

News Release

1 August 2022

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2022 INTERIM CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax down 12% to HK\$44,393m (HK\$50,507m in the first half of 2021).
- Attributable profit down 11% to HK\$35,095m (HK\$39,382m in the first half of 2021).
- Return on average ordinary shareholders' equity of 8.3% (9.4% in the first half of 2021).
- Total assets up 5% to HK\$10,356bn (HK\$9,903bn at the end of 2021).
- Common equity tier 1 ratio of 14.4% (15.4% at the end of 2021), total capital ratio of 17.9% (18.7% at the end of 2021).
- Cost efficiency ratio of 58.7% (55.2% for the first half of 2021).

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 segments

	Wealth and Personal Banking	Commercial Banking	Global Banking ¹	Markets and Securities Services ¹	Corporate Centre ²	Other (GBM – other) ¹	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Half-year to 30 Jun 2022							
Net interest income/(expense)	27,388	16,868	8,029	1,909	(2,107)	1,166	53,253
Net fee income/(expense)	9,506	5,221	2,667	2,151	150	(55)	19,640
Net income/(expense) from financial instruments measured at fair value through profit or loss	(8,935)	1,701	(23)	11,828	1,994	273	6,838
Gains less losses from financial investments	(64)	(58)	–	–	–	(110)	(232)
Net insurance premium income/(expense)	45,448	2,816	–	–	(205)	–	48,059
Other operating income	6,842	71	110	565	83	–	7,671
Total operating income/(expense)	80,185	26,619	10,783	16,453	(85)	1,274	135,229
Net insurance claims and benefits paid and movement in liabilities to policyholders	(40,496)	(2,930)	–	–	170	–	(43,256)
Net operating income before change in expected credit losses and other credit impairment charges	39,689	23,689	10,783	16,453	85	1,274	91,973
Change in expected credit losses and other credit impairment charges	(618)	(3,099)	(419)	16	–	(24)	(4,144)
Net operating income	39,071	20,590	10,364	16,469	85	1,250	87,829
Operating expenses	(25,712)	(10,469)	(5,251)	(7,342)	(3,987)	(1,250)	(54,011)
Operating profit/(loss)	13,359	10,121	5,113	9,127	(3,902)	–	33,818
Share of profit in associates and joint ventures	31	–	–	–	10,544	–	10,575
Profit before tax	13,390	10,121	5,113	9,127	6,642	–	44,393
Balance sheet data at 30 Jun 2022							
Loans and advances to customers (net)	1,552,732	1,333,797	914,045	48,029	1,460	14,736	3,864,799
Customer accounts	3,432,308	1,637,900	834,008	208,583	27	840	6,113,666
Half-year to 30 Jun 2021							
Net interest income/(expense)	25,392	14,387	7,419	1,599	(1,298)	1,242	48,741
Net fee income/(expense)	12,978	5,108	2,857	2,973	105	(16)	24,005
Net income from financial instruments measured at fair value through profit or loss	15,268	1,839	31	10,794	224	287	28,443
Gains less losses from financial investments	609	237	–	–	–	287	1,133
Net insurance premium income/(expense)	29,996	2,435	–	–	(201)	–	32,230
Other operating income/(expense)	(717)	(53)	83	541	38	(72)	(180)
Total operating income/(expense)	83,526	23,953	10,390	15,907	(1,132)	1,728	134,372
Net insurance claims and benefits paid and movement in liabilities to policyholders	(39,271)	(2,404)	–	–	155	–	(41,520)
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	44,255	21,549	10,390	15,907	(977)	1,728	92,852
Change in expected credit losses and other credit impairment charges	(518)	(1,418)	307	6	(1)	17	(1,607)
Net operating income/(expense)	43,737	20,131	10,697	15,913	(978)	1,745	91,245
Operating expenses	(24,250)	(10,250)	(4,943)	(6,945)	(3,486)	(1,412)	(51,286)
Operating profit/(loss)	19,487	9,881	5,754	8,968	(4,464)	333	39,959
Share of profit in associates and joint ventures	55	–	–	–	10,493	–	10,548
Profit before tax	19,542	9,881	5,754	8,968	6,029	333	50,507
Balance sheet data at 30 Jun 2021							
Loans and advances to customers (net)	1,589,927	1,303,116	951,587	52,410	4,014	78	3,901,132
Customer accounts	3,304,632	1,513,022	869,069	207,281	36	7,455	5,901,495

1 In the second half of 2021, the reportable segments were changed to reflect the change in the management of the Global Banking and Markets ('GBM') business, with the splitting out of Global Banking ('GB') and Markets and Securities Services ('MSS') as separate reportable segments, while GBM – Other (previously reported within GBM) is now reported under 'Other (GBM – other)'. Comparatives have been re-presented to conform to the current year's presentation. Further details on the change in reportable segments are set out in Note 10 'Segmental analysis' of the Interim Report 2022.

2 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 2022 with the half-year ended 30 June 2021 unless otherwise stated.

Result commentary

The group reported profit before tax of HK\$44,393m, a decrease of HK\$6,114m, or 12%.

Net interest income increased by HK\$4,512m, or 9%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$4,983m, or 10%, driven by Hong Kong mainly from balance sheet growth as customer deposits increased, coupled with improved customer deposit spreads and higher reinvestment yields due to higher market interest rates compared with the first half of 2021. To a lesser extent, increases were also noted in Singapore, reflecting the favourable impact from the higher interest rate environment, and in mainland China and India, mainly from balance sheet growth.

Net fee income decreased by HK\$4,365m, or 18%. Excluding the unfavourable foreign exchange impact, net fee income decreased by HK\$4,160m, or 17%, driven by Wealth and Personal Banking ('WPB') from decreases in unit trust fees due to lower sales volume, securities brokerage income from lower equities turnover and funds under management income. Net fee income also decreased in Markets and Securities Services ('MSS'), mainly from lower underwriting fees.

Net income from financial instruments measured at fair value through profit or loss decreased by HK\$21,605m, or 76%.

Net income from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss decreased by HK\$23,798m, or 180%. This was driven by the unfavourable equity market performance in Hong Kong in the first half of 2022 as compared with the favourable equity market performance in the first half of 2021, which resulted in revaluation losses on equities held to back insurance liabilities in the first half of 2022. To the extent that these gains or losses are attributable to policyholders, these are offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net income from financial instruments held for trading or managed on a fair value basis increased by HK\$2,270m, or 15%, driven by mainland China, mainly from revaluation gains on foreign currency translation of balance sheet exposures. To a lesser extent, increases were also noted in Australia and India.

Net insurance premium income increased by HK\$15,829m, or 49%, driven by Hong Kong due to strong sales volumes in the first half of 2022. This was largely offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Other operating income increased by HK\$7,851m to HK\$7,671m driven by the favourable movement of HK\$7,105m in the present value of in-force long-term insurance business ('PVIF'). The changes in PVIF were primarily in Hong Kong and included a HK\$1,544m increase in the value of new business, a HK\$2,351m gain from a pricing update for policyholders' funds held on deposit with us, and an increase of HK\$2,282m primarily reflecting the effect of sharing lower investment returns with policyholders. The movement in PVIF was partly offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

The increase also included a provisional gain of HK\$556m on completion of our acquisition of AXA Insurance Pte Limited ('AXA Singapore') in the first half of 2022.

Net insurance claims and benefits paid and movement in liabilities to policyholders increased by HK\$1,736m, or 4%, reflecting higher claims from higher business sales and the favourable movement in PVIF, partly offset by lower investment returns to policyholders from the unfavourable equity market performance in the first half of 2022.

Change in expected credit losses and other credit risk provisions increased by HK\$2,537m, or 158%, notably in Commercial Banking ('CMB') and to a lesser extent in Global Banking ('GB'), mainly reflecting increases in allowance in relation to exposures to the mainland China's commercial real estate sector.

Total operating expenses increased by HK\$2,725m, or 5%. Excluding the favourable foreign exchange impact, operating expenses increased by HK\$3,163m, or 6%, reflecting our continued investment in technology and in wealth in Asia.

Share of profit in associates and joint ventures increased by HK\$27m, or less than 1%. Excluding the favourable foreign exchange impact, share of profit in associates and joint ventures decreased by HK\$52m, mainly from lower share of profits from Barrowgate Limited.

Consolidated income statement

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Net interest income	53,253	48,741
– interest income	67,458	60,260
– interest expense	(14,205)	(11,519)
Net fee income	19,640	24,005
– fee income	26,418	29,941
– fee expense	(6,778)	(5,936)
Net income from financial instruments held for trading or managed on a fair value basis	17,855	15,585
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(10,601)	13,197
Changes in fair value of designated debts issued and related derivatives	(447)	(312)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	31	(27)
Gains less losses from financial investments	(232)	1,133
Net insurance premium income	48,059	32,230
Other operating income/(expense)	7,671	(180)
Total operating income	135,229	134,372
Net insurance claims and benefits paid and movement in liabilities to policyholders	(43,256)	(41,520)
Net operating income before change in expected credit losses and other credit impairment charges	91,973	92,852
Change in expected credit losses and other credit impairment charges	(4,144)	(1,607)
Net operating income	87,829	91,245
Employee compensation and benefits	(20,113)	(20,246)
General and administrative expenses	(26,448)	(24,578)
Depreciation and impairment of property, plant and equipment	(4,573)	(4,409)
Amortisation and impairment of intangible assets	(2,877)	(2,053)
Total operating expenses	(54,011)	(51,286)
Operating profit	33,818	39,959
Share of profit in associates and joint ventures	10,575	10,548
Profit before tax	44,393	50,507
Tax expense	(7,512)	(7,868)
Profit for the period	36,881	42,639
Attributable to:		
– ordinary shareholders of the parent company	33,242	37,545
– other equity holders	1,853	1,837
– non-controlling interests	1,786	3,257
Profit for the period	36,881	42,639

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Profit for the period	36,881	42,639
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	(12,801)	(2,145)
– fair value losses	(16,338)	(1,716)
– fair value (gains)/losses transferred to the income statement	187	(996)
– expected credit (recoveries)/losses recognised in the income statement	162	(76)
– income taxes	3,188	643
Cash flow hedges	(1,576)	(325)
– fair value gains	6,099	5,309
– fair value gains reclassified to the income statement	(8,001)	(5,694)
– income taxes	326	60
Share of other comprehensive income/(expense) of associates and joint ventures	(787)	480
Exchange differences	(22,112)	(805)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	1,672	2,500
– fair value gains	2,013	3,004
– income taxes	(341)	(504)
Equity instruments designated at fair value through other comprehensive income	1,268	(2,721)
– fair value gains/(losses)	1,270	(2,716)
– income taxes	(2)	(5)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	5,656	(392)
– before income taxes	6,766	(464)
– income taxes	(1,110)	72
Remeasurement of defined benefit asset/liability	146	686
– before income taxes	179	832
– income taxes	(33)	(146)
Other comprehensive expense for the period, net of tax	(28,534)	(2,722)
Total comprehensive income for the period	8,347	39,917
Attributable to:		
– ordinary shareholders of the parent company	5,312	34,996
– other equity holders	1,853	1,837
– non-controlling interests	1,182	3,084
Total comprehensive income for the period	8,347	39,917

Consolidated balance sheet

	At	
	30 Jun 2022 HK\$m	31 Dec 2021 HK\$m
Assets		
Cash and balances at central banks	233,769	276,857
Items in the course of collection from other banks	47,348	21,632
Hong Kong Government certificates of indebtedness	344,194	332,044
Trading assets	681,035	777,450
Derivatives	502,780	365,167
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	219,385	202,399
Reverse repurchase agreements – non-trading	875,200	803,775
Loans and advances to banks	493,423	432,247
Loans and advances to customers	3,864,799	3,840,939
Financial investments	2,099,827	2,051,575
Amounts due from Group companies	202,711	112,719
Interests in associates and joint ventures	189,058	188,485
Goodwill and intangible assets	105,323	95,181
Property, plant and equipment	128,522	129,827
Deferred tax assets	4,928	3,353
Prepayments, accrued income and other assets	363,730	269,743
Total assets	10,356,032	9,903,393
Liabilities		
Hong Kong currency notes in circulation	344,194	332,044
Items in the course of transmission to other banks	52,117	25,701
Repurchase agreements – non-trading	287,591	255,374
Deposits by banks	337,078	280,310
Customer accounts	6,113,666	6,177,182
Trading liabilities	106,297	92,723
Derivatives	495,427	355,791
Financial liabilities designated at fair value	149,750	138,965
Debt securities in issue	107,280	67,364
Retirement benefit liabilities	1,712	1,890
Amounts due to Group companies	392,567	356,233
Accruals and deferred income, other liabilities and provisions	313,462	219,206
Liabilities under insurance contracts	689,045	638,145
Current tax liabilities	3,097	2,378
Deferred tax liabilities	34,818	32,522
Subordinated liabilities	4,029	4,054
Total liabilities	9,432,130	8,979,882
Equity		
Share capital	180,181	172,335
Other equity instruments	52,386	44,615
Other reserves	117,341	151,804
Retained earnings	508,541	488,055
Total shareholders' equity	858,449	856,809
Non-controlling interests	65,453	66,702
Total equity	923,902	923,511
Total liabilities and equity	10,356,032	9,903,393

Consolidated statement of changes in equity

	Half-year to 30 Jun 2022										
	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 ³			
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 2022	172,335	44,615	488,055	64,990	3,869	153	(7,130)	89,922	856,809	66,702	923,511
Profit for the period	–	–	35,095	–	–	–	–	–	35,095	1,786	36,881
Other comprehensive income/(expense) (net of tax)	–	–	5,828	1,572	(12,355)	(1,351)	(21,787)	163	(27,930)	(604)	(28,534)
– debt instruments at fair value through other comprehensive income	–	–	–	–	(12,384)	–	–	–	(12,384)	(417)	(12,801)
– 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/(expense) of associates and joint ventures	–	–	(4)	–	(946)	–	–	163	(787)	–	(787)
– exchange differences	–	–	–	–	–	–	(21,787)	–	(21,787)	(325)	(22,112)
Total comprehensive income/(expense) for the period	–	–	40,923	1,572	(12,355)	(1,351)	(21,787)	163	7,165	1,182	8,347
Shares issued ¹	7,846	–	–	–	–	–	–	–	7,846	–	7,846
Other equity instruments issued ²	–	7,771	–	–	–	–	–	–	7,771	–	7,771
Dividends to shareholders ⁴	–	–	(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 ⁵	–	–	(278)	(1,691)	44	–	–	1,025	(900)	(605)	(1,505)
At 30 Jun 2022	180,181	52,386	508,541	64,871	(8,442)	(1,198)	(28,917)	91,027	858,449	65,453	923,902
	Half-year to 30 Jun 2021										
At 1 Jan 2021	172,335	44,615	478,903	63,793	9,883	772	(10,688)	85,740	845,353	66,178	911,531
Profit for the period	–	–	39,382	–	–	–	–	–	39,382	3,257	42,639
Other comprehensive income/(expense) (net of tax)	–	–	199	2,296	(3,779)	(291)	(1,007)	33	(2,549)	(173)	(2,722)
– debt instruments at fair value through other comprehensive income	–	–	–	–	(2,023)	–	–	–	(2,023)	(122)	(2,145)
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	(2,181)	–	–	–	(2,181)	(540)	(2,721)
– cash flow hedges	–	–	–	–	–	(291)	–	–	(291)	(34)	(325)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	(392)	–	–	–	–	–	(392)	–	(392)
– property revaluation	–	–	–	2,296	–	–	–	–	2,296	204	2,500
– remeasurement of defined benefit asset/liability	–	–	569	–	–	–	–	–	569	117	686
– share of other comprehensive income of associates and joint ventures	–	–	22	–	425	–	–	33	480	–	480
– exchange differences	–	–	–	–	–	–	(1,007)	–	(1,007)	202	(805)
Total comprehensive income/(expense) for the period	–	–	39,581	2,296	(3,779)	(291)	(1,007)	33	36,833	3,084	39,917
Dividends to shareholders ⁴	–	–	(35,713)	–	–	–	–	–	(35,713)	(2,826)	(38,539)
Movement in respect of share-based payment arrangements	–	–	77	–	–	–	–	(77)	–	(3)	(3)
Transfers and other movements ⁵	–	–	1,194	(1,509)	(13)	–	–	892	564	23	587
At 30 Jun 2021	172,335	44,615	484,042	64,580	6,091	481	(11,695)	86,588	847,037	66,456	913,493

Consolidated statement of changes in equity (continued)

	Half-year to 31 Dec 2021										
	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 ³			
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 2021	172,335	44,615	484,042	64,580	6,091	481	(11,695)	86,588	847,037	66,456	913,493
Profit for the period	—	—	27,966	—	—	—	—	—	27,966	1,943	29,909
Other comprehensive income/ (expense) (net of tax)	—	—	961	2,063	(2,213)	(328)	4,565	16	5,064	55	5,119
– debt instruments at fair value through other comprehensive income	—	—	—	—	(1,752)	—	—	—	(1,752)	(112)	(1,864)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(556)	—	—	—	(556)	(203)	(759)
– cash flow hedges	—	—	—	—	—	(328)	—	—	(328)	(47)	(375)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	913	—	—	—	—	—	913	1	914
– property revaluation	—	—	—	2,063	—	—	—	—	2,063	208	2,271
– remeasurement of defined benefit asset/liability	—	—	43	—	—	—	—	—	43	(5)	38
– share of other comprehensive income of associates and joint ventures	—	—	5	—	95	—	—	16	116	—	116
– exchange differences	—	—	—	—	—	—	4,565	—	4,565	213	4,778
Total comprehensive income/ (expense) for the period	—	—	28,927	2,063	(2,213)	(328)	4,565	16	33,030	1,998	35,028
Dividends to shareholders ⁴	—	—	(23,392)	—	—	—	—	—	(23,392)	(1,592)	(24,984)
Movement in respect of share-based payment arrangements	—	—	54	—	—	—	—	(96)	(42)	1	(41)
Transfers and other movements ⁵	—	—	(1,576)	(1,653)	(9)	—	—	3,414	176	(161)	15
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

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 2022, there was an additional tier 1 capital instrument issued amounted to US\$1,000m on which there were US\$10m issue costs.

3 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.

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

5 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.

1 Net interest income

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Net interest income	53,253	48,741
Average interest-earning assets	7,556,448	7,102,770
	%	%
Net interest spread	1.36	1.33
Contribution from net free funds	0.06	0.05
Net interest margin	1.42	1.38

Net interest income ('NII') increased by HK\$4,512m, or 9%. Excluding the unfavourable foreign exchange impact, NII increased by HK\$4,983m, or 10%, driven by Hong Kong from balance sheet growth as customer deposits increased, coupled with improved customer deposit spreads and higher reinvestment yields due to higher market interest rates compared with the first half of 2021. To a lesser extent, increases were also noted in Singapore, reflecting the favourable impact from the higher interest rate environment, and in mainland China and India, mainly from balance sheet growth.

Average interest-earning assets increased by HK\$454bn, or 6%, driven by Hong Kong, mainly in financial investments and reverse repurchase agreements, reflecting growth in the commercial surplus as customer deposits increased. To a lesser extent, increases were also noted in mainland China and India, mainly from growth in customer advances, and in Japan from an increase in reverse repurchase agreements.

Net interest margin ('NIM') increased by four basis points, primarily in Hong Kong and to a lesser extent in Singapore, reflecting the favourable impact from the higher interest rate environment which resulted in improved customer deposit spreads and higher reinvestment yields. This was partly offset by an increase in the commercial surplus, primarily deployed into reverse repurchase agreements, which contributed to lower yields.

As a result, the NIM at the Bank's operations in Hong Kong increased by five basis points, and at Hang Seng Bank, the NIM increased by one basis point.

2 Net fee income

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Funds under management	3,752	4,333
Unit trusts	2,743	4,193
Broking income	2,461	3,782
Cards	3,750	3,708
Global custody	2,135	2,307
Credit facilities	1,529	1,586
Imports/exports	1,591	1,477
Remittances	1,443	1,363
Account services	1,147	1,090
Underwriting	327	863
Insurance agency commission	866	807
Other	4,674	4,432
Fee income	26,418	29,941
Fee expense	(6,778)	(5,936)
Net fee income	19,640	24,005

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

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Net income/(expense) arising on:		
Net trading activities	17,196	17,884
Other instruments managed on a fair value basis	659	(2,299)
Net income from financial instruments held for trading or managed on a fair value basis	17,855	15,585
Financial assets held to meet liabilities under insurance and investment contracts	(12,239)	13,689
Liabilities to customers under investment contracts	1,638	(492)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(10,601)	13,197
Changes in fair value of designated debts issued and related derivatives ¹	(447)	(312)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	31	(27)
Net income from financial instruments measured at fair value through profit or loss	6,838	28,443

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 2022 HK\$m	30 Jun 2021 HK\$m
Change in present value of in-force long-term insurance business	5,600	(1,505)
Gain on acquisition of subsidiary ¹	556	—
Gains/(losses) on investment properties	(57)	138
Other ²	1,572	1,187
Other operating income/(expense)	7,671	(180)

1 Includes a provisional gain of HK\$556m from the acquisition of AXA Insurance Pte Limited. Details are included in Note 16 'Business acquisitions'.

2 Includes mainly recovery of operating expenses from fellow companies.

5 Insurance manufacturing

The following table shows the results of our insurance manufacturing operations by income statement line item, and separately the insurance distribution income earned by the group's bank channels.

Results of insurance manufacturing operations and insurance distribution income earned by the group's bank channels

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Insurance manufacturing operations¹		
Net interest income	8,520	8,065
Net fee expense	(2,374)	(1,933)
Net income/(expense) from financial instruments measured at fair value	(11,482)	13,064
Net insurance premium income	48,261	32,427
Change in present value of in-force long-term insurance business	5,600	(1,505)
Other operating income	685	245
Total operating income	49,210	50,363
Net insurance claims and benefits paid and movement in liabilities to policyholders	(43,426)	(41,637)
Net operating income before change in expected credit losses and other credit impairment charges	5,784	8,726
Change in expected credit losses and other credit impairment charges	(8)	(136)
Net operating income	5,776	8,590
Total operating expenses	(2,564)	(1,487)
Operating profit	3,212	7,103
Share of profit in associates and joint ventures	31	55
Profit before tax	3,243	7,158
Annualised new business premiums of insurance manufacturing operations	8,658	10,616
Distribution income earned by banking operations	2,632	2,342

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 from the insurance manufacturing business decreased by HK\$3,915m, or 55%, driven by unfavourable equity market impacts, partly offset by higher new business volumes in the first half of 2022.

Net interest income increased by 6%, as net premium inflows from new business and renewals increased fixed income assets held to back insurance liabilities.

Net expense from financial instruments measured at fair value through profit or loss was HK\$11,482m in the first half of 2022, compared with a net income of HK\$13,064m in the first half of 2021. This was primarily due to the unfavourable equity market performance in Hong Kong in the first half of 2022, compared with the favourable market performance in the first half of 2021.

Net insurance premium income increased by HK\$15,834m, mainly in Hong Kong due to strong sales volumes from our whole-of-life propositions in the first half of 2022.

The change in the PVIF increased by HK\$7,105m, primarily in Hong Kong, reflecting an increase in the value of new business of HK\$1,544m, a HK\$2,351m gain from a pricing update for policyholders' funds held on deposit with us to reflect the cost of the provision of these services, and an increase of HK\$2,282m primarily reflecting the effect of sharing lower investment returns with policyholders.

To the extent that the above gains or losses are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Other operating income increased, largely due to a provisional gain of HK\$556m on completion of our acquisition of AXA Singapore.

Total operating expenses increased by HK\$1,077m, reflecting the incorporation of the results of AXA Singapore in the first half of 2022 and investment in our Pinnacle proposition in mainland China.

6 Change in expected credit losses and other credit impairment charges

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Loans and advances to banks and customers	3,793	2,072
– new allowances net of releases	4,242	2,572
– recoveries of amounts previously written off	(449)	(500)
Loan commitments and guarantees	174	(469)
Other financial assets	177	4
Change in expected credit losses and other credit impairment charges	4,144	1,607

The change in expected credit losses ('ECL') as a percentage of average gross customer advances was 0.20% for the first half of 2022 (first half of 2021: 0.11%). The increase in ECL was notable in CMB, mainly reflecting additional allowances in relation to exposures to mainland China's commercial real estate sector in the first half of 2022. To a lesser extent, an increase was also noted in GB, reflecting exposures to the same sector.

7 Operating expenses

	Half-year to	
	30 Jun 2022 HK\$m	30 Jun 2021 HK\$m
Employee compensation and benefits	20,113	20,246
General and administrative expenses	26,448	24,578
Depreciation of property, plant and equipment	4,573	4,409
Amortisation and impairment of intangible assets	2,877	2,053
Operating expenses	54,011	51,286

Employee compensation and benefits decreased by HK\$133m, or 1%. Excluding the favourable foreign exchange impact, employee compensation and benefits increased by HK\$102m, or 1%, as the impact from wage inflation was largely offset by lower performance-related pay and lower average headcount across the region.

General and administrative expenses increased by HK\$1,870m, or 8%, reflecting our continued investment in technology and in wealth in Asia. To a lesser extent, there were also increases in marketing expenses and professional and consultancy expenses.

Amortisation and impairment of intangible assets increased by HK\$824m, or 40%, mainly due to higher capitalised software balances.

8 Associates and joint ventures

At 30 June 2022, 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 2022 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. At the point where the carrying amount exceeds the value-in-use, impairment would be recognised. 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 2022		30 Jun 2021	
	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	0.23	10,584	0.47	21,665
– first interim dividend paid	0.17	7,761	0.26	12,211
Total	0.40	18,345	0.73	33,876
Total coupons on other equity instruments		1,853		1,837
Dividends to shareholders		20,198		35,713

Total coupons on other equity instruments

	Half-year to	
	30 Jun 2022	30 Jun 2021
	HK\$m	HK\$m
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%)	477	474
US\$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%)	580	576
US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%)	278	275
US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%)	518	512
Total	1,853	1,837

10 Loans and advances to customers

	At	
	30 Jun 2022	31 Dec 2021
	HK\$m	HK\$m
Gross loans and advances to customers	3,898,718	3,872,956
Expected credit loss allowances	(33,919)	(32,017)
	3,864,799	3,840,939

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 2022	31 Dec 2021
	HK\$m	HK\$m
Residential mortgages	1,178,698	1,167,487
Credit card advances	81,772	89,005
Other personal	280,175	275,819
Total personal	1,540,645	1,532,311
Real estate	617,897	635,217
Wholesale and retail trade	446,001	428,785
Manufacturing	397,135	410,033
Transportation and storage	105,491	111,388
Other	516,796	471,988
Total corporate and commercial	2,083,320	2,057,411
Non-bank financial institutions	274,753	283,234
	3,898,718	3,872,956
By geography¹		
Hong Kong	2,456,034	2,447,799
Rest of Asia-Pacific	1,442,684	1,425,157

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 increased by HK\$26bn, or 1%, which included unfavourable foreign exchange translation effects of HK\$66bn. Excluding this impact, the underlying increase of HK\$92bn was driven by an increase in corporate and commercial lending of HK\$64bn, mainly in mainland China, Japan and India. Residential mortgages also increased by HK\$29bn, mainly in Australia and Hong Kong.

11 Financial investments

	At	
	30 Jun 2022 HK\$m	31 Dec 2021 HK\$m
Financial investments measured at fair value through other comprehensive income	1,161,793	1,549,011
– treasury and other eligible bills	370,948	653,245
– debt securities	782,989	888,664
– equity securities	7,856	7,102
Debt instruments measured at amortised cost	938,034	502,564
– treasury and other eligible bills	340,302	6,900
– debt securities	597,732	495,664
	2,099,827	2,051,575

12 Customer accounts

Customer accounts by country/territory

	At	
	30 Jun 2022 HK\$m	31 Dec 2021 HK\$m
Hong Kong	4,263,818	4,284,719
Singapore	447,702	448,976
Mainland China	436,113	462,187
Australia	222,574	220,233
India	192,008	191,116
Malaysia	128,314	128,673
Taiwan	114,462	120,744
Indonesia	45,544	46,938
Other	263,131	273,596
	6,113,666	6,177,182

13 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2022 HK\$m	31 Dec 2021 HK\$m
Guarantees and contingent liabilities	384,041	379,443
Commitments	3,083,723	2,945,560
	3,467,764	3,325,003

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 2022 %	31 Dec 2021 %
Common equity tier 1 ('CET1') capital ratio	14.4	15.4
Tier 1 capital ratio	16.0	16.8
Total capital ratio	17.9	18.7

Total regulatory capital and RWAs

	At	
	30 Jun 2022 HK\$m	31 Dec 2021 HK\$m
Common equity tier 1 capital	467,359	484,654
Additional tier 1 capital	54,032	46,047
Tier 2 capital	62,300	59,777
Total regulatory capital	583,691	590,478
RWAs	3,252,522	3,156,553

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 2022.

Standards adopted during the half-year to 30 June 2022

There were no new accounting standards or interpretations that had a significant effect on the group in 2022. Accounting policies have been consistently applied to all the years presented, unless otherwise stated.

16 Business acquisitions

The following recently announced acquisitions form part of our strategy to become a market leader in Asian wealth management:

- On 28 January 2022, HSBC Insurance (Asia-Pacific) Holdings Limited, a subsidiary of the group, notified the shareholders of Canara HSBC Life Insurance Company Limited ('Canara HSBC') of its intention to increase its shareholding in Canara HSBC up to 49%. The group currently has a 26% shareholding which is accounted for as an associate. Any increase in shareholding is subject to agreement with other shareholders in Canara HSBC, as well as internal and regulatory approvals. Established in 2008, Canara HSBC is a life insurance company based in India.
- On 11 February 2022, HSBC Insurance (Asia-Pacific) Holdings Limited completed the acquisition of 100% of AXA Insurance Pte Limited ('AXA Singapore') for HK\$4.1bn. A provisional gain on acquisition of HK\$556m was recorded, reflecting the excess of the fair value of net assets acquired (gross assets of HK\$35.5bn and gross liabilities of HK\$30.9bn) over the acquisition price.
- On 6 April 2022, the Bank announced it had increased its shareholding in HSBC Qianhai Securities Limited, a partially-owned subsidiary, from 51% to 90%.
- On 23 June 2022, HSBC Insurance (Asia) Limited, a subsidiary of the group, acquired the remaining 50% equity interest in HSBC Life Insurance Company Limited. Headquartered in Shanghai, HSBC Life Insurance Company Limited offers a comprehensive range of insurance solutions covering annuity, whole life, critical illness and unit-linked insurance products.

17 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 2022, which were approved by the Board of Directors on 1 August 2022. The Bank's statutory annual consolidated accounts for the year ended 31 December 2021 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 22 February 2022. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622). The *Interim Report 2022*, 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.

18 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: Brian Rhoads
Vinh Tran

Telephone no: + 852 2288 5066
Telephone no: + 852 2822 4924