) to income statement (note 16(a))	91	(128)	70	–	–	(494)	(461)
Charged/(credited) to other comprehensive income	–	163	–	70	142	17	392
At 31 December 2023	899	3,754	(1,147)	(67)	(19)	(1,837)	1,583

(c) Deferred tax assets not recognised

The amounts of unused tax losses for which no deferred tax asset is recognised in the balance sheet are HK$366m (2023: HK$449m). Of these amounts, HK$151m (2023: HK$201m) have no expiry date and the remaining will expire within 5 years.

(d) Deferred tax liabilities not recognised

There were no deferred tax liabilities not recognised as at 31 December 2024 (2023: Nil).

40. Subordinated liabilities

Nominal value	Description	2024	2023
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,105**	3,126
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,994**	4,991
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,996**	2,994
		27,475	27,491
Representing:			
– measured at amortised cost		**27,475**	27,491

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

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

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

4 Interest rate at compounded SOFR plus 2.0478 per cent per annum, payable quarterly, to the maturity date.

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

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

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during 2024 (2023: Nil).

41. Share capital

	2024		2023	
	number of shares	HK$m	number of shares	HK$m
Ordinary shares issued and fully paid:				
At 1 January	**1,911,842,736**	**9,658**	1,911,842,736	9,658
Less: Share repurchased and cancelled	**(29,575,200)**	**–**	–	–
At 31 December	**1,882,267,536**	**9,658**	1,911,842,736	9,658

During 2024, the total number of ordinary shares repurchased and cancelled was 29,575,200. Except for the share buy-back in 2024, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the Bank's listed securities during the year and 2023.

42. Other equity instruments

Nominal value	Description	2024	2023
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**–**	7,044
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2029[2]	**6,947**	–
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[3]	**–**	4,700
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2029[4]	**4,640**	–
		11,587	11,744

1 Coupon rate is 6.03% each year and then three-month US dollar LIBOR plus 4.02 per cent per annum, payable quarterly, from the first call date. The US$900 million fixed to floating rate perpetual capital instrument was redeemed in September 2024, and was a non-cash transaction.

2 Newly issued in September 2024, and was a non-cash transaction. Coupon rate is 6.875% each year and then US treasury rate plus 3.298 per cent per annum, payable semi-annually, from the first call date.

3 Coupon rate was 6.00% each year and then three-month US dollar LIBOR plus 4.06 per cent per annum, payable quarterly, from the first call date. The US$600 million fixed to floating rate perpetual capital instrument was redeemed in June 2024, and was a non-cash transaction.

4 Newly issued in June 2024, and was a non-cash transaction. Coupon rate is 7.50% each year and then compounded SOFR plus 3.24 per cent per annum, payable quarterly, from the first call date.

42. Other equity instruments continued

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

43. Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	2024	2023
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	**1,898**	1,882
Performance and other guarantees[2]	**20,950**	21,087
Other contingent liabilities	**–**	4
	22,848	22,973
Commitments[3]		
Documentary credits and short-term trade-related transactions	**2,353**	3,422
Forward asset purchases and forward forward deposits placed	**12,991**	15,087
Undrawn formal standby facilities, credit lines and other commitments to lend	**479,748**	485,123
	495,092	503,632

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

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

3 Includes HK$350,314m of commitments at 31 December 2024 (31 December 2023: HK$345,932m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.

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

(b) Contingencies

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

44. Other commitments

Capital commitments

At 31 December 2024, capital commitments, mainly related to the commitment for renovation of branches and offices,were HK$212m (31 December 2023: HK$239m).

45. Offsetting of financial assets and financial liabilities

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

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

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

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting in the balance sheet			Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[1]	Balance sheet total
Financial assets[2]									
Derivatives	**15,108**	**–**	**15,108**	**(4,865)**	**(377)**	**(6,323)**	**3,543**	**5,093**	**20,201**
Reverse repos, stock borrowing and similar agreements classified as:	**32,284**	**–**	**32,284**	**–**	**(32,274)**	**(10)**	**–**	**1,195**	**33,479**
– trading assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading assets	**32,284**	**–**	**32,284**	**–**	**(32,274)**	**(10)**	**–**	**1,195**	**33,479**
Other assets	**1,728**	**(1,193)**	**535**	**–**	**–**	**–**	**535**	**–**	**535**
At 31 December 2024	**49,120**	**(1,193)**	**47,927**	**(4,865)**	**(32,651)**	**(6,333)**	**4,078**	**6,288**	**54,215[2]**
Derivatives	12,727	–	12,727	(5,906)	(279)	(2,033)	4,509	2,232	14,959
Reverse repos, stock borrowing and similar agreements classified as:	27,569	–	27,569	–	(27,569)	–	–	2,670	30,239
– trading assets	37	–	37	–	(37)	–	–	–	37
– non-trading assets	27,532	–	27,532	–	(27,532)	–	–	2,670	30,202
Other assets	1,062	(495)	567	–	–	–	567	–	567
At 31 December 2023	41,358	(495)	40,863	(5,906)	(27,848)	(2,033)	5,076	4,902	45,765[2]
Financial liabilities[3]									
Derivatives	**9,064**	**–**	**9,064**	**(4,865)**	**(519)**	**(2,192)**	**1,488**	**4,453**	**13,517**
Repos, stock lending and similar agreements classified as:	**12,584**	**–**	**12,584**	**–**	**(12,584)**	**–**	**–**	**6,803**	**19,387**
– trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading liabilities	**12,584**	**–**	**12,584**	**–**	**(12,584)**	**–**	**–**	**6,803**	**19,387**
Other liabilities	**1,195**	**(1,193)**	**2**	**–**	**–**	**–**	**2**	**–**	**2**
At 31 December 2024	**22,843**	**(1,193)**	**21,650**	**(4,865)**	**(13,103)**	**(2,192)**	**1,490**	**11,256**	**32,906[3]**
Derivatives	11,848	–	11,848	(5,906)	(396)	(2,429)	3,117	2,630	14,478
Repos, stock lending and similar agreements classified as:	6,903	–	6,903	–	(6,903)	–	–	5,864	12,767
– trading liabilities	–	–	–	–	–	–	–	–	–
– non-trading liabilities	6,903	–	6,903	–	(6,903)	–	–	5,864	12,767
Other liabilities	495	(495)	–	–	–	–	–	–	–
At 31 December 2023	19,246	(495)	18,751	(5,906)	(7,299)	(2,429)	3,117	8,494	27,245[3]

1 These exposures continue to be secured by financial collateral, but the Bank may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.

2 Amounts presented in the balance sheet included balances due from HSBC entities of HK$14,733m (2023: HK$14,533m).

3 Amounts presented in the balance sheet included balances due to HSBC entities of HK$6,434m (2023: HK$5,533m).

46. Employee retirement benefits

(a) Defined benefit scheme

The Group operates one defined benefit scheme, the Hang Seng Bank Limited Defined Benefit Scheme ('HSBDBS'), which covers about 11 per cent of the Group's employees. HSBDBS was closed to new entrants with effect from 1 April 1999. Since the defined benefit section of the HSBDBS is a final salary lump sum scheme, its exposure to longevity risk and interest rate risk is limited.

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

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

The investment strategy of the HSBDBS is to invest in a diversified portfolio of assets, both equities and bonds, with low investment and liquidity risk. The assets of the Scheme will be diversified across the different asset classes to reflect the liabilities and performance objectives of the Scheme. The Strategic Asset Allocation percentages for the asset types are as follows: Bonds (0 - 75%) and equity/alternative credit funds (0 - 25%).

At 31 December 2024, HK$2,609m (2023: HK$1,944m) of HSBDBS plan assets were under management by HSBC Group companies, earning management and other fees of HK$6m in 2024 (2023: HK$6m). At 31 December 2024, HSBDBS had placed deposits of HK$25m (2023: HK$6m) with a HSBC Group company, earning interest of HK$1.12m (2023: HK$0.25m). The above balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as comparable transactions with third-party counterparties.

(i) Cumulative actuarial gains/(losses) recognised in OCI in respect of defined benefit scheme

	2024	2023
At 1 January	**(786)**	(875)
Actuarial gains recognised in OCI	**402**	89
At 31 December	**(384)**	(786)

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

Net asset/(liability) under defined benefit scheme

	Fair value of scheme assets	Present value of defined benefit obligations	Net defined benefit (liability)/asset
At 1 January 2024	**3,641**	**(3,717)**	**(76)**
Current service cost (note 11)	–	**(109)**	**(109)**
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 11)	**102**	**(103)**	**(1)**
Remeasurement effects recognised in other comprehensive income	**205**	**197**	**402**
– Return on plan assets	**205**	–	**205**
– Actuarial gains/(losses) from changes in demographic assumptions	–	**2**	**2**
– Actuarial gains/(losses) from changes in financial assumptions	–	**96**	**96**
– Actuarial gains/(losses) from experience	–	**99**	**99**
Contributions by the Group	**77**	–	**77**
Benefits paid	**(464)**	**464**	–
Others	**(6)**	**6**	–
Administrative costs and taxes paid by scheme (note 11)	–	**(6)**	**(6)**
At 31 December 2024	**3,555**	**(3,268)**	**287**
Retirement benefit assets recognised in Consolidated Balance Sheet (included in 'Other assets') (note 33)	**3,555**	**(3,268)**	**287**
Present value of defined benefit obligation relating to:			
– Actives		**(3,178)**	
– Pensioners		**(90)**	

The Group expects to make HK$72m of contributions to defined benefit scheme during 2025 (2023: expected contributions for 2024 was HK$82m).

46. Employee retirement benefits continued

(a) Defined benefit scheme continued

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

Net asset/(liability) under defined benefit scheme continued

	Fair value of scheme assets	Present value of defined benefit obligations	Net defined benefit (liability)/asset
At 1 January 2023	3,513	(3,927)	(414)
Current service cost (note 11)	–	(115)	(115)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 11)	115	(127)	(12)
Remeasurement effects recognised in other comprehensive income	203	(114)	89
– Return on plan assets	203	–	203
– Actuarial gains/(losses) from changes in demographic assumptions	–	–	–
– Actuarial gains/(losses) from changes in financial assumptions	–	(93)	(93)
– Actuarial gains/(losses) from experience	–	(21)	(21)
Contributions by the Group	383	–	383
Benefits paid	(566)	566	–
Others	(7)	7	–
Administrative costs and taxes paid by scheme (note 11)	–	(7)	(7)
At 31 December 2023	3,641	(3,717)	(76)
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 37)	3,641	(3,717)	(76)
Present value of defined benefit obligation relating to:			
– Actives		(3,614)	
– Pensioners		(103)	

(iii) Benefits expected to be paid

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

	2025	2026	2027	2028	2029	2030-2034
HSBDBS	326	388	438	391	360	1,949

The duration of the HSBDBS is 4.8 years (2023: 5.3 years) under the disclosure assumptions adopted.

(iv) Fair value of scheme assets by asset classes

	2024			2023		
	Value	**Quoted market price in active market**	**Of which placed with the Group and HSBC Group**	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group
Fair value of scheme assets						
– Index ETFs/Funds	**942**	**942**	**–**	1,518	1,518	–
– Bonds	**2,516**	**2,516**	**–**	2,073	2,073	–
– Other[1]	**97**	**97**	**25**	50	50	6
	3,555	**3,555**	**25**	3,641	3,641	6

1 Other mainly consists of cash and deposits.

46. Employee retirement benefits continued

(a) Defined benefit scheme continued

(v) Key actuarial financial assumptions

The scheme is funded defined benefit scheme and is administered by trustees with asset held separately from those of the Group. The latest annual actuarial valuation as at 31 December 2024 were performed by Phoebe W.Y. Shair, Fellow of the Society of Actuaries of the United States, of Towers Watson Hong Kong Limited, using the Projected Unit Credit Method.

The present value of the scheme's obligation was a final lump sum salary and payment of HK$3,268m (2023: HK$3,717m). The principal actuarial assumptions used to calculate the Group's obligations for the HSBDBS for each year, and used as the basis for measuring the expenses in relation to the scheme, were as follows:

Principal actuarial assumptions for the scheme

	2024	2023
	%	%
Discount rate	**3.50**	2.90
Expected rate of salary increases	**4.00**	4.00

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

(vi) Actuarial assumption sensitivities

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

The effect of changes in key assumptions:

	HSBDBS	
	2024	2023
Discount rate		
– change in retirement benefit obligation at year end from a 25bps increase	**(39)**	(47)
– change in retirement benefit obligation at year end from a 25bps decrease	**40**	48
Rate of salary increase		
– change in retirement benefit obligation at year end from a 25bps increase	**39**	51
– change in retirement benefit obligation at year end from a 25bps decrease	**(38)**	(52)

46. Employee retirement benefits continued

(b) Defined contribution schemes

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

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

	2024	2023
Amounts charged to the income statement (note 11)	**380**	372

Under the schemes, the Group's contributions are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully. The forfeited contributions utilised during the year or available at the year-end to reduce future contributions is HK$0.03m (2023: HK$0.03m).

47. Share-based payments

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

Share awards and option plans

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

47. Share-based payments continued

(a) HSBC share awards

	2024 Number ('000)	2023 Number ('000)
Outstanding at 1 January	**1,276**	1,344
Additions during the year	**754**	771
Less: Released in the year	**(705)**	(770)
Less: Lapsed in the year	**(93)**	(69)
Outstanding at 31 December	**1,232**	1,276

The closing price of the HSBC Holdings plc share at 31 December 2024 was £7.85 (2023: £6.36).

The weighted average remaining vesting period as at 31 December 2024 was 1.09 years (2023: 1.09 years).

(b) Calculation of fair value

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

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

	2024	2023
Equity-settled share-based payments	**28**	33
Cash-settled share-based payments	**7**	3
Income statement charge for restricted share awards (note 11)	**35**	36

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

48. Related party transactions

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

The Group entered into transactions with its immediate holding company and its subsidiaries as well as its fellow subsidiaries, mainly including lending activities, the acceptance and placement of interbank deposits, correspondent banking transactions, off-balance sheet transactions and the provision of other banking and financial services. The transactions were performed under the arm's length basis, with reference to various considerations including the relevant cost incurred, nature of services, market practice and prevailing market conditions. The services are provided in the ordinary course of businesses of the Group and on normal commercial terms which are no less favourable than those offered by independent third parties. Some transactions constitute connected transactions as defined in Chapter 14A of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited but exempted from any disclosure requirements under the provisions of the rules.

During 2024, the Group has entered into a suite of Master Agreements with HSBC group to standardise the governing principles and simplify processes for both existing and future continuing connected transactions between Hang Seng Group and HSBC Group. It covers eight categories of transactions including information technology services, outsourced operation services, international supervisory framework related services, group administrative and support services, financial services, insurance related investment management and advisory services, intercompany dealing transactions and trading of financial assets.

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

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

Fellow subsidiaries were appointed as fund managers to manage the Group's life insurance investment portfolios. There was an arrangement whereby a fellow subsidiary provided certain management services to the Group's insurance subsidiary.

The Bank acted as agent for promoting Mandatory Provident Fund products administered by its immediate holding company and distributed retail investment funds for a fellow subsidiary company. The Bank also acted as the agent of a fellow subsidiary for the purpose of providing medical insurance agency services, with the exclusive distribution agreement newly signed in 2024.

48. Related party transactions continued

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

The Group has engaged with its immediate holding company and its subsidiaries as well as its fellow subsidiaries to perform foreign exchange and cash equities transactions, derivatives transactions, and bond and equity financing transactions.

During 2024, the Bank has paid coupons on AT1 capital instruments of HK$699m to its immediate holding company (2023: HK$708m).

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

	Immediate holding company		Subsidiaries of immediate holding company		Other fellow subsidiaries	
(Re-presented)[1]	**2024**	2023	**2024**	2023	**2024**	2023
Interest income	**256**	127	**295**	274	**344**	233
Interest expense	**(2,117)**	(2,789)	**(91)**	(91)	**–**	–
Fee income	**165**	150	**137**	49	**158**	1
Fee expense	**(47)**	(5)	**(54)**	(45)	**(71)**	(23)
Net income/(loss) from financial instruments measured at fair value through profit or loss	**648**	(384)	**(180)**	(48)	**115**	36
Other operating income/(loss)	**165**	10	**–**	–	**6**	6
Operating expenses*	**(137)**	(171)	**(297)**	(233)	**(5,118)**	(4,782)
Amounts due from:						
Reverse repurchase agreements – non-trading	**–**	–	**9,195**	8,676	**–**	–
Placings with and advances to banks	**7,298**	5,814	**16**	30	**7,419**	5,623
Derivative financial instruments	**5,431**	5,776	**13**	62	**95**	19
Other assets	**2,151**	1,339	**34**	50	**1,386**	1,203
	14,880	12,929	**9,258**	8,818	**8,900**	6,845
Amounts due to:						
Current, savings and other deposit accounts	**–**	–	**1,675**	1,846	**–**	–
Deposits from banks	**2,467**	1,568	**3**	–	**–**	7
Repurchase agreements – non-trading	**1,971**	387	**318**	–	**–**	–
Derivative financial instruments	**4,040**	5,067	**86**	38	**19**	40
Subordinated liabilities	**27,475**	27,491	**–**	–	**–**	–
Other liabilities	**1,886**	1,547	**31**	33	**703**	854
	37,839	36,060	**2,113**	1,917	**722**	901
Derivative contracts:						
Contract amount	**609,066**	624,010	**6,141**	13,209	**23,173**	13,634
Guarantees	**388**	390	**3**	3	**–**	–
Commitments	**–**	–	**800**	800	**–**	–

* Representing the operating expenses paid to immediate holding company and its subsidiaries and other fellow subsidiaries, of which HK$1,056m was capitalised as intangible assets in the Group's consolidated balance sheet (2023: HK$1,080m).

1 The disclosure has been enhanced to segregate the 'Other operating income/(loss)' into 'Fee income', 'Fee expense' and 'Other operating income/(loss)' to align with the presentation of the income statement and include 'Net income/(loss) from financial instruments measured at fair value through profit or loss' with related parties. Comparatives have been re-presented accordingly.

48. Related party transactions continued

(b) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and Bank. It includes members of the Board of Directors and Executive Committee of the Bank. During the year, the members of the Bank's Executive Committee has decreased from 18 to 17. The amount of remuneration paid to key management personnel was pro-rata from the date of being appointed as Directors of the Bank or members of Executive Committee, if any. The aggregate amount of remuneration of the key management personnel during the year are as follows:

	2024	2023
Salaries, allowances and benefits in kind	**72**	72
Retirement scheme contributions	**8**	8
Variable bonuses		
– Cash bonus	**23**	23
– Share-based payment	**18**	16
	121	119

(c) Material transactions with key management personnel

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

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

	2024	2023
For the year		
Interest income	**1,445**	1,834
Interest expense	**11**	41
Fees and commission income	**6**	32
Maximum aggregate amount of loans and advances	**33,274**	44,731
At the year-end		
Loans and advances	**26,715**	39,618
Deposits	**2,945**	6,795
Guarantees issued	**305**	338
Undrawn commitments	**3,011**	2,242

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

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

48. Related party transactions continued

(d) Loans to Directors

Particulars of loans to directors disclosed pursuant to section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulations for the year ended 31 December 2024 are shown as below.

	2024		2023	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
– Loans and advances	**198**	**142**	12,351	10,965
– Guarantees issued	**–**	**–**	3	2

The above relevant transactions in 2024 and 2023 were all transacted by the Bank.

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

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

(f) Associates

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

	2024		2023	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
Amounts due from associates#	**9,157**	**6,318**	9,419	9,157
Amounts due to associates#	**1,432**	**242**	1,309	1,073

For the year	**2024**	2023
Total operating income	**370**	355

Including associates in HSBC Group

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

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

(g) Ultimate holding company

The Group participates in various share option and share plans operated by HSBC Holdings plc whereby share options or shares of HSBC Holdings plc are granted to employees of the Group. As disclosed in note 47, the Group recognises an expense in respect of these share options and share awards. The cost borne by the ultimate holding company in respect of these share options and share awards is treated as a capital contribution and is recorded under 'Other reserves'. The balance of this reserve as at 31 December 2024 amounted to HK$657m comprising HK$668m relating to share option schemes and negative reserve of HK$11m relating to share award schemes (2023: HK$666m comprising HK$668m relating to share option schemes and negative reserve of HK$2m relating to share award schemes).

49. Fair value of financial instruments

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

Control framework

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

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

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

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

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

Financial liabilities measured at fair value

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

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

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

Fair value hierarchy

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

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

49. Fair value of financial instruments continued

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

Fair value hierarchy continued

The accounting policies, control framework and hierarchy used to determine fair values in 2024 are consistent with those applied for the Annual Report 2023.

The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Third party total	Amounts with HSBC entities*	Total
Recurring fair value measurements						
2024						
Assets						
Trading assets	**32,210**	**7,430**	**–**	**39,640**	**–**	**39,640**
Derivative financial instruments	**373**	**14,290**	**–**	**14,663**	**5,538**	**20,201**
Financial assets mandatorily measured at fair value through profit or loss	**35,080**	**99,250**	**30,227**	**164,557**	**–**	**164,557**
Financial investments	**324,523**	**85,593**	**1,000**	**411,116**	**–**	**411,116**
Liabilities						
Trading liabilities	**18,093**	**–**	**–**	**18,093**	**–**	**18,093**
Derivative financial instruments	**84**	**9,288**	**–**	**9,372**	**4,145**	**13,517**
Financial liabilities designated at fair value	**–**	**24,237**	**14,399**	**38,636**	**–**	**38,636**
2023						
Assets						
Trading assets	39,932	4,086	–	44,018	–	44,018
Derivative financial instruments	286	8,816	–	9,102	5,857	14,959
Financial assets mandatorily measured at fair value through profit or loss	22,688	106,709	27,475	156,872	–	156,872
Financial investments	258,834	45,448	1,072	305,354	–	305,354
Liabilities						
Trading liabilities	35,227	–	–	35,227	–	35,227
Derivative financial instruments	82	9,251	–	9,333	5,145	14,478
Financial liabilities designated at fair value	–	31,884	13,749	45,633	–	45,633

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

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
2024							
Transfer from Level 1 to Level 2	**25,865**	**1,015**	**2,000**	**–**	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**15,643**	**571**	**3,755**	**–**	**–**	**–**	**–**
2023							
Transfer from Level 1 to Level 2	6,903	1,961	–	–	–	–	–
Transfer from Level 2 to Level 1	4,916	2,092	–	–	–	–	–

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

49. Fair value of financial instruments continued

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

Fair value adjustments

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

Bid-offer

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

Uncertainty

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

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

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

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

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

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

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

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

Funding fair value adjustment ('FFVA')

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

49. Fair value of financial instruments continued

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

Model limitation

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

Inception profit (Day 1 P&L reserves)

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

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

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
2024							
Investment funds and equity shares	**1,000**	**–**	**27,614**	**–**	**–**	**–**	**–**
Debt securities	**–**	**–**	**2,613**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**14,399**	**–**
	1,000	**–**	**30,227**	**–**	**–**	**14,399**	**–**
2023							
Investment funds and equity shares	1,072	–	24,798	–	–	–	–
Debt securities	–	–	2,677	–	–	–	–
Structured notes	–	–	–	–	–	13,749	–
	1,072	–	27,475	–	–	13,749	–

49. Fair value of financial instruments continued

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading Assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Financial liabilities designated at fair value	Derivatives
At 1 January 2024	**1,072**	**–**	**27,475**	**–**	**–**	**13,749**	**–**
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	595	–	–	2	–
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	(72)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	142	–
Purchases	–	–	10,191	–	–	–	–
Issues/deposit taking	–	–	–	–	–	50,621	–
Sales	–	–	(158)	–	–	–	–
Settlements	–	–	(7,404)	–	–	(49,963)	–
Transfers out	–	–	(472)	–	–	(201)	–
Transfers in	–	–	–	–	–	49	–
At 31 December 2024	**1,000**	**–**	**30,227**	**–**	**–**	**14,399**	**–**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(706)	–	–	(8)	–

49. Fair value of financial instruments continued

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

Movement in Level 3 financial instruments continued

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

In 2024, there was transfer in to level 3 financial assets mandatorily measured at fair value through profit or loss which are primarily attributable to re-assessment of the observability of valuation inputs and price transparency. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatility for pricing the instrument.

49. Fair value of financial instruments continued

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

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

	2024				2023			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Investment funds and equity shares	1,381	(1,381)	67	(67)	1,239	(1,239)	79	(79)
Debt securities	183	(183)	–	–	134	(134)	–	–
	1,564	(1,564)	67	(67)	1,373	(1,373)	79	(79)

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

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

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range 2024	Range 2023
Assets				
Investment funds and equity shares	See footnote 1	See footnote 1		
Debt securities	Discount cash flow	Credit Spread	-2.19% to 5.02%	0.27% to 5.74%
Liabilities				
Structured notes	Option model	Equity Volatility	8.95% to 69.87%	8.75% to 8.90%
		Equity Correlation	41.53% to 87.65%	40.66% to 94.00%
		FX Volatility	4.56% to 17.44%	3.23% to 18.43%

[1] Given the bespoke nature of the analysis in respect of each private equity holding, it is not practical to quote a range of key unobservable inputs. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.

49. Fair value of financial instruments continued

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

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

	Carrying amount	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Fair value
2024					
Financial Assets					
Reverse repurchase agreements – non-trading	**33,479**	**–**	**33,470**	**–**	**33,470**
Placings with and advances to banks	**76,221**	**–**	**76,223**	**–**	**76,223**
Loans and advances to customers	**819,136**	**–**	**–**	**795,652**	**795,652**
Financial investments – at amortised cost	**130,039**	**108,394**	**20,815**	**–**	**129,209**
Financial Liabilities					
Deposits from banks	**14,279**	**–**	**14,279**	**–**	**14,279**
Current, savings and other deposit accounts	**1,238,224**	**–**	**1,239,100**	**–**	**1,239,100**
Repurchase agreements – non-trading	**19,387**	**–**	**19,387**	**–**	**19,387**
Certificates of deposit in issue	**4,948**	**–**	**4,948**	**–**	**4,948**
Subordinated liabilities	**27,475**	**–**	**27,922**	**–**	**27,922**
2023					
Financial Assets					
Reverse repurchase agreements – non-trading	30,202	–	30,197	–	30,197
Placings with and advances to banks	83,756	–	83,761	–	83,761
Loans and advances to customers	860,406	–	–	844,587	844,587
Financial investments – at amortised cost	100,438	83,130	16,917	–	100,047
Financial Liabilities					
Deposits from banks	19,707	–	19,707	–	19,707
Current, savings and other deposit accounts	1,153,062	–	1,153,614	–	1,153,614
Repurchase agreements – non-trading	12,767	–	12,768	–	12,768
Certificates of deposit in issue	9,857	–	9,856	–	9,856
Subordinated liabilities	27,491	–	27,795	–	27,795

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

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

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

49. Fair value of financial instruments continued

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

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

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

(ii) Loans and advances to banks and customers

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

(iii) Deposits from banks and customer accounts

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

(iv) Debt securities in issue

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

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

50. Unconsolidated structured entities

The Group enters into transactions with unconsolidated structured entities in the normal course of business through the holding of collective investment funds established by HSBC Group and third parties. The majority of these funds held related to the insurance business. At 31 December 2024, the total asset value of unconsolidated structured entities amounted to HK$2,918.8bn (2023: HK$2,253.3bn). The Group's interests were recognised in financial assets mandatorily measured at fair value through profit or loss of HK$37,387m and trading assets of HK$26m (2023: financial assets mandatorily measured at fair value through profit or loss of HK$28,963m and trading assets of HK$33m). These collective investment funds include investment in unit trusts, private equity funds and infrastructure funds which provide the Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment funds regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments and the outstanding capital commitments of HK$12,991m (2023: HK$15,087m) to invest in several alternative investment funds for funding future alternative investments in global companies under respective investment mandates.

51. Immediate and ultimate holding companies

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

52. Bank balance sheet and statement of changes in equity

(a) Bank balance sheet at 31 December 2024

	2024	2023
ASSETS		
Cash and balances at central banks	**10,417**	10,549
Trading assets	**37,406**	42,655
Derivative financial instruments	**15,103**	12,723
Financial assets mandatorily measured at fair value through profit or loss	**215**	156
Reverse repurchase agreements – non-trading	**33,479**	29,152
Placings with and advances to banks	**58,358**	69,826
Loans and advances to customers	**762,743**	805,807
Amounts due from subsidiaries	**10,935**	10,635
Financial investments	**510,417**	372,849
Investments in subsidiaries	**19,859**	19,883
Investment properties	**4,137**	4,282
Premises, plant and equipment	**21,817**	23,634
Intangible assets	**3,730**	3,620
Other assets	**18,940**	19,255
Total assets	**1,507,556**	1,425,026
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**12,378**	18,397
Current, savings and other deposit accounts	**1,182,241**	1,104,289
Repurchase agreements – non-trading	**12,584**	6,903
Trading liabilities	**18,093**	35,227
Derivative financial instruments	**9,046**	11,815
Financial liabilities designated at fair value	**35,344**	37,035
Certificates of deposit in issue	**1,714**	1,340
Amounts due to subsidiaries	**8,741**	5,289
Other liabilities	**42,895**	21,469
Current tax liabilities	**206**	568
Deferred tax liabilities	**2,953**	2,895
Subordinated liabilities	**27,475**	27,491
Total liabilities	**1,353,670**	1,272,718
Equity		
Share capital	**9,658**	9,658
Retained profits	**116,436**	114,042
Other equity instruments	**11,587**	11,744
Other reserves	**16,205**	16,864
Shareholders' equity	**153,886**	152,308
Total equity and liabilities	**1,507,556**	1,425,026

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

SAW Say Pin *Executive Director and Chief Financial Officer*

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

(b) Bank statement of changes in equity for the year ended 31 December 2024

				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 2024	**9,658**	**11,744**	**114,042**	**14,800**	**1,475**	**(96)**	**18**	**667**	**152,308**
Profit for the year	–	–	18,062	–	–	–	–	–	18,062
Other comprehensive income (net of tax)	–	–	336	(539)	538	(54)	(1)	(1)	279
Debt instruments at FVOCI	–	–	–	–	120	–	–	–	120
Equity instruments designated at FVOCI	–	–	–	–	418	–	–	–	418
Cash flow hedges	–	–	–	–	–	(54)	–	–	(54)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(1)	(1)
Property revaluation	–	–	–	(539)	–	–	–	–	(539)
Actuarial gains on defined benefit plans	–	–	336	–	–	–	–	–	336
Others	–	–	–	–	–	–	(1)	–	(1)
Total comprehensive income for the year	–	–	18,398	(539)	538	(54)	(1)	(1)	18,341
Redemption and repayment of AT1 capital instruments[3]	–	(11,744)	–	–	–	–	–	–	(11,744)
Issue of new AT1 capital instruments[3]	–	11,587	–	–	–	–	–	–	11,587
Dividends paid[4]	–	–	(12,923)	–	–	–	–	–	(12,923)
Coupon paid on AT1 capital instruments	–	–	(699)	–	–	–	–	–	(699)
Movement in respect of share-based payment arrangements	–	–	(9)	–	–	–	–	(9)	(18)
Share buy-back[5]	–	–	(3,006)	–	–	–	–	–	(3,006)
Others	–	–	40	–	–	–	–	–	40
Transfers[6]	–	–	593	(593)	–	–	–	–	–
At 31 December 2024	**9,658**	**11,587**	**116,436**	**13,668**	**2,013**	**(150)**	**17**	**657**	**153,886**

1 Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$831m.

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

3 The Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m in June 2024 and has redeemed and repaid another AT1 capital instrument of US$900m and issued new AT1 capital instrument of US$900m in September 2024.

4 Dividends paid represented the payment of fourth interim dividend of 2023 and the first three interim dividends of 2024 amounted to HK$6,118m and HK$6,805m respectively.

5 In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which was completed in September 2024.

6 This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.

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

(b) Bank statement of changes in equity for the year ended 31 December 2024 continued

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

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

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

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

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

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

At 31 December 2024, the aggregate amount of reserves available for distribution to equity shareholders of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance (Cap. 622) amounted to HK$110,214m (2023: HK$108,316m). After considering regulatory capital requirement and business development needs, an amount of HK$6,023m (2023: HK$6,118m) has been declared as the proposed fourth interim dividend in respect of the financial year ended 31 December 2024. The difference between the aggregate distributable reserves of HK$110,214m and the Bank's retained profits of HK$116,436m as reported above mainly represents the exclusion of unrealised revaluation gain on investment properties and the regulatory reserve of the Bank.

53. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 19 February 2025.