

News Release

1 August 2023

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

- Profit before tax up 95% to HK\$83,210m (HK\$42,772m in the first half of 2022).
- Attributable profit up 97% to HK\$66,017m (HK\$33,452m in the first half of 2022).
- Return on average ordinary shareholders' equity of 16.6% (8.6% in the first half of 2022).
- Total assets up 2% to HK\$10,413bn (HK\$10,198bn at the end of 2022).
- Common equity tier 1 ratio of 15.8% (15.3% at the end of 2022), total capital ratio of 19.6% (18.8% at the end of 2022).
- Cost efficiency ratio of 41.2% (59.0% for the first half of 2022).

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 15 '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 and balance sheet data by reportable segments¹

	Wealth and Personal Banking	Commercial Banking ²	Global Banking ²	Markets and Securities Services	Corporate Centre ³	Other (GBM – other)	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Half-year to 30 Jun 2023							
Net interest income/(expense)	38,850	30,084	11,680	2,384	(18,011)	840	65,827
Net fee income	10,078	5,674	2,696	1,418	160	–	20,026
Net income from financial instruments measured at fair value through profit or loss	30,249	2,491	102	13,535	17,828	337	64,542
Gains less losses from financial investments	(5)	9	–	–	–	7	11
Insurance finance income/(expense)	(26,662)	–	–	–	2	–	(26,660)
Insurance service result	3,113	–	–	–	8	–	3,121
Other operating income/(expense)	1,328	66	212	707	730	(314)	2,729
Net operating income before change in expected credit losses and other credit impairment charges	56,951	38,324	14,690	18,044	717	870	129,596
Change in expected credit losses and other credit impairment charges	(962)	(2,534)	(55)	(39)	(4)	23	(3,571)
Net operating income	55,989	35,790	14,635	18,005	713	893	126,025
Operating expenses	(24,386)	(10,595)	(5,314)	(7,454)	(4,465)	(1,160)	(53,374)
Operating profit/(loss)	31,603	25,195	9,321	10,551	(3,752)	(267)	72,651
Share of profit in associates and joint ventures	218	–	–	–	10,341	–	10,559
Profit/(loss) before tax	31,821	25,195	9,321	10,551	6,589	(267)	83,210
Balance sheet data at 30 Jun 2023							
Loans and advances to customers (net)	1,560,869	1,219,984	809,792	44,593	1,338	3,447	3,640,023
Customer accounts	3,466,037	1,656,191	750,569	202,614	29	556	6,075,996
Half-year to 30 Jun 2022							
Net interest income/(expense)	20,058	16,036	8,029	1,909	(2,072)	1,166	45,126
Net fee income/(expense)	10,259	5,459	2,667	2,151	151	(55)	20,632
Net income/(expense) from financial instruments measured at fair value through profit or loss	(77,927)	1,959	(23)	11,828	1,994	273	(61,896)
Gains less losses from financial investments	(58)	(58)	–	–	–	(110)	(226)
Insurance finance income	80,217	–	–	–	16	–	80,233
Insurance service result	2,229	–	–	–	25	–	2,254
Other operating income	1,667	12	110	565	78	–	2,432
Net operating income before change in expected credit losses and other credit impairment charges	36,445	23,408	10,783	16,453	192	1,274	88,555
Change in expected credit losses and other credit impairment charges	(618)	(3,090)	(419)	16	–	(24)	(4,135)
Net operating income	35,827	20,318	10,364	16,469	192	1,250	84,420
Operating expenses	(23,972)	(10,348)	(5,251)	(7,342)	(4,060)	(1,250)	(52,223)
Operating profit/(loss)	11,855	9,970	5,113	9,127	(3,868)	–	32,197
Share of profit in associates and joint ventures	31	–	–	–	10,544	–	10,575
Profit before tax	11,886	9,970	5,113	9,127	6,676	–	42,772
Balance sheet data at 30 Jun 2022							
Loans and advances to customers (net)	1,542,659	1,333,398	914,045	48,029	1,460	14,736	3,854,327
Customer accounts	3,432,308	1,637,900	834,008	208,583	27	840	6,113,666

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, we have transferred a portfolio of our Global Banking ('GB') customers within our entities in Australia and Indonesia from Global Banking to Commercial Banking ('CMB') for reporting purposes. Comparative data have not been re-presented.

³ Includes inter-segment elimination.

Financial review

The commentary in this financial review compares the group's financial performance for the half-year ended 30 June 2023 with the half-year ended 30 June 2022 unless otherwise stated.

Result commentary

The group reported profit before tax of HK\$83,210m, an increase of HK\$40,438m, or 95%.

Net interest income increased by HK\$20,701m, or 46%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$21,760m, or 49%, primarily driven by Hong Kong with wider customer deposit spreads and higher reinvestment yields as market interest rates increased. Net interest income in Singapore also increased, benefiting from higher market interest rates.

Net fee income decreased by HK\$606m, or 3%. Excluding the unfavourable foreign exchange impact, net fee income decreased by HK\$265m, or 1%, mainly in Hong Kong from securities brokerage income due to lower equities turnover, and to a lesser extent funds under management income. The decreases were partly offset by higher net payment and card service income in Hong Kong, mainly from increased consumer spending following the release of Covid-19 restrictions.

Net income from financial instruments measured at fair value through profit or loss increased by HK\$126,438m, or 204%.

Net income from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss increased by HK\$106,298m, or 134% 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. There is an offsetting impact within the associated insurance liability accounting reported in 'Insurance finance income/(expense)'.

Net income from financial instruments held for trading or managed on a fair value basis increased by HK\$19,358m, or 109%, principally in Hong Kong from higher gains on derivatives benefiting from rising interest rates and foreign exchange movements.

Insurance finance income/(expense) reduced by HK\$106,893m, or 133%, offsetting gains reported on underlying assets held to support insurance contract liabilities.

Insurance service result increased by HK\$867m, or 38%, reflecting increases to the release of contractual service margin ('CSM') as a result of increases to the CSM balance from the effect of new business written, favourable experience variances, and updates to lapse rate assumptions impacting the CSM measurement, as well as the impact of higher interest rates on the CSM duration profile. It also reflected a reduction to onerous contracts notably in Hong Kong and Singapore.

Other operating income increased by HK\$297m, or 12%, mainly driven by an increase in net income from reinsurance contracts, partly offset by a provisional gain of HK\$556m of the acquisition of AXA Insurance Pte Limited ('AXA Singapore') in prior year.

Change in expected credit losses and other credit impairment charges decreased by HK\$564m, or 14%. This was largely driven by a net release in mainland China of HK\$190m, compared with a charge of HK\$1,080m in 2022, reflecting concerns over continued Covid-19 restrictions in 2022, and improved economic forecasts in 2023. Expected credit losses ('ECL') in Hong Kong increased by HK\$598m due to further downgrades in the offshore mainland China commercial real estate ('CRE') portfolio.

Total operating expenses increased by HK\$1,151m, or 2%. Excluding the favourable foreign exchange impact, operating expenses increased by HK\$1,944m, or 4%, primarily reflecting our continued investment in technology to support business growth.

Share of profit in associates and joint ventures decreased by HK\$16m, or less than 1%. Excluding the unfavourable foreign exchange impact, share of profit in associates and joint ventures increased by HK\$658m, mainly from Bank of Communication Co., Ltd ('BoCom').

Consolidated income statement

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m (restated) ¹
Net interest income	65,827	45,126
– interest income	137,949	59,331
– interest expense	(72,122)	(14,205)
Net fee income	20,026	20,632
– fee income	26,280	26,101
– fee expense	(6,254)	(5,469)
Net income from financial instruments held for trading or managed on a fair value basis	37,150	17,792
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	27,023	(79,275)
Changes in fair value of designated debts issued and related derivatives	213	(447)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	156	34
Gains less losses from financial investments	11	(226)
Insurance finance income/(expense)	(26,660)	80,233
Insurance service result	3,121	2,254
– Insurance revenue	5,854	5,460
– Insurance service expense	(2,733)	(3,206)
Other operating income	2,729	2,432
Net operating income before change in expected credit losses and other credit impairment charges	129,596	88,555
Change in expected credit losses and other credit impairment charges	(3,571)	(4,135)
Net operating income	126,025	84,420
Employee compensation and benefits	(18,971)	(18,991)
General and administrative expenses	(26,288)	(25,852)
Depreciation and impairment of property, plant and equipment	(4,654)	(4,551)
Amortisation and impairment of intangible assets	(3,461)	(2,829)
Total operating expenses	(53,374)	(52,223)
Operating profit	72,651	32,197
Share of profit in associates and joint ventures	10,559	10,575
Profit before tax	83,210	42,772
Tax expense	(13,455)	(7,230)
Profit for the period	69,755	35,542
Attributable to:		
– ordinary shareholders of the parent company	63,620	31,599
– other equity holders	2,397	1,853
– non-controlling interests	3,738	2,090
Profit for the period	69,755	35,542

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

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m (restated) ¹
Profit for the period	69,755	35,542
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	938	(12,831)
– fair value gain/(losses)	1,517	(16,382)
– fair value (gains)/losses transferred to the income statement	(5)	196
– expected credit (recoveries)/losses recognised in the income statement	(231)	157
– income taxes	(343)	3,198
Cash flow hedges	(219)	(1,576)
– fair value gains	5,290	6,099
– fair value gains reclassified to the income statement	(5,576)	(8,001)
– income taxes	67	326
Share of other comprehensive income/(expense) of associates and joint ventures	367	(787)
Exchange differences	(16,158)	(21,988)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	2,863	1,672
– fair value gains	3,430	2,013
– income taxes	(567)	(341)
Equity instruments designated at fair value through other comprehensive income	74	1,268
– fair value gains	77	1,270
– income taxes	(3)	(2)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(3,443)	5,656
– before income taxes	(4,109)	6,766
– income taxes	666	(1,110)
Remeasurement of defined benefit asset/liability	139	146
– before income taxes	170	179
– income taxes	(31)	(33)
Other comprehensive expense for the period, net of tax	(15,439)	(28,440)
Total comprehensive income for the period	54,316	7,102
Attributable to:		
– ordinary shareholders of the parent company	48,183	3,763
– other equity holders	2,397	1,853
– non-controlling interests	3,736	1,486
Total comprehensive income for the period	54,316	7,102

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	
	30 Jun 2023 HK\$m	31 Dec 2022 HK\$m (restated) ¹
Assets		
Cash and balances at central banks	209,456	232,740
Items in the course of collection from other banks	45,538	28,557
Hong Kong Government certificates of indebtedness	332,284	341,354
Trading assets	822,701	699,805
Derivatives	499,401	502,877
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	684,651	653,030
Reverse repurchase agreements – non-trading	853,141	927,976
Loans and advances to banks	494,948	515,847
Loans and advances to customers	3,640,023	3,695,068
Financial investments	1,881,938	1,749,707
Amounts due from Group companies	193,664	140,485
Interests in associates and joint ventures	187,298	185,898
Goodwill and intangible assets	37,744	36,863
Property, plant and equipment	130,470	130,926
Deferred tax assets	7,751	7,582
Prepayments, accrued income and other assets	391,867	349,128
Total assets	10,412,875	10,197,843
Liabilities		
Hong Kong currency notes in circulation	332,284	341,354
Items in the course of transmission to other banks	51,531	33,073
Repurchase agreements – non-trading	497,762	351,093
Deposits by banks	155,648	198,908
Customer accounts	6,075,996	6,113,709
Trading liabilities	126,474	142,453
Derivatives	495,006	551,729
Financial liabilities designated at fair value	179,178	167,743
Debt securities in issue	92,736	100,909
Retirement benefit liabilities	1,523	1,655
Amounts due to Group companies	485,960	398,261
Accruals and deferred income, other liabilities and provisions	303,885	246,614
Insurance contract liabilities	700,074	654,922
Current tax liabilities	11,343	6,009
Deferred tax liabilities	22,439	21,912
Subordinated liabilities ²	3,134	3,119
Total liabilities	9,534,973	9,333,463
Equity		
Share capital	180,181	180,181
Other equity instruments	52,465	52,386
Other reserves	96,339	108,837
Retained earnings	490,673	466,148
Total shareholders' equity	819,658	807,552
Non-controlling interests	58,244	56,828
Total equity	877,902	864,380
Total liabilities and equity	10,412,875	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.

2 On 31 July 2023, subordinated liabilities of US\$400m undated floating rate primary capital notes were redeemed and repaid at par.

Consolidated statement of changes in equity

	Half-year to 30 Jun 2023										
	Share capital ¹	Other equity instruments	Retained earnings	Other reserves					Total shareholders' equity	Non-controlling interests	Total equity
				Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ⁴			
HK\$m	HK\$m	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 period	–	–	66,017	–	–	–	–	–	66,017	3,738	69,755
Other comprehensive income/(expense) (net of tax)	–	–	(3,343)	2,665	1,492	(336)	(15,844)	(71)	(15,437)	(2)	(15,439)
– debt instruments at fair value through other comprehensive income	–	–	–	–	927	–	–	–	927	11	938
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	128	–	–	–	128	(54)	74
– cash flow hedges	–	–	–	–	–	(336)	–	–	(336)	117	(219)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	(3,447)	–	–	–	–	–	(3,447)	4	(3,443)
– property revaluation	–	–	–	2,665	–	–	–	–	2,665	198	2,863
– remeasurement of defined benefit asset/liability	–	–	103	–	–	–	–	–	103	36	139
– share of other comprehensive income/(expense) of associates and joint ventures	–	–	1	–	437	–	–	(71)	367	–	367
– exchange differences	–	–	–	–	–	–	(15,844)	–	(15,844)	(314)	(16,158)
Total comprehensive income/(expense) for the period	–	–	62,674	2,665	1,492	(336)	(15,844)	(71)	50,580	3,736	54,316
Other equity instruments issued ²	–	7,850	–	–	–	–	–	–	7,850	–	7,850
Other equity instruments redeemed ³	–	(7,771)	–	–	–	–	–	–	(7,771)	–	(7,771)
Dividends to shareholders ⁵	–	–	(37,897)	–	–	–	–	–	(37,897)	(2,251)	(40,148)
Movement in respect of share-based payment arrangements	–	–	(53)	–	–	–	–	(82)	(135)	6	(129)
Transfers and other movements ⁶	–	–	(199)	(1,902)	19	–	–	1,561	(521)	(75)	(596)
At 30 Jun 2023	180,181	52,465	490,673	65,911	(9,675)	(1,823)	(54,314)	96,240	819,658	58,244	877,902

Consolidated statement of changes in equity (continued)

Half-year to 30 Jun 2022 (restated)⁷

	Other reserves								Total shareholders' 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 ⁴			
	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 HKFRS17	—	—	(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 period	—	—	33,452	—	—	—	—	—	33,452	2,090	35,542
Other comprehensive income/(expense) (net of tax)	—	—	5,828	1,572	(12,385)	(1,351)	(21,663)	163	(27,836)	(604)	(28,440)
– debt instruments at fair value through other comprehensive income	—	—	—	—	(12,414)	—	—	—	(12,414)	(417)	(12,831)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	975	—	—	—	975	293	1,268
– cash flow hedges	—	—	—	—	—	(1,351)	—	—	(1,351)	(225)	(1,576)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	5,655	—	—	—	—	—	5,655	1	5,656
– property revaluation	—	—	—	1,572	—	—	—	—	1,572	100	1,672
– remeasurement of defined benefit asset/liability	—	—	177	—	—	—	—	—	177	(31)	146
– share of other comprehensive income of associates and joint ventures	—	—	(4)	—	(946)	—	—	163	(787)	—	(787)
– exchange differences	—	—	—	—	—	—	(21,663)	—	(21,663)	(325)	(21,988)
Total comprehensive income/(expense) for the period	—	—	39,280	1,572	(12,385)	(1,351)	(21,663)	163	5,616	1,486	7,102
Shares issued ¹	7,846	—	—	—	—	—	—	—	7,846	—	7,846
Other equity instruments issued ²	—	7,771	—	—	—	—	—	—	7,771	—	7,771
Dividends to shareholders ⁵	—	—	(20,198)	—	—	—	—	—	(20,198)	(1,832)	(22,030)
Movement in respect of share-based payment arrangements	—	—	39	—	—	—	—	(83)	(44)	6	(38)
Transfers and other movements ⁶	—	—	(342)	(1,691)	44	—	—	1,107	(882)	(605)	(1,487)
At 30 Jun 2022	180,181	52,386	441,241	64,871	(8,766)	(1,198)	(28,793)	91,109	791,031	56,211	847,242

Consolidated statement of changes in equity (continued)

	Half-year to 31 Dec 2022 (restated) ⁷										
	Share capital ¹	Other equity instruments	Retained earnings	Other reserves					Total share-holders' equity	Non-controlling interests	Total equity
				Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ⁴			
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
At 1 Jul 2022	180,181	52,386	441,241	64,871	(8,766)	(1,198)	(28,793)	91,109	791,031	56,211	847,242
Profit for the period	—	—	42,949	—	—	—	—	—	42,949	2,200	45,149
Other comprehensive income/(expense) (net of tax)	—	—	(1,056)	2,074	(2,419)	(288)	(9,677)	37	(11,329)	(404)	(11,733)
– debt instruments at fair value through other comprehensive income	—	—	—	—	(980)	—	—	—	(980)	106	(874)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(230)	—	—	—	(230)	(173)	(403)
– cash flow hedges	—	—	—	—	—	(288)	—	—	(288)	(101)	(389)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(1,065)	—	—	—	—	—	(1,065)	(3)	(1,068)
– property revaluation	—	—	—	2,074	—	—	—	—	2,074	117	2,191
– remeasurement of defined benefit asset/liability	—	—	14	—	—	—	—	—	14	25	39
– share of other comprehensive income of associates and joint ventures	—	—	(5)	—	(1,209)	—	—	37	(1,177)	—	(1,177)
– exchange differences	—	—	—	—	—	—	(9,677)	—	(9,677)	(375)	(10,052)
Total comprehensive income/(expense) for the period	—	—	41,893	2,074	(2,419)	(288)	(9,677)	37	31,620	1,796	33,416
Dividends to shareholders ⁵	—	—	(14,623)	—	—	—	—	—	(14,623)	(1,013)	(15,636)
Movement in respect of share-based payment arrangements	—	—	96	—	—	—	—	(54)	42	7	49
Transfers and other movements ⁶	—	—	(2,459)	(1,797)	(1)	(1)	—	3,740	(518)	(173)	(691)
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 the first half of 2022, there were 3,138.4m new ordinary shares issued at an issue price of HK\$2.5 each.

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

3 During the first half of 2023, an additional tier 1 capital instrument was redeemed at fair value (US\$1,041m).

4 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.

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

6 The movement from retained earnings to other reserves includes the relevant transfers 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.

1 Net interest income

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Net interest income	65,827	45,126
Average interest-earning assets	7,247,640	7,102,937
	%	%
Net interest spread	1.66	1.24
Contribution from net free funds	0.17	0.04
Net interest margin	1.83	1.28

Net interest income ('NII') increased by HK\$20,701m, or 46%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$21,760m, or 49%, primarily driven by Hong Kong with wider customer deposit spreads and higher reinvestment yields as market interest rates increased. Net interest income in Singapore also increased, benefiting from higher market interest rates.

Average interest-earning assets increased by HK\$145bn, or 2%, driven by Hong Kong, from growth in financial investments.

Net interest margin ('NIM') increased by 55 basis points ('bps'), with increases noted across the region, including Hong Kong, Singapore, and Malaysia with higher market interest rates compared to the first half of 2022.

As a result, the NIM at the Bank's operations in Hong Kong increased by 48 bps to 1.30%, and at Hang Seng Bank, the NIM increased by 62 bps to 2.09%.

2 Net fee income

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Funds under management	3,566	3,752
Unit trusts	2,596	2,743
Broking income	1,794	2,463
Cards	4,588	3,750
Global custody	1,907	2,135
Credit facilities	1,610	1,529
Imports/exports	1,650	1,591
Remittances	1,477	1,443
Account services	1,178	1,147
Underwriting	416	327
Insurance agency commission	889	866
Other	4,609	4,355
Fee income	26,280	26,101
Fee expense	(6,254)	(5,469)
Net fee income	20,026	20,632

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

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Net income/(expense) arising on:		
Net trading activities	40,416	17,133
Other instruments managed on a fair value basis	(3,266)	659
Net income from financial instruments held for trading or managed on a fair value basis	37,150	17,792
Financial assets held to meet liabilities under insurance and investment contracts	27,466	(82,679)
Liabilities to customers under investment contracts	(443)	3,404
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	27,023	(79,275)
Changes in fair value of designated debts issued and related derivatives ¹	213	(447)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	156	34
Net income/(expense) from financial instruments measured at fair value through profit or loss	64,542	(61,896)

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

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Gain on acquisition of subsidiary ¹	—	556
Gains/(losses) on investment properties	37	(57)
Other ²	2,692	1,933
Other operating income	2,729	2,432

1 Includes a provisional gain of HK\$556m from the acquisition of AXA Insurance Pte Limited which the final adjustments were made in the second half of 2022.

2 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

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Insurance manufacturing operations¹		
Net interest income	197	392
Net fee income/(expense)	(8)	47
Other income	4,608	3,311
Insurance service result	3,310	2,261
– release of contractual service margin	3,267	2,666
– risk adjustment release	72	107
– experience variance and other	(141)	149
– gain/(loss) from onerous contracts	112	(661)
Net investment returns (excluding net interest income)	295	53
– insurance finance income/(expense)	(26,661)	80,254
– other investment income/(expense)	26,956	(80,201)
Other operating income	1,003	997
Net operating income before change in expected credit losses and other credit impairment charges	4,797	3,750
Change in expected credit losses and other credit impairment charges	(48)	2
Net operating income	4,749	3,752
Total operating expenses	(1,720)	(1,656)
Operating profit	3,029	2,096
Share of profit in associates and joint ventures	218	31
Profit before tax of insurance business operations	3,247	2,127
Annualised new business premiums of insurance manufacturing operations	13,617	8,658

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\$1,120m, or 53%, compared with the first half of 2022. This was primarily driven by the increase in insurance service result of HK\$1,049m, reflecting an increase to the release of CSM of HK\$601m as a result of a higher closing CSM balance from the effect of new business written, favourable experience variances, and updates to lapse rate assumptions impacting the CSM measurement, as well as the impact of higher interest rates on the CSM duration profile. The improved insurance service result also reflected a reduction to losses from onerous contracts of HK\$773m primarily in Hong Kong and Singapore in part due to improved economic conditions in the first half of 2023.

Net investment returns (excluding net interest income) increased by HK\$242m, with improved asset returns in the first half of 2023 compared to losses in the prior period.

6 Change in expected credit losses and other credit impairment charges

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Loans and advances to banks and customers	3,840	3,842
– new allowances net of releases	4,231	4,291
– recoveries of amounts previously written off	(391)	(449)
Loan commitments and guarantees	(112)	174
Other financial assets	(157)	119
Change in expected credit losses and other credit impairment charges	3,571	4,135

The annualised change in ECL as a percentage of average gross customer advances was 0.21% for the first half of 2023 (first half of 2022: 0.20%).

7 Operating expenses

	Half-year to	
	30 Jun 2023 HK\$m	30 Jun 2022 HK\$m
Employee compensation and benefits	18,971	18,991
General and administrative expenses	26,288	25,852
Depreciation of property, plant and equipment	4,654	4,551
Amortisation and impairment of intangible assets	3,461	2,829
Operating expenses	53,374	52,223

Employee compensation and benefits decreased by HK\$20m. Excluding the favourable foreign exchange impact, employee compensation and benefits increased by HK\$402m, or 2%, mainly from the impact of rising inflation.

General and administrative expenses increased by HK\$436m, or 2%, reflecting our continued investment in technology to support business growth.

Amortisation and impairment of intangible assets increased by HK\$632m, or 22%, driven by increased capitalisation of technology software.

8 Associates and joint ventures

At 30 June 2023, an impairment review on the group's investment in Bank of Communications Co., Limited ('BoCom') was carried out and it was concluded that the investment was not impaired based on our value-in-use calculation (see Note 5 'Interests in associates and joint ventures' on the Interim condensed consolidated financial statements 2023 for further details). As discussed in that note, in future periods, the value-in-use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase due to retained profits earned by BoCom. Impairment, if determined, would be recognised in the income statement. The impact on group's common equity tier 1 ratio is expected to be minimal in the event of an impairment, as the adverse impact on common equity tier 1 capital from the impairment would be partly offset by the favourable impact from a lower carrying amount. The group would continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value-in-use, with a corresponding reduction in the income statement. An impairment review would continue to be performed at each subsequent reporting period, with the carrying amount and income statement adjusted accordingly.

9 Dividends

Dividends to shareholders of the parent company

	Half-year to			
	30 Jun 2023		30 Jun 2022	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Dividends paid on ordinary shares				
– fourth interim dividend in respect of the previous financial year approved and paid during the half-year	0.27	13,500	0.23	10,584
– first interim dividend paid	0.44	22,000	0.17	7,761
Total	0.71	35,500	0.40	18,345
Total coupons on other equity instruments		2,397		1,853
Dividends to shareholders		37,897		20,198

The Directors declared a second interim dividend in respect of the half-year ended 30 June 2023 of HK\$0.43 per ordinary share (HK\$21,500m) (half-year ended 30 June 2022 of HK\$0.12 per ordinary share (HK\$5,887m)) and a special dividend for 2023 of HK\$0.16 per ordinary share (HK\$7,800m).

Total coupons on other equity instruments

	Half-year to	
	30 Jun 2023	30 Jun 2022
	HK\$m	HK\$m
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%)	478	477
US\$1,200m Fixed rate perpetual subordinated loans (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%.)	545	—
Total	2,397	1,853

10 Loans and advances to customers

	At	
	30 Jun 2023	31 Dec 2022
	HK\$m	HK\$m
Gross loans and advances to customers	3,679,785	3,734,987
Expected credit loss allowances	(39,762)	(39,919)
	3,640,023	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

	At	
	30 Jun 2023	31 Dec 2022
	HK\$m	HK\$m
Residential mortgages	1,212,890	1,177,615
Credit card advances	90,060	92,023
Other personal	250,449	254,729
Total personal	1,553,399	1,524,367
Real estate	512,504	569,842
Wholesale and retail trade	368,530	377,326
Manufacturing	359,493	371,718
Transportation and storage	107,848	104,933
Other	457,993	483,944
Total corporate and commercial	1,806,368	1,907,763
Non-bank financial institutions	320,018	302,857
	3,679,785	3,734,987
By geography¹		
Hong Kong	2,291,926	2,322,684
Rest of Asia-Pacific	1,387,859	1,412,303

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\$55bn, or 1.5%, which included unfavourable foreign exchange translation effects of HK\$28bn. Excluding this impact, the underlying decrease of HK\$27bn was driven by a decline in corporate and commercial lending of HK\$85bn, mainly in Hong Kong, partly offset by an increase in residential mortgage lending of HK\$42bn in Hong Kong.

11 Financial investments

Carrying amounts of financial investments

	At	
	30 Jun 2023 HK\$m	31 Dec 2022 HK\$m
Financial investments measured at fair value through other comprehensive income	1,323,735	1,239,941
– treasury and other eligible bills	699,838	612,990
– debt securities	616,937	619,826
– equity securities	6,960	7,125
Debt instruments measured at amortised cost	558,203	509,766
– treasury and other eligible bills	83,783	129,174
– debt securities	474,420	380,592
	1,881,938	1,749,707

12 Customer accounts

Customer accounts by country/territory

	At	
	30 Jun 2023 HK\$m	31 Dec 2022 HK\$m
Hong Kong	4,149,553	4,229,531
Singapore	534,308	479,241
Mainland China	421,828	443,954
Australia	220,879	222,222
India	189,209	176,466
Malaysia	117,727	124,792
Taiwan	119,253	119,400
Indonesia	44,884	45,529
Other	278,355	272,574
	6,075,996	6,113,709

13 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2023 HK\$m	31 Dec 2022 HK\$m
Guarantees and contingent liabilities	411,228	398,007
Commitments	3,297,060	3,191,864
	3,708,288	3,589,871

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. The amount of commitments shown above reflects, where relevant, the expected level of take-up of pre-approved facilities. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

14 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

	At	
	30 Jun 2023	31 Dec 2022
	%	%
Common equity tier 1 ('CET1') capital ratio	15.8	15.3
Tier 1 capital ratio	17.5	16.9
Total capital ratio	19.6	18.8

Total regulatory capital and RWAs

	At	
	30 Jun 2023	31 Dec 2022
	HK\$m	HK\$m
Common equity tier 1 capital	499,296	491,562
Additional tier 1 capital	53,799	54,010
Tier 2 capital	66,012	61,740
Total regulatory capital	619,107	607,312
RWAs	3,166,612	3,222,168

15 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 on the Interim condensed consolidated financial statements 2023.

Standards adopted during the half-year to 30 June 2023

On 1 January 2023, the group adopted the requirements of HKFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, group total equity reduced by HK\$75,433m. Further details are set out in Note 1 'Basis of preparation and material accounting policies' and Note 12 'Effects of adoption of HKFRS 17' of the Interim condensed consolidated financial statements.

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.

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 Interim condensed consolidated financial statements. There were no other new standards or amendments to standards that had an effect on the Interim condensed consolidated financial statements. Accounting policies have been consistently applied to all the years presented, unless otherwise stated.

16 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 Interim condensed consolidated financial statements for the half-year ended 30 June 2023, which were approved by the Board of Directors on 1 August 2023. The Bank's statutory annual consolidated accounts for the year ended 31 December 2022 have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The auditor has reported on those financial statements in their report dated 21 February 2023. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622). The *Interim Report 2023*, which includes the Interim condensed 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.

17 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.

Media enquiries to: Aman Ullah
Vinh Tran

Telephone no: + 852 3941 1120
Telephone no: + 852 2822 4924

The Hongkong and Shanghai Banking Corporation Limited

HSBC Main Building
1 Queen's Road Central, Hong Kong
Telephone: (852) 2822 1111
www.hsbc.com.hk