恒生銀行
HANG SENG BANK

90 YEARS

2023
Interim Report

CONTENTS

* Where possible, percentages in this section have been rounded to the nearest percentage point to facilitate easy reading. Percentage-based indicators remain at 1 or 2 decimal places as appropriate.

The abbreviations '$m' and '$bn' represent millions and billions of dollars respectively.

RESULTS IN BRIEF

	30 June 2023	*30 June 2022 (restated)*
For the half-year ended	**HK$m**	HK$m
Net operating income before change in expected credit losses and other credit impairment charges	**19,940**	15,409
Operating profit	**10,858**	6,491
Profit before tax	**10,961**	6,397
Profit attributable to shareholders	**9,827**	5,505
	%	%
Return on average ordinary shareholders' equity	**12.8**	7.1
Cost efficiency ratio	**35.9**	44.2
	HK$	HK$
Earnings per share	**4.99**	2.73
Dividends per share	**2.20**	1.40

	At 30 June 2023	*At 31 December 2022 (restated)*
At period-end	**HK$m**	HK$m
Shareholders' equity	**163,519**	159,933
Total assets	**1,694,707**	1,854,446
	%	%
Capital ratios		
– Common Equity Tier 1 ('CET1') Capital Ratio	**16.8**	15.2
– Tier 1 Capital Ratio	**18.5**	16.8
– Total Capital Ratio	**20.0**	18.1
Liquidity ratios		
– Liquidity coverage ratio	**230.6**	281.3
– Net stable funding ratio	**161.4**	163.8

We are already seeing renewed energy in the market with the lifting of COVID restrictions.

Emerging opportunities for growth include new economy sectors, green technologies and innovation. The Greater Bay Area ('GBA') is at the forefront of this structural transformation and new policies are strengthening integration among key cities. Some of the investments and support are significant. For example, the Guangdong government will provide RMB4 trillion in new credit this year to support economic development.

Hong Kong is an integral part of the GBA. With the increase in travel, trade and capital flows, we will benefit from the greater economic growth. The Central Government has reiterated Hong Kong's value as an international financial centre. I am pleased to say that Hang Seng is strongly positioned to make a major contribution as we move into this new era.

Driving Innovation

In line with new expectations and advanced technology, which are reshaping the financial services landscape, we have established ourselves as an innovator with a clear vision for Future Banking. Committed efforts in applying digital tools, analytics and upskilling our people have enabled us to become a data-driven organisation with a strong customer focus.

Additionally, through collaborative partnerships, we have focused on creating a GBA innovation ecosystem that encourages entrepreneurship and nurtures new economy start-ups. We are leveraging this network to help advance fintech development in Hong Kong. Our role as an innovation facilitator has been recognised with an 'Excellence in Collaboration and Partnership Special Award' at the HKMA/HKT Global Innovation Awards 2022/23 organised by The Hong Kong Management Association.

The Hong Kong Monetary Authority selected three of our e-HKD proposed applications to assess the potential take up and use of e-HKD in its Pilot Programme. This is a strong endorsement of our credentials as advocate of Central Bank Digital Currencies, which will play a major role in the trend towards digital payments and a cashless society. We will launch two real-life simulations in the third quarter this year.

Building Wealth

The region's rapidly expanding middle class is also driving demand for wealth management services. Of the 86 million residents in the GBA, about 20% currently expect to cross the boundary to or from Hong Kong for work or retirement in the future. We anticipate this number will increase.

As new government initiatives expand cross-boundary mutual market access to enable customers to invest, new Connect schemes are being launched. We are on the forefront of developing solutions that support this vision. As an example, we are Hong Kong's number-one exchange-traded fund ('ETF') manager, and we manage three of the six approved ETF funds available for southbound trading under the ETF Connect scheme.

We are amongst the first 24 companies to launch an RMB counter under the Stock Exchange of Hong Kong's new HKD-RMB Dual Counter Model. In addition to increasing investor choice, this supports the further internationalisation of the RMB and Hong Kong's position as the leading offshore RMB finance hub.

Improving Sustainability

Urgent collective actions are required by businesses in all industries to address climate change. We aim to achieve net zero in our operations by 2030. We are pleased to report that our Headquarters is the first bank building in Hong Kong to be Gold-certified by the International WELL Building Institute, which sets benchmarks for transformative and people-centric spaces.

We are also working closely with our customers on their transition. To reach our goals, sustainable finance solutions have been launched to help customers move towards low-carbon operations. Additionally, Hang Seng Indexes Company Limited is launching indexes with new themes such as hydrogen energy, low carbon emission intensity China A-share companies and Central State-owned Enterprises with good ESG performance to underline the importance of the paradigm shift.

Working with clients to extend this ethos into the community, we offered our first social loan to fund construction projects in Hong Kong that will improve access to education for children with special needs and support greater housing affordability.

Our sustainability initiatives have been recognised by S&P Global with a Top 1% S&P Global ESG Score (China).

Looking Ahead

Hang Seng turned 90 in March this year. Our celebrations showcased our deep connections with Hong Kong and showed how constant innovation has been used to drive sustainable growth and prosperity.

We are very positive about the future and the growth potential presented by the GBA. Hang Seng will continue to remain focused on helping Hong Kong, the community and our customers.

Irene Lee
Chairman
1 August 2023

I am pleased to report that we continued to accelerate long-term growth momentum in the first half. This demonstrates that our business transformation strategy – which focuses on Growth, Sustainability and Innovation as top priorities – is working.

Year-on-year, Net Operating Income Before Change in Expected Credit Losses and Other Credit Impairment Charges grew by 29% and Attributable Profit was up 79%.

We recorded strong growth in Net Interest Income. By proactively managing our assets and liabilities we achieved an enhanced deposits spread and improved our Net Interest Margin by 62 basis points to 2.09%.

We responded swiftly and effectively to the opportunities created by the revival in travel, trade and consumer activities with the reopening of the mainland-Hong Kong boundary.

Wealth management business is a key long-term growth driver that is helping us diversify our income stream. We increased wealth management income by 10% year-on-year and by 40% compared with the second half of 2022. This indicates we are using our strong service proposition, cross-boundary connectivity and trusted brand to good effect as demand increases across the Greater Bay Area ('GBA').

Our investments in our people, technology and business infrastructure have made us more agile and more closely connected across our business and with customers. This is resulting in better service experiences, which is driving growth in targeted segments. And these investments are helping us deliver greater value. Our Cost Efficiency Ratio improved by 8.3 percentage points to 35.9% compared to the previous year.

Business Highlights

Some of our notable first-half achievements include the following:

- We were among the first batch of companies to launch an RMB counter under the Stock Exchange of Hong Kong's new HKD-RMB Dual Counter Model.
- We are the only bank to have three e-HKD use cases selected by the Hong Kong Monetary Authority for its e-HKD pilot programme. This underlines our leadership in supporting local and cross-boundary Central Bank Digital Currency development.
- We opened our first mainland Cross-boundary Wealth Management Centre in Guangzhou and a new Business Banking Centre in Lai Chi Kok.
- The Hang Seng TECH Index Exchange-traded Fund ('ETF') was approved for southbound trading under the ETF Connect scheme. Hang Seng Investment Management now manages three of the six ETFs that are currently eligible for southbound trading.
- We arranged Hong Kong's first green export credit insurance, supporting greater supply chain sustainability, and made our first social loan, which is financing the construction of transitional housing for low-income families and a primary school reprovisioning project. We also launched the Hang Seng Stock Connect China A Low Carbon Index ETF, Hong Kong's first low-carbon themed A-Share ETF.
- We launched 'HS3', the Hong Kong banking industry's first NFT wallet.

Dividend

The Directors have declared a second interim dividend of HK$1.10 per share. This brings the total distribution for the first half of 2023 to HK$2.20 per share.

Wealth and Personal Banking

In our Wealth and Personal Banking business, we continued to focus on providing highly tailored wealth management solutions. This included the launch of our innovative Prestige Banking Family+ account to meet the growing demand for generational wealth services. Our enhanced offerings helped us achieve a 25% year-on-year increase in high-net-worth, mass affluent and emerging affluent customers.

All of our investment services are now available on our digital platforms. This assisted our efforts to capture business as market activity increased. Investment Services Income was up 1% year-on-year, and 19% against the second half of 2022, with notable increases in revenue from fixed-income and structured investment products as well as retail investment funds.

Customers responded favourably to our new flagship insurance product and passive income wealth solutions. Annualised New Premiums increased by 132%. Our new exclusive distribution arrangement with international insurer Chubb in Hong Kong enhances our ability to meet the diverse insurance needs of customers.

Simpler, faster and more secure digital journeys for customers led to a 16% year-on-year increase in monthly active mobile banking users and a 173% increase in digital retail transaction count.

Across our digital channels, we are strengthening customer relationships with more personalised messaging at key touchpoints. We are also deepening engagement with different types of customers through value-added lifestyle services such as our Olive wellness app.

We maintained a leading position in mortgages, cards and personal loans, which helped us grow Customer Loans and Advances by 4% year-on-year. Our new MMPower credit card offers a flexible cross-channel rewards programme and is the first credit card in Hong Kong to use Mastercard's 'Touch Card' design that assists visually impaired users.

Commercial Banking and Global Banking

In our wholesale business, we made it easier for customers to take actions and move quickly on opportunities created by the upturn in economic activity.

Our online trade application and loan management services offer customers faster processing times and more convenient banking. Our new Digital International Collection for e-Commerce solution and the introduction of QR code collection for mobile banking are assisting clients on the payment side. Our new Business Banking Centre offers customers the opportunities to learn more about using emerging technology to enhance their business performance.

The digital service adoption rate among new-to-bank customers in the first half was 98%. Active mobile and internet banking users grew by 59% and 22% respectively year-on-year.

For SME clients, we are partnering with leading providers in other service sectors to deliver an 'all-in-one business cube' solution. We are also collaborating with four other banks and Hong Kong Export Credit Insurance Corporation to enhance insurance coverage for exporters.

With multi-market account opening as a major pain point for customers, our new unified account opening service offers seamless onboarding in the GBA for businesses with cross-boundary banking needs.

These and other initiatives drove a 15% year-on-year increase in new account acquisitions, and our number of new mainland customers more than doubled in the first half against the whole of 2022.

Global Banking delivered industry-specific total service solutions to capture new business and achieve a 16% increase in current and savings deposits compared with last year-end.

Good growth in Global Banking's bond management and debt capital market origination business, and effective collaboration with the Global Markets' team to provide hedging solutions for clients, are advancing our efforts to diversify our long-term revenue streams.

Global Markets

Our Global Markets business also made solid progress with income diversification initiatives, resulting in a 55% increase in Non-interest Income.

Strong equities-related wealth sales and a new revenue stream from interest rate structuring drove good year-on-year growth in income from equities and rates-related structured products. We captured opportunities arising from market movements to record a solid increase in option trading income. We also achieved notable growth in revenue from rates trading.

The growth in Non-interest Income largely offset the decline in Net Interest Income, which fell by 36%, due mainly to the unfavourable market environment for Markets Treasury.

Hang Seng China

Hang Seng China captured opportunities created by improved consumer and investment sentiment. Total Operating Income from Wealth and Personal Banking business in the GBA rose by 20% and the Prestige Banking customer base grew by 5% year-on-year. Global Markets recorded positive momentum, with 80% growth in trading income and sales income up by 47%.

Total loan balance size declined by 15% compared to last year-end, due mainly to our de-risking actions related to the commercial real estate sector. This had an impact on overall Total Operating Income, which was down by 12% year-on-year. Hang Seng China's Profit Before Tax for the first half was HK$821m.

Financial Overview

Assisted by rising market interest rates, we recorded a 42% year-on-year rise in Net Interest Income to HK$15,191m. As a result, Net Interest Margin improved by 62 basis points to 2.09%.

Our loan balance declined by 4%, due mainly to the further de-risking of our mainland corporate real estate portfolio and relatively weak wholesale loan demand.

The time deposits market remained keenly competitive in the first half. With our ample liquidity, we focused on growing our customer base through current accounts and savings accounts ('CASA'). As a result, CASA as a percentage of total deposits was up by 2% compared with 2022 year-end. Overall customer deposits fell by 8%. However, at 230.6%, our Liquidity Coverage Ratio remains comfortably above the minimum statutory requirement of 100%.

With the lifting of COVID restrictions and the reopening of the boundary, we responded swiftly to the upturn in activity and changing needs of customers. We achieved 27% growth in fee income from card services. However, with weaker demand for loans, fee income from credit facilities and trade were down by 17% and 33% respectively.

Year-on-year, Non-interest Income grew by 1%. Compared with the second half of 2022, however, we recorded growth of 15%.

Investments to enhance our capacity to serve customers better and improve operational efficiency saw Operating Expenses rise by 5% year-on-year to HK$7,156m. While keeping a close eye on overall cost containment, we will continue to strategically deploy resources in areas that will support our long-term growth.

Expected Credit Losses and Other Credit Impairment Charges ('ECL') fell by 8% year-on-year to HK$1,924m. Against the second half of 2022, ECL fell by 66%. We are continuing to actively de-risk our portfolio and will remain highly vigilant to any further developments.

As at 30 June 2023, Gross Impaired Loans and Advances as a Percentage of Gross Loans and Advances to Customers was 2.85%, compared with 1.92% a year earlier and 2.56% at 2022 year-end. The increase in the non-performing loans ('NPL') ratio was caused by the decline in our gross loans balance and new NPL downgrades in the first half.

Profit Before Tax rose by 71% year-on-year to HK$10,961m. Attributable Profit increased by 79% to HK$9,827m. Earnings Per Share were up 83% at HK$4.99 per share. At a business group level, Profit Before Tax for Wealth and Personal Banking doubled. Commercial Banking and Global Banking recorded increases of 48% and 45% respectively. Profit Before Tax for Global Markets was down by 9%.

Return on Average Ordinary Shareholders' Equity was 12.8%, compared with 7.1% for the first half of 2022. Return on Average Total Assets was 1.1% against 0.6% for the first half of last year.

On 30 June 2023, our Common Equity Tier 1 Capital Ratio was 16.8%, our Tier 1 Capital Ratio was 18.5% and our Total Capital Ratio was 20.0%.

Delivering More of What Customers Want

Our business transformation strategy is yielding tangible results. We are delivering better service experiences, more tailored solutions and greater choice. This is winning us more customers and new business.

Our customers are demonstrating trust in our brand and our business direction. We will build further growth momentum by providing them with more of what they want.

We are connecting customers with new opportunities presented by the tremendous potential of the GBA. When our Tsim Sha Tsui and Shenzhen centres opens next week, we will have six cross-boundary Wealth Management Centres in key GBA cities. More digital services and seamless all-in-one solutions will make it faster and easier for our wholesale customers to get business done and expand their operations in the region. We are the first bank in Hong Kong to offer mainland customers a Commercial Banking e-Sign service. These initiatives will drive new customer acquisitions and grow our Non-interest Income base.

Customer-centric service innovation remains vital to our strategy. Last month, we opened our first Future Banking concept branch, which provides our customers with the opportunity to experience Hong Kong's first Smart Teller service. We have also launched a Simple Mode for our Mobile Banking app to make using digital banking services more inclusive.

We are developing more sustainable finance products and services to meet the burgeoning demand from customers. This area offers exciting opportunities that we will use to diversify our loan portfolio and grow our commercial customer base in new economy sectors.

Lifestyle banking is another emerging trend. Our new '+Fun Dollars' credit card rewards programme, which will officially launch soon, and our Olive wellness app are two ways we are adding value for customers while winning a bigger share of their wallet.

Amidst the challenges of the past few years, we have continued to focus on delivering best-in-class banking experiences to customers through business transformation. I offer heartfelt thanks to my colleagues for their contributions and passion as we advance towards our vision. Our 90th anniversary celebrations this year have been a wonderful opportunity to share our joy and express gratitude to the entire Hong Kong community for their continued trust and support.

While uncertainties remain in the outlook, reopening of the boundary has seen upswings in commercial and consumer activities that will fuel economic recovery in the region. We have a deeply connected network, a strategy that is working and a compelling proposition that will win us new business across the GBA and see us achieve sustainable long-term growth.

Diana Cesar
Executive Director and Chief Executive
1 August 2023

FINANCIAL PERFORMANCE

Income Analysis

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2023***	*Half-year ended 30 June 2022 (restated)*
Net operating income before change in expected credit losses and other credit impairment charges	**19,940**	15,409
Operating expenses	**7,156**	6,816
Operating profit	**10,858**	6,491
Profit before tax	**10,961**	6,397
Profit attributable to shareholders	**9,827**	5,505
Earnings per share (in HK$)	**4.99**	2.73

The international economic environment was characterised by moderate expansion in the first half of 2023 ('1H 2023') as the world continued to recover from the challenges of the Covid pandemic. In the Bank's markets of operation, the lifting of Covid control measures early in the year, particularly the reopening of the mainland-Hong Kong boundary, saw upswings in consumer and commercial activity. As international economic conditions improved, our investments in technology and business infrastructure to facilitate closer cross-boundary and cross-business connectivity enabled us to capture more new business opportunities and strengthen our position for long-term growth. The Group continued to enhance the network of service channels and embed closer collaboration to achieve synergy across its operations. Against this backdrop, the Group achieved strong half-year result for 2023. Profit attributable to shareholders rose by 79% to HK$9,827m, earnings per share increased by 83% to HK$4.99 per share and return on average ordinary shareholders' equity grew by 5.7 percentage points to 12.8% when compared with the 1H 2022. Against the second half of 2022 ('2H 2022'), profit attributable to shareholders increased by 70%, driven mainly by higher non-interest income (up 15%) and lower expected credit losses ('ECL') charges (down 66%).

On 1 January 2023, the Group adopted HKFRS 17 '*Insurance Contract*'. As required by the accounting standard, the Group applied the requirement retrospectively with comparative figures previously published under HKFRS 4 '*Insurance Contracts*' restated from the 1 January 2022 transition date. Further information on the impact of this change is set out in the 'Additional Information' section of this press release. **Net operating income before change in expected credit losses and other credit impairment charges** rose by 29% to HK$19,940m, driven by robust growth in net interest income as a result of higher market interest rates while non-interest income remained broadly flat when compared with the same period last year. Operating expenses went up by 5% when compared with 1H 2022, due mainly to investments in technology to deliver operational efficiencies and enhanced customer experiences as well as general and administrative expenses. ECL charges decreased by HK$176m to HK$1,924m for 1H 2023, reflecting a declining gross loan balance and a favourable change in forward economic guidance and the probability weightings of economic scenarios which led to lower stage 1 and 2 ECL charges partly offset by higher stage 3 ECL charges for wholesale portfolio. The Group continues to actively de-risk our lending portfolios associated with the mainland China commercial real estate sector as recovery in the sector remains fragile. **Operating profit** increased by 67% to HK$10,858m. With the better underlying performance, and improvements in property valuation and share of associate' profits compared to 1H 2022, **profit before tax** rose by 71% to HK$10,961m and **profit attributable to shareholders** was up by 79% at HK$9,827m.

Net interest income grew strongly by HK$4,499m, or 42%, to HK$15,191m, underpinned by the improved net interest margin driven by higher market interest rates. Average interest-earning assets remained broadly at the same level as for the same period last year. However, on the back of relatively weaker new loan demand and de-risking related to the mainland China corporate real estate sector, average customer loans declined and the commercial surplus was redeployed to financial investments and interbank placements, which is reflected in its higher average balance.

Net interest margin widened by 62 basis points ('bps') to 2.09%, while net interest spread increased by 31 bps to 1.72%. Customer deposits spread improved upon maturity of certain high cost time deposits but remained under pressure as industry continued to observe the migration of current and saving accounts to time deposits due to rising interest rate environment.

For 1H 2022 which was under HKFRS 4 reporting standard, the majority of the debt securities held by the Group's insurance entity to support policyholders' liabilities were measured at amortised costs and its related interest income was reported under interest income calculated using the effective interest method and form part of interest earning assets and net interest margin calculation. With the implementation of HKFRS 17 in 2023, the Group has made use of the option to re-designate to fair value through profit or loss debt securities that were previously held at amortised cost. Following re-designation to fair value through profit and loss, the interest income earned on these debt securities is reported within 'Net income/(expense) from assets and liabilities of insurance business measured at fair value through profit or loss' which is under 'non-interest income'. The impact of the adoption of HKFRS 17 was a reduction in net interest income and lower average interest-earning assets. This had a dilutive impact on the net interest margin. Accordingly, 1H 2022 results have been restated to conform with the 1H 2023 presentation.

In conjunction with the implementation of HKFRS 17, the Group has aligned with HSBC's Group presentation of net interest income and net interest margin with interest income/interest expenses from trading assets/liabilities and financial assets/liabilities designated and otherwise mandatorily measured at fair value through profit or loss under 'Net income/(loss) from financial instruments measured at fair value through profit or loss' in 1H 2023. Comparative figures have been restated to conform with the 1H 2023 presentation. This had a positive impact on the net interest margin and this largely offset the dilutive impact on adoption of HKFRS 17 as discussed above.

Figures in HK$m	***Half-year ended 30 June 2023***	*Half-year ended 30 June 2022 (restated)*
Interest income arising from:		
– financial assets measured at amortised cost	**23,722**	11,654
– financial assets measured at fair value through other comprehensive income	**4,785**	1,254
	28,507	12,908
Interest expense arising from financial liabilities measured at amortised cost	**(13,316)**	(2,216)
Net interest income	**15,191**	10,692
Average interest-earning assets	**1,463,375**	1,466,152
Net interest spread	**1.72%**	1.41%
Net interest margin	**2.09%**	1.47%

Net fee income fell by HK$80m, or 3%, to HK$2,666m. Income from securities broking-related services fell by 12%, in line with the market-wide fall in securities turnover in Hong Kong during 1H 2023. Income from retail investment funds remained broadly flat versus the same period last year. Credit facilities fees were down by 17%, due to lower new corporate lending activities which is moving in tandem with subdued loan demand and the Bank's continued effort in de-risking of lending portfolios in 1H 2023. Import and export fee income also dropped by 33%, due mainly to less trade finance activity. These declines were somewhat mitigated by the 27% increase in card services income, due mainly to higher card spending and merchant sales, with the boundary reopening boosting consumer confidence and travel activity. Compared with 2H 2022, net fee income grew by 8%, due mainly to income from retail investment funds and credit facilities.

Net income/(loss) from financial instruments measured at fair value through profit or loss recorded a gain of HK$6,110m compared with a loss of HK$18,196m in 1H 2022.

The financial assets supporting insurance policyholder liabilities re-designated to fair value through profit or loss classification following the adoption of HKFRS 17, and the gains and losses from changes in the fair value of underlying assets together with interest income earned, are both reported within 'Net income/(expense) from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss'. Net income/(loss) from assets and liabilities of insurance business measured at fair value through profit or loss recorded a gain of HK$5,773m compared with a loss of HK$18,545m in 1H 2022. The favourable investment performance of growth assets in 1H 2023 and the steady interest rate movement resulted in positive fair value change in debt securities contributed the gain in 1H 2023; while the loss in 1H 2022 mainly caused by the deterioration in fair value of debt securities reflecting the high interest rate environment, together with unfavourable growth asset performance due to downturn in the economy. Similar to HKFRS 4 basis, HKFRS 17 accounting provides for an offset. While this offset was reported within the 'net insurance claims and benefits paid and movement in liabilities to policyholders' line under HKFRS 4, it is reported within the 'insurance finance income/(expenses)' under HKFRS 17 described below.

Net trading income, net income from financial instruments designated at fair value through profit or loss and changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss together decreased by HK$12m, or 3%, to HK$337m, with higher revenue from funding swap transactions and lower debt securities trading loss, more than offset by higher interest expenses on structured deposits and certificates of deposit due to rising interest rates and lower foreign exchange income.

Insurance finance income/(expenses) reflected the change in the carrying amount of the Group's insurance contracts arising from the effects of time value of money and financial risk. For Variable Fee Approach ('VFA') contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses. This is a newly added income statement line following the implementation of HKFRS 17. The variance of the line is mainly due to the change in fair value of underlying items for VFA contracts. This provides the offsetting impact to the 'Net income/(expense) from assets and liabilities of insurance business measured at fair value through profit or loss' as described above. More than 90% of the Group's insurance contracts are measured under VFA. We recorded an expense of HK$5,454m compared with an income of HK$19,058m in 1H 2022.

Insurance service results, which reflected insurance revenue less insurance service expenses, was up by HK$119m, or 13%, to HK$1,025m. 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) in the form of contractual service margin ('CSM') release; while insurance service expenses comprises 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. The increase in insurance service results mainly reflected the higher release of CSM due to growth of CSM balance coming from new business and lower loss of onerous contracts due to better economic environment.

Other operating income increased by HK$248m to HK$384m compared with 1H 2022, due mainly to the increase in reinsurance income and rental income.

Change in expected credit losses and other credit impairment charges decreased by HK$176m, or 8%, to HK$1,924m when compared with 1H 2022 and fell by HK$3,670m, or 66% when compared with 2H 2022. This mainly reflected a declining loan base and a favourable change in the forward economic guidance and the probability weightings of economic scenarios, partly offset by higher stage 3 ECL charges for the wholesale portfolio. The Group is continuing to actively de-risk its portfolios as the recovery in mainland China commercial real sector remains fragile.

In 2H 2022, the Group made higher ECL charges on certain sizable corporates in the mainland China commercial real estate sector to reflect the heightened economic uncertainty. The Group has remained alert to the volatile and challenging external environment and continued to carefully monitor its exposures in this vulnerable sector as recovery remains fragile. Change in ECL for stage 1 and stage 2 unimpaired credit exposures recorded net releases in 1H 2023 and 1H 2022 of HK$1,267m and HK$791m respectively, driven by (i) the decline in loan balances, (ii) favourable change in economic outlook scenarios and (iii) the migration of some loans to stage 3.

Change in ECL for stage 3 and purchased or originated credit-impaired exposures ('impaired credit exposures') recorded net charges for both 1H 2023 and 1H 2022 of HK$3,191m and HK$2,891m respectively. The increase in ECL charges was mainly related to mainland China commercial real estate exposures.

Wealth and Personal Banking ('WPB') recorded ECL net charges (stages 1 to 3) in both 1H 2023 and 1H 2022, with those in 1H 2023 up by HK$7m to HK$309m, compared to 1H 2022. Commercial Banking ('CMB') and Global Banking ('GB') together recorded net ECL charges (stages 1 to 3) for both 1H 2023 and 1H 2022, with those in 1H 2023 down by HK$175m to HK$1,621m in 1H 2023 when compared to 1H 2022.

Gross impaired loans and advances increased by HK$1.7bn, to HK$25.9bn, against 2022 year-end. Certain mainland commercial real estate exposures were downgraded during the period. Taking into account the collaterals provided, the Group considers that its current provision level is adequate. The newly classified impaired loans coupled with the decline in loan base resulted in gross impaired loans and advances as a percentage of gross loans and advances to customers increasing to 2.85% as at 30 June 2023, compared with 2.56% at 31 December 2022 and 1.92% at 30 June 2022.

Operating expenses increased by HK$340m, or 5%, to HK$7,156m, mainly reflecting the Bank's continued investment in technology to enhance services experience for customers as well as general and administrative expenses.

Staff costs remained flat when compared with 1H 2022. Depreciation charges were down by 5%. Amortisation of intangible assets increased by 36%, related mainly to capitalised IT systems development costs to support business growth within the Group. General and administrative expenses were up by 11%, reflecting continued investments in digital capabilities across all business segments and higher marketing and advertising expenses to drive the business momentum and for the Bank's 90th Anniversary celebration.

Full-time equivalent staff numbers by region	***At 30 June 2023***	*At 30 June 2022*
Hong Kong and others	**7,093**	7,457
Mainland China	**1,537**	1,666
	8,630	9,123

With the 29% increase in net operating income before change in expected credit losses and other credit impairment charges outpacing the 5% rise in operating expenses, the cost efficiency ratio improved by 8.3 percentage points to 35.9%.

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022 (restated)*
Cost efficiency ratio	**35.9%**	44.2%

Reflecting the property market movement as compared with 1H 2022, **net deficit on property revaluation** decreased by HK$58m to HK$1m. **Share of profits/(losses) of associates** recorded a net profit of HK$104m, compared with a loss of HK$35m in 1H 2022, mainly reflecting the revaluation profit of a property investment company.

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2023***	*Half-year ended 30 June 2022 (restated)*
Investment services income[1]:		
– retail investment funds	**519**	527
– structured investment products	**315**	231
– securities broking and related services	**657**	745
– margin trading and others	**29**	32
	1,520	1,535
Life insurance:		
– net interest income	**19**	4
– non-interest income/(expense)	**167**	(13)
– investment returns on life insurance funds (including share of associate's profits/(losses), net surplus/(deficit) on property revaluation backing insurance contracts and change in expected credit losses and other credit impairment charges)	**5,713**	(18,779)
– insurance finance income/(expenses)	**(5,454)**	19,058
– insurance service results	**1,025**	906
– insurance revenue	***1,396***	*1,454*
– insurance service expense	***(371)***	*(548)*
	1,470	1,176
General insurance and others	**129**	135
	3,119	2,846

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

Group's wealth management business income (mainly investment and insurance related income) increased by HK$273m, or 10%, to HK$3,119m, primarily contributed by the increase in life insurance related income. Investment services income remained broadly flat against same period last year, with strong growth in structured investment products income being offset by the decrease in securities broking-related service income.

Segmental Analysis

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

Figures in HK$m	***Wealth and Personal Banking***	***Commercial Banking***	***Global Banking***	***Global Markets***	***Other***	***Total***
Half-year ended 30 June 2023						
Profit/(loss) before tax	**7,043**	**1,827**	**980**	**1,039**	**72**	**10,961**
Share of profit/(loss) before tax	**64.2%**	**16.7%**	**8.9%**	**9.5%**	**0.7%**	**100.0%**
Half-year ended 30 June 2022 (restated)						
Profit/(loss) before tax	3,526	1,234	675	1,140	(178)	6,397
Share of profit/(loss) before tax	55.1%	19.3%	10.6%	17.8%	(2.8)%	100.0%

Wealth and Personal Banking ('WPB') recorded a 46% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$11,500m. This was driven by strong growth in net interest income, which was up by 68% year-on-year. Operating profit and profit before tax increased by 95% to HK$6,939m and by 100% to HK$7,043m respectively.

Competition in deposits remained intense in 1H 2023, which accelerated the shift of funds to time deposits in the market. By strengthening customer relationships, we actively managed our deposit acquisition strategies to enhance our position in current and savings accounts. Our gross loans and advances to customers grew by 4% year-on-year, and we maintained our market position in Mortgages, Cards and Personal Loans. Fee income from credit card issuing benefited from the rebound in travel and consumer spending, and this also helped drive the 166% year-on-year increase in net merchant acquiring fee. In May, we introduced a new card, 'MMPower', to further strengthen our card proposition. This card, which offers customer a wide range of reward options, is also the first credit card in Hong Kong to use Mastercard's 'Touch Card' design that assists visually impaired users. To enhance our card services experience, customers can now use digital channels to request credit limit increases and to block or unblock their cards for greater account security.

Customer growth remains one of our key strategic priorities, we achieved a 25% year-on-year increase in our affluent segments. This is supported by enhanced customer propositions and campaigns such as the launch of our Prestige Banking Family+ account and our first-in-the-market pet friendly branch that help meet the diverse needs of our customers. With demand for wealth management services in the Greater Bay Area increasing, we have opened four cross-boundary Wealth Management Centres in Sheung Shui, Central, Kowloon Tong and Guangzhou where clients can enjoy seamless and convenient wealth management services. With the opening of Tsim Sha Tsui and Shenzhen centres in early August, we will have six cross boundary Wealth Management Centres in key GBA cities. We introduced Future Banking model at our new location in Festival Walk furnished with a new Smart Teller area and with eco-friendly design including a special 'CO2 Reduction system' to reduce carbon dioxide levels in the branch, together with our 'Simple Mode' for mobile banking.

Our wholly-owned subsidiary, Hang Seng Investment Management Limited ('HSVM'), is the leading manager of Hong Kong listed exchange-traded funds ('ETF') in terms of assets under management and was awarded 'Fund House of the Year – Hong Kong SAR' at the AsianInvestor Asset Management Awards 2023. HSVM, which celebrated its 30th anniversary this year, recorded a 62% year-on-year increase in the size of our asset management business. This further strengthened our leadership position in the local asset management market. In May, our third flagship ETF was added as an eligible southbound ETF under the ETF Connect scheme. HSVM now manages three of the six ETFs available through the ETF Connect scheme southbound link. To help support the transition to a more sustainable future, HSVM launched 'Hang Seng Stock Connect China A Low Carbon Index ETF' in March – a first-in-the-market A-share low-carbon themed ETF.

We grew income from investment distribution business by 19% compared with 2H 2022, with particularly strong growth in structured products and fixed income products. Our insurance business achieved 132% year-on-year growth in annualised new premium ('ANP'), primarily driven by a good customer response to our new flagship product, effective wealth campaigns and, with travel rebound, a surge in uptake of travel insurance products. To provide customers with an enhanced range of general insurance products, Hang Seng and Chubb have entered into an exclusive 15-year distribution agreement which was officially launched in July 2023.

Digital transformation remains a core part of our strategy. We invested in upgrading our data and messaging platforms to deliver highly personalised customer contacts and messaging across our channels. More digital journeys and enhancements were rolled out. With our new e-Banking password reset journey, our customers can reset their password in a more convenient and secured way. We launched our 'HS3' app, the first NFT wallet in the Hong Kong banking industry. Supported by all these innovations, we recorded a 16% year-on-year increase in monthly active mobile customers and our digital retail transaction count rose by 173% year-on-year. These efforts have been recognised by the industry with awards from *The Digital Banker* and *The Asset* among others.

Commercial Banking ('CMB') achieved a 18% increase in net operating income before change in ECL and other credit impairment charges to HK$5,173m. Operating profit and profit before tax were both up by 48% at HK$1,827m.

Net interest income grew by 26% year-on-year, due to market interest rate hikes and strong growth in deposits arising from our actions to accelerate account acquisition, which result in a 15% year-on-year increase in the number of new-to-bank accounts.

Non-interest income was down by 16%. This partly reflects declines in trade and loan-related fee income, which were adversely impacted by external economic conditions.

We continue to strengthen our customer centric 'Banking as a Total Service' solution proposition. We introduced our innovative 'All-in-One business cube', a total service solution for SME customers that leverages collaborative relationships with other SME service providers in areas such as accounting, HR management and logistics. The launch of our 'Digital International Collection for E-commerce' solution aims to provide total cash management solution for customers with e-Commerce needs. To assist small merchants with digital payment collection, we added a mobile QR code payment service to our mobile banking app, which allows merchants to generate a QR code for payment collection.

Our focus in driving ESG performance continued. We have delivered a green receivables financing solution, with export credit insurance provided by Hong Kong Export Credit Insurance Corporation, that supports greater supply chain sustainability. We have also completed the first social loan in Hang Seng to finance a primary school reprovisioning project and construction of transitional housing for low-income families, supporting positive development on community well-being and growth.

We upgraded our Business e-Banking service to enable customer to complete the entire trade application submission process digitally. Together with our online status-tracking function, customers can now manage their trade instructions more easily at any time. Our online platform was also enriched by introduction of US stock trading and a new self-service function for the submission of lending drawdowns and rollover instructions.

To capture business opportunities and uplift the customer experience, we have unified our account opening form to provide a one-stop multi-market on-boarding service in the Greater Bay Area. We also rolled out a WeChat mini-app that enables customers to submit their business account opening lead form to kick start the application process. In addition, customer can now make enquiries about their cross-border account balances via various channels, including Business e-Banking, our mobile banking app and the WeChat mini-app.

We opened a new Business Banking Centre in Lai Chi Kok, which includes an immersive showcase lounge for customers to learn about and experience the latest AI, Metaverse and live-streaming e-Commerce technologies that can support their digital transformation journeys.

Global Banking ('GB') reported year-on-year growth of 4% in net operating income before change in ECL and other credit impairment charges to HK$1,440m. Operating profit and profit before tax both improved by 45% to HK$980m.

Net interest income increased by 7% to HK$1,306m. This increase was supported by our focused strategies for enhancing our deposits balance, particularly operating cash flow deposits, with tailor-made digital solutions resulting in robust growth of 16% in the current and savings deposits balance compared with 2022 year-end. To broaden our interest-earning sources, we continue to diversify our balance sheet support for customers, including through our newly established bond management business, which achieved strong growth in bond balance compared with the end of last year.

The non-interest income declined by 16% to HK$134m, reflecting subdued demand in customer advances. However, we have achieved solid progress in expanding our revenue streams through actions such as offering hedging solutions to customers amid the high interest rate environment and enhancing our activities in debt capital markets origination.

Supporting customers with their sustainability journeys remains a key focus. We are also expanding and enriching our digital services for customers. We offer customers an automated corporate API solution and digitalised FPS QR payment collection services that can help enhance customers' operational efficiency by reducing the need for paper cheque and cash payment.

Global Markets ('GM') reported a 5% decrease in net operating income before change in ECL and other credit impairment charges to HK$1,385m. Operating profit and profit before tax both decreased by 9% to HK$1,039m. Markets Treasury was adversely impacted by the market environment, but this was partly compensated by growth in other areas.

We made solid progress with income diversification initiatives. In particular, growth in revenue from rates, option trading and equities derivatives business helped fuel a 55% increase in non-interest income. Equities and rates-related structured products achieved solid revenue growth of 58% year-on-year, driven mainly by strong equities-related wealth sales and a new revenue stream from interest rate derivatives. Option trading managed to capture market movements and achieved 25% year-on-year growth in revenue. US interest rate movements and changes in US monetary policy triggered fluctuations in both rates and foreign exchanges markets. Rates trading capture the market movements to achieve a 68% increase in revenue.

Key awards and recognitions

- 'Best New Economy Solution – Payments and Collections', 'Best in Treasury and Working Capital – SME, Hong Kong' and 'Best in Payments and Collections Solution', *Triple A Treasurise Awards 2023*
- 'Outstanding China Greater Bay Area Banking – Commercial Banking', *Financial Institution Awards*

Balance sheet Analysis

Assets

Total assets decreased by HK$160bn, or 9%, to HK$1,695bn compared with 2022 year-end, partly reflecting subdued credit demand with the higher cost of borrowing and softened domestic economic activities. The Group will continue to drive its business momentum and advance with its strategy of enhancing long-term profitability through sustainable growth.

Cash and balances at central banks decreased by HK$9bn, or 49% to HK$9bn. Trading assets and financial assets designated at fair value were down by HK$3bn, or 1%, at HK$198bn.

Customer loans and advances (net of allowances for ECL) decreased by HK$38bn, or 4%, to HK$893bn. Loan growth was muted, due mainly to subdued credit demand and relatively slow economic recovery, as well as the Group's risk mitigation efforts. Loans for use in Hong Kong decreased by 2%. Lending to industrial, commercial and financial sectors decreased by 7%. Lending for property development and property investment was down by 5%. Wholesale and retail trade, manufacturing and 'Other' sectors were down by 12%, 13% and 11% respectively. Amid the less active property market, residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending grew by 2% and 16% respectively. Credit card advances dropped by 2% while other personal lending grew by 3%.

Trade finance lending regained momentum and grew by 3%.

Loans for use outside Hong Kong were down by 12%, due mainly to decreased lending by the Group's mainland banking subsidiary and loans for use outside Hong Kong granted by the Hong Kong office, reflecting the Group's risk mitigation efforts.

Financial investments decreased by HK$85bn, or 18%, to HK$395bn, reflecting decreased commercial surplus.

Liabilities and equity

The Group has re-defined its customer deposits categorisation in 2023 to align with major peers and HSBC Group. Deposits are now categorised as current, savings and time deposits (structured deposits are categorised as time deposits). Customer deposits decreased by HK$98bn, or 8%, to HK$1,189bn against the end of 2022. The industry continued to observe the continued migration of deposits from current and savings accounts ('CASA') to time deposits due to rising interest rates environment. The Group focused on growing current account deposits, which resulted in an improvement of CASA as a percentage of total customer deposits from 59.0% at 2022 year-end 2022 to 60.9% at 30 June 2023. At 30 June 2023, the advances-to-deposits ratio was 75.1%, compared with 72.4% at 31 December 2022.

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022 (restated)*
Customer loans and advances (net of allowances for ECL)	**892,890**	931,334
Customer deposits, including structured deposits	**1,188,779**	1,286,624
Advances-to-deposits ratio	**75.1%**	72.4%

At 30 June 2023, shareholders' equity increased by HK$4bn, or 2%, to HK$164bn when compared with the end of 2022. Retained profits increased by HK$4.0bn, or 3%, reflecting profit accumulation after the appropriation of dividends paid during the period. The cash flow hedging reserve recorded a negative reserve of HK$0.5bn, compared with a negative reserve of HK$0.8bn at the end of 2022, mainly reflecting the interest rate movements of hedging derivatives during the period. Financial assets at fair value through other comprehensive income reserve decreased by HK$0.2bn, or 11%, mainly reflecting the fair value movement of the Group's investments in equity and debt securities measured at fair value through other comprehensive income. Other reserves recorded a negative balance of HK$192m compared with a positive balance of HK$555m at the end of 2022, mainly reflecting the increase in negative foreign currency exchange reserve as a result of the depreciation of the RMB.

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

Risk

Principal risks and uncertainties

The Group continuously monitors and identifies risks. Our principal risks are credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime risk, model risk and insurance risk. The description of principal risks and a summary of our current policies and practices regarding the management of risk is set out in the 'Risk' section of the Annual Report 2022.

We have maintained a consistent approach to risk management throughout our history, helping to ensure we protect customers' funds, lend responsibly and support economies.

During the first half of 2023, there was an improvement in the economic outlook compared with 31 December 2022, for most markets, however a number of key macroeconomic, trade and regulatory issues remain.

The relationship between China and several countries, including the US and the UK, remains complex. Efforts have been undertaken to decrease vulnerabilities to geopolitical shocks through de-risking supply chains. The US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies. In response, China has imposed sanctions and introduced new laws and trade restrictions. Collectively, these actions could impact the Group and its customers. Further sanctions or counter-sanctions, whether in connection with Russia or China, may affect the Group and its customers by creating regulatory, reputational and market risks.

The Russia-Ukraine war has continued to have far-reaching geopolitical implications. It has resulted in the imposition of significant sanctions and trade restrictions. The war's economic impact has stabilised as the global economy has largely adapted to the sanctions regime.

However, the continuation of, or any further escalation in, the Russia-Ukraine war, could have additional economic, social and political consequences. These include further sanctions and trade restrictions, longer-term changes in the macroeconomic environment with the risk of higher and sustained inflation, and a continued increase in energy prices.

The China Commercial Real Estate ('CRE') market showed signs of recovery and stabilization in early 2023, but recent market data remains mixed, suggesting both an uncertain and protracted recovery. Chinese government policy measures introduced in late 2022 have resulted in improved financial support for onshore borrowers, although offshore financial market conditions remain challenged with a continued shortage of liquidity. Corporates operating in this sector are likely to face continued challenges.

We continue to consider the impact of the increasing cost of living on our retail customers. We are engaging closely with our key regulators to help ensure we continue to meet their expectations of financial institutions' activities during times of market volatility.

For HKFRS 9, our approach to macroeconomic scenarios remained unchanged in the first half of 2023. Management adjustments to Expected Credit Loss ('ECL') were applied to reflect persisting uncertainty in certain sectors driven by inflation, interest rate volatility and other macroeconomic risks, which were not fully captured by our models.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business.

We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational, legal and regulatory consequences. In our approach to defending against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

Risk Management

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth.

All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. Our Risk function, led by Chief Risk and Compliance Officer, plays an important role in reinforcing our culture and values. We are focused on creating an environment that encourages our people to speak up and do the right thing.

The Risk function is independent from the global businesses, including our sales and trading functions, to provide challenge, oversight and appropriate balance in risk/reward decisions.

The implementation of our business strategy remains a key focus. As we implement change initiatives, we actively manage the execution risks.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities. We continue to enhance our approach to managing risk.

Our risk appetite

Our risk appetite defines our desired forward-looking risk profile and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

Monitoring of measures against our risk appetite remains a key focus.

Climate risk

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a greener economy. Climate risk can impact us either directly or through our relationships with our clients. This includes potential climate risk arising as a result of our climate ambition, which could lead to reputational concerns, and potential legal and/or regulatory action if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated climate ambition. Our most material exposure to climate risk relates to corporate and retail client financing activity within our banking portfolio. We also have responsibilities in relation to managing the associated risks in relation to asset ownership by our insurance business and asset management business.

We seek to manage climate risk across all our businesses in line with our parent risk management framework, and are incorporating climate considerations within our existing risk types.

Key developments in the first half of 2023

There were no material changes to the policies and practices for the management of risk, as described in the Annual Report 2022.

We actively manage the risks related to macroeconomic uncertainties including inflation, interest rate risk, etc., geopolitical uncertainties, the Russia-Ukraine war, as well as the China CRE sector and other key risks described in this section.

Key developments in the first half of 2023 *(continued)*

In the first half of 2023, we enhanced our risk management in the following areas:

- We continued to enhance risk governance decision making to ensure senior executives have appropriate oversight.
- We adapted our interest rate risk management strategy as market and official interest rates increased in reaction to inflationary pressures.
- We have continued to strengthen our third-party risk policy and have enhanced the way third party risk is overseen and managed across all non-financial risks. Our processes, framework and reporting capabilities have been enhanced to improve control and oversight of our material third parties to help maintain our operational resilience, and to meet new and evolving regulatory requirements.
- We continued to make progress with our comprehensive regulatory reporting programme to strengthen our processes, improve consistency, and enhance controls.
- We continued to embed climate considerations throughout the organisation, including enhancing our approach to assessing the impact of climate on capital, and continued development of risk metrics to manage our exposure to climate risk.
- We deployed advanced technology and analytics capabilities to improve our ability to identify suspicious activities and prevent financial crime. We continue to monitor regulatory changes.
- We continued to enhance and implement our electronic communication policies and standards, including to help ensure that escalations and follow up actions can better focus on substantive issues.

Areas of Special Interest

During the first half of 2023, a number of areas were identified and considered as part of our top and emerging risks because of the effect they may have on the Group. We place particular focus in this section on geopolitical and macroeconomic risk and Interbank Offered Rate ('IBOR') transition.

Geopolitical and macroeconomic risk

The US-China relationship remains complex. To date, the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and entities. There is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology, and other issues with China, and this could create a more complex operating environment for the Group and its customers.

China has in turn announced a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals and companies. These and any future measures and countermeasures that may be taken by the US, China and other countries may affect the Group, its customers and the markets in which the Group operates.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. We maintain dialogue with our regulators in various jurisdictions on the impact of legal and regulatory obligations on our business and customers.

Areas of Special Interest *(continued)*

Geopolitical and macroeconomic risk *(continued)*

China's expanding data privacy, national security and cybersecurity laws could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance obligations in respect of cross-border transfers of personal information, which may affect our ability to share and transfer data in support of our management of financial crime risks across markets. In Hong Kong, there is also an increasing focus by regulators on the use of big data and artificial intelligence.

The Russia-Ukraine war has had far-reaching geopolitical and economic implications. The Group is monitoring the impacts of the war and continues to respond to the further economic sanctions and trade restrictions that have been imposed on Russia. In particular, significant sanctions and trade restrictions imposed against Russia have been put in place by the US, the UK and the EU, as well as other countries. Russia has implemented certain countermeasures in response. The war's economic impact has stabilised as the global economy has largely adapted to the sanctions regime. Nevertheless, further sanctions-related matter and Russian countermeasures may adversely impact the Group, its customers and the markets in which the Group operates by creating regulatory, reputational and market risks.

Higher inflation and interest rate expectations around the world, and the resulting economic uncertainty, have had an impact on ECL and other credit impairment charges during the first half of 2023. In certain sectors, the combined pressure of higher inflation and interest rates may impact the ability of our customers to repay debts.

Our approach to macroeconomic scenarios remained unchanged in the first half of 2023. There remains continued uncertainty with respect to the relationship between the economic drivers and the historical loss experience, which may require adjustments to modelled ECL in cases where we determined that the model was unable to capture the material underlying risks.

Given that key sectors of global economy such as trade and manufacturing are underperforming, and the risk of recessions remains, the demand for Chinese exports may also diminish. While the CRE sector showed signs of recovery and stabilization in early 2023, recent market data remains mixed, suggesting both an uncertain and protracted recovery. Chinese government policy measures relating to the CRE sector introduced in late 2022 have resulted in improved financial support for onshore borrowers, however, offshore financial market conditions remain challenged with a continued shortage of liquidity. Corporates operating in this sector are therefore facing continued challenges and are becoming increasingly divided, with state owned enterprises and certain privately owned enterprises likely to see some improvement in performance and allocation of investments and liquidity, while other entities may still remain subject to performance uncertainty and material market pressure. We continue to monitor the sector closely.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business. Also, we closely monitor the economic developments in key markets and sectors and actively manage our credit portfolio through enhanced monitoring, thematic reviews, internal stress tests, etc. We will continue to support our customers and manage risk and exposures as appropriate.

Areas of Special Interest *(continued)*

IBOR transition

Interbank offered rates ('IBORs') have previously been used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk management and performance benchmarking.

Following the UK's Financial Conduct Authority ('FCA') announcement in July 2017 that it would no longer continue to persuade or require panel banks to submit rates for the London interbank offered rate ('LIBOR') after 2021, we have been actively working to transition legacy contracts from IBORs to products linked to near risk-free replacement rates ('RFRs') or alternative reference rates.

The publication of sterling, Swiss franc, euro and Japanese yen LIBOR interest rate benchmarks, as well as Euro Overnight Index Average ('EONIA'), and two US dollar LIBOR settings ceased from the end of 2021. Following this, the publication of all remaining settings of US dollar LIBOR ceased from 30 June 2023, along with certain regional rates that included US dollar LIBOR in their calculation ('USD LIBOR Linked Asian Rates'). To support any remaining contracts referencing LIBOR, the FCA has compelled the ICE Benchmark Administration Limited to publish the three-month sterling LIBOR setting using an alternative 'synthetic' methodology until 31 March 2024, and one-month, three-month and six-month US dollar LIBOR settings until 30 September 2024. We continue to support our customers in the transition of the limited number of outstanding contracts relying on the synthetic LIBOR benchmarks in line with these dates.

Our interbank offered rate ('IBOR') transition programme – which is tasked with the development of RFR products and the transition of legacy IBOR products – has implemented the required processes, technology and RFR product capabilities in support of the benchmark cessation events. As a result, the transition of the majority of legacy contracts has been undertaken successfully through the first half of 2023 with the remaining population of USD LIBOR expected to largely complete in the third quarter of 2023. Specifically, our derivatives portfolio has been fully transitioned via clearing house conversion mechanisms, and use of industry legal fallback provisions at cessation. Our Wholesale lending portfolio for both uncommitted and committed facilities have been repapered in accordance with client discussions, albeit a small number of contracts will continue repapering activities through until their first interest rate fixing date after cessation.

Whilst the majority of our legacy contracts referencing demised IBORs have been transitioned, as a result of the remaining small number of contracts. We continue to be exposed to, and actively monitor, risks including:

- Regulatory compliance and conduct risks, as the potential use of 'synthetic' LIBOR rates, transition of legacy contracts to RFRs or alternative rates, or sales of products referencing RFRs, may not deliver fair client outcomes.

- Legal risk, as issues from the use of legislative solutions and from legacy contracts that the group is unable to transition may result in unintended or unfavourable outcomes for clients and market participants, which could potentially increase the risk of disputes.

While the level of risk has diminished in line with our process implementation and continued transition of contracts, we will monitor these risks through the remainder of the transition of legacy contracts. Throughout 2023, we plan to continue to engage with our clients to complete an orderly transition of contracts that reference the remaining demising LIBORs. We have commenced activities to transition other confirmed demising rates, for which demise is at a later date. Additionally, plans and policies are in place to help us to react to any future regulatory notification of the intention to demise an interest rate benchmark.

Areas of Special Interest *(continued)*

IBOR transition *(continued)*

Financial instruments impacted by IBOR reform

	Financial instruments yet to transition to alternative benchmarks, by main benchmark	
	USD LIBOR	*CDOR*
At 30 June 2023	*(HK$m)*	*(HK$m)*
Non-derivative financial assets[1]	**15,213**	**1,478**
Derivative notional contract amount	**74,564**	**–**
At 31 December 2022		
Non-derivative financial assets[1]	31,224	1,439
Derivative notional contract amount	76,489	–

1 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table relate to the Group's main operating entities where the Group has material exposures impacted by IBOR reform. The amounts provide an indication of the extent of the Group's exposure to the IBOR benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to cease; and
- are recognised on the Group's consolidated balance sheet.

(a) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products, such as guarantees and derivatives.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2023.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 61 to 64 of the Annual Report 2022.

Maximum exposure to credit risk before collateral held or other credit enhancements

Our credit exposure is spread across a broad range of asset classes, including but not limited to derivatives, trading assets, loans and advances and financial investments. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

	At 30 June 2023	*At 31 December 2022 (restated)*
Cash and balances at central banks	**8,968**	17,609
Trading assets	**42,956**	47,330
Derivative financial instruments	**21,679**	22,761
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**122,048**	124,962
Reverse repurchase agreements – non-trading	**23,966**	42,364
Placings with and advances to banks	**64,078**	62,203
Loans and advances to customers	**892,890**	931,334
Financial investments	**390,712**	475,765
Other assets	**30,692**	37,292
Financial guarantees and other credit related contingent liabilities[1]	**22,731**	24,943
Loan commitments and other credit related commitments	**522,456**	518,838
	2,143,176	2,305,401

1 *Performance and other guarantees were included.*

(a) Credit Risk *(continued)*

Summary of credit risk

The following tables analyse the financial instruments to which the impairment requirements of HKFRS 9 are applied and the related allowances for expected credit losses ('ECL').

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied

	At 30 June 2023		*At 31 December 2022 (restated)*	
	Gross carrying/ nominal amount	***Allowances for ECL[1]***	*Gross carrying/ nominal amount*	*Allowances for ECL[1]*
Loans and advances to customers at amortised cost	**907,312**	**(14,422)**	944,728	(13,394)
Placings with and advances to banks at amortised cost	**64,081**	**(3)**	62,206	(3)
Other financial assets measured at amortised costs:	**166,747**	**(41)**	216,802	(47)
– cash and balances at central banks	**8,969**	**(1)**	17,612	(3)
– reverse repurchase agreements – non-trading	**23,966**	**–**	42,364	–
– financial investments	**103,301**	**(13)**	119,721	(14)
– other assets[2]	**30,511**	**(27)**	37,105	(30)
Total gross carrying amount on balance sheet	**1,138,140**	**(14,466)**	1,223,736	(13,444)
Loans and other credit related commitments	**355,412**	**(150)**	357,265	(169)
Financial guarantee and similar contracts	**1,811**	**(2)**	1,727	(2)
Total nominal amount off balance sheet[3]	**357,223**	**(152)**	358,992	(171)
Total	**1,495,363**	**(14,618)**	1,582,728	(13,615)

	Fair value	***Memorandum Allowances for ECL***	*Fair value*	*Memorandum Allowances for ECL*
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')[4]	**287,424**	**(3)**	356,058	(6)

1 *For retail unsecured revolving facilities, e.g. overdrafts and credit cards, the total ECL is recognised against the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised against the loan commitments.*

2 *Includes only those financial instruments which are subject to the impairment requirements of HKFRS 9. 'Other assets' as presented within the Condensed Consolidated Balance Sheet includes both financial and non-financial assets.*

3 *The figure does not include some loans commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amount does not agree with the figure shown in note 34(a) of the Condensed Consolidated Financial Statements which represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowances for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in Condensed Consolidated Income Statement.*

(a) Credit Risk *(continued)*

The following table provides an overview of the Group's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

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

	Gross carrying/nominal amount[1]					*Allowances for ECL*					*ECL coverage %*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*[2]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	737,118	144,293	25,761	140	907,312	(662)	(3,652)	(10,108)	–	(14,422)	0.09%	2.53%	39.24%	0.00%	1.59%
– personal	372,213	17,973	762	–	390,948	(194)	(1,093)	(133)	–	(1,420)	0.05%	6.08%	17.45%	N/A	0.36%
– corporate and commercial	331,292	125,355	24,999	140	481,786	(359)	(2,552)	(9,975)	–	(12,886)	0.11%	2.04%	39.90%	0.00%	2.67%
– non-bank financial institutions	33,613	965	–	–	34,578	(109)	(7)	–	–	(116)	0.32%	0.73%	N/A	N/A	0.34%
Placings with and advances to banks at amortised cost	63,937	144	–	–	64,081	(3)	–	–	–	(3)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	165,530	1,217	–	–	166,747	(34)	(7)	–	–	(41)	0.02%	0.58%	N/A	N/A	0.02%
Loans and other credit-related commitments	338,836	16,529	47	–	355,412	(70)	(80)	–	–	(150)	0.02%	0.48%	0.00%	N/A	0.04%
– personal	240,690	8,147	5	–	248,842	(3)	–	–	–	(3)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	77,157	8,269	42	–	85,468	(58)	(80)	–	–	(138)	0.08%	0.97%	0.00%	N/A	0.16%
– non-bank financial institutions	20,989	113	–	–	21,102	(9)	–	–	–	(9)	0.04%	0.00%	N/A	N/A	0.04%
Financial guarantee and similar contracts	829	978	4	–	1,811	–	(2)	–	–	(2)	0.00%	0.20%	0.00%	N/A	0.11%
– personal	1	6	–	–	7	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
– corporate and commercial	436	972	4	–	1,412	–	(2)	–	–	(2)	0.00%	0.21%	0.00%	N/A	0.14%
– non-bank financial institutions	392	–	–	–	392	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 30 June 2023	1,306,250	163,161	25,812	140	1,495,363	(769)	(3,741)	(10,108)	–	(14,618)	0.06%	2.29%	39.16%	0.00%	0.98%

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

2 *Purchased or originated credit-impaired ('POCI').*

(a) ***Credit Risk*** *(continued)*

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

(restated)	*Gross carrying/nominal amount[1]*					*Allowances for ECL*					*ECL coverage %*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI[2]*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	759,642	160,874	23,911	301	944,728	(755)	(4,818)	(7,802)	(19)	(13,394)	0.10%	2.99%	32.63%	6.31%	1.42%
– personal	365,249	16,568	923	–	382,740	(203)	(1,029)	(141)	–	(1,373)	0.06%	6.21%	15.28%	N/A	0.36%
– corporate and commercial	362,629	142,378	22,988	301	528,296	(420)	(3,785)	(7,661)	(19)	(11,885)	0.12%	2.66%	33.33%	6.31%	2.25%
– non-bank financial institutions	31,764	1,928	–	–	33,692	(132)	(4)	–	–	(136)	0.42%	0.21%	N/A	N/A	0.40%
Placings with and advances to banks at amortised cost	62,012	194	–	–	62,206	(2)	(1)	–	–	(3)	0.00%	0.52%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	215,591	1,211	–	–	216,802	(38)	(9)	–	–	(47)	0.02%	0.74%	N/A	N/A	0.02%
Loans and other credit-related commitments	339,402	17,835	28	–	357,265	(70)	(99)	–	–	(169)	0.02%	0.56%	0.00%	N/A	0.05%
– personal	239,954	7,260	5	–	247,219	(4)	–	–	–	(4)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	86,843	10,071	23	–	96,937	(63)	(99)	–	–	(162)	0.07%	0.98%	0.00%	N/A	0.17%
– non-bank financial institutions	12,605	504	–	–	13,109	(3)	–	–	–	(3)	0.02%	0.00%	N/A	N/A	0.02%
Financial guarantee and similar contracts	1,029	694	4	–	1,727	–	(2)	–	–	(2)	0.00%	0.29%	0.00%	N/A	0.12%
– personal	2	5	–	–	7	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
– corporate and commercial	637	689	4	–	1,330	–	(2)	–	–	(2)	0.00%	0.29%	0.00%	N/A	0.15%
– non-bank financial institutions	390	–	–	–	390	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2022	1,377,676	180,808	23,943	301	1,582,728	(865)	(4,929)	(7,802)	(19)	(13,615)	0.06%	2.73%	32.59%	6.31%	0.86%

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

2 *Purchased or originated credit-impaired ('POCI').*

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late breaking events, data and model limitations, model deficiencies and expert credit judgements.

At 30 June 2023, management recognised an improvement of the economic outlook and a reduction in uncertainty in most markets which consequently reverted weightings of the Central scenario to the standard 75%.

Methodology

In the second quarter of 2023, four economic scenarios were used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Each scenario is updated with new forecasts and estimates each quarter.

The central, upside, and downside scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is constructed from a consensus of external forecasts. It remains subject to uncertainty and error that has been made worse in recent quarters by the environment of high inflation and rapidly changing policy expectations.

The Upside and Downside scenarios are constructed with reference to forecast probability distributions.

The fourth scenario, the Downside 2, represents management's view of severe downside risks.

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

Description of economic scenarios

In the Central scenario for Hong Kong and China, the post pandemic re-opening has led to a faster than expected improvement in growth and expectations, which has now been reflected in forecasts.

The Upside and Downside scenarios are designed to encompass the potential crystallisation of a number of key macro-financial risks. Higher inflation, tighter monetary policy and financial conditions, and an escalation of geopolitical risks, pose key downside risks to the outlook. To the upside, a swifter decline in inflation, a cut to interest rates and greater co-operation between the US and China on trade and investment would drive faster economic growth.

The four scenarios used for calculating ECL at 30 June 2023 are the consensus Central scenario, the consensus Upside scenario, the consensus Downside scenario and the Downside 2 scenario.

The scenarios used to calculate ECL in the Interim Report 2023 are described below.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Central scenario

GDP forecasts have been raised in recent quarters, due to stronger-than-expected growth in the first quarter of 2023, underpinned by resilience in household consumption. Nevertheless, the outlook for the remainder of 2023 remains subdued as high inflation continues to erode disposable income and curtail investment. In Hong Kong and mainland China, higher growth expectations reflect the dismantling of pandemic-related restrictions.

The Central scenario assumes that inflation gradually declines through 2023 and only reverts to central bank target ranges in 2025.

Across the key markets, the Central scenario assumes the following:

- GDP growth in mainland China is expected to continue at a rate above the official target of 5%, with policy stimulus to offset headwinds from a weak property sector and lower external demand. In Hong Kong, the resumption of international travel and tourism and recovery in mainland China is expected to sustain rapid recovery in GDP, led by the services sector and high employment.

- Unemployment is forecast to fall in China and Hong Kong as the economic recovery continues.

- Inflation is expected to remain above Central Bank target in 2023 as core inflation and food prices remain high. Inflation is subsequently expected to converge back to central bank targets over the next two years of the forecast. China is an exception as inflation remains low throughout the forecast horizon.

- Policy interest rates in key markets are expected to peak later this year following rapid tightening cycles over the past 18 months to bring inflation back towards their targets. Thereafter, they fall slowly and remain at higher levels than they were pre-pandemic.

The Central scenario was created with forecasts available in May, and subsequently updated in June.

(a) Credit Risk (continued)

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Central scenario *(continued)*

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

Central scenario	***Hong Kong*** *%*	***Mainland China*** *%*
GDP growth		
Annual average growth rate: 2023	4.5	5.4
Annual average growth rate: 2024	3.2	4.9
Annual average growth rate: 2025	2.8	4.7
Annual average growth rate: 2026	2.6	4.6
Annual average growth rate: 2027	2.5	4.3
5-year average (3Q 2023 – 2Q 2028)	3.1	4.6
Unemployment rate		
Annual average: 2023	3.3	5.2
Annual average: 2024	3.2	5.1
Annual average: 2025	3.3	5.1
Annual average: 2026	3.2	5.1
Annual average: 2027	3.3	5.0
5-year average (3Q 2023 – 2Q 2028)	3.3	5.1
House Price Growth		
Annual average growth rate: 2023	(6.4)	(2.0)
Annual average growth rate: 2024	0.4	5.5
Annual average growth rate: 2025	1.8	3.8
Annual average growth rate: 2026	3.0	2.9
Annual average growth rate: 2027	3.3	3.6
5-year average (3Q 2023 – 2Q 2028)	1.8	3.5
Probability	75	75

Note: The annual average growth rate refers to full year average. The 5-year average is computed by using the projection of time period from 3Q 2023 to 2Q 2028.

The consensus Upside scenario

The scenario features stronger growth, lower unemployment and a faster fall in inflation compared with the Central scenario. Asset prices, including housing also rise more quickly. This is consistent with a number of key upside risk themes, including falling energy and commodity prices and easing wage growth, which allow central banks to lower interest rates; a de-escalation in geopolitical tensions; and looser financial conditions.

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

Consensus Upside scenario best outcome

	Hong Kong *%*	***Mainland China*** *%*
GDP growth (%, Start-to-peak)	22.5 (2Q28)	33.3 (2Q28)
Unemployment rate (%, Min)	2.5 (2Q24)	4.6 (1Q24)
House price index (%, Start-to-peak)	17.2 (2Q28)	27.2 (2Q28)
Probability	10	10

Note: 'Start-to-peak' is the percentage change to the highest level of the series from 2Q23 to 2Q28. For GDP growth, it is based on seasonal adjusted series. ' %, Min' is the lowest projected unemployment rate in upside scenario.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks.

High inflation and the monetary policy response remain key concerns for global growth. While supply chain disruptions, caused by the Covid-19 pandemic and the Russia-Ukraine conflict, are easing, helping to reduce headline price inflation across many markets, core inflation remains high. This reflects tight labour markets, which is putting upward pressure on wages, and resilience in demand. In turn, it raises the risk of a more forceful policy response from central banks, encompassing a steeper trajectory for interest rates and ultimately, economic recession.

The rapid increase in interest rates has already led to a repricing of asset valuations, as corporate and household borrowers face steep increases in debt service debts. Policymakers have also raised concerns that financial conditions could tighten further, acting as another constraint on activity. Insolvencies and default rates could rise sharply as businesses find it difficult to refinance and cash buffers diminish amid weaker demand.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario, driven by an intensification of geopolitical risks that aggravate supply chain disruptions and cause energy and other commodity prices to rise. In this scenario, economies experience moderate recession, unemployment rates increase, and asset prices fall.

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

Consensus Downside scenario worst outcome

	Hong Kong *%*		***Mainland China*** *%*	
GDP growth (%, Start-to-trough)	(2.4)	(1Q24)	(1.2)	(4Q23)
Unemployment rate (%, Max)	5.0	(2Q25)	6.3	(4Q24)
House price index (%, Start-to-trough)	(2.9)	(4Q23)	1.0	(3Q23)
Probability		10		10

Note: 'Start-to-trough' is the percentage change to the lowest level of the series from 2Q23 to 2Q28. For GDP growth, it is based on seasonal adjusted series. ' %, Max' is the highest projected unemployment rate in downside scenario.

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic risk distribution. It incorporates the simultaneous crystallisation of a number of risks. The narrative features an escalation in geopolitical tensions, which leads to further disruptions to supply chains. This creates additional upward pressure on inflation, prompting central banks to keep interest rates higher than in the Central scenario. However, demand subsequently falls sharply and unemployment rises before inflation pressures subside.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Downside 2 scenario *(continued)*

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

Downside 2 scenario worst outcome

	Hong Kong %	***Mainland China*** %
GDP growth (%, Start-to-trough)	(6.9) (3Q24)	(8.3) (2Q24)
Unemployment rate (%, Max)	6.3 (2Q24)	6.8 (2Q25)
House price index (%, Start-to-trough)	(16.1) (4Q26)	(21.4) (2Q25)
Probability	5	5

Note: 'Start-to-trough' is the percentage change to the lowest level of the series from 2Q23 to 2Q28. For GDP growth, it is based on seasonal adjusted series. ' %, Max' is the highest projected unemployment rate in downside 2 scenario.

Scenario weightings

In reviewing the economic situation, the level of uncertainty and risk, management has considered both global and market-specific factors. This has led management to assigning scenario probabilities that are tailored to its view of uncertainty in individual markets.

In the first half of 2023 the level of uncertainty attached to the Central scenario assessed to have increased. It was noted that:

- the dispersion of external economic forecasts have narrowed.
- the stabilisation of a number of key risk drivers. For example, the economic implications of the Russia-Ukraine conflicts have diminished.
- the current Central scenario forecasts are sufficiently reflective of weak GDP growth prospects.

Consequently, probability weights assigned to the Central scenario have reverted back to the standard weight of 75% for Hong Kong and mainland China and they are now aligned to the consensus probability distribution.

Critical accounting estimates and judgements

The calculation of ECL under HKFRS 9 involves significant judgements, assumptions and estimates at 30 June 2023. These include:

- the selection of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts; and
- estimating the economic effects of those scenarios on ECL, particularly the effect of interest and inflationary pressures in specific sectors.

How economic scenarios are reflected in ECL calculation

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios is set out in pages 71 to 72 of the Annual Report 2022. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Management judgmental adjustments

In the context of HKFRS 9, management judgemental adjustments are typically increases or decreases to the modelled ECL at either a customer, segment, or portfolio level, to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgment applied during management review and challenge. This includes refining model inputs and outputs and using adjustments to ECL based on management judgment and higher level quantitative analysis for impacts that are difficult to model. The effects of management judgmental adjustments are considered for both balances and ECL, and will consider any changes to stage allocation where appropriate. This is in accordance with the internal adjustments framework.

The wholesale and retail management judgemental adjustments are presented as part of the internal review and challenge committees and are subject to a further second line review, where significant. This is in line with the governance process for HKFRS 9 as set out on pages 61 to 62 of the Annual Report 2022. We have internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The drivers of management judgmental adjustments continue to evolve with the economic environment as new risks emerge.

Management judgmental adjustments made in estimating the reported ECL at 30 June 2023 are set out in the following table.

Management judgmental adjustments to ECL:

	Retail	***Wholesale***	***Total***
		30 June 2023	
(HK$m)			
Corporate lending adjustments	**–**	**789**	**789**
Macroeconomic-related adjustments	**220**	**–**	**220**
Other lending adjustments	**9**	**51**	**60**
Total	**229**	**840**	**1,069**

	Retail	*Wholesale*	*Total*
		31 December 2022 (restated)	
(HK$m)			
Corporate lending adjustments	–	1,464	1,464
Macroeconomic-related adjustments	141	–	141
Other lending adjustments	3	44	47
Total	144	1,508	1,652

Note: Management judgemental adjustments presented in the table reflect Increases or (Decreases) to ECL, respectively.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Management judgmental adjustments *(continued)*

Adjustments to corporate exposures principally reflected the outcome of management judgements for high-risk and vulnerable sectors through corporate lending adjustment in our key markets, supported by credit experts' input, quantitative analyses and benchmarks. Considerations included potential default suppression in some sectors due to continued government intervention. The corporate lending adjustments were HK$789m at 30 June 2023 (31 December 2022: HK$1,464m). The adjustment is lower than 31 December 2022 and reflects the greater alignment of the modelled ECL with management's expectation reflecting the latest macro-economic variables forecast and the latest CRR downgrades.

In the retail portfolio, management judgement adjustments mainly relate to macroeconomic conditions and customer support programmes.

In the retail portfolio, management judgmental adjustments were an ECL increase of HK$229m at 30 June 2023 (31 December 2022: HK$144m increase).

- Macroeconomic-related adjustments increased ECL by HK$220m (31 December 2022: HK$141m increase). These adjustments were primarily in relation to risks related to future macroeconomic conditions.

- Other retail lending adjustments increased ECL by HK$9m (31 December 2022: HK$3m increase) reflecting those who remain in or have recently exited customer support programmes.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss given default of a particular portfolio was sensitive to these changes.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Wholesale and Retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgmental adjustments, as appropriate to each scenario and scope of sensitivity. The results tables exclude portfolios held by the insurance business and small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables.

Wholesale analysis

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

ECL of financial instruments subject to significant measurement uncertainty[2]	***Hong Kong***	***Mainland China***
	30 June 2023	
Reported ECL	**2,763**	**471**
Consensus scenarios		
Central scenario	**2,558**	**373**
Upside scenario	**1,791**	**204**
Downside scenario	**3,930**	**695**
Downside 2 scenario	**5,877**	**2,966**

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

ECL of financial instruments subject to significant measurement uncertainty[2]	*Hong Kong*	*Mainland China*
	31 December 2022	
Reported ECL	3,753	776
Consensus scenarios		
Central scenario	3,447	661
Upside scenario	2,515	421
Downside scenario	5,410	1,054
Downside 2 scenario	8,883	3,258

1 *Excludes ECL and financial instruments on defaulted obligors because the measure of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*

2 *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*

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

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]	***Hong Kong*** 30 June 2023	***Mainland China***
Reported ECL	**1,327**	**19**
Consensus scenarios		
Central scenario	**1,243**	**19**
Upside scenario	**1,000**	**18**
Downside scenario	**1,886**	**19**
Downside 2 scenario	**2,510**	**36**

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]	*Hong Kong* 31 December 2022	*Mainland China*
Reported ECL	1,284	23
Consensus scenarios		
Central scenario	1,112	22
Upside scenario	863	21
Downside scenario	1,987	23
Downside 2 scenario	3,211	44

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

2 *ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.*

At 30 June 2023, the most significant level of ECL sensitivity was observed in Hong Kong driven by the relative size of the portfolio.

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees

	Non credit – impaired				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	Gross carrying/ nominal amount	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*
At 1 January 2023	**1,162,085**	**(827)**	**179,597**	**(4,920)**	**23,943**	**(7,802)**	**301**	**(19)**	**1,365,926**	**(13,568)**
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(46,122)	101	46,122	(101)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	16,509	(222)	(16,509)	222	–	–	–	–	–	–
– transfers to Stage 3	(198)	1	(5,676)	1,169	5,874	(1,170)	–	–	–	–
– transfers from Stage 3	4	(1)	26	(2)	(30)	3	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	91	–	(164)	–	(8)	–	–	–	(81)
New financial assets originated and purchased[2]	160,634	(103)	3,090	(52)	–	–	–	–	163,724	(155)
Assets derecognised (including final repayments)	(118,440)	24	(31,485)	176	(330)	67	(114)	–	(150,369)	267
Changes to risk parameters – further lending/(repayments)	(27,791)	81	(12,627)	373	(2,894)	26	(47)	19	(43,359)	499
Changes in risk parameters – credit quality	–	107	–	(447)	–	(1,911)	–	–	–	(2,251)
Assets written off	–	–	–	–	(684)	684	–	–	(684)	684
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
Foreign exchange and others	(5,961)	13	(594)	12	(67)	3	–	–	(6,622)	28
At 30 June 2023	**1,140,720**	**(735)**	**161,944**	**(3,734)**	**25,812**	**(10,108)**	**140**	**–**	**1,328,616**	**(14,577)**

	Total
Change in ECL in income statement (charge)/release for the period	(1,721)
Add: Recoveries	77
Add/(less): Others	(290)
Total ECL (charge)/release for the period	**(1,934)**

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees *(continued)*

	At 30 June 2023		*For the half-year ended 30 June 2023*
	Gross carrying/ nominal amount	*Allowances for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,328,616	(14,577)	(1,934)
Other financial assets measured at amortised cost	166,747	(41)	6
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,495,363	(14,618)	(1,928)
Debt instruments measured at FVOCI[3]	287,170	(3)	4
Performance and other guarantees not considered for HKFRS 9	20,920	(2)	–
Total allowances for ECL/total consolidated income statement ECL charge for the period	1,803,453	(14,623)	(1,924)

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

2 *Includes the new financial assets originated and purchased during the period, but subsequently transferred from stage 1 to stage 2 or stage 3 at 30 June 2023.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.*

4 *The financial information included in this table forms part of the Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees *(continued)*

(restated)	*Non credit – impaired*				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	Gross carrying/ nominal amount	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*	*Gross carrying/ nominal amount*	*Allowances for ECL*
At 1 January 2022	1,283,518	(822)	150,116	(3,572)	9,457	(2,700)	972	–	1,444,063	(7,094)
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(108,899)	208	108,899	(208)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	17,916	(263)	(17,916)	263	–	–	–	–	–	–
– transfers to Stage 3	(2,803)	5	(16,608)	1,385	19,411	(1,390)	–	–	–	–
– transfers from Stage 3	16	(3)	23	–	(39)	3	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	105	–	(361)	–	(18)	–	–	–	(274)
New financial assets originated and purchased[2]	316,455	(232)	18,990	(413)	199	(114)	203	(19)	335,847	(778)
Assets derecognised (including final repayments)	(475,393)	89	(53,559)	298	(1,570)	115	(764)	–	(531,286)	502
Changes to risk parameters – further lending/(repayments)	142,888	76	(9,118)	14	(2,355)	(628)	(109)	–	131,306	(538)
Changes in risk parameters – credit quality	–	8	–	(2,343)	–	(4,055)	–	–	–	(6,390)
Changes to model used for ECL calculation	–	–	–	(2)	–	–	–	–	–	(2)
Assets written off	–	–	–	–	(899)	899	–	–	(899)	899
Credit related modifications that resulted in derecognition	–	–	–	–	(155)	–	–	–	(155)	–
Foreign exchange and others	(11,613)	2	(1,230)	19	(106)	86	(1)	–	(12,950)	107
At 31 December 2022	1,162,085	(827)	179,597	(4,920)	23,943	(7,802)	301	(19)	1,365,926	(13,568)

	Total
Change in ECL in income statement (charge)/release for the year	(7,480)
Add: Recoveries	131
Add/(less): Others	(313)
Total ECL (charge)/release for the year	(7,662)

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees *(continued)*

	At 31 December 2022		*For the year ended 31 December 2022*
	Gross carrying/ nominal amount	*Allowances for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,365,926	(13,568)	(7,662)
Other financial assets measured at amortised cost	216,802	(47)	(34)
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,582,728	(13,615)	(7,696)
Debt instruments measured at FVOCI[3]	357,641	(6)	1
Performance and other guarantees not considered for HKFRS 9	23,216	(2)	1
Total allowances for ECL/total consolidated income statement ECL charge for the year	1,963,585	(13,623)	(7,694)

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

2 *Includes the new financial assets originated and purchased during the year, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2022.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments

The five credit quality classifications defined in the table below each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. Under HKFRS 9 retail lending credit quality is based on a 12-month point-in-time ('PIT') probability-weighted PD. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

	Sovereign debt securities and bills	*Other debt securities and bills*	*Wholesale lending*		*Retail lending*	
Credit Quality classification[1,2]	*External credit rating*	*External credit rating*	*Internal credit rating*	*12-month Basel probability of default %*	*Internal credit rating*	*12-month probability–weighted PD %*
Strong	BBB and above	A- and above	CRR1 to CRR2	0-0.169	Band 1 and 2	0-0.500
Good	BBB- to BB	BBB+ to BBB–	CRR3	0.170-0.740	Band 3	0.501-1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741-4.914	Band 4 and 5	1.501-20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915-99.999	Band 6	20.001-99.999
Credit-impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

1 *Customer risk rating ('CRR').*

2 *12-month point-in-time ('PIT') probability-weighted probability of default ('PD').*

Quality classification definitions

- *Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.*
- *Good exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.*
- *Satisfactory exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.*
- *Sub-standard exposures require varying degrees of special attention and default risk is of greater concern.*
- *Credit-impaired exposures have been assessed as described on note 2(j) on the Consolidated Financial Statements in Annual Report 2022.*

***(a) Credit Risk** (continued)*

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution

	Gross carrying/notional amount							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowances for ECL*	*Net*
Loans and advances to customers at amortised cost	457,860	149,986	239,122	34,443	25,901	907,312	(14,422)	892,890
– stage 1	454,275	133,762	147,320	1,761	–	737,118	(662)	736,456
– stage 2	3,585	16,224	91,802	32,682	–	144,293	(3,652)	140,641
– stage 3	–	–	–	–	25,761	25,761	(10,108)	15,653
– POCI	–	–	–	–	140	140	–	140
Placings with and advances to banks at amortised cost	63,586	467	28	–	–	64,081	(3)	64,078
– stage 1	63,486	423	28	–	–	63,937	(3)	63,934
– stage 2	100	44	–	–	–	144	–	144
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	148,099	13,322	5,243	83	–	166,747	(41)	166,706
– stage 1	148,095	13,152	4,279	4	–	165,530	(34)	165,496
– stage 2	4	170	964	79	–	1,217	(7)	1,210
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Loan and other credit– related commitments[2]	266,253	45,737	41,937	1,438	47	355,412	(150)	355,262
– stage 1	265,043	40,025	33,722	46	–	338,836	(70)	338,766
– stage 2	1,210	5,712	8,215	1,392	–	16,529	(80)	16,449
– stage 3	–	–	–	–	47	47	–	47
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	398	666	599	144	4	1,811	(2)	1,809
– stage 1	397	275	157	–	–	829	–	829
– stage 2	1	391	442	144	–	978	(2)	976
– stage 3	–	–	–	–	4	4	–	4
– POCI	–	–	–	–	–	–	–	–
At 30 June 2023	936,196	210,178	286,929	36,108	25,952	1,495,363	(14,618)	1,480,745
Debt instruments at FVOCI[1]								
– stage 1	289,170	–	–	–	–	289,170	(3)	289,167
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2023	289,170	–	–	–	–	289,170	(3)	289,167

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Condensed Consolidated Financial Statements as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 34(a) of the Condensed Consolidated Financial Statements.*

3 *The financial information included in this table forms part of the Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution *(continued)*

(restated)	*Gross carrying/notional amount*							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowances for ECL*	*Net*
Loans and advances to customers at amortised cost	457,044	167,123	256,457	39,892	24,212	944,728	(13,394)	931,334
– stage 1	453,000	148,598	156,787	1,257	–	759,642	(755)	758,887
– stage 2	4,044	18,525	99,670	38,635	–	160,874	(4,818)	156,056
– stage 3	–	–	–	–	23,911	23,911	(7,802)	16,109
– POCI	–	–	–	–	301	301	(19)	282
Placings with and advances to banks at amortised cost	61,975	203	28	–	–	62,206	(3)	62,203
– stage 1	61,854	158	–	–	–	62,012	(2)	62,010
– stage 2	121	45	28	–	–	194	(1)	193
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	197,040	12,639	7,036	87	–	216,802	(47)	216,755
– stage 1	196,852	12,533	6,196	10	–	215,591	(38)	215,553
– stage 2	188	106	840	77	–	1,211	(9)	1,202
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	263,697	53,415	38,414	1,711	28	357,265	(169)	357,096
– stage 1	262,015	46,581	30,460	346	–	339,402	(70)	339,332
– stage 2	1,682	6,834	7,954	1,365	–	17,835	(99)	17,736
– stage 3	–	–	–	–	28	28	–	28
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	399	627	556	141	4	1,727	(2)	1,725
– stage 1	399	502	128	–	–	1,029	–	1,029
– stage 2	–	125	428	141	–	694	(2)	692
– stage 3	–	–	–	–	4	4	–	4
– POCI	–	–	–	–	–	–	–	–
At 31 December 2022	980,155	234,007	302,491	41,831	24,244	1,582,728	(13,615)	1,569,113
Debt instruments at FVOCI[1]								
– stage 1	357,407	234	–	–	–	357,641	(6)	357,635
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2022	357,407	234	–	–	–	357,641	(6)	357,635

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Consolidated Financial Statements as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 45 of the Consolidated Financial Statements in Annual Report 2022.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate

The following table presents the Group's total exposure to borrowers classified in the mainland China commercial real estate ('CRE') sector where the ultimate parent is based in mainland China, as well as all CRE exposures booked on mainland China balance sheets. The exposures at 30 June 2023 are split by country/territory and credit quality including allowances for ECL by stage.

	At 30 June 2023		
	Hong Kong	*Mainland China*	*Total*
Loans and advances to customers[1]	29,661	10,380	40,041
Guarantees issued and others[2]	156	716	872
Total mainland China CRE exposure	**29,817**	**11,096**	**40,913**
Distribution of mainland China CRE exposure by credit quality			
– Strong	1,347	910	2,257
– Good	2,145	3,276	5,421
– Satisfactory	4,193	4,430	8,623
– Sub-standard	7,124	1,269	8,393
– Credit-impaired	15,008	1,211	16,219
	29,817	11,096	40,913
Allowance by ECL by credit quality			
– Strong	–	1	1
– Good	1	10	11
– Satisfactory	9	41	50
– Sub-standard	829	112	941
– Credit-impaired	7,008	536	7,544
	7,847	700	8,547
Allowance by ECL by stage			
Stage 1	3	15	18
Stage 2	836	149	985
Stage 3	7,008	536	7,544
	7,847	700	8,547
ECL coverage %	26.3	6.3	20.9

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate *(continued)*

	At 31 December 2022		
	Hong Kong	*Mainland China*	*Total*
Loans and advances to customers[1]	37,524	11,821	49,345
Guarantees issued and others[2]	180	2,379	2,559
Total mainland China CRE exposure	37,704	14,200	51,904
Distribution of mainland China CRE exposure by credit quality			
– Strong	3,307	2,304	5,611
– Good	2,300	3,076	5,376
– Satisfactory	5,429	6,888	12,317
– Sub-standard	11,834	952	12,786
– Credit-impaired	14,834	980	15,814
	37,704	14,200	51,904
Allowance by ECL by credit quality			
– Strong	–	4	4
– Good	1	14	15
– Satisfactory	13	80	93
– Sub-standard	1,987	247	2,234
– Credit-impaired	4,973	578	5,551
	6,974	923	7,897
Allowance by ECL by stage			
Stage 1	4	30	34
Stage 2	1,997	315	2,312
Stage 3	4,973	578	5,551
	6,974	923	7,897
ECL coverage %	18.5	6.5	15.2

1 *Amounts represent gross carrying amount.*

2 *Amounts represent nominal amount.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate *(continued)*

CRE financing refers to lending that focuses on commercial development and investment in real estate and covers commercial, residential and industrial assets. CRE financing can also be provided to a corporate or financial entity for the purchase or financing of a property which supports the overall operations of the business. The exposures in the table are related to companies whose primary activities are focused on residential, commercial and mixed-use real estate activities. Lending is generally focused on tier 1 and 2 cities.

The exposures in the table above had 40% of exposure booked with a credit quality of 'satisfactory' or above (31 December 2022: 45%) reflecting sustained stress in the China CRE market, including weakness in both property market fundamentals and financing conditions for borrowers operating in this sector.

Allowances for ECL are substantially against unsecured exposures. For secured exposures, allowances for ECL are minimal due to the nature of security held.

Total China CRE exposure has reduced to HK$40,913m, down HK$10,991m since 31 December 2022 as a result of de-risking measures and repayments. At 30 June 2023, the Group had allowances for ECL of HK$8,547m (31 December 2022: HK$7,897m) held against mainland China commercial real estate exposures.

Market conditions are likely to remain stressed with a protracted and uncertain recovery as sentiment and domestic residential demand remain weak. There is potential for a further deterioration in credit conditions during the second half of the year given the uncertainty around liquidity support and ongoing weakness in property market fundamentals.

(b) Treasury Risk

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.

There were no material changes to the policies and practices for the management of treasury risk in the first half of 2023.

Capital Management

Overview

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group recognises the impact of different level of equity capital on shareholder returns and seeks to maintain a prudent balance between advantages and flexibility provided by a strong capital position and higher returns on equity through greater leverage.

Framework

The policy on capital management sets out the Group's capital management and ICAAP. The policy incorporates key capital risk appetites for Common Equity Tier 1 ('CET1') capital, Tier 1 ('T1') capital, total capital, loss-absorbing capacity and leverage ratios. Regulatory capital and economic capital are the two primary measures used for monitoring and managing the capital position.

Regulatory capital is the capital which we are required to hold in accordance with the rules established by regulator; and economic capital is the internally calculated capital requirement to support risks to which the Group is exposed to and forms a core part of the ICAAP.

(b) Treasury Risk *(continued)*

Capital Management *(continued)*

Framework *(continued)*

ICAAP is an assessment of the Group's capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. ICAAP is driven by an assessment of risks, including credit, market, operational, structural foreign exchange, interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and the Group is continuing to develop the approach for climate risk management. The ICAAP supports the determination of the capital risk appetites, as well as enables the assessment and determination of capital requirements by regulator.

An annual Group capital plan is prepared and approved by the Board with the objectives of maintaining an optimal amount of capital and a suitable mix between different components of capital. The Group manages its own capital within the context of the approved annual capital plan, which determines the level of risk-weighted asset ('RWA') growth as well as the optimal amount and components of capital required to support planned business growth. Capital and RWA are monitored and managed against the plan, with capital forecasts reported to relevant governance committees. As part of the Group's capital management objectives, subsidiary with capital generated in excess of planned requirement will return to the Bank, normally by way of dividends. The Group also raised subordinated debt in accordance with HSBC Group's guidelines regarding market and investor concentration, cost, market conditions, timing and maturity profile.

The Bank is primarily a provider of equity capital to its subsidiaries. These investments are substantially funded by the Bank's own capital and profit. The Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the Consolidated Balance Sheet: share capital, retained profits, other equity instruments and other reserves. Capital also includes impairment allowances and regulatory reserve for general banking risks as allowed under Banking (Capital) Rules.

The following tables show the capital base, RWA and capital ratios as contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority ('HKMA') by the Bank on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules. The basis is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of our website www.hangseng.com.

The Group uses the advanced internal ratings-based approach ('IRB') to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the Group uses the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group uses standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

Risk-weighted assets by risk type

	At 30 June 2023	*At 31 December 2022*
Credit risk	**617,794**	687,532
Market risk	**20,360**	19,883
Operational risk	**58,043**	57,311
Total	**696,197**	764,726

(b) Treasury Risk *(continued)*

Capital Management *(continued)*

Capital Base

The following table sets out the composition of the Group's capital base under Basel III at 30 June 2023 and 31 December 2022. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

	At 30 June 2023	At 31 December 2022 (restated)
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**146,389**	143,883
– Shareholders' equity per balance sheet	**163,519**	159,933
– Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
– Unconsolidated subsidiaries	**(5,386)**	(4,306)
Non-controlling interests	**–**	–
– Non-controlling interests per balance sheet	**57**	65
– Non-controlling interests in unconsolidated subsidiaries	**(57)**	(65)
Regulatory deductions to CET1 capital	**(29,160)**	(27,461)
– Cash flow hedge reserve	**238**	472
– Changes in own credit risk on fair valued liabilities	**(12)**	(6)
– Property revaluation reserves*	**(24,616)**	(24,418)
– Intangible assets	**(3,141)**	(3,011)
– Deferred tax assets net of deferred tax liabilities	**(442)**	(346)
– Valuation adjustments	**(160)**	(152)
– Excess of total expected loss amount over total eligible provisions under the IRB	**(1,027)**	–
Total CET1 Capital	**117,229**	116,422
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	11,744
– Perpetual capital instruments	**11,744**	11,744
Total AT1 Capital	**11,744**	11,744
Total Tier 1 ('T1') Capital	**128,973**	128,166
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**11,363**	11,555
– Property revaluation reserves*	**11,077**	10,988
– Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**286**	567
Regulatory deductions to T2 capital	**(1,045)**	(1,045)
– Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(1,045)
Total T2 Capital	**10,318**	10,510
Total Capital	**139,291**	138,676

* *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

(b) ***Treasury Risk*** *(continued)*

Capital Management *(continued)*

Capital ratios (as a percentage of risk-weighted assets)

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	At 30 June 2023	*At 31 December 2022*
CET1 capital ratio	**16.8%**	15.2%
Tier 1 capital ratio	**18.5%**	16.8%
Total capital ratio	**20.0%**	18.1%

In addition, the capital ratios of all tiers as of 30 June 2023 would be reduced by approximately 0.3 percentage point after the prospective second interim dividend payment for 2023 (31 December 2022: reduced by approximately 0.5 percentage point after the prospective fourth interim dividend payment for 2022). The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2023	*Pro-forma At 31 December 2022*
CET1 capital ratio	**16.5%**	14.7%
Tier 1 capital ratio	**18.2%**	16.3%
Total capital ratio	**19.7%**	17.6%

Dividend policy

Objective

The Bank's medium to long term dividend objective is to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation.

Considerations

The declaration of dividends is made at the discretion of the Board, which will take into account all relevant factors including the following:

- regulatory requirements;
- financial results;
- level of distributable reserves;
- general business conditions and strategies;
- strategic business plan and capital plan;
- statutory and regulatory restrictions on dividend payment; and
- any other factors the Board may deem relevant.

(b) Treasury Risk *(continued)*

Capital Management *(continued)*

Dividend policy *(continued)*

Phasing and Timing

Under normal circumstances and if the Board determines to declare a dividend at its discretion, dividends would be declared on a quarterly basis. The phasing of dividends would be planned on a prudent basis to allow for any unforeseen events, which might arise towards the end of an accounting period. Phasing of dividends would also take account of the volatility of the Bank's profits.

Foreign exchange exposures

Structural foreign exchange exposures represent net assets or capital investments in subsidiaries, branches or the fair value of the Group's long-term foreign currency equity investments, the functional currencies of which are currencies other than the Hong Kong dollar. An entity's functional currency is normally that of the primary economic environment in which the entity operates. The Group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the Group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates.

Exchange differences on structural exposures are recognised in 'Other comprehensive income'. The Group uses Hong Kong dollar as our presentation currency in our condensed consolidated financial statements. Therefore, our condensed consolidated balance sheet is affected by exchange differences between Hong Kong dollar and all the non-Hong Kong dollar functional currencies of underlying subsidiaries.

The Group's foreign exchange exposures are prepared in accordance with the HKMA 'Return of Foreign Currency Position -(MA(BS)6)'.

For details of the Group's structural and non-structural foreign currency positions, please refer to the Banking Disclosure Statement that is available in the 'Regulatory Disclosures' section of the Bank's website.

Liquidity and funding risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at an excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.

Liquidity and funding risk profile

The Group adopt HSBC Group's policies, metrics and controls to manage liquidity and funding risk. The global policies are designed to be adaptable to changing business models, markets and regulations. They are designed to ensure that Group and entity management have oversight of the liquidity and funding risks in order to manage them appropriately.

We manage liquidity and funding risk at an operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group. Operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are set against the Group's implementation of the liquidity coverage ratio ('LCR') and the net stable funding ratio ('NSFR'). Each operating entity is required to undertake a qualitative and quantitative assessment of the contractual and behavioural profile of its assets and liabilities when setting internal limits in order to reflect their expected behaviour under idiosyncratic, market-wide and combined stress scenarios.

(b) ***Treasury Risk*** *(continued)*

Liquidity and funding risk *(continued)*

Structure and organisation

ALCM teams are responsible for the application of policies and controls at a local operating entity level. The elements of the Group's policies and controls are underpinned by a robust governance framework, the two major elements of which are:

- ALCOs at the Group and entity level; and
- annual Internal Liquidity Adequacy Assessment Process ('ILAAP') support determination of risk appetite.

All operating entities are required to prepare an internal liquidity adequacy assessment ('ILAA') document at appropriate frequency. The final objective of the ILAA, approved by the relevant Board of Directors, is to verify that the entity and subsidiaries maintain liquidity resources which are adequate in both amount and quality at all times, there is no significant risk that its liabilities cannot be met as they fall due, and a prudent funding profile is maintained.

The Board is ultimately responsible for determining the types and magnitude of liquidity risk that the Group is able to take and ensuring that there is an appropriate organisation structure for managing this risk. Under authorities delegated by the Executive Committee, the Group ALCO is responsible for managing all Asset, Liability and Capital Management issues including liquidity and funding risk management.

The Group ALCO delegates to the Group Tactical Asset and Liability Management Committee ('TALCO') the task of reviewing various analysis of the Group pertaining to liquidity and funding.

Compliance with liquidity and funding requirements is monitored by the ALCO and is reported to the RMM, Executive Committee, RC and the Board of Directors on a regular basis. This process includes:

- maintaining compliance with relevant regulatory requirements of the reporting entity;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- managing contingent liquidity commitment exposures within pre-determined limits;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long term implications for the business.

(b) Treasury Risk *(continued)*

Liquidity and funding risk *(continued)*

Governance

ALCM teams apply the Group's policies and controls at both an individual entity and Group level, and are responsible for the implementation of Group-wide and local regulatory policy at a legal entity level. Markets Treasury has responsibility for cash and liquidity management.

Treasury Risk Management carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury. Their work includes setting control standards, advising on policy implementation, and reviewing and challenging of reporting.

Internal Audit provide independent assurance that risk is managed effectively.

The management of liquidity and funding risk

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The critical Board risk appetite measures are the LCR and NSFR. An internal liquidity metric ('ILM') is used to supplement these regulatory metrics. An appropriate funding and liquidity profile is managed through a wider set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement;
- an ILM requirement;
- a depositor concentration limit;
- cumulative term funding maturity concentrations limit;
- liquidity metrics to monitor minimum requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Sources of funding

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

Currency mismatch

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

Additional collateral obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant Credit support annex ('CSA') contracts), the additional collateral required to post in the event of one-notch and two-notch downgrade in credit ratings is nil.

(b) ***Treasury Risk*** *(continued)*

Liquidity and funding risk *(continued)*

Liquidity information

The Group is required to calculate its LCR and NSFR on a consolidated basis in accordance with rule 11(1) of The Banking (Liquidity) Rules ('BLR') and to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the reportable periods are as follows:

	Quarter ended 30 June 2023	***Quarter ended 31 March 2023***	*Quarter ended 30 June 2022*	*Quarter ended 31 March 2022*
Average LCR	**245.0%**	**276.7%**	206.8%	188.9%

The Group maintained a strong LCR of 230.6% at 30 June 2023 (31 December 2022: 281.3%) which is well above the statutory requirement. The average LCR decreased from 276.7% for the quarter ended 31 March 2023 to 245.0% for the quarter ended 30 June 23, mainly reflecting the decrease in holding of HQLA as a result of the drop in commercial surplus.

The composition of the Group's high quality liquid assets ('HQLA') as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

	Weighted amount (average value) at quarter ended			
	30 June 2023	***31 March 2023***	*30 June 2022*	*31 March 2022*
Level 1 assets	**402,508**	**454,223**	353,034	344,686
Level 2A assets	**12,182**	**12,928**	15,579	17,109
Level 2B assets	**3,293**	**4,044**	3,742	3,099
Total weighted amount of HQLA	**417,983**	**471,195**	372,355	364,894

The NSFRs at the reportable quarter-end are as follows:

	Quarter ended 30 June 2023	***Quarter ended 31 March 2023***	*Quarter ended 30 June 2022*	*Quarter ended 31 March 2022*
NSFR	**161.4%**	**163.6%**	155.0%	151.3%

The funding position of the Group remained strong for the first half of 2023. The period end NSFR were 161.4% and 163.6% for the quarters ended 30 June and 31 March 2023 respectively, compared with 155.0% and 151.3% for the quarters ended 30 June and 31 March 2022 respectively.

To comply with the Banking (Disclosure) Rules, the details of liquidity information can be found in the Regulatory Disclosures section of our website www.hangseng.com.

(b) Treasury Risk *(continued)*

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

There were no material changes to the policies and practices for the management of interest rate risk in the banking book in the first half of 2023.

A summary of the Group's current policies and practices for the management of interest rate risk in the banking book is set out in 'Interest Rate Risk in the Banking Book' section on pages 101 to 103 of the Annual Report 2022.

(c) Market Risk

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

A summary of the Group's current policies and practices for the management of market risk is set out in 'Market Risk' section on pages 103 to 106 of the Annual Report 2022.

Market risk in the first half of 2023

During the first half of 2023, global financial markets continued to be driven by the inflation outlook, expectations of monetary policy tightening and recession risks, coupled with banking distress during March and negotiations over the US debt ceiling in May-June. Major central banks maintained their restrictive monetary policies throughout 1H23, while falling headline inflation in the US led the Fed to signal that it may be approaching the end of its tightening cycle. Rates markets saw key short-term yields rise over 2Q23, after falling rapidly in the wake of the banking crisis in March. Global equity markets sentiment was driven by resilient corporate earnings and changes in the monetary policy outlook. In foreign exchange markets, the US dollar fluctuated against most other major currencies, in line with the Fed policy and bond yields expectations. Investor sentiment remained mostly resilient in credit markets. High-yield and investment-grade credit spreads tended to narrow as the banking sector stabilized and likelihood of a US debt downgrade receded.

We continued to manage market risk prudently in the first half of 2023. Key sensitivity exposures and VaR remained within risk appetite as the business pursue its core market-making activity in support of our customers. Market risk was managed using complementary set of risk measures and limits including stress test and scenario analysis.

(c) ***Market risk*** *(continued)*

Trading portfolios

VaR of the trading portfolios

Trading VaR predominantly resides within Global Markets. Interest rate risks were the main drivers of trading VaR. The VaR for trading activity on 30 June 2023 was higher comparing to that on 30 June 2022, mainly driven by interest rate trading portfolio.

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

Trading

	At 30 June 2023	***Minimum during the first half of 2023***	***Maximum during the first half of 2023***	***Average for the first half of 2023***
VaR				
Trading	**45**	**27**	**55**	**41**
Foreign exchange trading	**4**	**1**	**12**	**5**
Interest rate trading	**47**	**30**	**53**	**42**
Portfolio diversification	**(6)**	**N/A**	**N/A**	**(6)**
Stressed VaR				
Trading	**302**	**194**	**357**	**261**
Foreign exchange trading	**6**	**1**	**24**	**7**
Interest rate trading	**335**	**205**	**363**	**274**
Portfolio diversification	**(39)**	**N/A**	**N/A**	**(20)**

	At 30 June 2022	*Minimum during the first half of 2022*	*Maximum during the first half of 2022*	*Average for the first half of 2022*
VaR				
Trading	34	23	42	32
Foreign exchange trading	3	1	13	3
Interest rate trading	35	26	42	33
Portfolio diversification	(4)	N/A	N/A	(4)
Stressed VaR				
Trading	265	153	376	274
Foreign exchange trading	16	14	47	27
Interest rate trading	254	164	369	268
Portfolio diversification	(5)	N/A	N/A	(21)

Equities exposures

The Group's equities exposures are reported as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss', 'Financial investments' and 'Trading assets' in the condensed consolidated financial statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Insurance manufacturing operation risk

Overview

Insurance risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapses and surrender rates.

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as financial risk and insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to our insurance subsidiary, Hang Seng Insurance Company Limited ('HSIC').

A summary of our policies and practices regarding the risk management of insurance operation, our insurance model and the main contracts we manufacture is provided on pages 115 to 122 of the Annual Report 2022.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operation described in the Annual Report 2022.

Insurance manufacturing operation risk profile in the first half of 2023

The risk profile of our insurance manufacturing businesses is measured using an economic capital ('EC') approach. Assets and liabilities are measured on a market value basis, and a capital requirement is defined to ensure that there is a less than one in 200 chances of insolvency over a one-year time horizon, given the risks to which the businesses are exposed to. The methodology for the economic capital calculation is largely aligned to the emerging Hong Kong risk-based capital regulations. A key risk appetite metric is the economic coverage ratio, which is calculated by dividing the economic net asset value by the economic capital requirement.

Our insurance subsidiary, HSIC, manages the economic capital coverage ratio against its appetite and tolerance as approved by its Board.

(d) Insurance manufacturing operation risk (continued)

Insurance manufacturing operation risk profile in the first half of 2023 *(continued)*

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

Balance sheet of insurance manufacturing operation by type of contract[4, 5]

	Life direct participating and Investment DPF contracts	*Life other[1]*	*Other contracts[2]*	*Shareholders' assets and liabilities*	*Total*
30 June 2023					
Financial assets:					
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	145,651	8,577	123	–	154,351
– derivative financial instruments	169	8	–	–	177
– financial investments	–	–	205	6,486	6,691
– other financial assets[3]	4,614	766	37	524	5,941
Total financial assets	150,434	9,351	365	7,010	167,160
Insurance contract assets	–	4	–	–	4
Reinsurance contract assets	–	5,525	–	–	5,525
Other assets and investment properties	6,579	261	2	1,962	8,804
Total assets	157,013	15,141	367	8,972	181,493
Liabilities under investment contracts designated at fair value	–	–	292	–	292
Insurance contract liabilities	153,614	8,540	–	–	162,154
Reinsurance contract liabilities	–	944	–	–	944
Deferred tax	–	–	–	10	10
Derivative financial instruments	177	12	–	3	192
Other liabilities	3,522	391	1	2,303	6,217
Total liabilities	157,313	9,887	293	2,316	169,809
Shareholders' equity	–	–	–	11,684	11,684
Total liabilities and shareholders' equity	157,313	9,887	293	14,000	181,493

(d) Insurance manufacturing operation risk *(continued)*

Insurance manufacturing operation risk profile in the first half of 2023 *(continued)*

Balance sheet of insurance manufacturing operation by type of contract[4, 5] *(continued)*

(restated)	*Life direct participating and Investment DPF contracts*	*Life other[1]*	*Other contracts[2]*	*Shareholders' assets and liabilities*	*Total*
31 December 2022					
Financial assets:					
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	143,618	9,120	80	–	152,818
– derivative financial instruments	257	16	–	5	278
– financial investments	–	–	224	6,126	6,350
– other financial assets[3]	2,553	324	42	458	3,377
Total financial assets	146,428	9,460	346	6,589	162,823
Insurance contract assets	–	4	–	–	4
Reinsurance contract assets	–	5,663	–	–	5,663
Other assets and investment properties	6,588	320	2	1,927	8,837
Total assets	153,016	15,447	348	8,516	177,327
Liabilities under investment contracts designated at fair value	–	–	333	–	333
Insurance contract liabilities	143,836	8,530	–	–	152,366
Reinsurance contract liabilities	–	1,112	–	–	1,112
Deferred tax	–	–	–	10	10
Derivative financial instruments	73	11	–	–	84
Other liabilities	11,957	412	–	467	12,836
Total liabilities	155,866	10,065	333	477	166,741
Shareholders' equity	–	–	–	10,586	10,586
Total liabilities and shareholders' equity	155,866	10,065	333	11,063	177,327

1 *Other life mainly includes protection type contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life participating and investment DPF contracts.*

2 *Other contracts includes investment contracts for which the Group does not bear significant insurance risk.*

3 *Comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.*

4 *Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with HASE and HSBC non-insurance operations*

5 *From 1 January 2023, we adopted HKFRS 17 'Insurance Contracts', which replaced HKFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*

(unaudited)
(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Income Statement

	note	*Half-year ended 30 June 2023*	*Half-year ended 30 June 2022 (restated)*
Interest income[1]		**28,507**	12,908
Interest expense		**(13,316)**	(2,216)
Net interest income	5	**15,191**	10,692
Fee income		**4,056**	3,873
Fee expense		**(1,390)**	(1,127)
Net fee income	6	**2,666**	2,746
Net income/(loss) from financial instruments measured at fair value through profit or loss	7	**6,110**	(18,196)
Gains less losses from financial investments	8	**2**	42
Dividend income	9	**16**	25
Insurance finance income/(expenses)		**(5,454)**	19,058
Insurance service results		**1,025**	906
– Insurance revenue		**1,396**	1,454
– Insurance service expense		**(371)**	(548)
Other operating income	10	**384**	136
Net operating income before change in expected credit losses and other credit impairment charges		**19,940**	15,409
Change in expected credit losses and other credit impairment charges	11	**(1,924)**	(2,100)
Net operating income		**18,016**	13,309
Employee compensation and benefits		**(2,952)**	(2,943)
General and administrative expenses		**(2,812)**	(2,542)
Depreciation expenses		**(954)**	(1,009)
Amortisation of intangible assets		**(438)**	(322)
Operating expenses	12	**(7,156)**	(6,816)
Impairment loss on intangible assets		**(2)**	(2)
Operating profit		**10,858**	6,491
Net surplus/(deficit) on property revaluation		**(1)**	(59)
Share of profits/(losses) of associates		**104**	(35)
Profit before tax		**10,961**	6,397
Tax expense	13	**(1,139)**	(900)
Profit for the period		**9,822**	5,497
Profit attributable to:			
Shareholders of the Bank		**9,827**	5,505
Non-controlling interests		**(5)**	(8)
(Figures in HK$)			
Earnings per share – basic and diluted	14	**4.99**	2.73

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.*

Details of dividends payable to shareholders of the Bank attributable to the profit for the period are set out in note 15.

The notes on pages 66 to 108 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Statement of Comprehensive Income

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022 (restated)*
Profit for the period	**9,822**	5,497
Other comprehensive income		
Items that will be reclassified subsequently to the Condensed Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI') reserve:		
– fair value gains/(losses) taken to equity	**(105)**	(1,595)
– fair value (gains)/losses transferred to the Condensed Consolidated Income Statement:		
– on hedged items	**136**	362
– on disposal	**(2)**	(42)
– release of expected credit losses recognised in the Condensed Consolidated Income Statement	**(4)**	(1)
– deferred taxes	**4**	178
– exchange difference	**(53)**	230
Cash flow hedge reserve:		
– fair value gains/(losses) taken to equity	**1,133**	2,477
– fair value (gains)/losses transferred to the Condensed Consolidated Income Statement	**(764)**	(3,188)
– deferred taxes	**(61)**	117
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and associates	**(742)**	(737)
Items that will not be reclassified subsequently to the Condensed Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
– fair value gains/(losses) taken to equity	**12**	2
– deferred taxes	**(2)**	–
Equity instruments designated at fair value through other comprehensive income:		
– fair value gains/(losses) taken to equity	**(145)**	773
– exchange difference	**(24)**	(221)
Premises:		
– unrealised surplus/(deficit) on revaluation of premises	**626**	319
– deferred taxes	**(104)**	(54)
– exchange difference	**(14)**	(14)
Defined benefit plans:		
– actuarial gains/(losses) on defined benefit plans	**115**	(98)
– deferred taxes	**(19)**	16
Exchange difference and others	**–**	(4)
Other comprehensive income for the period, net of tax	**(13)**	(1,480)
Total comprehensive income for the period	**9,809**	4,017
Total comprehensive income for the period attributable to:		
– shareholders of the Bank	**9,814**	4,025
– non-controlling interests	**(5)**	(8)
	9,809	4,017

The notes on pages 66 to 108 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheet

	note	*At 30 June 2023*	*At 31 December 2022 (restated)*
ASSETS			
Cash and balances at central banks	17	**8,968**	17,609
Trading assets	18	**42,988**	47,373
Derivative financial instruments	19	**21,679**	22,761
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	20	**154,527**	152,957
Reverse repurchase agreements – non-trading		**23,966**	42,364
Placings with and advances to banks	21	**64,078**	62,203
Loans and advances to customers	22	**892,890**	931,334
Financial investments	23	**395,323**	480,698
Interest in associates	24	**2,318**	2,256
Investment properties	25	**12,022**	11,998
Premises, plant and equipment	25	**27,334**	27,498
Intangible assets	26	**4,033**	3,894
Other assets	27	**44,581**	51,501
Total assets		**1,694,707**	1,854,446
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		**3,309**	5,205
Current, savings and other deposit accounts	28	**1,149,677**	1,249,486
Repurchase agreements – non-trading		**8,184**	11,304
Trading liabilities	29	**36,469**	46,323
Derivative financial instruments	19	**18,104**	20,992
Financial liabilities designated at fair value	30	**54,621**	46,309
Certificates of deposit in issue		**29,511**	93,379
Other liabilities	31	**36,236**	36,928
Insurance contract liabilities		**163,141**	153,486
Current tax liabilities		**954**	389
Deferred tax liabilities		**3,428**	3,168
Subordinated liabilities	32	**27,497**	27,479
Total liabilities		**1,531,131**	1,694,448
Equity			
Share capital		**9,658**	9,658
Retained profits		**122,735**	118,717
Other equity instruments	33	**11,744**	11,744
Other reserves		**19,382**	19,814
Total shareholders' equity		**163,519**	159,933
Non-controlling interests		**57**	65
Total equity		**163,576**	159,998
Total equity and liabilities		**1,694,707**	1,854,446

The notes on pages 66 to 108 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Statement of Changes in Equity

	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 period	–	–	9,827	–	–	–	–	–	9,827	(5)	9,822
Other comprehensive income (net of tax)	–	–	96	508	(193)	308	(742)	10	(13)	–	(13)
Debt instruments at fair value through other comprehensive income	–	–	–	–	(24)	–	–	–	(24)	–	(24)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(169)	–	–	–	(169)	–	(169)
Cash flow hedges	–	–	–	–	–	308	–	–	308	–	308
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	10	10	–	10
Property revaluation	–	–	–	508	–	–	–	–	508	–	508
Actuarial gains on defined benefit plans	–	–	96	–	–	–	–	–	96	–	96
Exchange differences and others	–	–	–	–	–	–	(742)	–	(742)	–	(742)
Total comprehensive income for the period	–	–	9,923	508	(193)	308	(742)	10	9,814	(5)	9,809
Dividends paid[3]	–	–	(5,927)	–	–	–	–	–	(5,927)	–	(5,927)
Coupons paid on AT1 capital instruments	–	–	(282)	–	–	–	–	–	(282)	–	(282)
Movement in respect of share-based payment arrangements	–	–	(4)	–	–	–	–	(15)	(19)	–	(19)
Others	–	–	–	–	–	–	–	–	–	(3)	(3)
Transfers[4]	–	–	308	(308)	–	–	–	–	–	–	–
At 30 June 2023	9,658	11,744	122,735	18,538	1,544	(508)	(864)	672	163,519	57	163,576

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 has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 30 June 2023, the Group is not required to restrict any reserves which can be distributed to shareholders (31 December 2022: nil) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the expected 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 interim dividend of 2023 amounted to HK$3,824m and HK$2,103m respectively.*

4 *During the 6-month period ended 30 June 2023 and 31 December 2022, this included transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties. During the period ended 30 June 2022, 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.*

Condensed Consolidated Statement of Changes in Equity *(continued)*

(restated)	*Share capital*	*Other equity instruments*	*Retained profits*	*Other reserves*					*Total shareholders' equity*	*Non-controlling interests*	*Total equity*
				Premises revaluation reserve	*Financial assets at FVOCI reserve*	*Cash flow hedge reserve*	*Foreign exchange reserve*	*Others*			
At 31 December 2021, as previously reported	9,658	11,744	140,100	18,428	2,499	46	1,180	677	184,332	84	184,416
Impact on transition to HKFRS 17	–	–	(25,214)	–	–	–	–	–	(25,214)	–	(25,214)
At 1 January 2022, as restated	9,658	11,744	114,886	18,428	2,499	46	1,180	677	159,118	84	159,202
Profit for the period	–	–	5,505	–	–	–	–	–	5,505	(8)	5,497
Other comprehensive income (net of tax)	–	–	(86)	251	(316)	(594)	(737)	2	(1,480)	–	(1,480)
Debt instruments at fair value through other comprehensive income	–	–	–	–	(868)	–	–	–	(868)	–	(868)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	552	–	–	–	552	–	552
Cash flow hedges	–	–	–	–	–	(594)	–	–	(594)	–	(594)
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	–	–	–	251	–	–	–	–	251	–	251
Actuarial losses on defined benefit plans	–	–	(82)	–	–	–	–	–	(82)	–	(82)
Exchange differences and others	–	–	(4)	–	–	–	(737)	–	(741)	–	(741)
Total comprehensive income for the period	–	–	5,419	251	(316)	(594)	(737)	2	4,025	(8)	4,017
Dividends paid	–	–	(4,779)	–	–	–	–	–	(4,779)	–	(4,779)
Coupons paid on AT1 capital instruments	–	–	(283)	–	–	–	–	–	(283)	–	(283)
Movement in respect of share-based payment arrangements	–	–	(1)	–	–	–	–	3	2	–	2
Others	–	–	–	–	–	–	–	–	–	(2)	(2)
Transfers	–	–	281	(326)	45	–	–	–	–	–	–
At 30 June 2022	9,658	11,744	115,523	18,353	2,228	(548)	443	682	158,083	74	158,157
At 1 July 2022	9,658	11,744	115,523	18,353	2,228	(548)	443	682	158,083	74	158,157
Profit for the period	–	–	5,781	–	–	–	–	–	5,781	(6)	5,775
Other comprehensive income (net of tax)	–	–	199	296	(491)	(268)	(565)	(7)	(836)	–	(836)
Debt instruments at fair value through other comprehensive income	–	–	–	–	171	–	–	–	171	–	171
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(662)	–	–	–	(662)	–	(662)
Cash flow hedges	–	–	–	–	–	(268)	–	–	(268)	–	(268)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(7)	(7)	–	(7)
Property revaluation	–	–	–	296	–	–	–	–	296	–	296
Actuarial gains on defined benefit plans	–	–	67	–	–	–	–	–	67	–	67
Exchange differences and others	–	–	132	–	–	–	(565)	–	(433)	–	(433)
Total comprehensive income for the period	–	–	5,980	296	(491)	(268)	(565)	(7)	4,945	(6)	4,939
Dividends paid	–	–	(2,676)	–	–	–	–	–	(2,676)	–	(2,676)
Coupons paid on AT1 capital instruments	–	–	(427)	–	–	–	–	–	(427)	–	(427)
Movement in respect of share-based payment arrangements	–	–	6	–	–	–	–	2	8	–	8
Others	–	–	–	–	–	–	–	–	–	(3)	(3)
Transfers	–	–	311	(311)	–	–	–	–	–	–	–
At 31 December 2022	9,658	11,744	118,717	18,338	1,737	(816)	(122)	677	159,933	65	159,998

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Cash Flow Statement

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022 (restated)*[1]
Profit before tax	**10,961**	6,397
Adjustments for non-cash items:		
Depreciation and amortisation	**1,392**	1,331
Net interest income	**(15,191)**	(10,692)
Dividend income	**(16)**	(25)
Gains less losses from financial investments	**(2)**	(42)
Share of (profits)/losses of associates	**(104)**	35
Net (surplus)/deficit on property revaluation	**1**	59
Change in expected credit losses and other credit impairment charges	**1,924**	2,100
Impairment loss on intangible assets	**2**	2
Loans and advances written off net of recoveries	**(607)**	(259)
Interest received	**28,618**	12,872
Interest paid	**(11,775)**	(1,836)
Elimination of exchange differences and other non-cash items	**(2,476)**	8,901
Changes in operating assets and liabilities		
Change in trading assets	**4,385**	1,553
Change in derivative financial instruments	**(1,806)**	(2,836)
Change in financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**(3,482)**	9,508
Change in reverse repurchase agreements – non-trading maturing after one month	**3,196**	(3,632)
Change in placings with and advances to banks maturing after one month	**9,295**	2,643
Change in loans and advances to customers	**37,416**	12,429
Change in financial investments of insurance business	**(297)**	2,201
Change in other assets	**(158)**	(1,439)
Change in repurchase agreements – non-trading	**(3,120)**	(7,834)
Change in deposits from banks	**(1,896)**	(938)
Change in current, savings and other deposit accounts	**(99,809)**	(1,368)
Change in trading liabilities	**(9,854)**	(4,197)
Change in financial liabilities designated at fair value	**8,312**	6,332
Change in certificates of deposit in issue	**(63,868)**	14,221
Change in other liabilities	**(2,413)**	4,862
Change in insurance contract liabilities	**9,655**	(11,835)
Dividends received from financial investments	**(3)**	21
Tax paid	**(664)**	(616)
Net cash from/(used in) operating activities	**(102,384)**	37,918
Purchase of financial investments	**(406,292)**	(374,018)
Proceeds from sale or redemption of financial investments	**482,093**	322,526
Repayment of shareholders' loan from an associated company	**2**	–
Purchase of property, plant and equipment and intangible assets	**(718)**	(848)
Net cash from/(used in) investing activities	**75,085**	(52,340)
Interest paid for subordinated liabilities	**(894)**	(216)
Principal and interest elements of lease payments	**(263)**	(284)
Dividends paid	**(5,927)**	(4,779)
Coupons paid to holder on AT1 capital instruments	**(282)**	(283)
Proceeds from issuance of subordinated liabilities	**–**	3,000
Net cash from/(used in) financing activities	**(7,366)**	(2,562)
Net decrease in cash and cash equivalents	**(34,665)**	(16,984)
Cash and cash equivalents at 1 January	**152,818**	111,134
Exchange differences in respect of cash and cash equivalents	**315**	(2,059)
Cash and cash equivalents at 30 June	**118,468**	92,091

Condensed Consolidated Cash Flow Statement *(continued)*

	Half-year ended 30 June 2023	Half-year ended 30 June 2022 (restated)[1]
Cash and cash equivalents comprise[2]:		
– cash and sight balances at central banks	**8,968**	10,878
– balances with banks	**6,421**	11,586
– items in the course of collection from other banks	**5,116**	4,246
– placings with and advances to banks maturing within one month	**28,812**	31,823
– reverse repurchase agreements with banks maturing within one month	**8,826**	10,127
– treasury bills	**65,037**	26,950
– net settlement accounts and cash collateral	**1,852**	2,739
– less: items in the course of transmission to other banks	**(6,564)**	(6,258)
	118,468	92,091

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

2 *At 30 June 2023, the amount of cash and cash equivalents that was not available for use by the Group was HK$18,835m (30 June 2022: HK$10,135m), of which HK$5,641m (30 June 2022: HK$7,425m) was related to mandatory deposits at central banks.*

1 Basis of preparation

The Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and all its subsidiaries ('the Group') have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ('HKAS') 34, '*Interim Financial Reporting*', issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The Condensed Consolidated Financial Statements were reviewed by the Audit Committee. The Board of Directors of the Bank has approved the Condensed Consolidated Financial Statements on 1 August 2023.

The Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standard ('HKFRS').

The preparation of the Condensed Consolidated Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022, except those mentioned in 'Use of estimates and judgments' in note 2.

The following disclosures in the Risk and Capital Management sections form an integral part of the Condensed Consolidated Financial Statements:

- Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees; and

- Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution.

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 Condensed Consolidated Financial Statements and the risk disclosures in the Risk and Capital Management sections goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

The Condensed Consolidated Financial Statements are unaudited, but has been reviewed by PricewaterhouseCoopers ('PwC') in accordance with Hong Kong Standard on Review Engagements 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*', issued by the HKICPA. PwC's independent review report to the Board of Directors is included on page 109.

2 Accounting policies

Standards applied during the half-year ended 30 June 2023

On 1 January 2023, the Group adopted the requirements of HKFRS 17 '*Insurance Contracts*' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, Group total equity reduced by HK$25.2bn.

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

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

Summary of material accounting policies

Except as described below, the accounting policies applied in preparing these interim Condensed Consolidated Financial Statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2022, as disclosed in the Annual Report 2022.

(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.

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) Insurance contracts

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

An insurance contract is a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event.

2 Accounting policies *(continued)*

(b) Insurance contracts *(continued)*

Aggregation of insurance contracts

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

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

Fulfilment cash flows

The fulfilment cash flows comprise the followings:

(i) Best estimates of future cash flows

These cash flows 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.

(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 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 of contracts 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 non-economic 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 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.

2 Accounting policies *(continued)*

(b) Insurance contracts *(continued)*

CSM and coverage units *(continued)*

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.

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.

For VFA contracts, changes in the fair value of the underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

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.

2 Accounting policies *(continued)*

(b) Insurance contracts *(continued)*

Presentation *(continued)*

Key differences between HKFRS 4 and HKFRS 17

	HKFRS 4	**HKFRS 17**
Balance sheet	• Insurance contract liabilities for non-linked life insurance contracts are calculated by local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulations. • An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in force insurance contracts.	• Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. • The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk. • The CSM represents the unearned profit.
Profit emergence/ recognition	• The value of new business is reported as revenue on Day 1 as an increase in PVIF. • The impact of the majority of assumption changes is recognised immediately in the income statement. • Variances between actual and expected cash flows are recognised in the period they arise.	• The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). • Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the Group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the Group's share of the investment volatility is recorded in profit or loss as it arises. • Losses from onerous contracts are recognised in the income statement immediately.

2 Accounting policies *(continued)*

(b) Insurance contracts *(continued)*

Presentation *(continued)*

Key differences between HKFRS 4 and HKFRS 17 *(continued)*

	HKFRS 4	HKFRS 17
Investment return assumptions (discount rate)	• PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	• Under the market consistent approach, expected future investment spreads are removed from the investment return assumptions and replaced with an illiquidity premium that reflects the nature of the associated insurance contract liabilities.
Expenses	• Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. • Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those costs released from the PVIF simultaneously.	• Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. • Non-attributable costs are reported in operating expenses.

Transition

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

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

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

Related updates to other accounting policies arising from the implementation of HKFRS 17 will be disclosed in the Group's 2023 Annual Report. No other new standards are applied in 2023. However, during 2023, the Group adopted a number of amendments to standards which had an insignificant effect on these interim consolidated financial statements of the Group.

2 Accounting policies *(continued)*

(b) Insurance contracts *(continued)*

Presentation *(continued)*

Use of estimates and judgements

Management believes that the Group's critical accounting estimates and judgements are those which relate to the impairment of amortised cost and FVOCI debt financial assets, the valuation of financial instruments, interests in associates and insurance contract liabilities (now measured under HKFRS 17). The implementation of HKFRS 17 has resulted in a change to the assessment of the critical accounting estimates and judgements as summarised below.

Insurance contracts

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.

Except as described above, there was no other major changes in the current period to the critical accounting estimates and judgements applied in 2022, which are stated in note 1 of the Group's 2022 Annual Report.

3 Effect of adoption of HKFRS 17

(a) Reconciliation for consolidated income statement for the period ended 30 June 2022

	HKFRS 4[1]	*Removal of PVIF and HKFRS 4*	*Remeasurement effect of HKFRS 9 redesignations*	*Insurance finance income/ (expenses)*	*HKFRS 17 CSM*	*Onerous contracts*	*Experience variance and other*	*Attributable expenses*	*Tax effect*	*HKFRS 17*
Interest income	15,039	–	(2,131)	–	–	–	–	–	–	12,908
Interest expense	(2,216)	–	–	–	–	–	–	–	–	(2,216)
Net interest income	12,823	–	(2,131)	–	–	–	–	–	–	10,692
Fee income	3,860	(65)	–	–	–	–	–	78	–	3,873
Fee expense	(1,237)	–	–	–	–	–	–	110	–	(1,127)
Net fee income	2,623	(65)	–	–	–	–	–	188	–	2,746
Net income/(loss) from financial instruments measured at fair value through profit or loss	(1,537)	–	(16,659)	–	–	–	–	–	–	(18,196)
Gains less losses from financial investments	34	–	8	–	–	–	–	–	–	42
Dividend income	25	–	–	–	–	–	–	–	–	25
Net insurance premium income	12,008	(12,008)	–	–	–	–	–	–	–	–
Insurance finance income/(expenses)	–	–	–	19,058	–	–	–	–	–	19,058
Insurance service results	–	–	–	–	835	(118)	189	–	–	906
– Insurance revenue	–	–	–	–	835	–	619	–	–	1,454
– Insurance service expense	–	–	–	–	–	(118)	(430)	–	–	(548)
Other operating income	1,558	(1,335)	–	(100)	–	–	13	–	–	136
Total operating income	27,534	(13,408)	(18,782)	18,958	835	(118)	202	188	–	15,409
Net insurance claims and benefits paid and movement in liabilities to policyholders	(12,590)	12,590	–	–	–	–	–	–	–	–
Net operating income before change in expected credit losses and other credit impairment charges	14,944	(818)	(18,782)	18,958	835	(118)	202	188	–	15,409
Change in expected credit losses and other credit impairment charges	(2,096)	–	(4)	–	–	–	–	–	–	(2,100)
Net operating income	12,848	(818)	(18,786)	18,958	835	(118)	202	188	–	13,309
Operating expenses	(7,313)	–	–	–	–	–	–	497	–	(6,816)
Impairment loss on intangible assets	(2)	–	–	–	–	–	–	–	–	(2)
Operating profit	5,533	(818)	(18,786)	18,958	835	(118)	202	685	–	6,491
Net surplus/(deficit) on property revaluation	(59)	–	–	–	–	–	–	–	–	(59)
Share of profits/(losses) of associates	(35)	–	–	–	–	–	–	–	–	(35)
Profit before tax	5,439	(818)	(18,786)	18,958	835	(118)	202	685	–	6,397
Tax expense	(743)	–	–	–	–	–	–	–	(157)	(900)
Profit for the period	4,696	(818)	(18,786)	18,958	835	(118)	202	685	(157)	5,497

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

3 Effect of adoption of HKFRS 17 *(continued)*

(a) Reconciliation for consolidated income statement for the period ended 30 June 2022 *(continued)*

Transition drivers

Removal of HKFRS 4 based revenue items

As a result of the removal of the PVIF intangible asset, the associated revenue of HK$1,335m in 1H 2022 that was previously reported within Other operating income is no longer reported under HKFRS 17. This includes the removal of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances.

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

HKFRS 9 re-designations

Following the re-designation of financial assets supporting policyholder liabilities to fair value through profit or loss classification, the related income statement reporting also changed. Under our previous HKFRS 4 based reporting convention, these assets generated interest income of HK$2,131m which was reported in net interest income in 1H 2022. To the extent that this interest income was shared with policyholders, the corresponding policyholder sharing obligation was previously included within the 'net insurance claims and benefits paid and movement in liabilities to policyholders' line. Following re-designation to fair value through profit or loss, gains and losses from changes in the fair value of underlying assets, together with interest income earned, are both reported within 'Net income/(loss) from financial instruments measured at fair value through profit or loss'. Similar to an HKFRS 4 basis, HKFRS 17 accounting provides for an offset. While this offset was reported within the claims line under HKFRS 4, under HKFRS 17 it is reported within the 'Insurance finance income' line described below.

Introduction of HKFRS 17 income statement line items

Insurance finance income/(expenses)

Insurance finance income/(expenses) of HK$19,058m in 1H 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For VFA contracts, which represent more than 90% of the Group's insurance contracts, the insurance finance income includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net income/(loss) from financial instruments measured at fair value through profit or loss'.

CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 8% during 1H 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned on underlying assets, or changes to assumptions.

Onerous contracts

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

Experience variance and other

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

Attributable expenses

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

3 Effect of adoption of HKFRS 17 *(continued)*

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

	HKFRS 4	*Derecognise PVIF*	*Remeasurement effect of HKFRS 9 redesignations*	*Derecognise insurance assets & liabilities*	*Recognise HKFRS 17 fulfilment cash flows*	*Recognise HKFRS 17 CSM*	*Tax effect*	*HKFRS 17*
ASSETS								
Cash and balances at central banks	16,896	–	–	–	–	–	–	16,896
Trading assets	47,433	–	–	–	–	–	–	47,433
Derivative financial instruments	13,224	–	–	–	–	–	–	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	31,326	–	129,153	–	–	–	–	160,479
Reverse repurchase agreements – non-trading	18,821	–	–	–	–	–	–	18,821
Placings with and advances to banks	72,493	–	(241)	–	–	–	–	72,252
Loans and advances to customers	997,397	–	–	–	–	–	–	997,397
Financial investments	500,386	–	(122,414)	–	–	–	–	377,972
Interest in associates	2,341	–	–	–	–	–	–	2,341
Investment properties	9,545	–	–	–	–	–	–	9,545
Premises, plant and equipment	31,205	–	–	–	–	–	–	31,205
Intangible assets	25,486	(22,363)	–	–	–	–	–	3,123
Other assets	53,632	–	–	(7,468)	6,445	(364)	1,197	53,442
Total assets	1,820,185	(22,363)	6,498	(7,468)	6,445	(364)	1,197	1,804,130
LIABILITIES AND EQUITY								
Liabilities								
Deposits from banks	5,333	–	–	–	–	–	–	5,333
Current, savings and other deposit accounts	1,230,216	–	–	–	–	–	–	1,230,216
Repurchase agreements – non-trading	16,592	–	–	–	–	–	–	16,592
Trading liabilities	44,291	–	–	–	–	–	–	44,291
Derivative financial instruments	12,252	–	–	–	–	–	–	12,252
Financial liabilities designated at fair value	27,399	–	–	–	–	–	–	27,399
Certificates of deposit in issue	81,567	–	–	–	–	–	–	81,567
Other liabilities	31,179	–	–	964	–	–	–	32,143
Insurance contract liabilities	154,551	–	–	(154,551)	143,783	22,718	–	166,501
Current tax liabilities	603	–	–	–	–	–	–	603
Deferred tax liabilities	7,302	–	–	–	–	–	(3,755)	3,547
Subordinated liabilities	24,484	–	–	–	–	–	–	24,484
Total liabilities	1,635,769	–	–	(153,587)	143,783	22,718	(3,755)	1,644,928
Equity								
Share capital	9,658	–	–	–	–	–	–	9,658
Retained profits	140,100	(22,363)	6,498	146,119	(137,338)	(23,082)	4,952	114,886
Other equity instruments	11,744	–	–	–	–	–	–	11,744
Other reserves	22,830	–	–	–	–	–	–	22,830
Total shareholders' equity	184,332	(22,363)	6,498	146,119	(137,338)	(23,082)	4,952	159,118
Non-controlling interests	84	–	–	–	–	–	–	84
Total equity	184,416	(22,363)	6,498	146,119	(137,338)	(23,082)	4,952	159,202
Total equity and liabilities	1,820,185	(22,363)	6,498	(7,468)	6,445	(364)	1,197	1,804,130

3 Effect of adoption of HKFRS 17 *(continued)*

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

Removal of PVIF and HKFRS 4 balances

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

HKFRS 9 asset re-designation

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

Recognition of the HKFRS 17 fulfilment cash flows

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

Recognition of the HKFRS 17 CSM

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

Tax effect

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

3 Effect of adoption of HKFRS 17 *(continued)*

(c) Consolidated Balance Sheet

	HKFRS 17 At 31 Dec 2022	*HKFRS 17 At 1 Jan 2022*	*HKFRS 4 At 31 Dec 2022*	*HKFRS 4 At 31 Dec 2021*
ASSETS				
Cash and balances at central banks	17,609	16,896	17,609	16,896
Trading assets	47,373	47,433	47,373	47,433
Derivative financial instruments	22,761	13,224	22,761	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	152,957	160,479	28,861	31,326
Reverse repurchase agreements – non-trading	42,364	18,821	42,364	18,821
Placings with and advances to banks	62,203	72,252	62,326	72,493
Loans and advances to customers	931,334	997,397	931,334	997,397
Financial investments	480,698	377,972	622,616	500,386
Interest in associates	2,256	2,341	2,256	2,341
Investment properties	11,998	9,545	11,998	9,545
Premises, plant and equipment	27,498	31,205	27,498	31,205
Intangible assets	3,894	3,123	24,514	25,486
Other assets	51,501	53,442	52,295	53,632
Total assets	1,854,446	1,804,130	1,893,805	1,820,185
LIABILITIES AND EQUITY				
Liabilities				
Deposits from banks	5,205	5,333	5,205	5,333
Current, savings and other deposit accounts	1,249,486	1,230,216	1,249,486	1,230,216
Repurchase agreements – non-trading	11,304	16,592	11,304	16,592
Trading liabilities	46,323	44,291	46,323	44,291
Derivative financial instruments	20,992	12,252	20,992	12,252
Financial liabilities designated at fair value	46,309	27,399	46,309	27,399
Certificates of deposit in issue	93,379	81,567	93,379	81,567
Other liabilities	36,928	32,143	36,739	31,179
Insurance contract liabilities	153,486	166,501	165,594	154,551
Current tax liabilities	389	603	389	603
Deferred tax liabilities	3,168	3,547	6,645	7,302
Subordinated liabilities	27,479	24,484	27,479	24,484
Total liabilities	1,694,448	1,644,928	1,709,844	1,635,769
Equity				
Share capital	9,658	9,658	9,658	9,658
Retained profits	118,717	114,886	142,680	140,100
Other equity instruments	11,744	11,744	11,744	11,744
Other reserves	19,814	22,830	19,814	22,830
Total shareholders' equity	159,933	159,118	183,896	184,332
Non-controlling interests	65	84	65	84
Total equity	159,998	159,202	183,961	184,416
Total equity and liabilities	1,854,446	1,804,130	1,893,805	1,820,185

4 Basis of consolidation

These Condensed Consolidated Financial Statements cover the consolidated position of the Group, unless otherwise stated, and include the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation is different from the basis of consolidation for accounting purposes. They are disclosed under the 'Risk' section.

5 Net interest income

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022 (restated)*[1]
Interest income arising from:		
– financial assets measured at amortised cost	**23,722**	11,654
– financial assets measured at FVOCI	**4,785**	1,254
	28,507	12,908
Interest expense arising from financial liabilities measured at amortised cost	**(13,316)**	(2,216)
Net interest income	**15,191**	10,692
of which:		
– interest income from impaired financial assets	**420**	127
– interest expense from subordinated liabilities	**(823)**	(231)

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

6 Net fee income

	Half-year ended 30 June 2023	Half-year ended 30 June 2022 (restated)
– securities broking and related services	**666**	758
– retail investment funds	**526**	537
– insurance	**221**	237
– account services	**204**	194
– remittances	**140**	135
– cards	**1,497**	1,181
– credit facilities	**241**	289
– imports/exports	**131**	196
– other	**430**	346
Fee income	**4,056**	3,873
Fee expense	**(1,390)**	(1,127)
	2,666	2,746

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)	**836**	825
– fee income	**2,103**	1,884
– fee expense	**(1,267)**	(1,059)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**449**	397
– fee income	**458**	407
– fee expense	**(9)**	(10)

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

	Half-year ended 30 June 2023	Half-year ended 30 June 2022 (restated)
Net trading income	**1,096**	1,166
– trading income	**1,113**	1,178
– other trading expense from ineffective fair value hedges	**(17)**	(12)
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(758)**	(830)
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value through profit or loss	**5,773**	(18,545)
– financial assets held to meet liabilities under insurance and investment contracts	**5,775**	(18,552)
– liabilities to customers under investment contracts	**(2)**	7
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(1)**	13
	6,110	(18,196)

8 Gains less losses from financial investments

	Half-year ended 30 June 2023	Half-year ended 30 June 2022 (restated)
Net gains/(losses) from disposal of debt securities measured at FVOCI	**2**	42
	2	42

9 Dividend income

	Half-year ended 30 June 2023	Half-year ended 30 June 2022
Dividend income for financial investments measured at FVOCI:		
– unlisted investments	**16**	25
	16	25

10 Other operating income

	Half-year ended 30 June 2023	Half-year ended 30 June 2022 (restated)
Rental income from investment properties	**156**	132
Income/(expense) arising from reinsurance contracts held	**115**	(87)
Net losses from disposal of fixed assets	**(1)**	(3)
Net gains from the derecognition of loans and advances to customers measured at amortised cost	**–**	1
Others	**114**	93
	384	136

11 Change in expected credit losses and other credit impairment charges

	Half-year ended 30 June 2023	Half-year ended 30 June 2022 (restated)
Loans and advances to banks and customers	**1,984**	2,170
– new allowances net of allowance releases	**2,001**	2,059
– recoveries of amounts previously written off	**(77)**	(49)
– other movements	**60**	160
Loan commitments and guarantees	**(50)**	(78)
Other financial assets	**(10)**	8
	1,924	2,100

12 Operating expenses

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022 (restated)*
Employee compensation and benefits:		
– salaries and other costs	**2,699**	2,691
– retirement benefit costs		
– defined benefit scheme	**67**	74
– defined contribution scheme	**186**	178
	2,952	2,943
General and administrative expenses:		
– rental expenses	**10**	12
– other premises and equipment	**919**	928
– marketing and advertising expenses	**218**	158
– other operating expenses	**1,665**	1,444
	2,812	2,542
Depreciation of premises, plant and equipment (note 25)	**715**	745
Depreciation of right-of-use assets	**239**	264
Amortisation of intangible assets	**438**	322
	7,156	6,816

13 Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022 (restated)*
Current tax – provision for Hong Kong profits tax		
– Tax for the period	**1,213**	651
– Adjustment in respect of prior periods	**5**	–
Current tax – taxation outside Hong Kong		
– Tax for the period	**15**	118
Deferred tax		
– Origination and reversal of temporary differences	**(94)**	131
Total tax expense	**1,139**	900

The current tax provision is based on the estimated assessable profit for the first half of 2023, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2022: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

14 Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2023 is based on earnings of HK$9,545m (HK$5,222m for the first half of 2022), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2022).

15 Dividends/Distributions

(a) Dividends to ordinary shareholders

	Half-year ended 30 June 2023		*Half-year ended 30 June 2022*	
	per share HK$	***HK$m***	*per share HK$*	*HK$m*
First interim	**1.10**	**2,103**	0.70	1,338
Second interim	**1.10**	**2,103**	0.70	1,338
	2.20	**4,206**	1.40	2,676

On 1 August 2023, the Directors of the Bank declared a second interim dividend in respect of the year ending 31 December 2023 of HK$1.10 per ordinary share (HK$2,103m). This distribution will be paid on 5 September 2023. No liability is recognised in the Condensed Consolidated Financial Statements in respect of this dividend.

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

	Half-year ended 30 June 2023	*Half-year ended 30 June 2022*
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.00 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)	**282**	283
	282	283

16 Segmental analysis

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

– **Wealth and Personal Banking** offers a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, time deposits, mortgages and personal loans, credit cards, insurance, investment and other wealth management services;

– **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and small and medium-sized enterprises ('SME') customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, distribution of general insurance and key-person insurance, investment services and corporate wealth management;

– **Global Banking** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking and transaction banking, corporate lending, deposit and cash management;

– **Global Markets** provides tailored solutions and services in foreign exchange, bullion, equities, fixed income and securities financing as well as managing the funding and liquidity position of the Group and other market risk positions arising from banking and client activities;

– **Other** mainly represents the Group's holdings of premises apart from outlets dedicated for Wealth and Personal Banking, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost of central support services and functions are allocated to business segments based on cost drivers which reflect or correlate with the use of services. Bank-owned premises apart from outlets dedicated for Wealth and Personal Banking are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[2]	Total
Half-year ended 30 June 2023[1]						
Net interest income/(expense)	8,047	4,444	1,306	604	790	15,191
Net fee income/(expense)	1,697	638	169	(22)	184	2,666
Net income/(loss) from financial instruments measured at fair value through profit or loss	5,950	88	(35)	801	(694)	6,110
Gains less losses from financial investments	–	–	–	2	–	2
Dividend income	–	–	–	–	16	16
Insurance finance income/(expenses)	(5,454)	–	–	–	–	(5,454)
Insurance service results	1,025	–	–	–	–	1,025
– of which: – Insurance revenue	*1,396*	–	–	–	–	*1,396*
– Insurance service expense	*(371)*	–	–	–	–	*(371)*
Other operating income/(loss)	235	3	–	–	146	384
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	11,500	5,173	1,440	1,385	442	19,940
– of which: – external	*1,967*	*6,127*	*3,813*	*8,720*	*(687)*	*19,940*
– inter-segment	*9,533*	*(954)*	*(2,373)*	*(7,335)*	*1,129*	–
Change in expected credit losses and other credit impairment charges	(309)	(1,550)	(71)	5	1	(1,924)
Net operating income/(loss)	11,191	3,623	1,369	1,390	443	18,016
Operating expenses *	(4,252)	(1,796)	(389)	(351)	(368)	(7,156)
Impairment loss on intangible assets	–	–	–	–	(2)	(2)
Operating profit/(loss)	6,939	1,827	980	1,039	73	10,858
Net surplus/(deficit) on property revaluation	–	–	–	–	(1)	(1)
Share of profits/(losses) of associates	104	–	–	–	–	104
Profit/(loss) before tax	7,043	1,827	980	1,039	72	10,961
Share of profit/(loss) before tax	64.2%	16.7%	8.9%	9.5%	0.7%	100.0%
** Depreciation/amortisation included in operating expenses*	(409)	(6)	(1)	(1)	(975)	(1,392)
At 30 June 2023[1]						
Total assets	591,736	315,511	207,224	552,322	27,914	1,694,707
of which: Gross loans and advances to customers	391,597	313,865	201,850	–	–	907,312
Total liabilities	1,040,679	282,309	84,678	90,277	33,188	1,531,131
of which: Customer deposits[3]	850,002	264,978	73,799	–	–	1,188,779
Interest in associates	2,318	–	–	–	–	2,318

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[2]	Total
Half-year ended 30 June 2023[1]						
– securities broking and related services	618	36	1	11	–	666
– retail investment funds	520	6	–	–	–	526
– insurance	90	94	37	–	–	221
– account services	128	73	3	–	–	204
– remittances	44	80	16	–	–	140
– cards	1,484	13	–	–	–	1,497
– credit facilities	10	154	77	–	–	241
– imports/exports	–	116	15	–	–	131
– other	134	79	22	11	184	430
Fee income	3,028	651	171	22	184	4,056
Fee expense	(1,331)	(13)	(2)	(44)	–	(1,390)
Net fee income/(expense)	1,697	638	169	(22)	184	2,666

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other*[2]	*Total*
Half-year ended 30 June 2022 (restated)[1]						
Net interest income/(expense)	4,789	3,520	1,222	951	210	10,692
Net fee income/(expense)	1,647	775	202	(40)	162	2,746
Net income/(loss) from financial instruments measured at fair value through profit or loss	(18,523)	96	(45)	502	(226)	(18,196)
Gains less losses from financial investments	–	–	–	42	–	42
Dividend income	–	–	–	–	25	25
Insurance finance income/(expenses)	19,058	–	–	–	–	19,058
Insurance service results	906	–	–	–	–	906
– of which: – Insurance revenue	*1,454*	–	–	–	–	*1,454*
– Insurance service expense	*(548)*	–	–	–	–	*(548)*
Other operating income/(loss)	13	2	2	–	119	136
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	7,890	4,393	1,381	1,455	290	15,409
– of which: – external	*6,788*	*4,526*	*1,891*	*2,103*	*101*	*15,409*
– inter-segment	*1,102*	*(133)*	*(510)*	*(648)*	*189*	–
Change in expected credit losses and other credit impairment charges	(302)	(1,440)	(356)	(2)	–	(2,100)
Net operating income/(loss)	7,588	2,953	1,025	1,453	290	13,309
Operating expenses *	(4,027)	(1,719)	(350)	(313)	(407)	(6,816)
Impairment loss on intangible assets	–	–	–	–	(2)	(2)
Operating profit/(loss)	3,561	1,234	675	1,140	(119)	6,491
Net surplus/(deficit) on property revaluation	–	–	–	–	(59)	(59)
Share of profits/(losses) of associates	(35)	–	–	–	–	(35)
Profit/(loss) before tax	3,526	1,234	675	1,140	(178)	6,397
Share of profit/(loss) before tax	55.1%	19.3%	10.6%	17.8%	(2.8)%	100.0%
** Depreciation/amortisation included in operating expenses*	(400)	(5)	(1)	(1)	(924)	(1,331)
At 31 December 2022 (restated)[1]						
Total assets	581,351	356,470	211,807	674,297	30,521	1,854,446
of which: Gross loans and advances to customers	382,727	353,172	208,829	–	–	944,728
Total liabilities	1,096,240	331,988	126,329	106,656	33,235	1,694,448
of which: Customer deposits[3]	902,506	293,510	90,608	–	–	1,286,624
Interest in associates	2,256	–	–	–	–	2,256

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[2]	Total
Half-year ended 30 June 2022 (restated)[1]						
– securities broking and related services	695	59	–	4	–	758
– retail investment funds	528	9	–	–	–	537
– insurance	78	119	40	–	–	237
– account services	124	66	3	1	–	194
– remittances	22	96	17	–	–	135
– cards	1,168	13	–	–	–	1,181
– credit facilities	8	191	90	–	–	289
– imports/exports	–	173	23	–	–	196
– other	88	62	30	4	162	346
Fee income	2,711	788	203	9	162	3,873
Fee expense	(1,064)	(13)	(1)	(49)	–	(1,127)
Net fee income/(expense)	1,647	775	202	(40)	162	2,746

1 *HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively. Comparative figures have been restated. To align with the presentation of relevant segmental information for business management and operation, the segmental information of Global Banking and Global Markets have been split. In addition, this is restated for the reclassification of interest income arising from trading assets and financial assets designated and otherwise mandatorily measured at fair value through profit or loss and interest expense arising from trading liabilities and financial liabilities designated at fair value, to 'Net income/(loss) from financial instruments measured at fair value through profit or loss, for alignment with HSBC Group's presentation of net interest income and net interest margin.*

2 *Including inter-segment elimination, of which total assets amounted to HK$32.7bn as at 30 June 2023 (HK$33.9bn as at 31 December 2022) and total liabilities amounted to HK$23.2bn as at 30 June 2023 (HK$24.4bn as at 31 December 2022).*

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

16 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*
Half-year ended 30 June 2023					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**18,464**	**1,420**	**102**	**(46)**	**19,940**
Profit before tax	**10,101**	**803**	**57**	**–**	**10,961**
At 30 June 2023					
Total assets	**1,586,805**	**122,948**	**18,406**	**(33,452)**	**1,694,707**
Total liabilities	**1,431,548**	**106,811**	**16,731**	**(23,959)**	**1,531,131**
Interest in associates	**2,318**	**–**	**–**	**–**	**2,318**
Non-current assets*	**41,917**	**1,440**	**32**	**–**	**43,389**
Half-year ended 30 June 2022 (restated)					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	13,689	1,612	134	(26)	15,409
Profit before tax	6,245	61	91	–	6,397
At 31 December 2022 (restated)					
Total assets	1,727,525	139,595	22,337	(35,011)	1,854,446
Total liabilities	1,575,580	123,633	20,713	(25,478)	1,694,448
Interest in associates	2,256	–	–	–	2,256
Non-current assets*	41,883	1,468	39	–	43,390

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

17 Cash and balances at central banks

	At 30 June 2023	At 31 December 2022
Cash in hand	6,513	8,505
Balances at central banks	2,455	9,104
	8,968	17,609

18 Trading assets

	At 30 June 2023	At 31 December 2022
Treasury bills	16,832	17,568
Other debt securities	26,081	29,749
Investment funds/equity shares	32	43
Reverse repurchase agreements	43	13
	42,988	47,373

19 Derivative financial instruments

Use of derivatives

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

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.

19 Derivative financial instruments *(continued)*

Use of derivatives *(continued)*

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	**1,057,510**	**21,603**	**1,079,113**	**9,781**	**1,790**	**11,571**	**9,214**	**80**	**9,294**
Interest rate	**776,844**	**63,378**	**840,222**	**8,672**	**1,143**	**9,815**	**7,998**	**300**	**8,298**
Equity and other	**23,671**	**–**	**23,671**	**293**	**–**	**293**	**512**	**–**	**512**
At 30 June 2023	**1,858,025**	**84,981**	**1,943,006**	**18,746**	**2,933**	**21,679**	**17,724**	**380**	**18,104**

	Notional contract amount			Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total
Foreign exchange	1,166,859	13,920	1,180,779	10,649	1,491	12,140	10,973	12	10,985
Interest rate	697,187	78,127	775,314	9,472	667	10,139	9,231	485	9,716
Equity and other	25,738	–	25,738	482	–	482	291	–	291
At 31 December 2022	1,889,784	92,047	1,981,831	20,603	2,158	22,761	20,495	497	20,992

20 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	At 30 June 2023	*At 31 December 2022 (restated)*
Treasury bills	**783**	5,685
Other debt securities	**120,295**	118,298
Equity shares	**805**	4,075
Investment funds	**31,674**	23,920
Other	**970**	979
	154,527	152,957

21 Placings with and advances to banks

	At 30 June 2023	*At 31 December 2022 (restated)*
Balances with banks	**6,421**	8,605
Placings with and advances to banks maturing within one month	**28,812**	15,458
Placings with and advances to banks maturing after one month but less than one year	**27,359**	36,662
Placings with and advances to banks maturing after one year	**1,489**	1,481
Less: Allowances for expected credit losses	**(3)**	(3)
	64,078	62,203
of which:		
Placings with and advances to central banks	**7,666**	9,129

22 Loans and advances to customers

	At 30 June 2023	At 31 December 2022
Gross loans and advances to customers	**907,312**	944,728
Less: Allowances for expected credit losses	**(14,422)**	(13,394)
	892,890	931,334
Expected credit losses as a percentage of gross loans and advances to customers	**1.59%**	1.42%
Gross impaired loans and advances	**25,901**	24,212
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**2.85%**	2.56%

23 Financial investments

	At 30 June 2023	At 31 December 2022 (restated)
Financial investments measured at fair value through other comprehensive income		
– treasury bills	**209,486**	267,413
– other debt securities	**77,938**	88,645
– equity shares	**4,611**	4,933
	292,035	360,991
Debt instruments measured at amortised cost		
– treasury bills	**66,066**	84,276
– other debt securities	**37,235**	35,445
Less: Allowances for expected credit losses	**(13)**	(14)
	103,288	119,707
	395,323	480,698

There were no overdue financial investments at 30 June 2023 and 31 December 2022 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

24 Interest in associates

	At 30 June 2023	At 31 December 2022
Share of net assets	**2,318**	2,256

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

25 Property, plant and equipment

	At 30 June 2023	At 31 December 2022
Premises	**24,389**	24,287
Plant and equipment[1]	**1,689**	1,832
Other right of use assets	**1,256**	1,379
Premises, plant and equipment	**27,334**	27,498
Investment properties	**12,022**	11,998
	39,356	39,496

[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.*

Movement in owned property, plant and equipment

	Premises	Investment properties	Plant and equipment	Total
Cost or valuation:				
At 1 January 2023	**24,287**	**11,998**	**4,275**	**40,560**
Additions	**4**	**28**	**95**	**127**
Disposals and write-offs	**–**	**–**	**(52)**	**(52)**
Elimination of accumulated depreciation on revalued premises	**(484)**	**–**	**–**	**(484)**
Surplus/(Deficit) on revaluation:				
– credited to premises revaluation reserve	**626**	**–**	**–**	**626**
– debited to income statement	**–**	**(6)**	**–**	**(6)**
Transfer	**(1)**	**1**	**–**	**–**
Exchange adjustments and other	**(43)**	**1**	**(17)**	**(59)**
At 30 June 2023	**24,389**	**12,022**	**4,301**	**40,712**
Accumulated depreciation:				
At 1 January 2023	**–**	**–**	**(2,443)**	**(2,443)**
Charge for the period (note 12)	**(484)**	**–**	**(231)**	**(715)**
Attributable to assets sold or written off	**–**	**–**	**51**	**51**
Elimination of accumulated depreciation on revalued premises	**484**	**–**	**–**	**484**
Exchange adjustments and other	**–**	**–**	**11**	**11**
At 30 June 2023	**–**	**–**	**(2,612)**	**(2,612)**
Net book value at 30 June 2023	**24,389**	**12,022**	**1,689**	**38,100**
Representing:				
– measure at cost	**–**	**–**	**1,689**	**1,689**
– measure at valuation	**24,389**	**12,022**	**–**	**36,411**
	24,389	**12,022**	**1,689**	**38,100**

25 Property, plant and equipment *(continued)*

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

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 January 2022	27,281	9,545	4,465	41,291
Additions	23	3	114	140
Disposals and write-offs	–	–	(54)	(54)
Elimination of accumulated depreciation on revalued premises	(512)	–	–	(512)
Surplus/(deficit) on revaluation:				
– credited to premises revaluation reserve	319	–	–	319
– debited to income statement	–	(78)	–	(78)
Transfer	(585)	581	–	(4)
Exchange adjustments and other	(45)	(5)	(101)	(151)
At 30 June 2022	26,481	10,046	4,424	40,951
Accumulated depreciation:				
At 1 January 2022	–	–	(2,375)	(2,375)
Charge for the period (note 12)	(516)	–	(229)	(745)
Attributable to assets sold or written off	–	–	49	49
Elimination of accumulated depreciation on revalued premises	512	–	–	512
Exchange adjustments and other	4	–	46	50
At 30 June 2022	–	–	(2,509)	(2,509)
Net book value at 30 June 2022	26,481	10,046	1,915	38,442
Representing:				
– measure at cost	–	–	1,915	1,915
– measure at valuation	26,481	10,046	–	36,527
	26,481	10,046	1,915	38,442

25 Property, plant and equipment *(continued)*

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

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 July 2022	26,481	10,046	4,424	40,951
Additions	9	1	237	247
Disposals and write-offs	–	–	(179)	(179)
Elimination of accumulated depreciation on revalued premises	(482)	–	–	(482)
Surplus/(deficit) on revaluation:				
– credited to premises revaluation reserve	371	–	–	371
– debited to income statement	–	(56)	–	(56)
Transfer	(2,097)	2,087	–	(10)
Exchange adjustments and other	5	(80)	(207)	(282)
At 31 December 2022	24,287	11,998	4,275	40,560
Accumulated depreciation:				
At 1 July 2022	–	–	(2,509)	(2,509)
Charge for the period	(492)	–	(223)	(715)
Attributable to assets sold or written off	–	–	167	167
Elimination of accumulated depreciation on revalued premises	482	–	–	482
Exchange adjustments and other	10	–	122	132
At 31 December 2022	–	–	(2,443)	(2,443)
Net book value at 31 December 2022	24,287	11,998	1,832	38,117
Representing:				
– measure at cost	–	–	1,832	1,832
– measure at valuation	24,287	11,998	–	36,285
	24,287	11,998	1,832	38,117

26 Intangible assets

	At 30 June 2023	*At 31 December 2022 (restated)*
Internally developed software	**3,631**	3,485
Acquired software	**73**	80
Goodwill	**329**	329
	4,033	3,894

27 Other assets

	At 30 June 2023	At 31 December 2022 (restated)
Items in the course of collection from other banks	**5,116**	5,598
Bullion	**6,526**	6,887
Prepayments and accrued income	**6,368**	5,820
Acceptances and endorsements	**11,438**	12,799
Less: Allowances for expected credit losses	**(19)**	(23)
Reinsurance contract assets	**5,525**	5,663
Settlement accounts	**2,306**	8,119
Cash collateral	**2,644**	3,105
Other accounts	**4,677**	3,533
	44,581	51,501

Other accounts included 'Assets held for sale' of HK$207m (31 December 2022: HK$217m).

28 Current, savings and other deposit accounts

	At 30 June 2023	At 31 December 2022
Current, savings and other deposit accounts:		
– as stated in Condensed Consolidated Balance Sheet	**1,149,677**	1,249,486
– structured deposits reported as financial liabilities designated as fair value (note 30)	**39,102**	37,138
	1,188,779	1,286,624
By type:		
– demand and current accounts	**94,545**	103,397
– savings accounts	**628,937**	656,190
– time and other deposits	**465,297**	527,037
	1,188,779	1,286,624

29 Trading liabilities

	At 30 June 2023	At 31 December 2022
Short positions in securities	**36,469**	46,323

30 Financial liabilities designated at fair value

	At 30 June 2023	At 31 December 2022
Certificates of deposit in issue	**11,381**	6,945
Structured deposits (note 28)	**39,102**	37,138
Other structured debt securities in issue	**3,846**	1,893
Liabilities to customers under investment contracts	**292**	333
	54,621	46,309

At 30 June 2023, the accumulated gain in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was HK$4m (31 December 2022: accumulated loss of HK$9m).

31 Other liabilities

	At 30 June 2023	At 31 December 2022 (restated)
Items in the course of transmission to other banks	**6,564**	5,632
Accruals	**7,064**	7,578
Acceptances and endorsements	**11,438**	12,799
Retirement benefit liabilities	**324**	414
Settlement accounts	**1,445**	1,400
Cash collateral	**3,969**	3,766
Lease liabilities	**1,312**	1,426
Other	**4,120**	3,913
	36,236	36,928

32 Subordinated liabilities

Nominal value	Description	**At 30 June 2023**	At 31 December 2022
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,134**	3,119
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,990**	4,988
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,993**	2,992
		27,497	27,479
Representing:			
– measured at amortised cost		**27,497**	27,479

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

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

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

4 *Interest rate at compounded SOFR plus 2.048 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 the first half of 2023 (2022: Nil).

33 Other equity instruments

Nominal value	Description	At 30 June 2023	At 31 December 2022
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**7,044**	7,044
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[2]	**4,700**	4,700
		11,744	11,744

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

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

The additional tier 1 capital instruments, 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.

34 Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	At 30 June 2023	At 31 December 2022
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	**1,811**	1,727
Performance and other guarantees[2]	**20,920**	23,216
Other contingent liabilities	**4**	16
	22,735	24,959
Commitments[3]		
Documentary credits and short-term trade-related transactions	**1,765**	1,995
Forward asset purchases and forward forward deposits placed	**13,664**	11,824
Undrawn formal standby facilities, credit lines and other commitments to lend	**507,027**	505,019
	522,456	518,838

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

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

3 *Includes HK$355,412m of commitments at 30 June 2023 (31 December 2022: HK$357,265m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.*

34 Contingent liabilities, contractual commitments and guarantees *(continued)*

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

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.

35 Other commitments

Capital commitments

At 30 June 2023, capital commitments, mainly related to the commitment for renovation of branches and offices, were HK$150m (31 December 2022: HK$270m).

36 Material related-party transactions

All related party transactions that took place in the half-year ended 30 June 2023 were similar in nature to those disclosed in the 2022 Annual Report. There were no changes in the related party transactions described in the 2022 Annual Report that have had a material effect on the financial position or performance of the Group in the half-year ended 30 June 2023.

37 Fair value of financial instruments

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

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 2023 are consistent with those applied for the Annual Report 2022. The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
	Quoted market price Level 1	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities**	*Total*
Recurring fair value measurements						
At 30 June 2023						
Assets						
Trading assets	**36,935**	**6,053**	**–**	**42,988**	**–**	**42,988**
Derivative financial instruments	**290**	**13,268**	**1**	**13,559**	**8,120**	**21,679**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**22,234**	**111,288**	**21,005**	**154,527**	**–**	**154,527**
Financial investments	**242,564**	**47,688**	**1,783**	**292,035**	**–**	**292,035**
Liabilities						
Trading liabilities	**36,469**	**–**	**–**	**36,469**	**–**	**36,469**
Derivative financial instruments	**43**	**11,656**	**1**	**11,700**	**6,404**	**18,104**
Financial liabilities designated at fair value	**–**	**32,858**	**21,763**	**54,621**	**–**	**54,621**
At 31 December 2022 (restated)						
Assets						
Trading assets	41,117	6,256	–	47,373	–	47,373
Derivative financial instruments	258	13,254	4	13,516	9,245	22,761
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	21,980	110,697	20,280	152,957	–	152,957
Financial investments	296,176	63,182	1,633	360,991	–	360,991
Liabilities						
Trading liabilities	46,323	–	–	46,323	–	46,323
Derivative financial instruments	10	13,231	4	13,245	7,747	20,992
Financial liabilities designated at fair value	–	24,287	22,022	46,309	–	46,309

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

37 Fair value of financial instruments *(continued)*

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

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 30 June 2023							
Transfer from Level 1 to Level 2	**1,839**	**608**	**–**	**–**	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**2,062**	**411**	**–**	**–**	**–**	**–**	**–**
At 31 December 2022							
Transfer from Level 1 to Level 2	9,922	310	–	–	–	–	–
Transfer from Level 2 to Level 1	19,467	866	–	–	–	–	–

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

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

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 30 June 2023							
Investment funds and equity shares	**1,783**	**–**	**21,005**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**21,763**	**–**
Derivatives	**–**	**–**	**–**	**1**	**–**	**–**	**1**
	1,783	**–**	**21,005**	**1**	**–**	**21,763**	**1**
At 31 December 2022							
Investment funds and equity shares	1,633	–	20,280	–	–	–	–
Structured notes	–	–	–	–	–	22,022	–
Derivatives	–	–	–	4	–	–	4
	1,633	–	20,280	4	–	22,022	4

37 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 designated and otherwise 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	–	–	1,270	(3)	–	11	(3)
Total gains or losses recognised in other comprehensive income							
– fair value gains	150	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	6	–
Purchases	–	–	1,395	–	–	–	–
Issues/deposit taking	–	–	–	–	–	32,148	–
Settlements	–	–	(1,940)	–	–	(31,490)	–
Transfers out	–	–	–	–	–	(955)	–
Transfers in	–	–	–	–	–	21	–
At 30 June 2023	1,783	–	21,005	1	–	21,763	1
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	–	–	1,444	1	–	(27)	(1)

37 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 designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2022	1,369	–	15,071	17	–	6,023	–
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	595	(10)	–	21	2
Total gains or losses recognised in other comprehensive income							
– fair value gains	329	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	(122)	–
Purchases	–	–	1,672	–	–	–	–
Issues/deposit taking	–	–	–	–	–	10,773	–
Settlements	–	–	(274)	–	–	(8,367)	–
Transfers out	–	–	(1)	–	–	(27)	–
Transfers in	–	–	–	1	–	2	–
At 30 June 2022	1,698	–	17,063	8	–	8,303	2
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	–	–	595	(8)	–	(26)	(2)

37 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 designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 July 2022	1,698	–	17,063	8	–	8,303	2
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(104)	(4)	–	35	2
Total gains or losses recognised in other comprehensive income							
– fair value losses	(65)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	(115)	–
Purchases	–	–	3,868	–	–	–	–
Issues/deposit taking	–	–	–	–	–	26,312	–
Sales	–	–	(1)	–	–	–	–
Settlements	–	–	(547)	–	–	(12,481)	–
Transfers out	–	–	–	–	–	(88)	–
Transfers in	–	–	1	–	–	56	–
At 31 December 2022	1,633	–	20,280	4	–	22,022	4
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(546)	10	–	(26)	4

For the first half of 2023, there is no transer in/out of level 3 deriviative assets. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatilities for pricing the instrument.

37 Fair value of financial instruments *(continued)*

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The key unobservable inputs to Level 3 financial instruments include volatility and correlation for structured notes and deposits valued using option models, bid quotes for corporate bonds valued using approaches that take into account of market comparables, and multiple items for investment funds and equity shares and strategic investments. In the absence of an active market, the fair value of investment funds and equity shares and strategic investments is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The change in fair values due to changes in reasonably possible alternative assumptions for these unobservable inputs is not significant.

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. 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, the availability and reliability of observable proxies and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval. The sensitivity of Level 3 fair values to reasonably possible alternative assumptions is not significant.

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

	Reflected in profit or loss		*Reflected in other comprehensive income*	
	Favourable changes	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At 30 June 2023				
Investment funds and equity shares	**1,050**	**(1,050)**	**89**	**(89)**
	1,050	**(1,050)**	**89**	**(89)**
At 31 December 2022				
Investment funds and equity shares	1,015	(1,015)	82	(82)
	1,015	(1,015)	82	(82)

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.

37 Fair value of financial instruments *(continued)*

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives *(continued)*

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	*Unobservable input(s)*	*Range*
Assets			
Investment funds and equity shares	Net asset value	N/A	**N/A**
	Market-comparable approach	Earnings Multiple	**32 – 36** (31 Dec 2022: 31 – 34)
		P/B ratios	**0.27 – 0.96** (31 Dec 2022: 0.26 – 1.30)
		Liquidity Discount	**20% – 60%** (31 Dec 2022: 10% – 60%)
Derivatives	Option model	Equity Volatility	**33.58% – 39.62%** (31 Dec 2022: 58.89% – 58.89%)
Liabilities			
Structured notes	Option model	Equity Volatility	**21.65% – 94%** (31 Dec 2022: 21.38% – 92.18%)
		FX Volatility	**3.46% – 17.49%** (31 Dec 2022: 3.81% – 14.13%)
Derivatives	Option model	Equity Volatility	**27.55% – 33.58%** (31 Dec 2022: 58.89% – 58.89%)

The table above lists the key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2023. Detailed description of the categories of key unobservable inputs are set out in note 51(a) of the Group's Annual Report 2022.

37 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 Condensed Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	At 30 June 2023		*At 31 December 2022*	
	Carrying Amounts	***Fair Value***	*Carrying Amounts (restated)*	*Fair Value (restated)*
Financial Assets				
Reverse repurchase agreements – non-trading	**23,966**	**23,967**	42,364	42,360
Placings with and advances to banks	**64,078**	**64,082**	62,203	62,206
Loans and advances to customers	**892,890**	**886,594**	931,334	926,376
Financial investments – at amortised cost	**103,288**	**102,065**	119,707	118,544
Financial Liabilities				
Deposits from banks	**3,309**	**3,309**	5,205	5,205
Current, savings and other deposit accounts	**1,149,677**	**1,150,001**	1,249,486	1,249,574
Repurchase agreements – non-trading	**8,184**	**8,184**	11,304	11,304
Certificates of deposit in issue	**29,511**	**29,511**	93,379	93,390
Subordinated liabilities	**27,497**	**27,261**	27,479	27,053

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

Details of how the fair values of financial instruments that are not carried at fair value on the balance sheet are calculated are set out in note 51(b) of the Group's Annual Report 2022.

38 Condensed Consolidated Financial Statements and statutory financial statements

The financial information relating to the year ended 31 December 2022 that is included in these Condensed Consolidated Financial Statements does not constitute the Bank's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the Hong Kong Monetary Authority.

The auditor has reported on those statutory financial statements for the year ended 31 December 2022. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The Annual Report for the year ended 31 December 2022, which includes the statutory financial statements, can be obtained from the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The disclosures as required under the Banking (Disclosure) Rules can be viewed in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of the Bank's website (www.hangseng.com).

39 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.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF HANG SENG BANK LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements set out on pages 59 to 108, which comprises the condensed consolidated balance sheet of Hang Seng Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') as at 30 June 2023 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and notes, comprising material accounting policies and other explanatory information[1]. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 '*Interim Financial Reporting*' issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

1 *Certain required disclosures as described in note 1 on the condensed consolidated financial statements have been presented elsewhere in the Interim Report 2023, rather than in the notes on the condensed consolidated financial statements. These are cross-referenced from the condensed consolidated financial statements and are identified as reviewed.*

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*' issued by the Hong Kong Institute of Certified Public Accountants. A review of condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of the Group are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 '*Interim Financial Reporting*'.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 August 2023

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('Listing Rules')). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2023.

Changes in Directors' Details

Changes in Directors' details since the date of the Annual Report 2022 of the Bank or (as the case may be) the date of announcement for the appointment of Director issued by the Bank subsequent to the date of the Annual Report 2022, and up to the date of release of the interim results of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below.

Irene LEE Yun Lien

New appointments

- Alibaba Group Holding Limited [(1)] (Chairwoman of Compliance and Risk Committee)

Diana Ferreira CESAR JP

New appointments

- Great Eagle Holdings Limited [(1)] (Independent Non-executive Director)
- The Community Chest of Hong Kong (Chairman of Corporate and Employee Contribution Programme Organising Committee)

Cordelia CHUNG

New appointments

- Hang Seng Bank Limited [(1)] (Member of Nomination Committee)
- Hysan Development Company Limited [(1)] (Independent Non-executive Director; Member of Nomination Committee; Member of Remuneration Committee)

Re-designation

- Hang Seng Bank Limited [(1)] (re-designated from Member of Remuneration Committee to Chairman of Remuneration Committee)

Kathleen GAN Chieh Huey

Cessation of appointments

- HSBC INSN (Non Operating) Pte. Ltd. (formerly known as HSBC Insurance (Singapore) Pte. Limited) (Non-executive Director; Chairman of Risk Committee; Member of Audit Committee)
- HSBC Life (Singapore) Pte. Ltd. (formerly known as AXA Insurance Pte. Ltd.) (Non-executive Director; Chairman of Risk Committee; Member of Audit Committee)

Patricia LAM Sze Wan

New appointments

- Dickson Concepts (International) Limited [(1)] (Independent Non-executive Director; Member of Nomination Committee)
- Hang Seng Bank Limited [(1)] (Member of Remuneration Committee)

David LIAO Yi Chien

New appointments
• Hong Kong General Chamber of Commerce (Member of General Committee)

LIN Huey Ru

New appointments
• Singapore Exchange Limited [1] (Non-Executive and Independent Director; Member of Risk Management Committee)

Cessation of appointments
• Monetary Authority of Singapore (Member of International Technology Advisory Panel)

WANG Xiao Bin

New appointments
• Hang Seng Bank Limited [1] (Member of Risk Committee)

Notes:

[1] *The securities of these companies are listed on a securities market in Hong Kong or overseas.*

[2] *Updated biographical details of the Bank's Directors are also available on the website of the Bank.*

[3] *Michael WU Wei Kuo retired as an Independent Non-executive Director of the Bank, and ceased to be the Chairman of the Remuneration Committee and a member of the Nomination Committee and the Risk Committee of the Bank, all with effect from 4 May 2023.*

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' and Alternate Chief Executives' Interests

As at 30 June 2023, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/issued share capital
Number of ordinary shares in the Bank						
Director:						
Kathleen C H Gan	2,500	–	–	–	2,500	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Diana Cesar	449,408	–	–	113,680[1]	563,088	0.00
Kathleen C H Gan	455,521	–	–	141,470[1]	596,991	0.00
Patricia S W Lam	367,270	–	–	–	367,270	0.00
Irene Y L Lee	15,000	–	–	–	15,000	0.00
David Y C Liao	652,107	–	–	466,693[1]	1,118,800	0.00
Kenneth S Y Ng	440,723	–	–	–	440,723	0.00
Say Pin Saw	34,293	–	–	35,784[1]	70,077	0.00
Alternate Chief Executives:						
Kathy K W Cheung	88,166	–	–	18,621[1]	106,787	0.00
Vivien W M Chiu	30,813[2]	79,570[3]	–	5,481[1]	115,864	0.00
Donald Y S Lam	269,044	–	–	24,436[1]	293,480	0.00
Rannie W L Lee	19,461	–	–	15,493[1]	34,954	0.00

Interests in debentures of associated corporation of the Bank

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
Perpetual subordinated contingent convertible securities issued by HSBC Holdings plc					
Alternate Chief Executive:					
Vivien W M Chiu	–	US$300,000[3]	–	–	US$300,000

Notes:

(1) *These included interests in conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives.*

(2) *These included 1,933 shares in HSBC Holdings plc jointly held by Vivien W M Chiu and her family member.*

(3) *Vivien W M Chiu's spouse had interests in the total amount of US$300,000 of perpetual subordinated contingent convertible securities issued by HSBC Holdings plc. These perpetual subordinated contingent convertible securities would be converted into 79,570 ordinary shares in HSBC Holdings plc upon the occurrence of capital adequacy trigger event. Ms Chiu's family interests set out in the table under 'Interests in shares' and the table under 'Interests in debentures of associated corporation of the Bank' represented the same interests.*

Conditional Awards of Shares

As at 30 June 2023, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under various HSBC Share Plans were as follows:

	Awards held as at 1 January 2023	Awards made during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2023[1]
Directors:				
Diana Cesar	111,835	80,768	78,923	113,680
Kathleen C H Gan	122,320	93,054	73,904	141,470
David Y C Liao	343,819	259,961	137,087	466,693
Say Pin Saw	26,921	18,424	9,915	35,784
Alternate Chief Executives:				
Kathy K W Cheung	17,211	21,069	19,659	18,621
Vivien W M Chiu	5,346	2,671	2,625	5,481
Donald Y S Lam	28,002	23,064	26,630	24,436
Rannie W L Lee	8,696	22,176	15,379	15,493

Notes:

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

The interests of Kathy K W Cheung, Vivien W M Chiu, Kathleen C H Gan, Donald Y S Lam and Say Pin Saw in ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan have been included in their 'Personal Interests' disclosed in the table under 'Interests in shares'.

All the interests stated above represented long positions. As at 30 June 2023, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2023.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2023, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings Limited and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 30 June 2023, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the first half of 2023.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2022 in respect of the remuneration of employees, remuneration policies and staff development.

Corporate Governance Principles and Practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority. The Bank has also fully complied with all the principles of good corporate governance, code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2023.

Further, to ensure that it is in line with international and local corporate governance best practices, the Bank constantly reviews and enhances its corporate governance framework by making reference to market trend as well as guidelines and requirements issued by regulatory authorities. Throughout the first six months of 2023, the Bank has also implemented various Group governance initiatives to streamline parent/subsidiary oversight framework, and enhance meeting efficiency and reporting quality.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2023.

2023 Second Interim Dividend

Announcement date	1 August 2023
Ex-dividend date	14 August 2023
Book close and record date	16 August 2023
Payment date	5 September 2023

Register of Shareholders

The Register of Shareholders of the Bank will be closed on Wednesday, 16 August 2023, during which no transfer of shares can be registered. To qualify for the second interim dividend for 2023, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 pm on Tuesday, 15 August 2023.

Board and Committees

Board

Independent Non-executive Chairman

Irene LEE Yun Lien

Executive Directors

Diana Ferreira CESAR (Chief Executive)
SAW Say Pin

Non-executive Directors

Kathleen GAN Chieh Huey
David LIAO Yi Chien

Independent Non-executive Directors

Cordelia CHUNG
Clement KWOK King Man
Patricia LAM Sze Wan
LIN Huey Ru
Kenneth NG Sing Yip
WANG Xiao Bin

Committees

Executive Committee

Diana Ferreira CESAR (Chairman)
Jordan CHEUNG Wang Chun
Kathy CHEUNG Ka Wai
Maggie CHEUNG Ka Ki
Vivien CHIU Wai Man
Rose CHO Mui
Liz CHOW Tan Ling
Gloria HO Lok Sze
Donald LAM Yin Shing
Betty LAW Shuk Man
Gilbert LEE Man Lung
Rannie LEE Wah Lun
Godwin LI Chi Chung
SAW Say Pin
Ryan SONG Yue Sheng
Shelley ZHOU Wenwen

Audit Committee
Clement KWOK King Man (Chairman)
Irene LEE Yun Lien
WANG Xiao Bin

Remuneration Committee
Cordelia CHUNG (Chairman)
Patricia LAM Sze Wan
Irene LEE Yun Lien

Risk Committee
Kenneth NG Sing Yip (Chairman)
Irene LEE Yun Lien
LIN Huey Ru
WANG Xiao Bin

Nomination Committee
Irene LEE Yun Lien (Chairman)
Diana Ferreira CESAR
Cordelia CHUNG
Patricia LAM Sze Wan
David LIAO Yi Chien
Kenneth NG Sing Yip

Notes:

(1) *Terms of Reference of the Bank's Audit Committee, Remuneration Committee, Risk Committee and Nomination Committee are available on the websites of the Bank and Hong Kong Exchanges and Clearing Limited ('HKEx').*

(2) *List of Directors identifying their role and function is available on the websites of the Bank and HKEx.*

Registered Office

83 Des Voeux Road Central, Hong Kong
Website: www.hangseng.com
Email: hangseng@computershare.com.hk

Stock Codes

The Stock Exchange of Hong Kong Limited: 11 (HKD counter) and 80011 (RMB counter)

Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Depositary*

BNY Mellon Shareowner Services
PO Box 43006
Providence, RI 02940-3078
USA
Website: www.computershare.com/investor
Email: shrrelations@cpushareownerservices.com

* *The Bank offers investors in the United States a Sponsored Level-1 American Depositary Receipts Programme through The Bank of New York Mellon Corporation.*

Interim Report 2023

This Interim Report 2023 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of HKEx (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2023 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2023 in either English or Chinese and wish to receive a printed copy in the other language version,

may send a request form, which can be obtained from the Bank's Registrar or downloaded from the Bank's website (www.hangseng.com) or HKEx's website (www.hkexnews.hk), to the Bank's Registrar:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Facsimile: (852) 2529 6087
Email: hangseng@computershare.com.hk

If shareholders who have chosen (or are deemed to have chosen) to read this Interim Report 2023 on the Bank's website, have difficulty in reading or gaining access to this Interim Report 2023 via the Bank's website for any reason, the Bank will promptly send this Interim Report 2023 in printed form free of charge upon the shareholders' request.

Shareholders may change their choice of means of receipt or language of the Bank's future corporate communications at any time, free of charge, by giving the Bank c/o the Bank's Registrar reasonable notice in writing or by email to hangseng@computershare.com.hk.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Interim Report 2023 contains certain forward-looking statements with respect to the Group's: financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; ESG commitments and ambitions described herein.

Statements that are not historical facts, including statements about the Group's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. The Group makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the Hong Kong Regulators, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by the Group's Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

These include, but are not limited to:

– changes in general economic conditions in the markets in which we operate, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment levels and the creditworthiness of customers beyond those factored into consensus forecasts (including, without limitation, as a result of the Russia-Ukraine war); the Russia- Ukraine war and its impact on global economies and the markets where the Group operates, which could have a material adverse effect on (among other things) our financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for our ECL measurements (including, without limitation, as a result of the Russia-Ukraine war and inflationary pressures); potential changes in the Group's dividend policy; changes and volatility in foreign exchange rates and interest rates levels, including the accounting impact resulting from financial reporting in respect of hyperinflationary economies; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect our ability to meet our obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments producing social instability or legal uncertainty, such as the Russia-Ukraine war (including the continuation and escalation thereof) and the related imposition of sanctions and trade restrictions, supply chain restrictions and disruptions, sustained increases in energy prices and key commodity prices, claims of human rights violations, diplomatic tensions, including between China and the US, the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, alongside other potential areas of tension, which may adversely affect the Group by creating regulatory, reputational and market risks; the efficacy of government, customer and the Group's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the global transition to net zero carbon emissions, each of which can impact the Group both directly and indirectly through our customers and which may result in potential financial and non-financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using us as a conduit for illegal activities without our knowledge; the discontinuation of certain key Ibors and the development of near risk-free benchmark rates, as well as the transition of legacy Ibor contracts to near risk-free benchmark rates, which continues to expose the Group to execution risks, including in relation to the effectiveness of its Ibor remediation strategy, and increases some financial and non-financial risks; and price competition in the market segments we serve;

– changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which we operate and the consequences thereof (including, without limitation, actions taken as a result of the impact of the Russia-Ukraine war on inflation); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to the Group, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies; and

– factors specific to the Group, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); our ability to achieve our financial, investment, capital and to contribute to HSBC Group's ESG ambitions (including with respect to HSBC Group's thermal coal phase-out policy and energy policy, as well as HSBC Group's targets to reduce our on-balance sheet financed emissions in eight high-emitting sectors), which may result in our failure to achieve any of the expected benefits of our strategic priorities; model limitations or failure, including, without limitation, the impact that high inflationary pressures and rising interest rates have had on the performance and usage of financial models, which may require us to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions we base our financial statements on; changes in our ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to us or any of our subsidiaries, which could increase the cost or decrease the availability of our funding and affect our liquidity position and net interest margin; changes to the reliability and security of our data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact our ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; our dependence on loan payments and dividends from subsidiaries to meet our obligations; changes in our reporting frameworks and accounting standards, which have had and may continue to have a material impact on the way we prepare our financial statements; changes in our ability to manage third-party, fraud and reputational risks inherent in our operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel; and changes in our ability to develop sustainable finance and climate-related products consistent with the evolving expectations of our regulators, and our capacity to measure the climate impact from our financing activity (including as a result of data limitations and changes in methodologies), which may affect our ability to contribute to HSBC Group's climate ambition on reducing financed emissions in our high-emitting sectors portfolio and the commitments set forth in our thermal coal phase-out policy and our energy policy, and increase the risk of greenwashing. Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in risk related discussions in this Interim Report 2023.

Additional detailed information concerning important factors, including but not limited to ESG-related factors, that could cause actual results to differ materially from those anticipated or implied in any forward-looking statement in this Interim Report 2023 is available in our Annual Report for the year ended 31 December 2022.

恒生銀行有限公司
HANG SENG BANK LIMITED
83 Des Voeux Road Central, Hong Kong
www.hangseng.com