

News Release

21 February 2024

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2023 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax up 26% to HK\$121,443m (2022: HK\$96,687m)
- Attributable profit up 19% to HK\$90,747m (2022: HK\$76,401m)
- Return on average ordinary shareholders' equity of 11.3% (2022: 9.9%)
- Total assets up 3% to HK\$10,500bn (2022: HK\$10,198bn)
- Common Equity Tier 1 ratio of 15.8%, total capital ratio of 19.7% (2022: 15.3% and 18.8%)
- Cost efficiency ratio of 44.1% (2022: 53.1%)

From 1 January 2023, we adopted HKFRS 17 'Insurance Contracts', which replaced HKFRS 4 'Insurance Contracts'. Comparative data have been restated. For further details on our adoption of HKFRS 17, see Note 17 'Accounting policies' on page 15.

This document is issued by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.



Consolidated income statement by reportable segments¹

	Wealth and Personal Banking ²	Commercial Banking ^{2,3}	Global Banking ³	Markets and Securities Services	Corporate Centre ⁴	Other (GBM-other) ⁵	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Year ended 31 Dec 2023							
Net interest income/(expense)	79,737	60,964	24,299	6,411	(42,064)	1,433	130,780
Net fee income/(expense)	19,426	10,664	5,038	2,652	270	(7)	38,043
Net income from financial instruments measured at fair value through profit or loss	54,190	4,604	164	23,888	40,432	376	123,654
Gains less losses from financial investments	(1,978)	(1,102)	—	—	—	(711)	(3,791)
Insurance finance expense	(48,798)	—	—	—	—	—	(48,798)
Insurance service result	6,589	—	—	—	(31)	—	6,558
Other operating income/(expense)	526	107	467	1,693	1,366	(926)	3,233
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	109,692	75,237	29,968	34,644	(27)	165	249,679
Change in expected credit losses and other credit impairment charges	(2,113)	(9,378)	(1,360)	(26)	2	32	(12,843)
Net operating income/(expense)	107,579	65,859	28,608	34,618	(25)	197	236,836
Operating expenses	(50,664)	(22,205)	(10,825)	(15,653)	(8,382)	(2,264)	(109,993)
Operating profit/(loss)	56,915	43,654	17,783	18,965	(8,407)	(2,067)	126,843
Share of profit in associates and joint ventures	390	—	—	—	18,165	—	18,555
Impairment of interest in associate	—	—	—	—	(23,955)	—	(23,955)
Profit/(loss) before tax	57,305	43,654	17,783	18,965	(14,197)	(2,067)	121,443
Balance sheet data at 31 Dec 2023							
Loans and advances to customers (net)	1,567,893	1,154,648	791,061	37,366	1,178	4,930	3,557,076
Customer accounts	3,618,894	1,685,876	740,881	209,511	30	5,859	6,261,051
Year ended 31 Dec 2022							
Net interest income/(expense)	55,686	41,723	18,703	4,370	(12,617)	2,013	109,878
Net fee income/(expense)	19,506	10,081	5,086	3,701	247	(56)	38,565
Net income/(expense) from financial instruments measured at fair value through profit or loss	(91,905)	3,918	(110)	22,372	11,079	345	(54,301)
Gains less losses from financial investments	(29)	64	—	—	—	17	52
Insurance finance income	97,167	—	—	—	20	—	97,187
Insurance service result	4,977	—	—	—	—	—	4,977
Other operating income/(expense)	2,649	155	369	1,208	315	(251)	4,445
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	88,051	55,941	24,048	31,651	(956)	2,068	200,803
Change in expected credit losses and other credit impairment charges	(1,337)	(11,947)	(3,070)	22	1	(39)	(16,370)
Net operating income/(expense)	86,714	43,994	20,978	31,673	(955)	2,029	184,433
Operating expenses	(48,978)	(20,711)	(10,513)	(13,897)	(9,607)	(2,832)	(106,538)
Operating profit/(loss)	37,736	23,283	10,465	17,776	(10,562)	(803)	77,895
Share of profit in associates and joint ventures	140	—	—	—	18,652	—	18,792
Impairment of interest in associate	—	—	—	—	—	—	—
Profit/(loss) before tax	37,876	23,283	10,465	17,776	8,090	(803)	96,687
Balance sheet data at 31 Dec 2022							
Loans and advances to customers (net)	1,526,965	1,231,590	880,581	40,563	1,403	13,966	3,695,068
Customer accounts	3,443,694	1,665,463	805,600	195,775	11	3,166	6,113,709

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

2 From 1 January 2023, all balances within in the scope of HKFRS 17 of Hong Kong insurance manufacturing entities distributed by Commercial Banking ('CMB') are reported under Wealth and Personal Banking ('WPB'). Comparative data have been re-presented accordingly.

3 From 1 January 2023, we have transferred our portfolio of Global Banking ('GB') customers within Australia and Indonesia from GB to CMB for reporting purposes. Comparative data have not been re-presented.

4 Includes inter-segment elimination.

5 Mainly comprises other business activities which are jointly managed by GB and Markets and Securities Services ('MSS').

Financial Review

The commentary in this financial review compares the group's financial performance for the year ended 31 December 2023 with the year ended 31 December 2022. On 1 January 2023, the group adopted HKFRS 17 'Insurance Contracts', which replaced HKFRS 4 'Insurance Contracts'. Financial performance for the year ended 31 December 2022 has been restated.

Results Commentary

The group reported profit before tax of HK\$121,443m, an increase of HK\$24,756m, or 26%. Net operating income before change in expected credit losses and other credit impairment charges increased by HK\$48,876m, or 24%, primarily driven by higher net income from financial instruments held for trading or managed on a fair value basis and higher net interest income. The results include a charge relating to an impairment in interest in associate of HK\$23,955m, relating to the Bank of Communications Co., Ltd ('BoCom').

Net interest income increased by HK\$20,902m, or 19%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$22,332m, or 21%, driven by a 27 basis point ('bp') improvement in net interest margin and higher average interest-earning assets. In Hong Kong, net interest margin improved from higher customer deposit spreads and higher reinvestment yields as market interest rates increased. Net interest income in Malaysia, India and Singapore also increased, reflecting the favourable impact from higher interest rates.

Net fee income decreased by HK\$522m, or 1%. Excluding the unfavourable foreign exchange impact, net fee income decreased by HK\$86m, mainly in Hong Kong, as securities brokerage income fell due to lower equities turnover in the broader market and lower funds under management income. These were largely offset by an increase in unit trust income as client activities recovered, and higher net card services income in Hong Kong, in line with a recovery in retail sales.

Net income from financial instruments measured at fair value through profit or loss increased by HK\$177,955m, or 328%.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss increased by HK\$143,873m, or 152% primarily in Hong Kong and Singapore reflecting fair value gains on financial assets measured at fair value through profit or loss which back insurance and investment contracts. An offsetting impact related to the associated insurance liabilities is reported in 'Insurance finance income/(expense)'.

Net income from financial instruments held for trading or managed on a fair value basis increased by HK\$33,159m, or 80%, most notably in Hong Kong due to higher gains on derivatives trading benefiting from rising interest rates and favourable foreign exchange movements. There was also an increase in Singapore from dealing profits on treasury bills and debt securities.

Gains less losses from financial investments decreased by HK\$3,843m driven by the loss on disposal of treasury bonds in Hong Kong, of which HK\$3,695m was transferred from financial assets at fair value through other comprehensive income ('FVOCI') reserve.

Insurance finance income/(expense) decreased by HK\$145,985m, or 150%, reflecting the extent to which the investment income earned on underlying assets supporting insurance contracts is shared with the policyholders.

Insurance service result increased by HK\$1,581m, or 32% reflecting an increase to the release of contractual service margin ('CSM') of HK\$1,363m as a result of a higher closing CSM balance driven by an increase in new business written during the year, updates to actuarial assumptions, as well as the impact of interest rates on the CSM duration profile. A reduction in losses from onerous contracts also contributed to the increase.

Other operating income decreased by HK\$1,212m, or 27%, and includes a HK\$2,043m loss from updates to valuation estimates, partly offset by gains from reinsurance contracts in Hong Kong.

Change in expected credit losses and other credit impairment charges decreased by HK\$3,527m, or 22%. The reduction was concentrated in CMB and GB, mainly reflecting reduced charges in respect of the mainland China commercial real estate ('CRE') portfolio booked in Hong Kong.

Total operating expenses increased by HK\$3,455m, or 3%. Excluding the favourable foreign exchange impact, operating expenses increased by HK\$4,530m, or 4%, primarily reflecting our continued investment in technology and people to support business growth, which were partly offset by lower third party related costs.

Share of profit in associates and joint ventures decreased by HK\$237m, or 1%. Excluding the unfavourable foreign exchange impact, the share of profit in associates and joint ventures increased by HK\$726m, or 4%, primarily from BoCom's reported profit growth.

Impairment of interest in associate of HK\$23,955m (nil in 2022) related to BoCom. Further details can be found in Note 10 'Associates and joint ventures'.

Consolidated income statement

for the year ended 31 December

	2023 HK\$m	2022 HK\$m (restated) ¹
Net interest income	130,780	109,878
– interest income	295,212	163,124
– interest expense	(164,432)	(53,246)
Net fee income	38,043	38,565
– fee income	51,025	50,053
– fee expense	(12,982)	(11,488)
Net income from financial instruments held for trading or managed on a fair value basis	74,435	41,276
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	48,959	(94,914)
Changes in fair value of designated debts issued and related derivatives	8	(703)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	252	40
Gains less losses from financial investments	(3,791)	52
Insurance finance income/(expense)	(48,798)	97,187
Insurance service result	6,558	4,977
– Insurance revenue	13,007	10,723
– Insurance service expense	(6,449)	(5,746)
Other operating income	3,233	4,445
Net operating income before change in expected credit losses and other credit impairment charges	249,679	200,803
Change in expected credit losses and other credit impairment charges	(12,843)	(16,370)
Net operating income	236,836	184,433
Employee compensation and benefits	(38,547)	(38,322)
General and administrative expenses	(54,538)	(53,097)
Depreciation and impairment of property, plant and equipment	(9,724)	(9,096)
Amortisation and impairment of intangible assets	(7,184)	(6,023)
Total operating expenses	(109,993)	(106,538)
Operating profit	126,843	77,895
Share of profit in associates and joint ventures	18,555	18,792
Impairment of interest in associate	(23,955)	—
Profit before tax	121,443	96,687
Tax expense	(23,916)	(15,996)
Profit for the year	97,527	80,691
Attributable to:		
– ordinary shareholders of the parent company	87,191	73,662
– other equity holders	3,556	2,739
– non-controlling interests	6,780	4,290
Profit for the year	97,527	80,691

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

Consolidated statement of comprehensive income for the year ended 31 December

	2023 HK\$m	2022 HK\$m (restated) ¹
Profit for the year	97,527	80,691
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	7,953	(13,705)
– fair value gains/(losses)	6,256	(17,121)
– fair value (gains)/losses transferred to the income statement	3,799	(124)
– expected credit (recoveries)/losses recognised in the income statement	(372)	331
– income taxes	(1,730)	3,209
Cash flow hedges	3,605	(1,965)
– fair value gains	7,581	5,851
– fair value gains reclassified to the income statement	(3,282)	(8,228)
– income taxes	(694)	412
Share of other comprehensive income/(expense) of associates and joint ventures	736	(1,964)
Exchange differences	(9,043)	(32,040)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	4,496	3,863
– fair value gains	5,330	4,683
– income taxes	(834)	(820)
Equity instruments designated at fair value through other comprehensive income	(899)	865
– fair value gains/(losses)	(895)	868
– income taxes	(4)	(3)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(5,410)	4,588
– before income taxes	(6,457)	5,461
– income taxes	1,047	(873)
Remeasurement of defined benefit asset/liability	21	185
– before income taxes	26	232
– income taxes	(5)	(47)
Other comprehensive income/(expense) for the year, net of tax	1,459	(40,173)
Total comprehensive income for the year	98,986	40,518
Attributable to:		
– ordinary shareholders of the parent company	88,289	34,497
– other equity holders	3,556	2,739
– non-controlling interests	7,141	3,282
Total comprehensive income for the year	98,986	40,518

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

Consolidated balance sheet

at 31 December

	2023 HK\$m	2022 HK\$m (restated) ¹
Assets		
Cash and balances at central banks	232,987	232,740
Items in the course of collection from other banks	22,049	28,557
Hong Kong Government certificates of indebtedness	328,304	341,354
Trading assets	941,250	699,805
Derivatives	409,253	502,877
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	707,573	653,030
Reverse repurchase agreements – non-trading	831,186	927,976
Loans and advances to banks	563,801	515,847
Loans and advances to customers	3,557,076	3,695,068
Financial investments	2,029,212	1,749,707
Amounts due from Group companies	158,592	140,485
Interests in associates and joint ventures	170,206	185,898
Goodwill and intangible assets	38,923	36,863
Property, plant and equipment	129,675	130,926
Deferred tax assets	9,315	7,582
Prepayments, accrued income and other assets	370,991	349,128
Total assets	10,500,393	10,197,843
Liabilities		
Hong Kong currency notes in circulation	328,304	341,354
Items in the course of transmission to other banks	27,536	33,073
Repurchase agreements – non-trading	521,984	351,093
Deposits by banks	182,146	198,908
Customer accounts	6,261,051	6,113,709
Trading liabilities	103,050	142,453
Derivatives	450,216	551,729
Financial liabilities designated at fair value	170,728	167,743
Debt securities in issue	87,745	100,909
Retirement benefit liabilities	1,362	1,655
Amounts due to Group companies	465,476	398,261
Accruals and deferred income, other liabilities and provisions	258,113	246,614
Insurance contract liabilities	730,829	654,922
Current tax liabilities	15,344	6,009
Deferred tax liabilities	23,923	21,912
Subordinated liabilities	–	3,119
Total liabilities	9,627,807	9,333,463
Equity		
Share capital	180,181	180,181
Other equity instruments	52,465	52,386
Other reserves	117,214	108,837
Retained earnings	462,866	466,148
Total shareholders' equity	812,726	807,552
Non-controlling interests	59,860	56,828
Total equity	872,586	864,380
Total liabilities and equity	10,500,393	10,197,843

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

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

	Other reserves									Total share- holders' equity	Non- controlling interests	Total equity
	Share capital ¹	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ²				
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m			
At 1 Jan 2023	180,181	52,386	466,148	65,148	(11,186)	(1,487)	(38,470)	94,832	807,552	56,828	864,380	
Profit for the year	—	—	90,747	—	—	—	—	—	90,747	6,780	97,527	
Other comprehensive income/(expense) (net of tax)	—	—	(5,415)	4,186	7,840	3,342	(8,698)	(157)	1,098	361	1,459	
– debt instruments at fair value through other comprehensive income	—	—	—	—	7,784	—	—	—	7,784	169	7,953	
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(689)	—	—	—	(689)	(210)	(899)	
– cash flow hedges	—	—	—	—	—	3,334	—	—	3,334	271	3,605	
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(5,413)	—	—	—	—	—	(5,413)	3	(5,410)	
– property revaluation	—	—	—	4,186	—	—	—	—	4,186	310	4,496	
– remeasurement of defined benefit asset/ liability	—	—	(7)	—	—	—	—	—	(7)	28	21	
– share of other comprehensive income/ (expense) of associates and joint ventures	—	—	5	—	888	—	—	(157)	736	—	736	
– exchange differences	—	—	—	—	(143)	8	(8,698)	—	(8,833)	(210)	(9,043)	
Total comprehensive income/(expense) for the year	—	—	85,332	4,186	7,840	3,342	(8,698)	(157)	91,845	7,141	98,986	
Other equity instruments issued ³	—	7,850	—	—	—	—	—	—	7,850	—	7,850	
Other equity instruments redeemed ⁴	—	(7,771)	(406)	—	—	—	—	—	(8,177)	—	(8,177)	
Dividends to shareholders ⁵	—	—	(86,356)	—	—	—	—	—	(86,356)	(3,843)	(90,199)	
Movement in respect of share-based payment arrangements	—	—	(99)	—	—	—	—	(208)	(307)	12	(295)	
Transfers and other movements ⁶	—	—	(1,753)	(4,055)	800	(4)	(731)	6,062	319	(278)	41	
At 31 Dec 2023	180,181	52,465	462,866	65,279	(2,546)	1,851	(47,899)	100,529	812,726	59,860	872,586	

Consolidated statement of changes in equity (continued)

for the year ended 31 December (restated⁷)

	Other reserves										
	Share capital ¹	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ²	Total shareholders' equity	Non-controlling interests	Total equity
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 31 Dec 2021	172,335	44,615	488,055	64,990	3,869	153	(7,130)	89,922	856,809	66,702	923,511
Impact on transition to HKFRS 17 ⁸	—	—	(65,593)	—	(294)	—	—	—	(65,887)	(9,546)	(75,433)
At 1 Jan 2022	172,335	44,615	422,462	64,990	3,575	153	(7,130)	89,922	790,922	57,156	848,078
Profit for the year	—	—	76,401	—	—	—	—	—	76,401	4,290	80,691
Other comprehensive income/ (expense) (net of tax)	—	—	4,772	3,646	(14,804)	(1,639)	(31,340)	200	(39,165)	(1,008)	(40,173)
– debt instruments at fair value through other comprehensive income	—	—	—	—	(13,394)	—	—	—	(13,394)	(311)	(13,705)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	745	—	—	—	745	120	865
– cash flow hedges	—	—	—	—	—	(1,639)	—	—	(1,639)	(326)	(1,965)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	4,590	—	—	—	—	—	4,590	(2)	4,588
– property revaluation	—	—	—	3,646	—	—	—	—	3,646	217	3,863
– remeasurement of defined benefit asset/liability	—	—	191	—	—	—	—	—	191	(6)	185
– share of other comprehensive income of associates and joint ventures	—	—	(9)	—	(2,155)	—	—	200	(1,964)	—	(1,964)
– exchange differences	—	—	—	—	—	—	(31,340)	—	(31,340)	(700)	(32,040)
Total comprehensive income/ (expense) for the year	—	—	81,173	3,646	(14,804)	(1,639)	(31,340)	200	37,236	3,282	40,518
Shares issued ¹	7,846	—	—	—	—	—	—	—	7,846	—	7,846
Other equity instruments issued ³	—	7,771	—	—	—	—	—	—	7,771	—	7,771
Dividends to shareholders ⁵	—	—	(34,821)	—	—	—	—	—	(34,821)	(2,845)	(37,666)
Movement in respect of share-based payment arrangements	—	—	135	—	—	—	—	(137)	(2)	13	11
Transfers and other movements ⁶	—	—	(2,801)	(3,488)	43	(1)	—	4,847	(1,400)	(778)	(2,178)
At 31 Dec 2022	180,181	52,386	466,148	65,148	(11,186)	(1,487)	(38,470)	94,832	807,552	56,828	864,380

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years. During 2022, 3,138.4m new ordinary shares were issued at an issue price of HK\$2.5 each.

2 The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business from fellow subsidiaries, property revaluation reserve relating to transfer of properties to a fellow subsidiary and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.

3 During 2023, an additional tier 1 capital instrument amounting to US\$1,000m was issued for which there were no issuance costs. During 2022, an additional tier 1 capital instrument amounting to US\$1,000m was issued for which there were US\$10m issuance costs.

4 During 2023, an additional tier 1 capital instrument was redeemed at fair value US\$(1,041)m.

5 Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.

6 The movements include transfers from retained earnings to other reserves in associates according to local regulatory requirements, and from the property revaluation reserve to retained earnings in relation to depreciation of revalued properties.

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

8 The impact of HKFRS 17 on previously reported total equity was HK\$(76,883)m at 31 December 2022.

1 Net interest income

	2023	2022
	HK\$m	HK\$m
Net interest income	130,780	109,878
Average interest-earning assets	7,220,536	7,123,129
	%	%
Net interest spread	1.64	1.47
Contribution from net free funds	0.17	0.07
Net interest margin	1.81	1.54

Net interest income ('NII') increased by HK\$20,902m, or 19%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$22,332m, or 21%, driven by a 27 bp improvement in net interest margin and higher average interest-earning assets. In Hong Kong, net interest margin improved from higher customer deposit spreads and higher reinvestment yields as market interest rates increased. Net interest income in Malaysia, India and Singapore also increased, reflecting the favourable impact from higher interest rates.

Average interest-earning assets increased by HK\$97bn, or 1%, driven by Hong Kong from growth in financial investments. To a lesser extent, average interest-earning assets in Singapore and Australia also increased.

Net interest margin ('NIM') increased by 27 bps, with increases noted across the region with higher market interest rates compared to the prior year. As a result, the NIM at the Bank's operations in Hong Kong increased by 13 bps to 1.22%, and at Hang Seng Bank, the NIM increased by 55 bps to 2.30%.

2 Net fee income

	2023	2022
	HK\$m	HK\$m
Account services	2,327	2,227
Funds under management	6,981	7,326
Cards	9,424	8,135
Credit facilities	2,867	2,846
Broking income	3,297	4,305
Imports/exports	3,118	3,132
Unit trusts	4,914	4,648
Underwriting	648	562
Remittances	2,983	2,892
Global custody	3,874	4,103
Insurance agency commission	1,627	1,546
Other	8,965	8,331
Fee income	51,025	50,053
Fee expense	(12,982)	(11,488)
Net fee income	38,043	38,565

Net fee income decreased by HK\$522m, or 1%. Excluding the unfavourable foreign exchange impact, net fee income decreased by HK\$86m, mainly in Hong Kong, as securities brokerage income fell due to lower equities turnover in the broader market and lower funds under management income. These were largely offset by an increase in unit trust income as client activities recovered, and higher net card services income in Hong Kong, in line with a recovery in retail sales.

3 Net income from financial instruments measured at fair value through profit or loss

	2023	2022
	HK\$m	HK\$m
Net income/(expense) arising on:		
Net trading activities	80,700	42,740
Other instruments managed on a fair value basis	(6,265)	(1,464)
Net income from financial instruments held for trading or managed on a fair value basis	74,435	41,276
Financial assets held to meet liabilities under insurance and investment contracts	49,907	(98,716)
Liabilities to customers under investment contracts	(948)	3,802
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	48,959	(94,914)
Change in fair value of designated debt issued and related derivatives ¹	8	(703)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	252	40
Year ended 31 Dec	123,654	(54,301)

¹ Includes debt instruments which are issued for funding purposes and are designated under the fair value option to reduce an accounting mismatch.

4 Other operating income

	2023	2022
	HK\$m	HK\$m
Gain on acquisition of subsidiary ¹	—	665
Losses on investment properties	(35)	(133)
Losses on disposal of property, plant and equipment and assets held for sale	(421)	(42)
Gain on disposal of businesses and associate	4	4
Rental income from investment properties	502	437
Dividend income	283	233
Other ^{2,3}	2,900	3,281
Year ended 31 Dec	3,233	4,445

1 Represents a gain of HK\$665m from the acquisition of AXA Insurance Pte Limited in 2022.

2 Includes the gain on disposal of loans and receivables of HK\$40m (2022: HK\$84m).

3 Includes the recovery of operating expenses from other Group companies.

5 Insurance manufacturing

The following table shows the results of our insurance manufacturing operations by income statement line item.

Results of insurance manufacturing operations

	2023	2022
	HK\$m	HK\$m
Insurance manufacturing operations¹		
Net interest income	545	727
Net fee income/(expense)	171	93
Other income	6,715	6,930
Insurance service result	6,870	5,157
– release of contractual service margin	6,831	5,507
– risk adjustment release	180	197
– experience variance and other	9	370
– gain/(loss) from onerous contracts	(150)	(917)
Net investment returns (excluding net interest income)	(473)	394
– insurance finance income/(expense)	(48,802)	97,187
– other investment income/(expense)	48,329	(96,793)
Other operating income	318	1,379
Net operating income before change in expected credit losses and other credit impairment charges	7,431	7,750
Change in expected credit losses and other credit impairment charges	19	(42)
Net operating income	7,450	7,708
Total operating expenses	(3,828)	(3,971)
Operating profit	3,622	3,737
Share of profit in associates and joint ventures	392	139
Profit before tax of insurance business operations	4,014	3,876
Annualised new business premiums of insurance manufacturing operations	27,512	15,420

1 The results presented for insurance manufacturing operations are shown before elimination of intercompany transactions with the group's non-insurance operations.

Profit before tax of insurance business operations increased by HK\$138m, or 4%, compared with 2022. This was primarily driven by the increase in the insurance service result of HK\$1,713m, reflecting an increase to the release of CSM of HK\$1,324m as a result of a higher closing CSM balance driven by an increase in new business written during the year, updates to actuarial assumptions, as well as the impact of interest rates on the CSM duration profile. A reduction in losses from onerous contracts also contributed to the increase.

Net investment returns (excluding net interest income) decreased by HK\$867m, compared with 2022. This reflected losses in mainland China of HK\$667m due to reducing interest rates in 2023 compared to 2022, as well as offsetting gains and losses in Hong Kong and Singapore respectively from the impact of reinsurance risk mitigation treaties.

Other operating income decreased by HK\$1,061m, or 77%, and includes a HK\$2,043m loss from updates to valuation estimates, partly offset by gains from reinsurance contracts in Hong Kong.

Annualised new business premiums ('ANP') is used to assess new insurance premium generated by the business. It is calculated as 100% of annualised first year regular premiums and 10% of single premiums, before reinsurance cede. ANP increased by HK\$12,092m, or 78% in 2023, primarily from strong new business sales in Hong Kong and a shift in product mix from single to multi-premium products.

6 Change in expected credit losses and other credit impairment charges

Change in expected credit losses and other credit impairment charges arising from the following asset categories:

	2023 HK\$m	2022 HK\$m
Loans and advances to banks and customers	13,163	15,546
– new allowances net of allowance releases	14,021	16,425
– recoveries of amounts previously written off	(864)	(879)
– modification losses and other movements	6	—
Loan commitments and guarantees	9	410
Other financial assets	(329)	414
Year ended 31 Dec	12,843	16,370

Change in expected credit losses as a percentage of average gross customer advances was 0.36% for 2023 (2022: 0.40%).

7 Employee compensation and benefits

	2023 HK\$m	2022 HK\$m
Wages and salaries	35,021	34,760
Social security costs	1,352	1,379
Post-employment benefits	2,174	2,183
Year ended 31 Dec	38,547	38,322

8 General and administrative expenses

	2023 HK\$m	2022 HK\$m
Premises and equipment	2,358	2,590
Marketing and advertising expenses	2,226	2,407
Other administrative expenses	49,954	48,100
Year ended 31 Dec	54,538	53,097

9 Depreciation and impairment of property, plant and equipment

	2023 HK\$m	2022 HK\$m
Owned property, plant and equipment	7,361	6,550
Other right-of-use assets	2,363	2,546
Year ended 31 Dec	9,724	9,096

10 Associates and joint ventures

We maintain a 19.03% interest in BoCom. Since our investment in 2004, BoCom has grown its business significantly to the extent that it has recently been designated as a global systemically important bank ('G-SIB').

For accounting purposes, the balance sheet carrying value attributed to BoCom represents our share of its net assets. We perform quarterly impairment tests incorporating a value in use calculation, recognising the gap between this carrying value and the fair value (based on the listed share price). We have previously disclosed that the excess of the value in use calculation over its carrying value has been marginal in recent years, and that reasonably possible changes in assumptions could generate an impairment.

Recent macroeconomic, policy and industry factors resulted in a wider range of reasonably possible value in use outcomes for our BoCom valuation. At 31 December 2023, the group performed an impairment test on the carrying value, which resulted in an impairment of HK\$24.0bn, as the recoverable amount as determined by a value in use calculation was lower than the carrying value. Our value in use calculation uses both historical experience and market participant views to estimate future cash flows, relevant discount rates and associated capital assumptions.

This impairment will have no material impact on the group's capital, capital ratios or distribution capacity. The insignificant impact on the group's capital and CET1 ratio is due to the compensating release of regulatory capital deductions to offset the impairment charge.

Further details can be found in Note 14 'Interests in associates and joint ventures' in the *Annual Report and Accounts 2023*.

11 Dividends

Dividends to shareholders of the parent company

	2023		2022	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	0.27	13,500	0.23	10,584
In respect of current year:				
– first interim dividend paid	0.44	22,000	0.17	7,761
– second interim dividend paid	0.43	21,500	0.12	5,887
– special dividend paid	0.16	7,800	—	—
– third interim dividend paid	0.36	18,000	0.16	7,850
Total	1.66	82,800	0.68	32,082
Distributions on other equity instruments		3,556		2,739
Dividends to shareholders		86,356		34,821

On 19 February 2024, the Directors declared a fourth interim dividend in respect of the financial year ended 31 December 2023 of HK\$0.41 per ordinary share (HK\$20,300m) (2022: HK\$0.27 per ordinary share (HK\$13,500m)).

Total coupons on other equity instruments

	2023	2022
	HK\$m	HK\$m
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.510%)	459	460
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.030%)	425	426
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%)	478	477
US\$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%)	581	580
US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%)	277	278
US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%)	516	518
US\$1,000m Floating rate perpetual subordinated loan (interest rate at compounded SOFR plus 5.090%) ¹	545	—
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 8.000%) ²	275	—
Total	3,556	2,739

¹ This subordinated loan was early repaid in the first half of 2023 and distributions were made on repayment.

² This subordinated loan was issued in March 2023.

12 Loans and advances to customers

	2023 HK\$m	2022 HK\$m
Gross loans and advances to customers	3,595,929	3,734,987
Expected credit loss allowances	(38,853)	(39,919)
At 31 Dec	3,557,076	3,695,068

The following table provides an analysis of gross loans and advances to customers by industry sector based on the Statistical Classification of economic activities in the European Community ('NACE').

Analysis of gross loans and advances to customers

	2023 HK\$m	2022 HK\$m
Residential mortgages	1,224,325	1,177,615
Credit card advances	101,257	92,023
Other personal	237,440	254,729
Total personal	1,563,022	1,524,367
Real estate & Construction	537,393	616,517
Wholesale and retail trade	350,492	377,326
Manufacturing	359,914	371,718
Transportation and storage	96,789	104,933
Other	396,760	437,269
Total corporate and commercial	1,741,348	1,907,763
Non-bank financial institutions	291,559	302,857
At 31 Dec	3,595,929	3,734,987
By geography¹		
Hong Kong	2,211,592	2,322,684
Mainland China	349,116	396,989
Australia	294,502	269,937
Singapore	238,537	240,590
India	143,657	116,840
Taiwan	90,396	88,738
Malaysia	81,898	84,931
Indonesia	30,141	29,528
Other	156,090	184,750

¹ The geographical information shown above is classified by the location of the principal operations of the subsidiary or the branch responsible for advancing the funds.

Gross loans and advances to customers decreased by HK\$139bn, or 3.7%. Excluding the unfavourable foreign exchange translation effects of HK\$9bn, gross loans and advances to customers decreased by HK\$130bn. This was driven by a decrease in corporate and commercial lending of HK\$159bn, primarily in Hong Kong and mainland China, partly offset by increases in Australia and India. The residential mortgage book increased by HK\$46bn, mainly in Hong Kong and Australia.

13 Financial investments

	2023 HK\$m	2022 HK\$m
Financial investments measured at fair value through other comprehensive income	1,410,271	1,239,941
– treasury and other eligible bills	700,863	612,990
– debt securities	703,459	619,826
– equity securities	5,949	7,125
Debt instruments measured at amortised cost	618,941	509,766
– treasury and other eligible bills	52,758	129,174
– debt securities	566,183	380,592
At 31 Dec	2,029,212	1,749,707

14 Customer accounts

Customer accounts by country/territory

	2023 HK\$m	2022 HK\$m
Hong Kong	4,246,041	4,229,531
Singapore	574,574	479,241
Mainland China	437,542	443,954
Australia	250,550	222,222
India	190,439	176,466
Malaysia	123,487	124,792
Taiwan	132,410	119,400
Indonesia	43,744	45,529
Other	262,264	272,574
At 31 Dec	6,261,051	6,113,709

15 Contingent liabilities, contractual commitments and guarantees

	2023 HK\$m	2022 HK\$m
Guarantees and contingent liabilities	435,597	398,007
Commitments	3,411,916	3,191,864
At 31 Dec	3,847,513	3,589,871

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

16 Capital

The following tables show the capital ratios, risk-weighted assets ('RWAs') and capital base on a consolidated basis, in accordance with the Banking (Capital) Rules.

Capital ratios

	2023 %	2022 %
Common Equity Tier 1 capital ratio	15.8	15.3
Tier 1 capital ratio	17.5	16.9
Total capital ratio	19.7	18.8

Total regulatory capital and RWAs

	2023 HK\$m	2022 HK\$m
Common Equity Tier 1 capital	508,604	491,562
Additional Tier 1 capital	53,850	54,010
Tier 2 capital	69,247	61,740
Total regulatory capital	631,701	607,312
RWAs	3,212,387	3,222,168

17 Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those set out in Note 1 of the consolidated financial statements in the *Annual Report and Accounts 2023*.

Standards adopted during the year ended 31 December 2023

HKFRS 17 'Insurance Contracts'

On 1 January 2023, the group adopted the requirements of HKFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, group total equity reduced by HK\$75,433m. Further details are set out in Note 1 'Basis of preparation and material accounting policies' and Note 38 'Effects of adoption of HKFRS 17' of the consolidated financial statements.

On adoption of HKFRS 17, balances based on HKFRS 4, 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 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.

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

Further details on the adoption of HKFRS 17 are set out in Note 1 of the consolidated financial statements. There were no other new standards or amendments to standards that had an effect on the consolidated financial statements. Accounting policies have been consistently applied to all the years presented, unless otherwise stated.

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

In July 2023, the Hong Kong Institute of Certified Public Accountants ('HKICPA') issued amendments to HKAS 12 'International Tax Reform — Pillar Two Model Rules', which became effective immediately. On 20 June 2023, legislation was substantively enacted in the UK (the jurisdiction of the group's ultimate parent entity) to introduce the Organisation for Economic Cooperation and Development ('OECD')'s Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. The Hong Kong Qualified Domestic Minimum Top-up Tax is expected to be effective from 1 January 2025. Information about the group's exposure to Pillar Two income taxes is described in Note 5 'Tax' on the consolidated financial statements in the *Annual Report and Accounts 2023*.

There were no other new standards or amendments to standards that had an effect on these financial statements.

Future accounting developments

The HKICPA has published a number of minor amendments to HKFRSs that are effective from 1 January 2024 and 1 January 2025. The group is continuing to assess the impact of Lack of Exchangeability (Amendments to HKAS 21). The group expects the remainder will have an insignificant effect, when adopted, on the consolidated financial statements.

18 Events after the balance sheet date

On 31 January 2024, HSBC Global Asset Management Singapore Limited completed the acquisition of the Asia-Pacific-focused, real estate investment manager, Silkroad Property Partners Pte Ltd.

19 Statutory accounts

The information in this document is not audited and does not constitute the Bank's statutory accounts.

Certain financial information in this document is extracted from the consolidated financial statements for the year ended 31 December 2023, which were approved by the Board of Directors on 21 February 2024 and will be delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditor's Report was unqualified; did not include a reference to any matters to which the auditor drew any attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622). The *Annual Report and Accounts 2023*, which include the consolidated financial statements, will be published on the Bank's website: www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

20 Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc, which is incorporated in England.

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