恒生銀行
HANG SENG BANK

Stock codes: 11 (HKD counter) and 80011 (RMB counter)

INTERIM RESULTS FOR 2023

- Profit attributable to shareholders up 79% to HK$9,827m (HK$5,505m for the first half of 2022 ('1H 2022')).
- Profit before tax up 71% to HK$10,961m (HK$6,397m for 1H 2022).
- Operating profit up 67% to HK$10,858m (HK$6,491m for 1H 2022).
- Net operating income before change in expected credit losses and other credit impairment charges up 29% to HK$19,940m (HK$15,409m for 1H 2022).
- Return on average ordinary shareholders' equity of 12.8% (7.1% for 1H 2022).
- Earnings per share up 83% to HK$4.99 per share (HK$2.73 per share for 1H 2022).
- Second interim dividend of HK$1.10 per share; total dividends of HK$2.20 per share for 1H 2023 (HK$1.40 per share for 1H 2022).
- Common equity tier 1 ('CET1') capital ratio of 16.8%, tier 1 ('T1') capital ratio of 18.5% and total capital ratio of 20.0% at 30 June 2023 (CET1 capital ratio of 15.2%, T1 capital ratio of 16.8% and total capital ratio of 18.1% at 31 December 2022).
- Cost efficiency ratio of 35.9% (44.2% for 1H 2022).

From 1 January 2023, the Group has adopted Hong Kong Financial Reporting Standard ('HKFRS') 17 'Insurance Contracts' which replaced HKFRS 4 'Insurance Contracts'. Comparative figures have been restated accordingly.

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions of Hong Kong dollars respectively.

The financial information in this announcement is based on the unaudited Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the six months ended 30 June 2023.

* *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.*

Comment by Irene Lee, Chairman

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.

Comment by Irene Lee, Chairman *(continued)*

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.

Review by Diana Cesar, Executive Director and Chief Executive

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.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

- 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.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

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 a 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.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

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 loan ('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%.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

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.

Results Summary

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 announcement. **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.

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 90^{th} Anniversary celebration.

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%.

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.

Condensed Consolidated Balance Sheet and Key Ratios

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.

Key ratios

Return on average total assets was 1.1% (0.6% for 1H 2022). **Return on average ordinary shareholders' equity** was 12.8% (7.1% for 1H 2022).

At 30 June 2023, the **common equity tier 1 ('CET1') capital ratio**, **tier 1 ('T1') capital ratio** and **total capital ratio** were 16.8%, 18.5% and 20.0% respectively, well above the regulatory requirement.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** was 245.0% and 276.7% for the quarters ended 30 June 2023 and 31 March 2023 respectively, compared with 206.8% and 188.9% for the quarters ended 30 June 2022 and 31 March 2022 respectively. For both periods, the Group maintained a strong average LCR that was well above the statutory requirement of 100%. The LCR at 30 June 2023 was 230.6% compared with 281.3% at 31 December 2022. The period-end **net stable funding ratio ('NSFR')** was 161.4% and 163.6% for the quarters ended 30 June 2023 and 31 March 2023 respectively, well in excess of the regulatory requirement of 100%. The period-end NSFR ranged from 151.3% to 155.0% for the corresponding quarters in 2022.

Dividends

The Directors have declared a second interim dividend of HK$1.10 per share, which will be payable on 5 September 2023 to shareholders on the register as of 16 August 2023. Together with the first interim dividend, the total distribution for 1H 2023 will be HK$2.20 per share.

Figures in HK$m	*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)**
As 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**
Half-year ended 30 June 2023 [1]						
Net fee income by segment						
- 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**

Figures in HK$m	*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)
As at 31 December 2022 (restated) [1]						
Total assets	581,351	356,470	211,807	674,297	30,521	1,854,446
of which: Gross loans and advances to customers	382,727	353,172	208,829	–	–	944,728
Total liabilities	1,096,240	331,988	126,329	106,656	33,235	1,694,448
of which: Customer deposits [3]	902,506	293,510	90,608	–	–	1,286,624
Interest in associates	2,256	–	–	–	–	2,256
Half-year ended 30 June 2022 (restated) [1]						
Net fee income by segment						
- 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, as well as structured deposit.

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*

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

Details of dividends payable to shareholders of the Bank attributable to the profit for the period are set out on page 31.

[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.

Figures in HK$m	***Half-year ended 30 June 2023***	*2022 (restated)*
Profit for the period	**9,822**	5,497
Other comprehensive income		
Item 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 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 differences	**(53)**	230
Cash flow hedge reserve:		
- fair value gains/(losses) taken to equity	**1,133**	2,477
- fair value (gains)/losses transferred to 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 instrument 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 differences 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

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022 (restated)*
ASSETS		
Cash and balances at central banks	**8,968**	17,609
Trading assets	**42,988**	47,373
Derivative financial instruments	**21,679**	22,761
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**154,527**	152,957
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	**395,323**	480,698
Interest in associates	**2,318**	2,256
Investment properties	**12,022**	11,998
Premises, plant and equipment	**27,334**	27,498
Intangible assets	**4,033**	3,894
Other assets	**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	**1,149,677**	1,249,486
Repurchase agreements – non-trading	**8,184**	11,304
Trading liabilities	**36,469**	46,323
Derivative financial instruments	**18,104**	20,992
Financial liabilities designated at fair value	**54,621**	46,309
Certificates of deposit in issue	**29,511**	93,379
Other liabilities	**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	**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	**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

For the half-year ended 30 June 2023

Figures in HK$m	Share capital	Other equity instrument	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 Dec 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.*

For the half-year ended 30 June 2022

Figures in HK$m (restated)	Share capital	Other equity instrument	Retained Profits[1]	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 31 December 2021, as previously reported	9,658	11,744	140,100	18,428	2,499	46	1,180	677	184,332	84	184,416
Impact on transition to HKFRS 17	–	–	(25,214)	–	–	–	–	–	(25,214)	–	(25,214)
At 1 January 2022	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[4]	–	–	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

Net interest income

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 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

Figures in HK$m	***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

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

Figures in HK$m	***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, including related derivatives 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)

Other operating income

Figures in HK$m	***Half-year ended 30 June 2023***	*Half-year ended 30 June 2022 (Restated)*
Rental income from investment properties	**156**	132
Income/(expenses) 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

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.

Change in expected credit losses and other credit impairment charges

Figures in HK$m	***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

Operating expenses

Figures in HK$m	***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	**253**	252
	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	**715**	745
Depreciation of right-of-use assets	**239**	264
Amortisation of intangible assets	**438**	322
	7,156	6,816
Cost efficiency ratio	**35.9%**	44.2%

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

Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

Figures in HK$m	***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
	1,139	900

The current tax provision is based on the estimated assessable profit for the 1H 2023, and is determined for the Bank and its subsidiaries operating in Hong Kong SAR by using the Hong Kong profits tax rate of 16.5% (the same as in 2022). 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.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the 1H 2023 is based on earnings of HK$9,545m (HK$5,222m for the 1H 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).

Dividends/Distributions

	Half-year ended 30 June 2023		*Half-year ended 30 June 2022*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
(a) Dividends to ordinary shareholders				
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
(b) Distributions to holders of AT1 capital instruments classified as equity				
Coupons paid on AT1 capital instruments		**282**		283

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 relationship 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 position 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.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the ‘Segmental analysis’ section on page 17.

Segmental analysis *(continued)*

(a) Segmental result *(continued)*

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%

(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'.

Figures in HK$m	***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/(loss) 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[1]	**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[1]	41,883	1,468	39	–	43,390

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

Trading assets

Figures in HK$m	***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

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

Figures in HK$m	***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

Loans and advances to customers

Figures in HK$m	***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 %

Gross impaired loans and advances increased by HK$1,689m, or 7%, to HK$25,901m compared with the year end of 2022, due to the downgrade of a few corporate and commercial customers related to mainland China commercial real estate exposures.

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]			
Figures in HK$m	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance 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/(repayment)	**(27,791)**	**81**	**(12,627)**	**373**	**(2,894)**	**26**	**(47)**	**19**	**(43,359)**	**499**
Changes to risk parameters – credit quality	–	**107**	–	**(447)**	–	**(1,911)**	–	–	–	**(2,251)**
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
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
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 [3]	**(1,934)**

[1] Purchased or originated credit-impaired ('POCI') represented distressed restructuring.
[2] For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. 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.
[3] The provision for ECL balance at 30 June 2023 and total ECL charges for the period does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL releases amount to HK$46m and HK$10m (30 June 2022: HK$35m and charges of HK$8m) respectively.

Overdue loans and advances to customers

Loans and advances to customers that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

	At 30 June 2023		*At 31 December 2022*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**5,380**	**0.59**	3,607	0.38
- more than six months but not more than one year	**3,246**	**0.36**	2,524	0.27
- more than one year	**5,337**	**0.59**	3,190	0.34
	13,963	**1.54**	9,321	0.99

Overdue loans and advances to customers increased by HK$4,642m, or 50%, to HK$13,963m compared with the end of 2022. Overdue loans and advances to customers as a percentage of gross loans and advances to customers stood at 1.54% at 30 June 2023 compared with 0.99% at the year end of 2022. The increase mainly reflected the impaired loans which have been overdue more than three months during 1H 2023 but not overdue or overdue less than 3 months at the year end of 2022.

Rescheduled loans and advances to customers

Rescheduled loans and advances to customers and their expression as a percentage of gross loans and advances to customers are as follows:

	At 30 June 2023		*At 31 December 2022*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**2,876**	**0.32**	3,087	0.33

Rescheduled loans and advances to customers decreased by HK$0.2bn to HK$2.9bn when compared with 2022 year-end.

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA') is as follows:

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**54,706**	54,966
Property investment	**138,188**	148,207
Financial concerns	**2,902**	3,063
Stockbrokers	**2**	10
Wholesale and retail trade	**21,258**	24,253
Manufacturing	**16,757**	19,202
Transport and transport equipment	**13,865**	13,518
Recreational activities	**280**	280
Information technology	**9,491**	11,532
Other	**78,830**	88,420
	336,279	363,451
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**44,850**	38,779
Loans and advances for the purchase of other residential properties	**258,194**	253,158
Credit card loans and advances	**28,284**	28,744
Other	**31,610**	30,833
	362,938	351,514
Total gross loans and advances for use in Hong Kong	**699,217**	714,965
Trade finance	**36,289**	35,333
Gross loans and advances for use outside Hong Kong	**171,806**	194,430
Gross loans and advances to customers	**907,312**	944,728

Financial investments

Figures in HK$m	***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

Intangible assets

Figures in HK$m	***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

Other assets

Figures in HK$m	***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).

Current, savings and other deposit accounts

Figures in HK$m	***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	**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

Trading liabilities

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

Financial liabilities designated at fair value

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022*
Certificates of deposit in issue	**11,381**	6,945
Structured deposits	**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

Other liabilities

Figures in HK$m	***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

Shareholders' equity

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022 (restated)*
Share capital	**9,658**	9,658
Retained profits	**122,735**	118,717
Other equity instruments	**11,744**	11,744
Premises revaluation reserve	**18,538**	18,338
Cash flow hedging reserve	**(508)**	(816)
Financial assets at fair value through other comprehensive income reserve	**1,544**	1,737
Other reserves	**(192)**	555
Total reserves	**153,861**	150,275
Total shareholders' equity	**163,519**	159,933
Annualised return on average ordinary shareholders' equity for the half-year ended	**12.8%**	7.3%

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.

Capital Management

The following tables show the capital base, risk-weighted assets and capital ratios on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

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 the 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.

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base subject to certain thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***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[1]	**(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[1]	**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

[1] *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.*

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***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

(c) 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 %
T1 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 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 %
T1 capital ratio	**18.2 %**	16.3 %
Total capital ratio	**19.7 %**	17.6 %

(d) Leverage ratio

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022*
Leverage ratio	**8.2 %**	7.3 %
T1 capital	**128,973**	128,166
Exposure measure	**1,576,897**	1,752,201

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and NSFR on a consolidated basis. From 1 January 2019, the Group is required to maintain an LCR of not less than 100%. The LCR for the reportable periods are as follows:

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

The LCR as at 30 June 2023 was 230.6% compared with 281.3% at 31 December 2022.

The Group is required to maintain the NSFR of not less than 100% and the NSFR at the reportable quarter-end are as follows:

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

Contingent liabilities, contractual commitments and guarantees

Figures in HK$m	***At 30 June 2023***	*At 31 December 2022*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**1,811**	1,727
- Performance and other guarantees	**20,920**	23,216
- Other contingent liabilities	**4**	16
	22,735	24,959
Commitments		
- 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. Statutory financial statements and accounting policies

The information in this announcement is unaudited and does not constitute statutory financial statements.

Certain financial information in this announcement is extracted from the interim report prepared under Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The interim report was reviewed by Audit Committee. The Board of Directors of the Bank has approved the interim report on 1 August 2023.

The financial information relating to the year ended 31 December 2022 that is included in this announcement does not constitute the Group'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 HKMA.

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 this report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this announcement are consistent with those described on pages 187 to 200 of the 2022 Annual Report.

Standards applied during the half-year ended 30 June 2023

On 1 January 2023, the Group has adopted the requirements of HKFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, the 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.

No other new standards are applied in 2023. However, during the period, the Group adopted a number of amendments to standards which had an insignificant effect on the interim condensed consolidated financial statements of the Group.

1. Statutory financial statements and accounting policies *(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.

HKFRS 17 '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 changes in the current period to the critical accounting estimates and judgements applied in 2022, which are set out in note 1 of the Group's 2022 the Annual Report.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (unaudited)

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

Figures in HK$m

	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.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (unaudited) (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/(expense)

Insurance finance income/(expense) 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'.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (unaudited) (continued)

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

Introduction of HKFRS 17 income statement line items *(continued)*

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.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (unaudited) (continued)

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

Figures in HK$m

	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**

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (unaudited) (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 policy holder 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.

2. Ultimate holding company

Hang Seng Bank is an indirectly held, 62.14%-owned, subsidiary of HSBC Holdings plc, which is incorporated in England.

3. 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. The second interim dividend will be payable on Tuesday, 5 September 2023, to shareholders whose names appear on the Register of Shareholders of the Bank on Wednesday, 16 August 2023. Shares of the Bank will be traded ex-dividend as from Monday, 14 August 2023.

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4. 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 HKMA. 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

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5. Board of Directors

At 1 August 2023, the Board of Directors of the Bank comprises Irene Y L Lee* (Chairman), Diana Cesar (Chief Executive), Cordelia Chung*, Kathleen C H Gan#, Clement K M Kwok*, Patricia S W Lam*, David Y C Liao#, Huey Ru Lin*, Kenneth S Y Ng*, Say Pin Saw and Xiao Bin Wang*.

* Independent Non-Executive Directors
# Non-Executive Directors

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6. Announcement and Interim Report

This announcement is available on the website of Hong Kong Exchanges and Clearing Limited and the Bank's website (www.hangseng.com) on Tuesday, 1 August 2023. The 2023 Interim Report will be published on the aforesaid websites and printed copies of the 2023 Interim Report will be sent to shareholders at or about the end of August 2023.

7. Other financial information

To comply with the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (referred to as 'Rules'), the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Rules issued by the HKMA.

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8. Cautionary statement regarding forward-looking statements

This announcement may contain projections, estimates, forecasts, targets, commitments, ambitions, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position, strategy and business of the Group which can be identified by the use of forward-looking terminology such as 'may', 'will', 'should', 'expect', 'anticipate', 'project', 'estimate', 'seek', 'intend', 'target' or 'believe' or the negatives thereof or other variations thereon or comparable terminology (together, 'forward-looking statements'), including the strategic priorities and any financial, investment and capital targets and ESG commitments described herein.

Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. The assumptions and judgments may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market or economic conditions, regulatory changes, increased volatility in interest rates and inflation levels and other macroeconomic risks, geopolitical tensions such as the Russia-Ukraine war or as a result of data limitations and changes in applicable methodologies in relation to ESG related matters).

Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update, revise or supplement them if circumstances or management's beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein.

8. Cautionary statement regarding forward-looking statements *(continued)*

Additional detailed information concerning important factors, including but not limited to ESG related factors, that could cause actual results to differ materially from this announcement is available in our 2022 Annual Report for the year ended 31 December 2022.

By Order of the Board

Cheung Ka Ki
Company Secretary and Head of Corporate Governance

Hong Kong, 1 August 2023

恒生銀行有限公司
HANG SENG BANK LIMITED
Incorporated in Hong Kong with limited liability
Registered Office and Head Office: 83 Des Voeux Road Central, Hong Kong