

The Hongkong and Shanghai Banking Corporation Limited

Interim Report 2024

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Certain defined terms

This document comprises the Interim Report 2024 for 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.

Chinese translation

A Chinese translation of the Interim Report 2024 is available upon request from: Communications (Asia), Level 32, HSBC Main Building, 1 Queen's Road Central, Hong Kong. The report is also available, in English and Chinese, on the Bank's website at www.hsbc.com.hk.

本《2024年中期業績報告》備有中譯本，如有需要可向下列部門索取：香港皇后大道中1號滙豐總行大廈32樓企業傳訊部（亞太區）。本報告之中英文本亦載於本行之網站www.hsbc.com.hk。

中英文本如有歧異，概以英文本為準。

Additional information

The Banking Disclosure Statement at 30 June 2024, which is prepared in accordance with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules made under section 19(1) of the Financial Institutions (Resolution) Ordinance, will be published on our website at www.hsbc.com.hk.

Financial highlights

- Profit before tax down 1% to HK\$82,068m (HK\$83,210m in the first half of 2023).
- Attributable profit down 1% to HK\$65,309m (HK\$66,017m in the first half of 2023).
- Net interest margin of 1.65% (1.83% in the first half of 2023).
- Annualised change in expected credit losses and other credit impairment charges ('ECL') as a percentage of average gross customer advances of 0.21% (0.21% in the first half of 2023).
- Return on average ordinary shareholders' equity of 16.6% (16.6% in the first half of 2023).
- Total assets up 1% to HK\$10,650bn (HK\$10,500bn at the end of 2023).
- Common equity tier 1 ratio of 15.8% (15.8% at the end of 2023), total capital ratio of 19.4% (19.7% at the end of 2023).
- Cost efficiency ratio of 43.0% (41.2% for the first half of 2023).

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Financial review

Consolidated income statement and balance sheet data by reportable segments¹

| | Wealth and Personal Banking HK\$m | Commercial Banking HK\$m | Global Banking HK\$m | Markets and Securities Services HK\$m | Corporate Centre ² HK\$m | Other (GBM – other) HK\$m | Total HK\$m |
|---|--------------------------------------|-----------------------------|-------------------------|--|--|------------------------------|----------------|
| Half-year to 30 Jun 2024 | | | | | | | |
| Net interest income/(expense) | 39,599 | 29,890 | 12,058 | 3,136 | (27,445) | 1,047 | 58,285 |
| Net fee income | 11,779 | 5,528 | 2,567 | 947 | 201 | – | 21,022 |
| Net income from financial instruments measured at fair value through profit or loss | 16,945 | 2,246 | 40 | 14,527 | 26,439 | 78 | 60,275 |
| Gains less losses from financial investments | 27 | 19 | – | – | – | 11 | 57 |
| Insurance finance income/(expense) | (13,358) | – | – | – | 10 | – | (13,348) |
| Insurance service result | 4,125 | – | – | – | (15) | – | 4,110 |
| Other operating income/(expense) | 852 | 40 | 213 | 959 | 618 | (447) | 2,235 |
| Net operating income/(expense) before change in expected credit losses and other credit impairment charges | 59,969 | 37,723 | 14,878 | 19,569 | (192) | 689 | 132,636 |
| – of which: external | 30,806 | 38,851 | 20,350 | 39,418 | (9,522) | 12,733 | 132,636 |
| inter-segment | 29,163 | (1,128) | (5,472) | (19,849) | 9,330 | (12,044) | – |
| Change in expected credit losses and other credit impairment charges | (881) | (1,959) | (700) | (20) | 6 | (1) | (3,555) |
| Net operating income/(expense) | 59,088 | 35,764 | 14,178 | 19,549 | (186) | 688 | 129,081 |
| Operating expenses | (26,081) | (11,307) | (5,443) | (8,039) | (5,016) | (1,134) | (57,020) |
| Operating profit/(loss) | 33,007 | 24,457 | 8,735 | 11,510 | (5,202) | (446) | 72,061 |
| Share of profit in associates and joint ventures | 164 | – | – | – | 9,843 | – | 10,007 |
| Profit/(loss) before tax | 33,171 | 24,457 | 8,735 | 11,510 | 4,641 | (446) | 82,068 |
| Balance sheet data at 30 Jun 2024 | | | | | | | |
| Loans and advances to customers (net) | 1,559,039 | 1,150,707 | 792,991 | 33,025 | 1,142 | 5,701 | 3,542,605 |
| Customer accounts | 3,606,574 | 1,659,609 | 754,960 | 210,366 | 22 | 8,730 | 6,240,261 |
| 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 |
| – of which: external | 35,021 | 40,804 | 19,283 | 32,203 | (8,732) | 11,017 | 129,596 |
| inter-segment | 21,930 | (2,480) | (4,593) | (14,159) | 9,449 | (10,147) | – |
| 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 |

¹ The financial information included in this table forms part of the Interim condensed consolidated financial statements, which have been reviewed by PricewaterhouseCoopers.

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 2024 with the half-year ended 30 June 2023 unless otherwise stated.

Result commentary

The group reported profit before tax of HK\$82,068m, a decrease of HK\$1,142m, or 1%.

Net interest income decreased by HK\$7,542m, or 11%. Excluding the unfavourable foreign exchange impact, net interest income decreased by HK\$6,696m, or 10%, due to a reduced net interest margin and lower average interest earning assets. This also includes the impact of the cost of funding used to fund trading and fair value net assets and the impact of foreign exchange swaps in Markets Treasury, where an offsetting income or loss is recorded in trading and fair value income. The funding costs associated with generating trading and fair value income increased, reflecting higher interest rates and growth in net trading and fair value assets. In Hong Kong, the lower net interest margin was driven by higher funding cost of liabilities from the impact of deposit mix, partly offset by the rise in the yield on average interest earning assets including financial investments and customer advances.

Net fee income increased by HK\$996m, or 5%. Excluding the unfavourable foreign exchange impact, net fee income increased by HK\$1,283m, or 6%, primarily in Hong Kong from unit trust income as improved market sentiment resulted in higher sales volumes, and to a lesser extent from higher insurance agency commission income.

Net income from financial instruments measured at fair value through profit or loss decreased by HK\$4,267m, or 7%.

Net income from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss decreased by HK\$13,563m, or 50% primarily in Hong Kong reflecting lower fair value gains on financial assets measured at fair value through profit or loss which back insurance and investment contracts due to market impacts. 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\$9,735m, or 26%, principally in Hong Kong from higher gains on derivatives and net interest income mainly benefiting from higher interest rates. The cost of funding used to fund trading and fair value net assets and the impact of foreign exchange swaps in Markets Treasury is included in net interest income.

Insurance finance expense decreased by HK\$13,312m, or 50%, offsetting gains reported on underlying assets held to support insurance contract liabilities.

Insurance service result increased by HK\$989m, or 32%, mainly reflecting increases to the release of contractual service margin ('CSM') as a result of a higher closing CSM balance primarily from new business written.

Other operating income decreased by HK\$494m, or 18%, mainly driven by losses from reinsurance contracts in Hong Kong.

Change in expected credit losses and other credit impairment charges decreased by HK\$16m, or was broadly flat. The charge reflects ECL in Singapore, mainland China and Hong Kong, mainly in the commercial real estate sector.

Total operating expenses increased by HK\$3,646m, or 7%. Excluding the favourable foreign exchange impact, operating expenses increased by HK\$4,256m, or 8%, primarily reflecting our continued investment in technology to support business growth. Employee compensation and benefits also increased, mainly from higher performance-related pay.

Share of profit in associates and joint ventures decreased by HK\$552m, or 5%. Excluding the unfavourable foreign exchange impact, share of profit in associates and joint ventures decreased by HK\$123m or 1%, as a result of lower net profits from Bank of Communications Co., Ltd. ('BoCom') driven by lower net interest income and net fee income.

Net interest income

| | Half-year to | |
|----------------------------------|-------------------------|-------------------------|
| | 30 Jun 2024 HK\$m | 30 Jun 2023 HK\$m |
| Net interest income | 58,285 | 65,827 |
| Average interest-earning assets | 7,108,271 | 7,247,640 |
| | % | % |
| Net interest spread | 1.57 | 1.66 |
| Contribution from net free funds | 0.08 | 0.17 |
| Net interest margin | 1.65 | 1.83 |

Net fee income

| | Half-year to | |
|-----------------------------|-------------------------|-------------------------|
| | 30 Jun 2024 HK\$m | 30 Jun 2023 HK\$m |
| Funds under management | 3,682 | 3,566 |
| Unit trusts | 3,508 | 2,596 |
| Broking income | 1,887 | 1,794 |
| Cards | 4,774 | 4,588 |
| Global custody | 1,908 | 1,907 |
| Credit facilities | 1,343 | 1,610 |
| Imports/exports | 1,603 | 1,650 |
| Remittances | 1,529 | 1,477 |
| Account services | 1,235 | 1,178 |
| Underwriting | 351 | 416 |
| Insurance agency commission | 1,082 | 889 |
| Other | 4,766 | 4,609 |
| Fee income | 27,668 | 26,280 |
| Fee expense | (6,646) | (6,254) |
| Net fee income | 21,022 | 20,026 |

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

| | Half-year to | |
|---|-------------------------|-------------------------|
| | 30 Jun 2024 HK\$m | 30 Jun 2023 HK\$m |
| Net income/(expense) arising on: | | |
| Net trading activities | 49,671 | 40,416 |
| Other instruments managed on a fair value basis | (2,786) | (3,266) |
| Net income from financial instruments held for trading or managed on a fair value basis | 46,885 | 37,150 |
| Financial assets held to meet liabilities under insurance and investment contracts | 14,033 | 27,466 |
| Liabilities to customers under investment contracts | (573) | (443) |
| Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | 13,460 | 27,023 |
| Changes in fair value of designated debts issued and related derivatives ¹ | (158) | 213 |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | 88 | 156 |
| Net income from financial instruments measured at fair value through profit or loss | 60,275 | 64,542 |

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

Change in expected credit losses and other credit impairment charges

| | Half-year to | |
|---|----------------|----------------|
| | 30 Jun 2024 | 30 Jun 2023 |
| | HK\$m | HK\$m |
| Loans and advances to banks and customers | 3,765 | 3,840 |
| – new allowances net of releases | 4,179 | 4,231 |
| – recoveries of amounts previously written off | (414) | (391) |
| Loan commitments and guarantees | (239) | (112) |
| Other financial assets | 29 | (157) |
| Change in expected credit losses and other credit impairment charges | 3,555 | 3,571 |

The annualised change in ECL as a percentage of average gross customer advances was 0.21% for the first half of 2024 (first half of 2023: 0.21%).

Associates and joint ventures

The fair value of the group's investment in BoCom is below its carrying amount. At 31 December 2023, the group performed an impairment test on the carrying amount, which resulted in an impairment of HK\$24.0bn, as the recoverable amount as determined by a value in use ('VIU') calculation was lower than the carrying value. At 30 June 2024, the group has concluded there is no indication of further significant impairment (or indication that an impairment

may no longer exist or may have decreased significantly) since 31 December 2023. As part of this assessment, the group updated the VIU calculation which supported there was no significant change to the 31 December 2023 impairment position. As a result, no additional impairment to the carrying amount (or reversal of impairment) was recognised at 30 June 2024.

Independent review report by PricewaterhouseCoopers

Report on Review of the Interim condensed consolidated financial statements To the Board of Directors of The Hongkong and Shanghai Banking Corporation Limited

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the Interim condensed consolidated financial statements set out on pages 8 to 27, which comprise the consolidated balance sheet of The Hongkong and Shanghai Banking Corporation Limited (the 'Bank') and its subsidiaries (together, the 'group') as at 30 June 2024 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and notes, comprising material accounting policies and other explanatory information¹. The directors of the Bank are responsible for the preparation and presentation of these Interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these Interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

¹ Certain required disclosures as described in Note 1(g) on the Interim condensed consolidated financial statements have been presented elsewhere in the Interim Report 2024, rather than in the notes on the Interim condensed consolidated financial statements. These are cross-referenced from the Interim condensed consolidated financial statements and are identified as reviewed.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

31 July 2024

Interim condensed consolidated financial statements

Consolidated income statement

| | Half-year to | |
|--|-------------------------|-------------------------|
| | 30 Jun 2024 HK\$m | 30 Jun 2023 HK\$m |
| Net interest income | 58,285 | 65,827 |
| – interest income | 157,620 | 137,949 |
| – interest expense | (99,335) | (72,122) |
| Net fee income | 21,022 | 20,026 |
| – fee income | 27,668 | 26,280 |
| – fee expense | (6,646) | (6,254) |
| Net income from financial instruments held for trading or managed on a fair value basis | 46,885 | 37,150 |
| Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | 13,460 | 27,023 |
| Changes in fair value of designated debts issued and related derivatives | (158) | 213 |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | 88 | 156 |
| Gains less losses from financial investments | 57 | 11 |
| Insurance finance expense | (13,348) | (26,660) |
| Insurance service result | 4,110 | 3,121 |
| – Insurance revenue | 7,583 | 5,854 |
| – Insurance service expense | (3,473) | (2,733) |
| Other operating income | 2,235 | 2,729 |
| Net operating income before change in expected credit losses and other credit impairment charges | 132,636 | 129,596 |
| Change in expected credit losses and other credit impairment charges | (3,555) | (3,571) |
| Net operating income | 129,081 | 126,025 |
| Employee compensation and benefits | (19,736) | (18,971) |
| General and administrative expenses | (27,700) | (26,288) |
| Depreciation and impairment of property, plant and equipment | (5,382) | (4,654) |
| Amortisation and impairment of intangible assets | (4,202) | (3,461) |
| Total operating expenses | (57,020) | (53,374) |
| Operating profit | 72,061 | 72,651 |
| Share of profit in associates and joint ventures | 10,007 | 10,559 |
| Profit before tax | 82,068 | 83,210 |
| Tax expense | (13,019) | (13,455) |
| Profit for the period | 69,049 | 69,755 |
| Attributable to: | | |
| – ordinary shareholders of the parent company | 63,151 | 63,620 |
| – other equity holders | 2,158 | 2,397 |
| – non-controlling interests | 3,740 | 3,738 |
| Profit for the period | 69,049 | 69,755 |

Consolidated statement of comprehensive income

| | Half-year to | |
|--|-----------------|----------|
| | 30 Jun | 30 Jun |
| | 2024 | 2023 |
| | HK\$m | HK\$m |
| Profit for the period | 69,049 | 69,755 |
| 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 | (750) | 938 |
| – fair value gain/(losses) | (676) | 1,517 |
| – fair value gains transferred to the income statement | (58) | (5) |
| – expected credit (recoveries)/losses recognised in the income statement | 4 | (231) |
| – income taxes | (20) | (343) |
| Cash flow hedges | (1,996) | (219) |
| – fair value gains | 9,568 | 5,290 |
| – fair value gains reclassified to the income statement | (11,947) | (5,576) |
| – income taxes | 383 | 67 |
| Share of other comprehensive income of associates and joint ventures | 1,962 | 367 |
| Exchange differences | (12,316) | (16,158) |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Property revaluation | 990 | 2,863 |
| – fair value gains | 1,174 | 3,430 |
| – income taxes | (184) | (567) |
| Equity instruments designated at fair value through other comprehensive income | 187 | 74 |
| – fair value gains | 329 | 77 |
| – income taxes | (142) | (3) |
| Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk | (1,958) | (3,443) |
| – before income taxes | (2,323) | (4,109) |
| – income taxes | 365 | 666 |
| Remeasurement of defined benefit asset/liability | 399 | 139 |
| – before income taxes | 476 | 170 |
| – income taxes | (77) | (31) |
| Other comprehensive expense for the period, net of tax | (13,482) | (15,439) |
| Total comprehensive income for the period | 55,567 | 54,316 |
| Attributable to: | | |
| – ordinary shareholders of the parent company | 49,665 | 48,183 |
| – other equity holders | 2,158 | 2,397 |
| – non-controlling interests | 3,744 | 3,736 |
| Total comprehensive income for the period | 55,567 | 54,316 |

Consolidated balance sheet

| | Notes | At | |
|---|-------|-------------------------|-------------------------|
| | | 30 Jun 2024 HK\$m | 31 Dec 2023 HK\$m |
| Assets | | | |
| Cash and balances at central banks | | 229,785 | 232,987 |
| Items in the course of collection from other banks | | 50,225 | 22,049 |
| Hong Kong Government certificates of indebtedness | | 336,004 | 328,304 |
| Trading assets | | 1,137,258 | 941,250 |
| Derivatives | | 419,500 | 409,253 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | | 747,791 | 707,573 |
| Reverse repurchase agreements – non-trading | | 693,725 | 831,186 |
| Loans and advances to banks | | 501,382 | 563,801 |
| Loans and advances to customers | 3 | 3,542,605 | 3,557,076 |
| Financial investments | 4 | 2,064,549 | 2,029,212 |
| Amounts due from Group companies | | 182,145 | 158,592 |
| Interests in associates and joint ventures | 5 | 177,398 | 170,206 |
| Goodwill and intangible assets | | 39,480 | 38,923 |
| Property, plant and equipment | | 126,372 | 129,675 |
| Deferred tax assets | | 9,336 | 9,315 |
| Prepayments, accrued income and other assets | | 392,534 | 370,991 |
| Total assets | | 10,650,089 | 10,500,393 |
| Liabilities | | | |
| Hong Kong currency notes in circulation | | 336,004 | 328,304 |
| Items in the course of transmission to other banks | | 50,984 | 27,536 |
| Repurchase agreements – non-trading | | 672,456 | 521,984 |
| Deposits by banks | | 210,365 | 182,146 |
| Customer accounts | 6 | 6,240,261 | 6,261,051 |
| Trading liabilities | | 104,667 | 103,050 |
| Derivatives | | 403,121 | 450,216 |
| Financial liabilities designated at fair value | | 192,063 | 170,728 |
| Debt securities in issue | | 76,362 | 87,745 |
| Retirement benefit liabilities | | 984 | 1,362 |
| Amounts due to Group companies | | 404,116 | 465,476 |
| Accruals and deferred income, other liabilities and provisions | | 281,160 | 258,113 |
| Insurance contract liabilities | | 767,700 | 730,829 |
| Current tax liabilities | | 16,885 | 15,344 |
| Deferred tax liabilities | | 23,067 | 23,923 |
| Total liabilities | | 9,780,195 | 9,627,807 |
| Equity | | | |
| Share capital | | 180,181 | 180,181 |
| Other equity instruments | | 52,422 | 52,465 |
| Other reserves | | 104,421 | 117,214 |
| Retained earnings | | 474,253 | 462,866 |
| Total shareholders' equity | | 811,277 | 812,726 |
| Non-controlling interests | | 58,617 | 59,860 |
| Total equity | | 869,894 | 872,586 |
| Total liabilities and equity | | 10,650,089 | 10,500,393 |

Consolidated statement of changes in equity

| | Half-year to 30 Jun 2024 | | | | | | | | | | |
|--|----------------------------|--------------------------|-------------------|------------------------------|-----------------------------------|-------------------------|--------------------------|--------------------|----------------------------|---------------------------|----------------|
| | 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 2024 | 180,181 | 52,465 | 462,866 | 65,279 | (2,546) | 1,851 | (47,899) | 100,529 | 812,726 | 59,860 | 872,586 |
| Profit for the period | — | — | 65,309 | — | — | — | — | — | 65,309 | 3,740 | 69,049 |
| Other comprehensive income/(expense) (net of tax) | — | — | (1,640) | 962 | 1,061 | (1,978) | (12,002) | 111 | (13,486) | 4 | (13,482) |
| – debt instruments at fair value through other comprehensive income | — | — | — | — | (814) | — | — | — | (814) | 64 | (750) |
| – equity instruments designated at fair value through other comprehensive income | — | — | — | — | 141 | — | — | — | 141 | 46 | 187 |
| – cash flow hedges | — | — | — | — | — | (1,980) | — | — | (1,980) | (16) | (1,996) |
| – changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk | — | — | (1,957) | — | — | — | — | — | (1,957) | (1) | (1,958) |
| – property revaluation | — | — | — | 962 | — | — | — | — | 962 | 28 | 990 |
| – remeasurement of defined benefit asset/liability | — | — | 322 | — | — | — | — | — | 322 | 77 | 399 |
| – share of other comprehensive income/(expense) of associates and joint ventures | — | — | (5) | — | 1,856 | — | — | 111 | 1,962 | — | 1,962 |
| – exchange differences | — | — | — | — | (122) | 2 | (12,002) | — | (12,122) | (194) | (12,316) |
| Total comprehensive income/(expense) for the period | — | — | 63,669 | 962 | 1,061 | (1,978) | (12,002) | 111 | 51,823 | 3,744 | 55,567 |
| Other equity instruments issued ² | — | 8,574 | — | — | — | — | — | — | 8,574 | — | 8,574 |
| Other equity instruments redeemed ³ | — | (8,617) | — | — | — | — | — | — | (8,617) | — | (8,617) |
| Dividends to shareholders ⁵ | — | — | (51,458) | — | — | — | — | — | (51,458) | (3,181) | (54,639) |
| Movement in respect of share-based payment arrangements | — | — | (155) | — | — | — | — | 74 | (81) | 5 | (76) |
| Transfers and other movements ⁶ | — | — | (669) | (2,194) | 3 | (1) | — | 1,171 | (1,690) | (1,811) | (3,501) |
| At 30 Jun 2024 | 180,181 | 52,422 | 474,253 | 64,047 | (1,482) | (128) | (59,901) | 101,885 | 811,277 | 58,617 | 869,894 |

Consolidated statement of changes in equity (continued)

Half-year to 30 Jun 2023

| | 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 ⁴ | 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 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 31 Dec 2023

| | 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 ⁴ | 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 1 Jul 2023 | 180,181 | 52,465 | 490,673 | 65,911 | (9,675) | (1,823) | (54,314) | 96,240 | 819,658 | 58,244 | 877,902 |
| Profit for the period | — | — | 24,730 | — | — | — | — | — | 24,730 | 3,042 | 27,772 |
| Other comprehensive income/(expense) (net of tax) | — | — | (2,072) | 1,521 | 6,348 | 3,678 | 7,146 | (86) | 16,535 | 363 | 16,898 |
| – debt instruments at fair value through other comprehensive income | — | — | — | — | 6,857 | — | — | — | 6,857 | 158 | 7,015 |
| – equity instruments designated at fair value through other comprehensive income | — | — | — | — | (817) | — | — | — | (817) | (156) | (973) |
| – cash flow hedges | — | — | — | — | — | 3,670 | — | — | 3,670 | 154 | 3,824 |
| – changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk | — | — | (1,966) | — | — | — | — | — | (1,966) | (1) | (1,967) |
| – property revaluation | — | — | — | 1,521 | — | — | — | — | 1,521 | 112 | 1,633 |
| – remeasurement of defined benefit asset/liability | — | — | (110) | — | — | — | — | — | (110) | (8) | (118) |
| – share of other comprehensive income/(expense) of associates and joint ventures | — | — | 4 | — | 451 | — | — | (86) | 369 | — | 369 |
| – exchange differences | — | — | — | — | (143) | 8 | 7,146 | — | 7,011 | 104 | 7,115 |
| Total comprehensive income/(expense) for the period | — | — | 22,658 | 1,521 | 6,348 | 3,678 | 7,146 | (86) | 41,265 | 3,405 | 44,670 |
| Dividends to shareholders ⁵ | — | — | (48,459) | — | — | — | — | — | (48,459) | (1,592) | (50,051) |
| Movement in respect of share-based payment arrangements | — | — | (46) | — | — | — | — | (126) | (172) | 6 | (166) |
| Transfers and other movements ⁶ | — | — | (1,960) | (2,153) | 781 | (4) | (731) | 4,501 | 434 | (203) | 231 |
| 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 |

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years.

2 During the first half of 2024, an additional tier 1 capital instrument amounting to SG\$1,500m was issued for which there was SG\$15m of issuance costs.

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.

3 During the first half of 2024, an additional tier 1 capital instrument amounting to US\$1,100m was redeemed at par.

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.

Consolidated statement of cash flows

| | Half-year to | |
|--|------------------|-------------|
| | 30 Jun | 30 Jun |
| | 2024 | 2023 |
| | HK\$m | HK\$m |
| Profit before tax | 82,068 | 83,210 |
| Adjustments for non-cash items: | | |
| Depreciation, amortisation and impairment | 9,584 | 8,115 |
| Net (gain)/loss from investing activities | 252 | (52) |
| Share of profits in associates and joint ventures | (10,007) | (10,559) |
| Gain on disposal of subsidiaries, businesses, associates and joint ventures | — | (4) |
| Change in expected credit losses gross of recoveries and other credit impairment charges | 3,969 | 3,962 |
| Provisions | 189 | 132 |
| Share-based payment expense | 524 | 469 |
| Other non-cash items included in profit before tax | (17,498) | (10,975) |
| Change in operating assets | (51,810) | (53,561) |
| Change in operating liabilities | 134,033 | 160,402 |
| Elimination of exchange differences | 24,730 | 5,957 |
| Dividends received from associates | 60 | 65 |
| Contributions paid to defined benefit plans | (143) | (141) |
| Tax paid | (12,519) | (7,167) |
| Net cash from operating activities | 163,432 | 179,853 |
| Purchase of financial investments | (1,403,117) | (1,900,337) |
| Proceeds from the sale and maturity of financial investments | 1,342,449 | 1,737,785 |
| Purchase of property, plant and equipment | (952) | (832) |
| Proceeds from sale of property, plant and equipment and assets held for sale | 22 | 51 |
| Proceeds from disposal of customer loan portfolios | — | 717 |
| Net cash inflow from purchase of business | 4,854 | — |
| Net investment in intangible assets | (4,667) | (4,492) |
| Proceeds from disposal of associate | — | 4 |
| Net cash outflow on purchase of subsidiaries | (345) | — |
| Net cash from investing activities | (61,756) | (167,104) |
| Issue of other equity instruments | 8,574 | 7,850 |
| Redemption of other equity instruments | (8,617) | (7,771) |
| Net cash outflow from change in stake of subsidiary | (1,952) | — |
| Subordinated loan capital issued ¹ | 4,398 | 48,531 |
| Subordinated loan capital repaid ¹ | — | (34,889) |
| Dividends paid to shareholders of the parent company and non-controlling interests | (54,639) | (40,148) |
| Net cash from financing activities | (52,236) | (26,427) |
| Net increase/(decrease) in cash and cash equivalents | 49,440 | (13,678) |
| Cash and cash equivalents at 1 Jan | 996,638 | 1,121,695 |
| Exchange differences in respect of cash and cash equivalents | (37,730) | (18,215) |
| Cash and cash equivalents at 30 Jun² | 1,008,348 | 1,089,802 |

Interest received in the first half of 2024 was HK\$159,118m (first half of 2023: HK\$140,115m), interest paid in the first half of 2024 was HK\$106,429m (first half of 2023: HK\$69,310m) and dividends received in the first half of 2024 was HK\$4,561m (first half of 2023: HK\$3,156m).

¹ Changes in subordinated liabilities (including those issued to Group companies) during the first half of the year included amounts from issuance and repayments as presented above, and non-cash changes from foreign exchange loss of HK\$1,090m in the first half of 2024 (first half of 2023: loss of HK\$577m) and fair value loss after hedging of HK\$3,127m in the first half of 2024 (first half of 2023: fair value gain of HK\$3,164m).

² At 30 June 2024, HK\$141,392m (2023: HK\$162,113m) was not available for use by the group due to a range of restrictions, including currency exchange and other restrictions.

Notes on the Interim condensed consolidated financial statements

1 Basis of preparation and material accounting policies

(a) Compliance with Hong Kong Financial Reporting Standards

The Interim condensed consolidated financial statements of the group have been prepared in accordance with HKAS 34 'Interim Financial Reporting' as issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). These financial statements should be read in conjunction with the Annual Report and Accounts 2023.

Standards applied during the half-year to 30 June 2024

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

(b) Use of estimates and judgements

Management believes that the critical estimates and judgements applicable to the group are those that relate to the impairment of amortised cost and FVOCI debt financial assets, the valuation of financial instruments, interests in associates and insurance contract liabilities.

There were no changes in the current period to the critical estimates and judgements applied in 2023, which are stated in Note 1 of the Annual Report and Accounts 2023.

(c) Composition of the group

There were no material changes in the composition of the group in the half-year to 30 June 2024.

(d) Future accounting developments

Amendments to HKAS 21 'Lack of Exchangeability'

In September 2023, the HKICPA published amendments to HKAS 21 'Lack of Exchangeability' effective from 1 January 2025. The group is undertaking an assessment of the potential impact.

HKFRS 18 'Presentation and Disclosure in Financial Statements'

In July 2024, the HKICPA published HKFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace HKAS 1 'Presentation of Financial Statements' but carries over many requirements from that HKAS unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of information.

While HKFRS 18 will not change recognition criteria or measurement bases, it might have a significant impact on presenting information in the financial statements, in particular the income statement. The group is currently assessing any impacts as well as data readiness before developing a more detailed implementation plan.

New standards and amendments to IFRS Accounting Standards

The IASB has published the following amendments to IFRS Accounting Standards, effective from 1 January 2026, which have not yet been adopted for use by the HKICPA. There are no significant differences between IFRS Accounting Standards and Hong Kong Financial Reporting Standards ('HKFRS'), and the HKICPA has a policy to converge with IFRS Accounting Standards.

Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'

In May 2024, the IASB issued amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on or after 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG related contingencies and financial assets with certain non-recourse features. The group is undertaking an assessment of the potential impact.

(e) Going concern

The Interim condensed consolidated financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and the Bank have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following disrupted supply chains, slower economic activity and ongoing geopolitical tensions. They also considered other top and emerging risks, including climate change, as well as the related impacts on profitability, capital and liquidity.

(f) Accounting policies

The accounting policies applied by the group for the Interim condensed consolidated financial statements are consistent with those described in Note 1 of the Annual Report and Accounts 2023, as are the methods of computation.

(g) Presentation of information

The following disclosures required by HKFRS have been included in the section marked as 'Reviewed by PricewaterhouseCoopers' in this Interim Report 2024:

- Consolidated income statement and balance sheet data by reportable segments are included in the 'Financial Review' on page 3.

2 Dividends

Dividends to shareholders of the parent company

| | Half-year to | | | |
|--|----------------|---------------|----------------|---------------|
| | 30 Jun 2024 | | 30 Jun 2023 | |
| | 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 | 0.41 | 20,300 | 0.27 | 13,500 |
| – first interim dividend paid | 0.43 | 21,200 | 0.44 | 22,000 |
| – special dividend paid | 0.16 | 7,800 | — | — |
| Total | 1.00 | 49,300 | 0.71 | 35,500 |
| Total coupons on other equity instruments | | 2,158 | | 2,397 |
| Dividends to shareholders | | 51,458 | | 37,897 |

The Directors declared a second interim dividend in respect of the half-year ended 30 June 2024 of HK\$0.41 per ordinary share (HK\$20,500m) (half-year ended 30 June 2023: a second interim dividend of HK\$0.43 per ordinary share (HK\$21,500m) and a special dividend for first half 2023 of HK\$0.16 per ordinary share (HK\$7,800m)).

Total coupons on other equity instruments

| | Half-year to | |
|--|--------------|--------------|
| | 30 Jun 2024 | 30 Jun 2023 |
| | HK\$m | HK\$m |
| US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%) | 475 | 478 |
| US\$1,200m Fixed rate perpetual subordinated loans (interest rate fixed at 6.172%) | 578 | 581 |
| US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%) | 277 | 277 |
| US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%) ¹ | 515 | 516 |
| US\$1,000m Floating rate perpetual subordinated loan (interest rate at compounded SOFR plus 5.090%) ² | — | 545 |
| US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 8.000%) | 313 | — |
| Total | 2,158 | 2,397 |

¹ This subordinated loan was early repaid in the first half of 2024 and distributions were made on repayment.

² This subordinated loan was early repaid in the first half of 2023 and no distribution in first half of 2024.

3 Loans and advances to customers

| | At | |
|---------------------------------------|------------------|------------------|
| | 30 Jun 2024 | 31 Dec 2023 |
| | HK\$m | HK\$m |
| Gross loans and advances to customers | 3,582,701 | 3,595,929 |
| Expected credit loss allowances | (40,096) | (38,853) |
| | 3,542,605 | 3,557,076 |

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 2024 HK\$m | 31 Dec 2023 HK\$m |
| Residential mortgages | 1,211,041 | 1,224,325 |
| Credit card advances | 96,010 | 101,257 |
| Other personal | 247,522 | 237,440 |
| Total personal | 1,554,573 | 1,563,022 |
| Real estate & Construction | 516,643 | 537,393 |
| Wholesale and retail trade | 361,739 | 350,492 |
| Manufacturing | 358,144 | 359,914 |
| Transportation and storage | 98,512 | 96,789 |
| Other | 404,428 | 396,760 |
| Total corporate and commercial | 1,739,466 | 1,741,348 |
| Non-bank financial institutions | 288,662 | 291,559 |
| | 3,582,701 | 3,595,929 |
| By geography¹ | | |
| Hong Kong | 2,176,037 | 2,211,592 |
| Mainland China | 352,421 | 349,116 |
| Australia | 294,837 | 294,502 |
| Singapore | 248,736 | 238,537 |
| India | 167,930 | 143,657 |
| Taiwan | 91,096 | 90,396 |
| Malaysia | 80,234 | 81,898 |
| Indonesia | 32,267 | 30,141 |
| Others | 139,143 | 156,090 |

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\$13bn, or 0.4%, which included unfavourable foreign exchange translation effects of HK\$38bn. Excluding this impact, the underlying increase of HK\$25bn was driven by an increase in corporate and commercial lending of HK\$20bn, mainly in Singapore, India and mainland China, partly offset by declines in Hong Kong.

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

- Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.
- POCl: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

Notes on the Interim condensed consolidated financial statements (unaudited)

Summary of credit risk (excluding debt instruments measured at fair value through other comprehensive income ('FVOCI')) by stage distribution and ECL coverage by industry sector

| | Gross carrying/nominal amount ¹ | | | | | Allowance for ECL | | | | | ECL coverage % | | | | |
|---|--|----------------|---------------|------------|------------------|-------------------|----------------|-----------------|--------------|-----------------|----------------|------------|-------------|-------------|------------|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage1 | Stage 2 | Stage 3 | POCI | Total | Stage1 | Stage 2 | Stage 3 | POCI | Total |
| | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | % | % | % | % | % |
| Loans and advances to customers | 3,193,197 | 295,925 | 93,310 | 269 | 3,582,701 | (2,524) | (7,032) | (30,394) | (146) | (40,096) | 0.1 | 2.4 | 32.6 | 54.3 | 1.1 |
| – personal | 1,490,849 | 55,351 | 8,374 | – | 1,554,574 | (1,219) | (2,796) | (1,218) | – | (5,233) | 0.1 | 5.1 | 14.5 | – | 0.3 |
| – corporate ² | 1,425,142 | 229,945 | 84,109 | 269 | 1,739,465 | (1,128) | (4,090) | (28,719) | (146) | (34,083) | 0.1 | 1.8 | 34.1 | 54.3 | 2.0 |
| – financial institutions ³ | 277,206 | 10,629 | 827 | – | 288,662 | (177) | (146) | (457) | – | (780) | 0.1 | 1.4 | 55.3 | – | 0.3 |
| Loans and advances to banks | 501,267 | 154 | – | – | 501,421 | (38) | (1) | – | – | (39) | – | 0.6 | – | – | – |
| Other financial assets | 2,153,387 | 10,658 | 411 | – | 2,164,456 | (326) | (24) | (117) | – | (467) | – | 0.2 | 28.5 | – | – |
| Loan and other credit-related commitments | 1,947,571 | 48,334 | 2,636 | – | 1,998,541 | (366) | (197) | (37) | – | (600) | – | 0.4 | 1.4 | – | – |
| – personal | 1,452,421 | 22,002 | 1,445 | – | 1,475,868 | (24) | – | – | – | (24) | – | – | – | – | – |
| – corporate ² | 357,038 | 19,760 | 1,191 | – | 377,989 | (321) | (175) | (37) | – | (533) | 0.1 | 0.9 | 3.1 | – | 0.1 |
| – financial institutions ³ | 138,112 | 6,572 | – | – | 144,684 | (21) | (22) | – | – | (43) | – | 0.3 | – | – | – |
| Financial guarantee | 43,844 | 3,818 | 187 | – | 47,849 | (27) | (58) | (16) | – | (101) | – | 1.5 | 8.6 | – | 0.2 |
| – personal | 5,232 | 6 | – | – | 5,238 | – | – | – | – | – | – | – | – | – | – |
| – corporate ² | 32,339 | 3,788 | 187 | – | 36,314 | (24) | (58) | (16) | – | (98) | 0.1 | 1.5 | 8.6 | – | 0.3 |
| – financial institutions ³ | 6,273 | 24 | – | – | 6,297 | (3) | – | – | – | (3) | – | – | – | – | – |
| At 30 Jun 2024 | 7,839,266 | 358,889 | 96,544 | 269 | 8,294,968 | (3,281) | (7,312) | (30,564) | (146) | (41,301) | – | 2.0 | 31.7 | 54.3 | 0.5 |

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

| | Gross carrying/nominal amount ¹ | | | | | Allowance for ECL | | | | | ECL coverage % | | | | |
|---|--|------------------|------------------|---------------|----------------|-------------------|------------------|------------------|---------------|----------------|----------------|--------------|--------------|-----------|------------|
| | Stage 1 HK\$m | Stage 2 HK\$m | Stage 3 HK\$m | POCI HK\$m | Total HK\$m | Stage 1 HK\$m | Stage 2 HK\$m | Stage 3 HK\$m | POCI HK\$m | Total HK\$m | Stage 1 % | Stage 2 % | Stage 3 % | POCI % | Total % |
| Loans and advances to customers | 3,180,483 | 352,477 | 62,679 | 290 | 3,595,929 | (2,681) | (8,575) | (27,433) | (164) | (38,853) | 0.1 | 2.4 | 43.8 | 56.6 | 1.1 |
| – personal | 1,495,142 | 60,473 | 7,406 | — | 1,563,021 | (1,285) | (3,142) | (1,265) | — | (5,692) | 0.1 | 5.2 | 17.1 | — | 0.4 |
| – corporate ² | 1,405,747 | 280,699 | 54,613 | 290 | 1,741,349 | (1,187) | (5,396) | (25,839) | (164) | (32,586) | 0.1 | 1.9 | 47.3 | 56.6 | 1.9 |
| – financial institutions ³ | 279,594 | 11,305 | 660 | — | 291,559 | (209) | (37) | (329) | — | (575) | 0.1 | 0.3 | 49.8 | — | 0.2 |
| Loans and advances to banks | 563,647 | 205 | — | — | 563,852 | (50) | (1) | — | — | (51) | — | 0.5 | — | — | — |
| Other financial assets | 2,296,216 | 12,497 | 396 | — | 2,309,109 | (277) | (11) | (105) | — | (393) | — | 0.1 | 26.5 | — | — |
| Loan and other credit-related commitments | 1,929,040 | 47,175 | 2,113 | — | 1,978,328 | (455) | (285) | (101) | — | (841) | — | 0.6 | 4.8 | — | — |
| – personal | 1,416,939 | 19,362 | 1,742 | — | 1,438,043 | (25) | (1) | — | — | (26) | — | — | — | — | — |
| – corporate ² | 381,803 | 25,661 | 371 | — | 407,835 | (399) | (273) | (101) | — | (773) | 0.1 | 1.1 | 27.2 | — | 0.2 |
| – financial institutions ³ | 130,298 | 2,152 | — | — | 132,450 | (31) | (11) | — | — | (42) | — | 0.5 | — | — | — |
| Financial guarantee | 42,828 | 3,244 | 253 | — | 46,325 | (20) | (10) | (24) | — | (54) | — | 0.3 | 9.5 | — | 0.1 |
| – personal | 4,654 | 6 | — | — | 4,660 | — | — | — | — | — | — | — | — | — | — |
| – corporate ² | 33,169 | 3,131 | 253 | — | 36,553 | (19) | (10) | (24) | — | (53) | 0.1 | 0.3 | 9.5 | — | 0.1 |
| – financial institutions ³ | 5,005 | 107 | — | — | 5,112 | (1) | — | — | — | (1) | — | — | — | — | — |
| At 31 Dec 2023 | 8,012,214 | 415,598 | 65,441 | 290 | 8,493,543 | (3,483) | (8,882) | (27,663) | (164) | (40,192) | — | 2.1 | 42.3 | 56.6 | 0.5 |

The above tables do not include balances due from Group companies.

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

² Includes corporate and commercial customers.

³ Includes non-bank financial institutions.

4 Financial investments

Carrying amounts of financial investments

| | At | |
|---|-------------------------|-------------------------|
| | 30 Jun 2024 HK\$m | 31 Dec 2023 HK\$m |
| Financial investments measured at fair value through other comprehensive income | 1,489,405 | 1,410,271 |
| – treasury and other eligible bills | 713,455 | 700,863 |
| – debt securities | 769,805 | 703,459 |
| – equity securities | 6,145 | 5,949 |
| Debt instruments measured at amortised cost | 575,144 | 618,941 |
| – treasury and other eligible bills | 1,994 | 52,758 |
| – debt securities | 573,150 | 566,183 |
| | 2,064,549 | 2,029,212 |

5 Interests in associates and joint ventures

Bank of Communications Co., Ltd.

The group maintains a 19.03% interest in Bank of Communications Co., Ltd. ('BoCom'). The group's investment in BoCom is classified as an associate. Significant influence in BoCom was established with consideration of all relevant factors, including representation on BoCom's Board of Directors and participation in a resource and experience sharing agreement ('RES'). Under the RES, HSBC staff have been seconded to assist in the maintenance of BoCom's financial and operating policies. Investments in associates are recognised using the equity method of accounting in accordance with HKAS 28 whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of associate's net assets. An impairment test is required if there is any indication of impairment.

The fair value of the group's investment in BoCom is below its carrying amount. At 31 December 2023, the group performed an impairment test on the carrying amount, which resulted in an impairment of HK\$24.0bn, as the recoverable amount as determined by a value in use ('VIU') calculation was lower than the carrying value.

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The VIU may increase or decrease depending on the effect of changes to model inputs. The main model inputs are described below and are based on factors observed at period-end. The factors that could result in increases or reductions in the VIU include changes in BoCom's short-term performance, a change in regulatory capital requirements or revisions to the forecast of BoCom's future profitability.

If the group did not have significant influence in BoCom, the investment would be carried at fair value rather than the current carrying value.

Impairment testing

At 30 June 2024, the carrying amount of the investment is HK\$173.3bn (31 December 2023: HK\$166.2bn) with fair value of HK\$86.7bn (31 December 2023: HK\$68.8bn). The group has concluded there is no indication of further significant impairment (or indication that an impairment may no longer exist or may have decreased significantly) since 31 December 2023. As part of this assessment, the group updated the VIU calculation which supported there was no significant change to the 31 December 2023 impairment position. As a result, no additional impairment to the carrying amount (or reversal of impairment) is made at 30 June 2024.

Basis of recoverable amount

The updated assessment was performed by comparing the recoverable amount of BoCom, determined by a VIU calculation, with its carrying value. The VIU calculation uses discounted cash flow projections based on management's best estimates of future earnings available to ordinary shareholders prepared in accordance with HKAS 36. Significant management judgement is required in arriving at the best estimate.

There are two main components to the VIU calculation. The first component is management's best estimate of BoCom's earnings. Forecast earnings growth over the short to medium term continues to be lower than recent (within the last five years) actual growth, and reflects the impact of recent macroeconomic, policy and industry factors in mainland China. As a result of management's intent to continue to retain its investment for the long term, earnings beyond the short to medium term are extrapolated into perpetuity using a long-term growth rate to derive a terminal value, which comprises the majority of the VIU. The second component is the capital maintenance charge ('CMC'), which is management's forecast of the earnings that need to be withheld in order for BoCom to meet capital requirements over the forecast period, meaning that CMC is deducted when arriving at management's estimate of future earnings available to ordinary shareholders. The CMC reflects the revised capital requirements arising from revisions of the ratio of risk-weighted assets to total assets assumption. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets and the expected capital requirements. An increase in the CMC as a result of a change to these principal inputs would reduce VIU. Additionally, management considers other qualitative factors, to ensure that the inputs to the VIU calculation remain appropriate.

Key assumptions in value-in-use calculation

We used a number of assumptions in our VIU calculation, in accordance with the requirements of HKAS 36:

- Long-term profit growth rate: 3.00% (31 December 2023: 3.00%) for periods after 2027, which does not exceed forecast GDP growth in mainland China and is similar to forecasts by external analysts.
- Long-term asset growth rate: 3.25% (31 December 2023: 3.00%) for periods after 2027, which is the rate that assets are expected to grow to achieve long-term profit growth of 3.00%. The increase of long-term asset growth rate was supported by historical data which is expected to continue.
- Discount rate: 8.53% (31 December 2023: 9.00%), which is based on a capital asset pricing model ('CAPM'), using market data. The discount rate used is within the range of 7.7% to 9.4% (31 December 2023: 7.9% to 9.7%) indicated by the CAPM, and decreased as a consequence of a market-driven reduction in the risk-free rate and beta.
- Expected credit losses ('ECL') as a percentage of loans and advances to customers: ranges from 0.78% to 0.97% (31 December 2023: 0.80% to 0.97%) in the short to medium term, reflecting reported credit experience in mainland China. For periods after 2027, the ratio is 0.97% (31 December 2023: 0.97%), which is higher than BoCom's average ECL as a percentage of loans and advances to customers in recent years prior to the pandemic.
- Risk-weighted assets as a percentage of total assets: ranges from 62.0% to 62.5% (31 December 2023: 62.0% to 63.7%) in the short to medium term, reflecting higher risk-weights in the short term followed by an expected reversion to recent historical levels. For periods after 2027, the ratio is 62.0% (31 December 2023: 62.0%), which is similar to BoCom's actual results in recent years.
- Loans and advances to customers growth rate: ranges from 9.0% to 10.0% (31 December 2023: 9.0% to 10.0%) in the short to medium term, which is similar to BoCom's actual results in recent years. Increases in the forecast growth rate of loans and advances to customers results in higher forecast ECL.
- Operating income growth rate: ranges from -0.4% to 9.3% (31 December 2023: -0.4% to 9.7%) in the short to medium term, which is similar to BoCom's actual results in recent years, and is impacted by projections of net interest income in the short term as a consequence of recent macroeconomic, policy and industry factors in mainland China.
- Cost-income ratio: ranges from 35.5% to 39.8% (31 December 2023: 35.5% to 39.8%) in the short to medium term. These ratios are similar to BoCom's actual results in recent years and forecasts disclosed by external analysts.
- Effective tax rate ('ETR'): ranges from 6.3% to 15.0% (31 December 2023: 5.3% to 15.0%) in the short to medium term, reflecting BoCom's actual results and an expected increase towards the long-term assumption through the forecast period. For periods after 2027, the rate is 15.0% (31 December 2023: 15.0%), which is higher than the recent historical average, and aligned to the minimum tax rate as proposed by the OECD/Group of 20 ('G20') Inclusive Framework on Base Erosion and Profit Shifting.
- Capital requirements: capital adequacy ratio of 12.5% (31 December 2023: 12.5%) and tier 1 capital adequacy ratio of 9.5% (31 December 2023: 9.5%), based on BoCom's capital risk appetite and capital requirements respectively.

The VIU is highly sensitive to the assumptions above. To indicate the scale of that sensitivity, we also disclose the reasonably possible range of VIU based changes to these assumptions. This is based on impacts arising from the favourable/unfavourable change in the earnings in the short to medium term, the long-term expected credit losses as a percentage of loans and advances to customers, and a 50bps increase/decrease in the discount rate. At 30 June 2024, we estimate that the reasonably possible range of VIU is HK\$110.5bn to HK\$242.6bn (31 December 2023: HK\$102.3bn to HK\$225.2bn), acknowledging that the fair value of the group's investment has ranged from HK\$52.6bn to HK\$86.7bn over the last five years as at the date of the impairment test. All other long-term assumptions, and the basis of the CMC, have been kept unchanged when determining the reasonably possible range of the VIU.

6 Customer accounts

Customer accounts by country/territory

| | At | |
|----------------|-------------------------|-------------------------|
| | 30 Jun 2024 HK\$m | 31 Dec 2023 HK\$m |
| Hong Kong | 4,246,486 | 4,246,041 |
| Singapore | 555,951 | 574,574 |
| Mainland China | 448,659 | 437,542 |
| Australia | 237,792 | 250,550 |
| India | 217,142 | 190,439 |
| Malaysia | 124,350 | 123,487 |
| Taiwan | 126,454 | 132,410 |
| Indonesia | 42,038 | 43,744 |
| Other | 241,389 | 262,264 |
| | 6,240,261 | 6,261,051 |

7 Fair values of financial instruments carried at fair value

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 2024 are consistent with those applied for the Annual Report and Accounts 2023.

The following table provides an analysis of financial instruments carried at fair value and bases of valuation.

| | Fair value hierarchy | | | Third-party total HK\$m | Inter- company ² HK\$m | Total HK\$m |
|---|----------------------|------------------|------------------|-------------------------------|---|----------------|
| | Level 1 HK\$m | Level 2 HK\$m | Level 3 HK\$m | | | |
| At 30 Jun 2024 | | | | | | |
| Assets | | | | | | |
| Trading assets ¹ | 891,960 | 236,036 | 9,262 | 1,137,258 | — | 1,137,258 |
| Derivatives | 2,466 | 278,616 | 1,705 | 282,787 | 136,713 | 419,500 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | 210,723 | 402,267 | 134,801 | 747,791 | — | 747,791 |
| Financial investments | 1,245,724 | 240,540 | 3,141 | 1,489,405 | — | 1,489,405 |
| Liabilities | | | | | | |
| Trading liabilities ¹ | 55,419 | 49,240 | 8 | 104,667 | — | 104,667 |
| Derivatives | 1,346 | 269,376 | 1,794 | 272,516 | 130,605 | 403,121 |
| Financial liabilities designated at fair value ¹ | — | 155,267 | 36,796 | 192,063 | — | 192,063 |
| At 31 Dec 2023 | | | | | | |
| Assets | | | | | | |
| Trading assets ¹ | 637,806 | 294,184 | 9,260 | 941,250 | — | 941,250 |
| Derivatives | 938 | 268,318 | 2,143 | 271,399 | 137,854 | 409,253 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | 182,874 | 402,113 | 122,586 | 707,573 | — | 707,573 |
| Financial investments | 1,077,040 | 329,689 | 3,542 | 1,410,271 | — | 1,410,271 |
| Liabilities | | | | | | |
| Trading liabilities ¹ | 66,685 | 36,363 | 2 | 103,050 | — | 103,050 |
| Derivatives | 2,048 | 303,584 | 2,409 | 308,041 | 142,175 | 450,216 |
| Financial liabilities designated at fair value ¹ | — | 142,071 | 28,657 | 170,728 | — | 170,728 |

¹ These balances exclude HK\$13,095m Level 2 assets (2023: HK\$15,043m) and HK\$225,094m Level 2 liabilities (2023: HK\$224,187m) held with HSBC Group entities.

² Derivatives balances with HSBC Group entities are largely under 'Level 2'.

Notes on the Interim condensed consolidated financial statements (unaudited)

Transfers between Level 1 and Level 2 fair values

| | Assets | | | | Liabilities | | |
|-----------------------------------|-----------------------|----------------|---|-------------|---------------------|--------------------------|-------------|
| | Financial investments | Trading assets | Designated and otherwise mandatorily measured at fair value | Derivatives | Trading liabilities | Designated at fair value | Derivatives |
| | | | | | | | |
| 1 Jan to 30 Jun 2024 | | | | | | | |
| Transfers from Level 1 to Level 2 | 29,430 | 13,628 | 4,777 | — | 18 | — | — |
| Transfers from Level 2 to Level 1 | 38,732 | 20,025 | 8,703 | — | 142 | — | — |
| 1 Jan to 31 Dec 2023 | | | | | | | |
| Transfers from Level 1 to Level 2 | 94,475 | 60,546 | 13,386 | — | 296 | — | — |
| Transfers from Level 2 to Level 1 | 69,552 | 40,626 | 19,403 | — | 1,591 | — | — |

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

Fair value valuation bases

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

| | Assets | | | | | Liabilities | | | |
|--|-----------------------|----------------|--|--------------|----------------|---------------------|--------------------------|--------------|---------------|
| | Financial investments | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives | Total | Trading liabilities | Designated at fair value | Derivatives | Total |
| | | | | | | | | | |
| Private equity and related investments | 2,765 | — | 120,409 | — | 123,174 | — | — | — | — |
| Structured notes | — | — | 23 | — | 23 | — | 36,796 | — | 36,796 |
| Others | 376 | 9,262 | 14,369 | 1,705 | 25,712 | 8 | — | 1,794 | 1,802 |
| At 30 Jun 2024 | 3,141 | 9,262 | 134,801 | 1,705 | 148,909 | 8 | 36,796 | 1,794 | 38,598 |
| Private equity and related investments | 2,886 | 48 | 108,278 | — | 111,212 | 1 | — | — | 1 |
| Structured notes | — | — | 23 | — | 23 | — | 28,657 | — | 28,657 |
| Others | 656 | 9,212 | 14,285 | 2,143 | 26,296 | 1 | — | 2,409 | 2,410 |
| At 31 Dec 2023 | 3,542 | 9,260 | 122,586 | 2,143 | 137,531 | 2 | 28,657 | 2,409 | 31,068 |

The basis for determining the fair value of the financial instruments in the table above is explained on pages 138 to 139 of the Annual Report and Accounts 2023.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

| | Assets | | | | Liabilities | | |
|---|-----------------------|----------------|--|--------------|---------------------|---------------------------------------|--------------|
| | Financial investments | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives | Trading liabilities | Designated at fair value ¹ | Derivatives |
| | | | | | | | |
| At 1 Jan 2024 | 3,542 | 9,260 | 122,586 | 2,143 | 2 | 28,657 | 2,409 |
| Total gains/(losses) recognised in profit or loss | – | 41 | 2,205 | 765 | – | 120 | 746 |
| – net income/(losses) from financial instruments held for trading or managed on a fair value basis | – | 41 | – | 765 | – | 120 | 746 |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss ² | – | – | 2,205 | – | – | – | – |
| Total gains/(losses) recognised in other comprehensive income ('OCI') | (299) | (132) | (143) | (12) | – | (140) | (23) |
| – financial investments: fair value changes | (264) | – | – | – | – | 1 | – |
| – exchange differences | (35) | (132) | (143) | (12) | – | (141) | (23) |
| Purchases | 1,141 | 2,138 | 26,602 | – | – | – | – |
| New issuances | – | – | – | – | – | 2,311 | – |
| Sales | – | (38) | (189) | – | – | – | – |
| Settlements | (1,103) | (2,335) | (15,504) | (580) | 1 | 6,139 | (943) |
| Transfers out | (140) | (202) | (1,480) | (825) | – | (417) | (557) |
| Transfers in | – | 530 | 724 | 214 | 5 | 126 | 162 |
| At 30 Jun 2024 | 3,141 | 9,262 | 134,801 | 1,705 | 8 | 36,796 | 1,794 |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2024 | – | (33) | (2,092) | 321 | – | 3 | (277) |
| – net income/(losses) from financial instruments held for trading or managed on a fair value basis | – | (33) | – | 321 | – | – | (277) |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | – | – | (2,092) | – | – | 3 | – |

Notes on the Interim condensed consolidated financial statements (unaudited)

Movement in Level 3 financial instruments (continued)

| | Assets | | | | Liabilities | | |
|---|-----------------------|----------------|--|-------------|---------------------|---------------------------------------|-------------|
| | Financial investments | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives | Trading liabilities | Designated at fair value ¹ | Derivatives |
| | | | HK\$m | | | HK\$m | |
| At 1 Jan 2023 | 4,308 | 9,283 | 101,819 | 3,301 | 6 | 34,734 | 1,712 |
| Total gains/(losses) recognised in profit or loss | — | (173) | 4,946 | (1,450) | (11) | (358) | 108 |
| – net income/(losses) from financial instruments held for trading or managed on a fair value basis | — | (173) | — | (1,450) | (11) | — | 108 |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss ² | — | — | 4,946 | — | — | (358) | — |
| Total gains/(losses) recognised in other comprehensive income | 300 | (176) | 3 | 10 | 1 | (404) | (13) |
| – financial investments: fair value changes | 375 | — | — | — | — | 12 | — |
| – exchange differences | (75) | (176) | 3 | 10 | 1 | (416) | (13) |
| Purchases | 1,119 | 1,759 | 11,946 | — | — | — | — |
| New issuances | — | — | — | — | — | 3,354 | — |
| Sales | — | (1,698) | (18) | — | — | — | — |
| Settlements | (1,059) | (3,012) | (7,890) | 34 | 5 | 296 | (327) |
| Transfers out | — | (1,043) | — | (142) | (3) | (6,915) | (96) |
| Transfers in | — | 1,247 | — | 12 | 8 | 858 | 248 |
| At 30 Jun 2023 | 4,668 | 6,187 | 110,806 | 1,765 | 6 | 31,565 | 1,632 |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2023 | — | (393) | 2,360 | 989 | — | (20) | (241) |
| – net income/(losses) from financial instruments held for trading or managed on a fair value basis | — | (393) | — | 989 | — | — | (241) |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | — | — | 2,360 | — | — | (20) | — |

1 Includes structured deposits where the settlement balance represents the net of matured and new deposits.

2 Includes net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss of HK\$2,176m (2023: HK\$4,671m).

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

Sensitivity of fair values to reasonably possible alternative assumptions

| | At 30 Jun 2024 | | | | At 31 Dec 2023 | | | |
|---|-----------------------------|----------------------|--------------------|----------------------|-----------------------------|----------------------|--------------------|----------------------|
| | Reflected in profit or loss | | Reflected in OCI | | Reflected in profit or loss | | Reflected in OCI | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m |
| Derivatives, trading assets and trading liabilities ¹ | 196 | (338) | — | — | 284 | (345) | — | — |
| Financial assets and liabilities designated and otherwise mandatorily measured at fair value through profit or loss | 7,694 | (7,079) | — | — | 6,163 | (6,163) | — | — |
| Financial investments | — | — | 128 | (128) | — | — | 170 | (170) |
| Total | 7,890 | (7,417) | 128 | (128) | 6,447 | (6,508) | 170 | (170) |

1 'Derivatives, trading assets and trading liabilities' are presented as one category to reflect the manner in which these instruments are risk-managed.

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

The following table lists key unobservable inputs to Level 3 financial instruments and provides the range of those inputs at 30 June 2024.

There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein, which are detailed on page 141 of the Annual Report and Accounts 2023.

Quantitative information about significant unobservable inputs in Level 3 valuations

| | Fair value | | Key valuation techniques | Key unobservable inputs | 30 Jun 2024 | | 31 Dec 2023 | |
|--|----------------|---------------|--------------------------|-------------------------|----------------------|--------|----------------------|--------|
| | Assets | Liabilities | | | Full range of inputs | | Full range of inputs | |
| | HK\$m | HK\$m | | | Lower | Higher | Lower | Higher |
| Private equity and related investments | 123,174 | — | See footnote 1 | See footnote 1 | | | | |
| Structured notes | 23 | 36,796 | | | | | | |
| – equity-linked notes | 23 | 11,669 | Model – Option model | Equity volatility | 6% | 72% | 6% | 71% |
| | | | Model – Option model | Equity correlation | 39% | 99% | 34% | 98% |
| – FX-linked notes | — | 19,396 | Model – Option model | FX volatility | 2% | 30% | 3% | 34% |
| – other | — | 5,731 | | | | | | |
| Others ² | 25,712 | 1,802 | | | | | | |
| At 30 Jun 2024 | 148,909 | 38,598 | | | | | | |

1 Given the bespoke nature of the analysis in respect of each private equity holding, it is not practical to quote a range of key unobservable inputs.

2 'Others' includes a range of smaller holdings.

8 Fair values of financial instruments not carried at fair value

| | At | | | |
|---|-----------------|------------|-----------------|------------|
| | 30 Jun 2024 | | 31 Dec 2023 | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | HK\$m | HK\$m | HK\$m | HK\$m |
| Assets¹ | | | | |
| Reverse repurchase agreements – non-trading | 693,725 | 693,647 | 831,186 | 831,199 |
| Loans and advances to banks | 501,382 | 501,362 | 563,801 | 563,706 |
| Loans and advances to customers | 3,542,605 | 3,480,018 | 3,557,076 | 3,507,623 |
| Financial investments – at amortised cost | 575,144 | 563,283 | 618,941 | 611,531 |
| Liabilities¹ | | | | |
| Repurchase agreements – non-trading | 672,456 | 672,194 | 521,984 | 521,850 |
| Deposits by banks | 210,365 | 210,357 | 182,146 | 182,135 |
| Customer accounts | 6,240,261 | 6,241,376 | 6,261,051 | 6,261,771 |
| Debt securities in issue | 76,362 | 76,725 | 87,745 | 88,050 |

1 Amounts with HSBC Group entities are not included here.

The fair values above are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the group as a going concern.

Other financial instruments not carried at fair value are typically short term in nature or re-priced to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks, items in the course of collection from and transmission to other banks, Hong Kong Government certificates of indebtedness, Hong Kong currency notes in circulation, other financial assets and other financial liabilities, all of which are measured at amortised cost.

9 Contingent liabilities, contractual commitments and guarantees

| | At | |
|---------------------------------------|------------------|------------------|
| | 30 Jun | 31 Dec |
| | 2024 | 2023 |
| | HK\$m | HK\$m |
| Guarantees and contingent liabilities | 429,781 | 435,597 |
| Commitments ¹ | 3,430,267 | 3,411,916 |
| | 3,860,048 | 3,847,513 |

1 Includes HK\$1,998,541m of commitments at 30 June 2024 (31 December 2023: HK\$1,978,328m) to which the impairment requirements in HKFRS 9 are applied where the group has become party to an irrevocable commitment.

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

Contingent liabilities at 30 June 2024 included amounts in relation to legal and regulatory matters as set out in Note 13.

10 Segmental analysis

The Executive Committee ('EXCO') is considered the Chief Operating Decision Maker ('CODM') for the purpose of identifying the group's operating segments. Operating segment results are assessed by the CODM on the basis of performance measured in accordance with HKFRSs. The basis of identifying operating segments is set out in Note 31 'Segmental analysis' in the Annual Report and Accounts 2023, and the segmental analysis is presented based on reportable segments as assessed under HKFRS 8 'Operating Segments'.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines and geographical regions. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to other operating segments are included in the 'Corporate Centre'.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items for the operating segments are presented in the 'Corporate Centre'.

Our global businesses and reportable segments

The group provides a comprehensive range of banking and related financial services to its customers in our global businesses: Wealth and Personal Banking ('WPB'), Commercial Banking ('CMB') and Global Banking and Markets ('GBM'). The products and services offered to customers are organised by these global businesses.

- WPB offers a full range of retail banking and wealth products to our customers from personal banking to ultra-high net worth individuals. Typically, customer offerings include retail banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. We also provide wealth management services, including insurance and investment products, global asset management services, investment management and Private Wealth Solutions for customers with more sophisticated and international requirements.
- CMB offers a broad range of products and services to serve the needs of our commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards), and investments. CMB also offers its customers access to products and services offered by other global businesses, such as GBM, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- GBM comprises of two separate reportable segments: Global Banking ('GB') and Markets and Securities Services ('MSS'). GB provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services. MSS provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.
- Corporate Centre includes strategic investments such as our investment in BoCom, Central Treasury revenue, and costs which are not allocated to global businesses, mainly in relation to investments in technology.
- Other (GBM-other) mainly comprises other business activities which are jointly managed by GB and MSS.

Financial performance by reportable segments is presented in the 'Financial Review' on page 3, which forms part of the Interim condensed consolidated financial statements.

Geographical regions

| | Hong Kong HK\$m | Rest of Asia-Pacific HK\$m | Intra-segment elimination HK\$m | Total HK\$m |
|--|--------------------|----------------------------------|---------------------------------------|----------------|
| Half-year to 30 Jun 2024 | | | | |
| Net operating income before change in expected credit losses and other credit impairment charges | 82,271 | 50,763 | (398) | 132,636 |
| Profit before tax | 45,133 | 36,935 | — | 82,068 |
| At 30 Jun 2024 | | | | |
| Total assets | 7,583,099 | 3,854,305 | (787,315) | 10,650,089 |
| Total liabilities | 7,171,497 | 3,396,013 | (787,315) | 9,780,195 |
| Credit commitments and contingent liabilities (contract amounts) | 1,968,801 | 1,891,247 | — | 3,860,048 |
| Half-year to 30 Jun 2023 | | | | |
| Net operating income before change in expected credit losses and other credit impairment charges | 80,374 | 49,290 | (68) | 129,596 |
| Profit before tax | 44,940 | 38,270 | — | 83,210 |
| At 30 Jun 2023 | | | | |
| Total assets | 7,503,687 | 3,914,238 | (1,005,050) | 10,412,875 |
| Total liabilities | 7,080,273 | 3,459,750 | (1,005,050) | 9,534,973 |
| Credit commitments and contingent liabilities (contract amounts) | 1,954,764 | 1,753,524 | — | 3,708,288 |

11 Related party transactions

There were no changes in the related party transactions as described in the Annual Report and Accounts 2023 that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2024. All related party transactions that took place in the half-year to 30 June 2024 were similar in nature to those described in the Annual Report and Accounts 2023.

12 Business acquisitions and disposal

In October 2023, HSBC Global Asset Management Singapore Limited, a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, entered into an agreement to acquire 100% of the shares of Silkroad Property Partners Pte Ltd ('Silkroad'). Silkroad is a Singapore headquartered Asia-Pacific-focused, real estate investment manager. The acquisition was completed on 31 January 2024.

In October 2023, HSBC Bank (China) Company Limited, a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, entered into an agreement to acquire Citibank China's retail wealth management portfolio in mainland China. The portfolio comprises assets under management and deposits, and the associated wealth customers. The acquisition was completed on 7 June 2024.

In accordance with HKFRS 3, the amounts recognised for both acquisitions at 30 June 2024 remain provisional until expiry of the measurement period.

In November 2023, The Hongkong and Shanghai Banking Corporation Limited (acting through its Mauritius Branch) entered into an agreement with ABSA Bank (Mauritius) Limited, a wholly-owned subsidiary of ABSA Bank Group Limited, to sell its Wealth and Personal Banking business in Mauritius. The sale was completed on 6 July 2024 and the financial impact was not significant for the group.

13 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1.2(n) of the Annual Report and Accounts 2023. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2024. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Korean short selling indictment

In March 2024, the Korean Prosecutors' Office issued a criminal indictment against the Bank and three current and former employees for breaching short selling rules under the Financial Investment Services and Capital Markets Act in connection with trades carried out between August 2021 and December 2021. The Bank is defending the action.

Other regulatory investigations, reviews and litigation

The Bank and/or certain of its affiliates are subject to a number of enquiries and examinations, requests for information, investigations and reviews by various tax authorities, regulators, competition and law enforcement authorities, as well as legal proceedings including litigation, arbitration and other contentious proceedings, in connection with various matters arising out of their businesses and operations.

At the present time, the Bank does not expect the ultimate resolution of any of these matters to be material to the group's financial position; however, given the uncertainties involved in legal proceedings and regulatory matters, there can be no assurance regarding the eventual outcome of a particular matter or matters.

14 Interim Report 2024 and statutory accounts

The information in this Interim Report 2024 is unaudited and does not constitute statutory accounts. The Interim Report 2024 was approved for release by the Board of Directors on 31 July 2024. The Bank's statutory annual consolidated accounts for the year ended 31 December 2023 have been delivered to the Hong Kong Monetary Authority and the Registrar of Companies according to section 662 of the Companies Ordinance (Cap. 622). The auditor has reported on those financial statements in their report dated 21 February 2024. 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).

15 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.

The Hongkong and Shanghai Banking Corporation Limited

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