恒生銀行
HANG SENG BANK

2024
INTERIM REPORT

CONTENTS

* Where possible, percentages in this section have been rounded to the nearest percentage point to facilitate easy reading. Percentage-based indicators remain at 1 or 2 decimal places as appropriate.

The abbreviations '$m' and '$bn' represent millions and billions of dollars respectively.

RESULTS IN BRIEF

	30 June 2024	*30 June 2023*
For the half-year ended	**HK$m**	HK$m
Net operating income before change in expected credit losses and other credit impairment charges	**20,431**	19,940
Operating profit	**11,396**	10,858
Profit before tax	**11,307**	10,961
Profit attributable to shareholders	**9,893**	9,827
	%	%
Return on average ordinary shareholders' equity	**12.4**	12.8
Cost efficiency ratio	**36.8**	35.9
	HK$	HK$
Earnings per share	**5.04**	4.99
Dividends per share	**2.40**	2.20

	At 30 June 2024	*At 31 December 2023*
At period-end	**HK$m**	HK$m
Shareholders' equity	**166,320**	168,131
Total assets	**1,708,453**	1,692,094
	%	%
Capital ratios		
– Common Equity Tier 1 ('CET1') Capital Ratio	**16.6**	18.1
– Tier 1 Capital Ratio	**18.2**	19.9
– Total Capital Ratio	**19.7**	21.4
Liquidity ratios		
– Liquidity coverage ratio	**262.2**	260.7
– Net stable funding ratio	**168.2**	168.4

CHAIRMAN'S STATEMENT

Our first half of 2024 has been characterised by steady growth and resilience. This progress has enabled us to sustain momentum in the complicated macroeconomic environment that presents frequent challenges.

The government has introduced measures to support local small and medium sized enterprises ('SMEs'), the backbone of Hong Kong's economy. In alignment with these efforts, we have launched initiatives to assist our corporate clients. These have garnered positive feedback and recognition from the business community. We are pleased to be recognised as the Best SME's Partner by the Hong Kong General Chamber of Small and Medium Business.

With economic recovery expected, it is essential for Hong Kong to maintain its status as a global finance hub and super-connector. Hang Seng Bank is pivotal in this effort.

As the largest exchange traded fund ('ETF') manager in Hong Kong, our solely owned subsidiary Hang Seng Investment Management Limited is expanding globally. This year, we launched the Hang Seng S&P 500 Index ETF and the Hang Seng Japan TOPIX 100 Index ETF. Our collaboration with Bualuang Securities in Thailand introduced two Depositary Receipts for our flagship ETFs. These initiatives continue to enhance Hong Kong's position as an Asian ETF hub and showcase our financial market strength internationally.

This year marks the 55th anniversary of the Hang Seng Index. From a single index in 1969 to now over 2,200 indexes, Hang Seng Indexes has been instrumental in shaping Hong Kong's capital markets. Our indexes serve as key benchmarks for Hong Kong's economy, attracting international investors and bolstering the city's position as a leading international finance hub. Notably, Hang Seng Indexes Company Limited ('HSIL') was the first offshore index compiler to incorporate Beijing Stock Exchange securities in their portfolio and also launched the Hang Seng China A Specialised & Sophisticated 50 Index, the first offshore index to incorporate securities from all three of mainland China's stock exchanges. By enhancing connectivity between international investors and regional markets, HSIL continues to highlight Hong Kong's prominence in the global financial landscape.

As the largest domestic bank in Hong Kong, we are deeply connected to our community. Our efforts to promote financial inclusion and customer protection were evident in the first half of 2024. We launched a territory-wide anti-fraud education campaign at the start of the year to raise customer awareness on rising threats and solutions on how best to protect their assets. Partnering with The Hong Kong Jockey Club, our Hang Seng Financial Volunteer Team plays a vital role in supporting 4,200 families in transitional housing by providing tailored savings plans and financial education.

Our commitment to the community and banking excellence has been acknowledged with the Financial Inclusion Initiative of the Year award and the Domestic Retail Bank of the Year award from Asian Banking & Finance magazine.

With over 90 years of heritage, we value long-term and sustainable growth and have the ambition to achieve net zero in our own operations by 2030. We equip our staff to better support clients in their green transformation, providing them with the tools and knowledge needed to make improvements.

We look to the future with optimism.

Irene Lee
Chairman
31 July 2024

In a challenging macroeconomic environment, we have shown resilience and our growth momentum has been maintained.

Year-on-year, our profit before tax increased by 3% to HK$11,307m, and return on shareholders' equity reached 12.4%. Earnings per share increased by 1%.

We see solid underlying growth in our business. Net interest income increased by 2%. As part of our strategy to diversify income streams, non-interest income increased by 4% year on year. I am pleased to report that fee income for retail investment funds increased by 20% and insurance service results was up 16%.

With our enhanced capabilities, new-to-bank affluent customer base grew 147% year on year, the number of new private banking accounts increased by 15% and new account openings for mainland customers grew by 166%.

Over the long term, we are very confident on the outlook for Hong Kong including the property market. We remain supportive of the commercial real estate ('CRE') sector which has gone through many cycles and proven to be resilient over many years.

Cash flow pressures for some of our Hong Kong CRE borrowers have increased with the rise in interest rates. Our non-performing loans ratio increased to 5.32%. However, collateral levels remain strong, and we have not seen a material impact on our financial performance. Our expected credit loss ('ECL') charges reduced by 22% year on year, amid a continuing reduction in our mainland China CRE exposure.

We anticipate that cash flow pressures will recede as interest rates reduce and economic growth picks up. Our approach continues to prepare us for the future while enabling us to support our customers during challenging times.

Our main focus, as always, is on supporting our customers.

Business Highlights

There are a number of breakthroughs in the first half worth highlighting.

On wealth,

- Hang Seng Investment launched the Hang Seng S&P 500 Index exchange-traded fund ('ETF') and the Hang Seng Japan TOPIX 100 Index ETF this year. In addition to our strong product range covering the China market, Hang Seng Investment has broadened its investment coverage to encompass the world's top three stock markets by market capitalisation – China, Japan and the United States.

- Hang Seng Insurance now ranks #3 in the market. Year-on-year growth in Insurance New Business Premium was 80%.

- We expanded our Wealth Management Connect offerings to over 320 products to enhance cross-boundary financial services within the GBA. We added two new Cross-Boundary Wealth Management Centres and sales amount of Southbound investment products increased four-fold.

- Hang Seng Indexes Company Limited ('HSIL') was the first offshore index compiler to incorporate Beijing Stock Exchange securities in their portfolio. With the launch of Hang Seng China A Specialised & Sophisticated 50 Index, HSI was also the first offshore index to incorporate securities from all three of mainland China's stock exchanges. Our role as a bridge between international investors and the mainland market is notably strengthening.

On wholesale banking,

- We launched the HK$33 Billion SME Power Up Fund which offers diversified loan products and dedicated support to bolster Hong Kong SME's growth and digital transformation.

- We also introduced the HK$80 Billion Sustainability Power Up Fund to provide greater sustainable financing solutions to support businesses of all sizes in their environmental initiatives.

And on innovation,

- We continued to be a leading advocate of Central Bank Digital Currency ('CBDC') in Hong Kong. We are working closely with the Hong Kong Monetary Authority ('HKMA') on its wholesale CBDC project including exploring use cases for tokenised deposit solutions to shape industry standard for the tokenisation market.

- To support the expansion of cross-boundary applications for e-CNY, we offer top-up services to e-CNY wallets for personal banking customers in Hong Kong through the Faster Payment System ('FPS').

- We have expanded our public-private partnership with Hong Kong Cyberport Management Company to launch Hong Kong's first Index Innovation Lab which aims to accelerate SME digital transformation, green development, and nurture Innovation & Technology talents in Hong Kong.

Dividend

The Directors have declared a second interim dividend of HK$1.20 per share. This brings the total distribution for the first half of 2024 to HK$2.40 per share, 9% higher than the same period last year.

Our focus on delivering long-term value to our shareholders remains. Coupled with the HK$3 Billion share buy-back announced in Q2 2024, the total capital returns to shareholders amounts to HK$7.6 Billion, up 80% year on year.

Financial Overview

We continue our growth trajectory in first half of 2024. In the context of elevated interest rates, Net interest income was up 2% to HK$15,483m year on year, and net interest margin increased 20-basis-points to 2.29%.

Our balance sheet remains healthy. Compared to 31 December 2023, gross loan balances decreased slightly by 1% amid subdued credit activities under the prolonged high-interest rate environment. Customer deposits increased by 2%, mainly driven by growth in term deposits.

Net fee income declined by 4% to HK$2,564m due to lower loan-related fees as a result of subdued loan demand and higher credit card fee expenses incurred as we invested in the card rewards programmes. However, this was partially offset by our strong performance in retail investment funds, which grew by 20% year-on-year as a result of the launch of new capabilities to drive rigorous need-based wealth solutions.

In addition, there was a strong growth momentum in other non-interest income, mainly driven by a 14% increase in foreign exchange revenue generated from increased client activities, as well as an improvement of 16% or HK$162m in insurance services results.

Net operating income before change in ECL and other credit impairment charges grew by 2% to HK$20,431m.

ECL and other credit impairment charges decreased by 22% to HK$1,500m due to declining ECL charges under mainland China CRE exposure. As of 30 June 2024, gross impaired loans and advances as a percentage of gross loans and advances to customers was 5.32% compared to 2.83% at the end of last year. The Hong Kong CRE portfolio is however well-positioned as approximately two-thirds are secured by collaterals. Therefore collateral levels remain strong, and we have not seen material impact on our financial performance.

Profitability remains one of our top priorities. Profit before tax increased by 3% year-on-year to HK$11,307m. Attributable profit also rose by 1% to HK$9,893m. Earnings per share grew by 1% to HK$5.04 per share. Return on average ordinary shareholders' equity was 12.4%, compared with 12.8% for the first half and 9.8% for the second half of 2023. Return on average total assets was 1.2%, up from 1.1% for the same period last year.

As of 30 June 2024, our capital positions remain strong with CET 1 capital ratio at 16.6%, a T1 capital ratio of 18.2% and total capital ratio of 19.7%. Our liquidity coverage ratio was 262.2%, comfortably above the statutory requirement. Our HK$3 Billion share buy-back programme is on track to complete and we will consider all options in returning surplus capital to our shareholders.

Conclusion

Our strategy on growth, innovation, and sustainability is yielding tangible results. The increase in profits, return on equity, and earnings per share reflects our growth momentum.

With our prudent risk management approach, robust cost control and proactive business diversification, we have proven to be resilient and future-proof. Our solid capital position also allows us to continue supporting our customers through different economic cycles whilst creating long-term value for our shareholders.

We are optimistic about the future.

On a final note, I would like to express heartfelt thanks to my colleagues for their passion and contributions as we re-orient Hang Seng to meet new challenges. Their dedication ensures that we always place our customers' needs and shareholder returns at the very heart of all decisions and actions.

Diana Cesar
Executive Director and Chief Executive
31 July 2024

FINANCIAL PERFORMANCE

Income Analysis

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2024***	*Half-year ended 30 June 2023*
Net operating income before change in expected credit losses and other credit impairment charges	**20,431**	19,940
Operating expenses	**7,523**	7,156
Operating profit	**11,396**	10,858
Profit before tax	**11,307**	10,961
Profit attributable to shareholders	**9,893**	9,827
Earnings per share (in HK$)	**5.04**	4.99

In the first half of 2024 ('1H 2024'), the benefits of economic recovery were hampered by market concerns over a prolonged high interest rate environment. The Group continued to strengthen its net interest income by dynamically managing its assets and liabilities. Together with the growth in retail investment funds and customer-driven trading activities, the results exhibited a stable path of advancement.

Compared with the second half of 2023 ('2H 2023'), the Group achieved a 24% increase in profit before tax primarily due to a 65% reduction in expected credit losses charges as well as strong non-interest income growth to buffer the decline in net interest income.

Compared to 1H 2023, **net operating income before change in expected credit losses ('ECL') and other credit impairment charges** was HK$20,431m, up 2%. Net interest income rose by 2% as a result of higher market interest rates. Non-interest income grew by 4% predominantly driven by higher income from trading activities, retail investment funds, and life insurance businesses. The change in ECL decreased by HK$424m to HK$1,500m, mainly reflecting a reduction in ECL charges for wholesale Stage 3 customers, partly offset by the lower net releases of Stage 1 and Stage 2 exposure in 1H 2024. Operating expenses increased by 5% compared with 1H 2023. **Operating profit** increased by 5% to HK$11,396m. **Profit before tax** rose by 3% to HK$11,307m and **profit attributable to shareholders** was up by 1% at HK$9,893m.

Net interest income grew by HK$292m, or 2%, to HK$15,483m, supported by a 20-basis-point increase in the net interest margin, attributable mainly to the Group proactively managing its assets and liabilities under the high interest rate environment. The net interest spread increased by 11 basis points to 1.83%. Average interest-earning assets declined by HK$101bn, or 7%, to HK$1,362bn due to subdued loan demand and a lower average balance of financial investments. Average interest-bearing liabilities also decreased by 7% due to the attentive management in customer deposits balance and certificates of deposit in issue.

Figures in HK$m	***Half-year ended 30 June 2024***	*Half-year ended 30 June 2023*
Interest income arising from:		
– financial assets measured at amortised cost	**24,471**	23,722
– financial assets measured at fair value through other comprehensive income	**6,355**	4,785
	30,826	28,507
Interest expense arising from financial liabilities measured at amortised cost	**(15,343)**	(13,316)
Net interest income	**15,483**	15,191
Average interest-earning assets	**1,362,204**	1,463,375
Net interest spread	**1.83%**	1.72%
Net interest margin	**2.29%**	2.09%

Net fee income decreased by HK$102m, or 4%, to HK$2,564m. Income from retail investment funds increased by 20%, reflecting the strong fund sales in the first half as a result of the launch of new capabilities to drive rigorous need-based wealth solutions. However, this favourable impact was more than offset by the decrease in credit facilities fees due to subdued loan demand. Fee expenses rose by 4%, mainly due to higher card processing and interchange fees, along with expenses invested in card rewards programmes.

Net income/(loss) from financial instruments measured at fair value through profit or loss decreased by HK$3,288m, or 54% to HK$2,822m. Net trading income, net income/(expenses) from financial instruments designated at fair value through profit or loss, and changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss together increased by HK$236m, or 70%, to HK$573m. The increase was primarily driven by the higher foreign exchange ('FX') revenue generated from increased client activities, coupled with enhanced net interest income from trading positions.

Net income/(expense) from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss reduced by HK$3,524m, or 61%, to HK$2,249m. While a favorable equity performance was noted due to improved economy, fair value losses on debt securities were reported during the period due to an interest rate increase as compared to gains in last period due to opposite interest rate movement. There is an offsetting impact within the associated insurance liability reported in Insurance finance expenses to reflect the attribution to policyholders. Accordingly, **Insurance finance income/(expenses)** recorded a decrease of HK$3,454m, or 63%, to HK$2,000m, offsetting return on investment assets backing insurance contracts. **Insurance service results** showed an increase of HK$162m, or 16%, to HK$1,187m, mainly reflected the higher release of Contractual Service Margin ('CSM') due to growth of CSM balance coming from new business growth and favourable experience variances.

Wealth management business income (mainly investment and insurance related income) increased by HK$58m, or 2%, to HK$3,177m, primarily contributed by the strong growth in retail investment funds and life insurance income and partly offset by the decrease in structured investment products income.

Figures in HK$m	***Half-year ended 30 June 2024***	*Half-year ended 30 June 2023*
Investment services income[1]:		
– retail investment funds	**620**	519
– structured investment products[2]	**186**	315
– securities broking and related services[3]	**668**	657
– margin trading and others	**32**	29
	1,506	1,520
Life insurance:		
– net interest income	**105**	19
– non-interest income/(expenses)	**211**	167
– investment returns on life insurance funds (including share of associate's profits/(losses), net surplus/(deficit) on property revaluation backing insurance contracts and change in expected credit losses and other credit impairment charges)	**2,044**	5,713
– insurance finance income/(expenses)	**(2,000)**	(5,454)
– insurance service results	**1,187**	1,025
– insurance revenue	**1,691**	1,396
– insurance service expense	**(504)**	(371)
	1,547	1,470
General insurance and others	**124**	129
	3,177	3,119

[1] *Income from retail investment funds and securities broking and related services are net of fee expenses.*

[2] *It includes profits generated from the selling of structured investment products in issue, which are reported under net income/(loss) from financial instruments measured at fair value through profit or loss.*

[3] *It includes income generated from the sales of third-party structured investment products, which is reported under net fee income.*

Change in expected credit losses and other credit impairment charges decreased by HK$424m, or 22%, to HK$1,500m compared with 1H 2023, mainly due to the reduction in ECL charges for impaired mainland China CRE exposures. Overall mainland China CRE exposure reduced by 21% to HK$28bn compared with 2023 year-end.

Change in ECL (Stages 1 to 3) for Wealth and Personal Banking decreased by HK$142m to HK$167m. Commercial Banking also recorded reduced change in ECL (Stages 1 to 3) by HK$347m to HK$1,203m.

Gross impaired loans and advances increased from HK$25bn as at 31 December 2023 to HK$46bn as at 30 June 2024. This change reflects downgrades in certain impaired corporate loans impacted by continued elevated rates. Gross impaired loans and advances as a percentage of gross loans and advances to customers were 5.32% as of 30 June 2024 compared to 2.83% as of 31 December 2023. The Hong Kong CRE portfolio is however well-positioned as approximately two-third is secured by collaterals, and collateral levels remain strong. Therefore, we have not seen material impact on our financial performance.

Operating expenses increased by HK$367m, or 5%, to HK$7,523m. The rise in general and administrative expenses was driven by processing service fees to support business growth, and our continued investment in technology to enhance digital capabilities. Amortisation of intangible assets increased by 28%, reflecting the higher capitalised IT systems development costs. Staff costs slightly increased by 2% compared with 1H 2023.

Full-time equivalent staff numbers by region	***At 30 June 2024***	*At 30 June 2023*
Hong Kong and others	**6,987**	7,093
Mainland China	**1,409**	1,537
	8,396	8,630

The cost efficiency ratio moved up by 0.9 percentage points to 36.8%.

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Cost efficiency ratio	**36.8%**	35.9%

1H 2024 compared with 2H 2023

Net operating income before change in expected credit losses and other credit impairment charges reduced by HK$451m, or 2%, to HK$20,431m, driven by the 9% decrease in net interest income, partially offset by a 31% growth in non-interest income. With the 65% decrease in ECL charges in 1H 2024, operating profit improved by HK$2,308m, or 25%. Profit attributable to shareholders increased by HK$1,872m, or 23%, compared with 2H 2023.

Net interest income reduced by HK$1,621m, or 9%, mainly due to the higher interest expenses in 1H 2024 resulting from the migration of current and savings accounts ('CASA') to time deposits as the interest rates environment remained high. Despite the declining market interest rates against 2H 2023, interest income remained largely stable under the Group's treasury management. **Non-interest income** gained momentum to grow by HK$1,170m, or 31%, primarily reflecting high performance from the life insurance business and customer-driven trading activities. **Changes in expected credit losses and other credit impairment charges** decreased in 1H 2024 amid a continuing reduction in our mainland China CRE exposure. Total change in **ECL** decreased by HK$2,824m to HK$1,500m, due to lower charges for impaired credit exposures in 1H 2024 compared to 2H 2023. ECL charges mainly reflected the downgrade of certain corporate customers in the current period.

Segmental Analysis

The table below sets out the profit before tax contributed by the business segments.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other*	*Total*
Half-year ended 30 June 2024						
Profit/(loss) before tax	**7,160**	**2,301**	**936**	**1,205**	**(295)**	**11,307**
Share of profit/(loss) before tax	**63.3%**	**20.4%**	**8.3%**	**10.6%**	**(2.6)%**	**100.0%**
Half-year ended 30 June 2023						
Profit/(loss) before tax	7,043	1,827	980	1,039	72	10,961
Share of profit/(loss) before tax	64.2%	16.7%	8.9%	9.5%	0.7%	100.0%

Wealth and Personal Banking ('WPB') recorded a 3% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$11,811m. This was driven by growth in net interest income, which was up by 4% year-on-year. Both operating profit and profit before tax increased by 2% to HK$7,110m and HK$7,160m respectively. Despite a weaker sentiment in the stock market, our investment services and insurance businesses still witnessed a 5% growth in income year-on-year and 24% growth compared with 2H 2023.

Customer growth remains one of our key strategic priorities; we achieved a 14% year-on-year increase in our affluent segment with new-to-bank affluent customers growing 147% year-on-year. With an increased demand in wealth management within the high net worth segment, we recorded a 15% year-on-year growth on new private banking accounts.

During the period, Hang Seng was recognised as the Domestic Retail Bank of the Year at the Asia Banking & Finance ('ABG') Retail Banking Awards and the Retail Bank of the Year at the Bloomberg Business week Financial Institution Awards. We launched our Everyday Banking marketing campaign in April featuring Payday+, with new payroll service and banking offers, and generated 12% and 42% year-on-year growth on the Preferred Banking base and new-to-bank customers respectively.

To meet the growing demand for wealth management services in the Greater Bay Area ('GBA'), we now have nine cross-boundary Wealth Management Centres in key GBA cities. The cross-boundary Wealth Management Centres in Hong Kong house our league of wealth management experts offering express account openings and an array of wealth management services. New account openings for mainland customers increased by 166% year-on-year. Hang Seng also offers seamless top-up services to e-CNY wallets for personal banking customers in Hong Kong through the Faster Payment System ('FPS') since May 2024. Our non-Hong Kong Dollar deposit grew by 17% year-on-year, backed by 15% increase in our active transactional foreign exchange customers.

With strong travel sentiment and growing consumer spending overseas, we launched a new credit card, the Travel+ Visa Signature, featuring travel propositions with unrivalled benefits and rewards to cater our customers' needs. To expand cross-boundary and overseas payment options, we also introduced a brand-new Multi-Currency ('MCY') Debit Card which enables customers to better manage cash transactions in 12 major currencies. Additionally, the brand-new Global Money+ service launched in early July 2024, enables fee-free international fund transfers to over 50 countries in the recipient's local currency in as fast as 1 working day.

We accelerated the development of our wealth management business and launched new capabilities like 'Wealth Master' which empowers our sales staff to conduct portfolio rebalancing and diversification for our customers more effectively, and also help drive rigorous need-based wealth discussions and outcomes. As a result, this brings our active retail customers with investment transactions (excluding Securities & Government Bonds) recorded a 41% year-on-year growth. Together with the continual enhancement on product suites, our life insurance business achieved 126% year-on-year growth in New Business Contractual Service Margin ('NB CSM'). Contractual Service Margin ('CSM') balance, grew by 12% to HK$24.4bn. In the first quarter of 2024, Hang Seng achieved an 80% year-on-year growth in Life Insurance New Business Premiums and secured the 3rd market position as a Life Insurer, which is up by 3 places from 6th last year. The same level of sales momentum continued in the second quarter.

In April 2024, Hang Seng Investment Management Limited ('HSVM'), the largest ETF manager in Hong Kong in terms of assets under management ('AUM'), launched the first-ever 'Hang Seng S&P 500 Index ETF' in the Hong Kong Market. Leveraging Hong Kong's pivotal role as a super-connector between mainland China and the world, the collaboration between HSVM and 'KGI Securities Thailand' led to the launch of two additional Depositary Receipts ('DR') on the Stock Exchange of Thailand in January 2024, investing in the Tracker Fund of Hong Kong ('TraHK') and Hang Seng TECH Index ETF respectively. With HSVM's active participation in different cross-border initiatives, TraHK achieved another record high AUM during the first half of 2024.

Continuous enhancements were made to enrich our digital platform and offerings. Riding on our proprietary credit card rewards programme (+ Fun Dollars), we further extended redemption channels at over 150,000 local retail outlets through AlipayHK's mobile wallet. We also uplifted our channel capabilities by further digitalising our investment account opening and products journeys like structured notes and Capital Protected Investment Deposit ('CPI'). These initiatives contributed to a 172% year-on-year increase in investment accounts opening through mobile and significant growth of our mobile active customer base by 13% year-on-year with 21 awards received from The Digital Banker, ETNet and other issuers in the first half of the year.

The public's concerns for safety and fraud prevention remains at the core of our design. We have since revamped the security functions in our mobile platform to bring alive a centralised hub for 'settings and security', allowing easy accessibility for customers to take control of their accounts. Various functions include report suspicious transactions, report and replace lost cards, block or unblock cards, Card-Not-Present ('CNP') limit control etc., can be retrieved conveniently through our mobile app.

Commercial Banking ('CMB') recorded 2% year-on-year growth in net operating income before change in ECL and other credit impairment charges to HK$5,254m. Both operating profit and profit before tax increased by 26% to HK$2,301m.

We continue to support our customers, and by facilitating customer's daily operations via a convenient, safe and tailored payment solutions, a 8% growth in related income and a 3% uplift in customer deposits balance were recorded. We are also able to capture the market window and grow our wealth management income, of which keyman insurance and investment income increased by 24% and 6% respectively.

As a trusted partner to support customer in capturing business opportunities, we have set up the HKD33 Billion Small to Medium Enterprises ('SME') Power Up Fund to empower SMEs with various financing solutions and to enable customer's business growth in Hong Kong as well as the Greater Bay Area. To smoothen related loan applications, we have enhanced our online platform for a fully digital application process featuring digital ID verification and an e-Sign function. Customers can now receive approval-in-principle results in as fast as 10 seconds through making their applications online.

The HKD80 Billion Sustainability Power Up Fund is designed to assist customers in improving their Environment, Social and Governance ('ESG') performance and their transition towards a net-zero economy. We are aware of the challenges SMEs encounter when pursuing their ESG agendas. In order to uplift customer experience and provide incentives, we have engaged with the Hong Kong Quality Assurance Agency to launch the SME Green Equipment Financing Assessment Platform, an exclusive digital platform to provide faster assessment at a lower cost. The platform covers assessment in six areas including renewable energy, water management, wastage management, pollution prevention, green transportation and energy efficiency.

Our Business e-Banking is not only an online platform for daily transaction banking management, but also a key customer communication channel with data-led capabilities to target the right customers with the appropriate services. Customers can now enjoy improved digital engagement experiences by knowing more on their 'best-fit' banking solutions and exclusive offers from the Bank, leading to a year-on-year growth in active mobile and internet banking users by 36% and 8% respectively.

Our outstanding services have been recognised with several awards, including 'Best Payments Bank in Hong Kong' and 'Best FX Bank in Hong Kong' from Transaction Finance Awards 2024, 'Best in Treasury and Working Capital – SME' from The Asset Triple A Awards 2024. We also won 'Hong Kong Domestic Trade Finance Bank of the Year' and 'Hong Kong Domestic Digital Payment Initiatives of the Year' from Asian Banking & Finance Banking Awards.

Global Banking ('GB') reported a 2% year-on-year growth in net operating income before change in ECL and other credit impairment charges to HK$1,475m. Both operating profit and profit before tax slightly dropped by 4% to HK$936m.

Our customer loans and advances recorded a 4% growth as compared to last year-end despite softer loan demand in the market, reflecting impact of our focused efforts to support our customers. By offering tailored trade financing solutions and leveraging bank guarantees and trade finance risk participation to meet client's diverse needs throughout the trade cycle, our average trade loan balance in Hong Kong grew 34% year-on-year. We are also dedicated to broaden our asset portfolio via active bond management, supported by a 46% growth in our bond balance as compared to last year-end.

Leveraging our strong customer relationships, we have taken proactive steps to diversify our revenue stream through timely and increased sales activities to capture business opportunities, resulting in a robust growth of 17% in non-interest income. Our Debt Capital Market Origination team has extended the coverage to a wider spectrum of fixed income instruments.

Playing to the strength of our cross-boundary team connectivity, we provided total solutions in banking, wealth management and advisory services to address the diverse financial needs of large corporations across Hong Kong and mainland China.

To enhance the operational efficiency of our clients from different sectors, we employed technology to offer innovative digital cash management solutions to address their specific needs.

By adopting a client-centric approach and offering comprehensive sustainable finance solutions to support client's low-carbon transition, we continued to build momentum in commercialising sustainability under the ever-evolving business landscape.

Global Markets ('GM') reported a 13% year-on-year growth in net operating income before change in ECL and other credit impairment charges to HK$1,571m. Operating profit and profit before tax both increased by 16% to HK$1,205m.

Net interest income recorded year-on-year growth of 31% and non-interest income remained stable in 1H 2024. We maintained good business momentum and successfully captured market opportunities. Our Repo business achieved solid revenue growth of 68% year-on-year by expanding its portfolio by 36%. We achieved growth in our wealth products, turnover was up by 54% in capital protected investments and our Callable CD delivered solid growth, with a year-on-year growth of 22% in turnover.

Through close collaboration with other business units and supporting sales campaigns on various channels, switching loan currencies to lower client's interest cost, we achieved a 14% growth in our Bankwide sales foreign exchange revenue.

Balance sheet Analysis

Assets

Total assets increased by HK$16bn, or 1%, to HK$1,708bn compared with 2023 year-end. The Group maintained resilient business momentum in targeted segments and progressed with its strategy of enhancing long-term profitability through sustainable and diversified growth.

Customer loans and advances (net of allowances for ECL) decreased by HK$11bn, or 1%, to HK$850bn. The decrease in loan balances reflected dampened credit demand in an elevated interest rates environment. Loans for use in Hong Kong remained relatively constant. Lending to industrial, commercial and financial sectors increased by 1% while lending to individuals decreased by 1%. With a softened property market, residential mortgages decreased by 1%. Credit card advances also registered a drop of 6%. Trade finance lending grew by 4%. Loans for use outside Hong Kong reduced by 6%, due mainly to decreased lending granted by the Group's Hong Kong office.

Financial assets mandatorily measured at fair value and financial investments increased by HK$8bn and HK$10bn respectively, reflecting the growth in commercial surplus, coupled with increased fund deployment to placings with and advances to banks.

Liabilities and equity

Customer deposits increased by HK$24bn, or 2%, to HK$1,205bn from the end of 2023. CASA as a percentage of total customer deposits decreased from 53.3% at 2023 year-end to 51.1% as at 30 June 2024, reflecting continued migration of deposits from CASA to time deposits under a high interest rate environment. As at 30 June 2024, the advances-to-deposits ratio was 70.5%, compared with 72.9% at 31 December 2023.

Figures in HK$m	***At 30 June 2024***	*At 31 December 2023*
Customer loans and advances (net of allowances for ECL)	**849,601**	860,406
Customer deposits, including structured deposits	**1,204,774**	1,180,611
Advances-to-deposits ratio	**70.5%**	72.9%

As at 30 June 2024, shareholders' equity reduced by HK$2bn, or 1%, to HK$166bn, driven by a slight decrease in retained profits of HK$1bn, or 1%, reflecting the net impact of the share buy-back programme and profit accumulation after the appropriation of dividends paid during the period.

Risk

Principal risks and uncertainties

The Group continuously monitors and identifies risks. Our principal risks are credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime risk, model risk and insurance risk. The description of principal risks and a summary of our current policies and practices regarding the management of risk is set out in the 'Risk' section of the Annual Report 2023.

We have maintained a consistent approach to risk management throughout our history, helping to ensure we protect customers' funds, lend responsibly and support economies.

During the first half of 2024, there was an improvement in the economic outlook compared with 31 December 2023, for most markets, however a number of key macroeconomic, trade and regulatory issues remain.

The relationship between China and several countries, including the US and the UK, remains complex. Efforts have been undertaken to decrease vulnerabilities to geopolitical shocks through de-risking supply chains. The US, the UK, the EU and other countries have imposed various sanctions and trade restrictions against certain Chinese persons and companies. In turn, China has imposed sanctions, trade restrictions and law enforcement measures. Further sanctions or counter-sanctions may adversely affect the Group and its customers.

The Russia-Ukraine war has continued to elevate geopolitical instability. It has resulted in the imposition of significant sanctions and trade restrictions by the US, the UK and the EU, as well as other countries, against Russia. In December 2023, the US established a new secondary sanctions regime, providing itself broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services involving Russia's military-industrial base. This creates challenges associated with the detection or prevention of third-party activities beyond the Bank's control. The imposition of such sanctions against any non-US bank could result in significant adverse commercial, operational and reputational consequences for the Bank.

However, the continuation of, or any further escalation in, the Russia-Ukraine war, could have additional economic, social and political consequences. These include further sanctions and trade restrictions, longer-term changes in the macroeconomic environment with the risk of higher and sustained inflation, and a continued increase in energy prices.

For HKFRS 9, our approach to macroeconomic scenarios remained unchanged in the first half of 2024. Management adjustments to Expected Credit Loss ('ECL') were applied to reflect uncertainty in certain sectors driven by inflation, interest rate volatility and other macroeconomic risks, which were not fully captured by our models. In order to capture the interest rate volatility, models have been redeveloped and under review with target implementation by end of 2024.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business.

We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational, legal and regulatory consequences. In our approach to defending against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

Risk Management

We recognise that the primary role of risk management is to help protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth.

All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. Our Risk and Compliance function, led by the Chief Risk and Compliance Officer, plays an important role in reinforcing our culture and values. We are focused on creating an environment that encourages our people to speak up and do the right thing.

The Risk and Compliance function is independent from the business segments, including our sales and trading functions, to provide challenge, oversight and appropriate balance in risk/reward decisions.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. The framework fosters continuous monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities. We continue to enhance our approach to managing risk.

Our risk appetite

Risk Appetite is defined as the level and types of risks that the Group is willing to take to achieve our strategic objectives. Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance strategic growth within acceptable risk levels, while monitoring exposure to non-financial risks which may impact our customers or lead to sub-optimal returns to shareholders, regulatory censure or reputational damage.

Climate risk

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy. Climate risk can impact us either directly or through our relationships with our clients. These include potential risk arising as a result of the Group's climate ambition, which could lead to reputational concerns, and potential legal and/or regulatory action if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated climate ambition. Our most material exposure to climate risk relates to corporate and retail client financing activity within our banking portfolio. We also have responsibilities in relation to managing the associated risks in relation to asset ownership by our insurance business and asset management business.

We seek to manage climate risk across all our businesses in line with HSBC Group's risk management framework, and are incorporating climate considerations within our traditional risk types.

Key developments in the first half of 2024

We have continued to manage the risks related to macroeconomic and geopolitical uncertainties, as well as the risks resulting from the CRE sector and other key risks described in this section.

In the first half of 2024, we enhanced our risk management in the following areas:

- We managed the stability of our net interest income, despite the fluctuations in interest rate expectations, driven by central bank rate increases and a reassessment of the trajectory of inflation in major economies.

- We enhanced our processes, framework and capabilities to seek to improve the control and oversight of our material third parties to manage our operational resilience and meet new and evolving regulatory requirements.

- Sustained progress of our comprehensive regulatory reporting programme was made during 2024. The regulatory reporting programme is seeking to strengthen our processes, improve consistency and enhance controls across regulatory reports.

- We continued to embed climate considerations throughout the organisation, including enhancing our approach to assessing the impact of climate on capital, and continued the development of risk metrics to manage our exposure to climate risk.

- We deployed industry-leading technology and advanced analytics capabilities to improve our ability to identify suspicious activities and prevent financial crime.

Areas of Special Interest

During the first half of 2024, a number of areas were identified and considered as part of our top and emerging risks because of the effect they may have on the Group. We place particular focus in this section on geopolitical and macroeconomic risk.

Geopolitical and macroeconomic risk

The relationships between China and several other countries, including the US and the UK, remain complex. In addition to the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on certain Chinese individuals and companies. The EU and US have recently introduced tariffs on sectors like electric vehicles ('EV') where they allege that the Chinese government has been providing unfair subsidies. There is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, advanced technology, and other issues with China, and this could create a more complex operating environment for the Group and its customers.

In response to earlier measures, China has in turn imposed its own sanctions, trade restrictions and law enforcement measures on persons and entities in other countries.

These and any future measures and countermeasures that may be taken by the US, China and other countries may affect the Group, its customers and the markets in which the Group and its customers operate.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. We maintain dialogue with our regulators in various jurisdictions on the impact of legal and regulatory obligations on our business and customers.

More stringent data privacy, national security and cybersecurity laws could pose potential challenges to intra-Group data sharing. These developments may affect our ability to manage financial crime risks across markets due to limitations on cross-border transfers of personal information.

Areas of Special Interest *(continued)*

Geopolitical and macroeconomic risk *(continued)*

The Russia-Ukraine war has continued to elevate geopolitical instability, which could have ramifications for the Group and its customers. The Group actively monitors and responds to financial sanctions and trade restrictions. These sanctions and trade restrictions are complex and evolving. In particular, the US, the UK and the EU, as well as other countries, have imposed significant sanctions and trade restrictions against Russia including further sanctions during 2024. The secondary sanctions regime introduced by the US in December 2023 gives itself broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services involving Russia's military-industrial base. The US expanded the scope of these secondary sanctions in June 2024 to apply to Russian and non-Russian persons designated under the primary legal authority for Russian sanctions. The broad scope of the discretionary powers embedded in the regime creates challenges associated with the detection or prevention of third-party activities beyond our control. The imposition of such sanctions against any non-US banks could result in significant adverse commercial, operational, and reputational consequences for the Group. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures, including the expropriation of foreign assets.

The Israel-Hamas war continues to influence regional politics. These have contributed to renewed volatility in energy prices, and ongoing attacks on commercial shipping in the Red Sea and the countermeasures taken to improve security, which are disrupting supply chains.

The persistence of inflation and high interest rates have had an impact on ECL during the first half of 2024. The combined pressure of higher inflation and interest rates may impact the ability of our customers to repay their debt.

There remains uncertainty with respect to the relationship between the economic drivers and the historical loss experience, which may require adjustments to modelled ECL in cases where we determined that the model was unable to capture the material underlying risks.

China's economic performance was supported by a resilient state sector, although weak private sector confidence and persistent falls in commercial and residential real estate prices and transactions remain significant risk factors. Central government support measures will be key to a recovery in impacted sectors but there remains a risk that the scale and breadth of the support may be insufficient to correct structural imbalances in the economy. Real estate companies are expected to face challenges in the near future, including funding pressures. We closely monitor the sector, notably the risk of further credit migration and idiosyncratic defaults.

Hong Kong's economic growth remains steady, however increased vacancy rates in the commercial real estate sector and the prolonged higher interest rate environment have added pressure to the commercial real estate market. This has prompted a halt in commercial land sales. Whilst some defaults have been observed we continue to closely monitor the risk of credit deterioration and defaults.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business. Also, we closely monitor the geopolitical and economic developments in key markets and sectors and actively manage our credit portfolio through enhanced monitoring, thematic reviews, internal stress tests, etc. We continue to support our customers and manage risk and exposures as appropriate.

(a) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from certain other products, such as guarantees and credit derivatives or from holding assets in the form of debt securities.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2024.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 53 to 56 of the Annual Report 2023.

Maximum exposure to credit risk before collateral held or other credit enhancements

Our credit exposure is spread across a broad range of asset classes, including but not limited to derivatives, trading assets, loans and advances and financial investments. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

	At 30 June 2024	*At 31 December 2023*
Cash and balances at central banks	**10,198**	10,564
Trading assets	**40,268**	43,985
Derivative financial instruments	**17,006**	14,959
Financial assets mandatorily measured at fair value through profit or loss	**121,958**	119,784
Reverse repurchase agreements – non-trading	**25,778**	30,202
Placings with and advances to banks	**96,064**	83,756
Loans and advances to customers	**849,601**	860,406
Financial investments	**411,256**	401,732
Other assets	**30,093**	30,999
Financial guarantees and other credit related contingent liabilities[1]	**22,078**	22,969
Loan commitments and other credit related commitments	**491,255**	503,632
	2,115,555	2,122,988

1 *Performance and other guarantees were included.*

(a) Credit Risk *(continued)*

Summary of credit risk

The following table analyses the financial instruments to which the impairment requirements of HKFRS 9 are applied and the related allowances for expected credit losses ('ECL').

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied

	At 30 June 2024		At 31 December 2023	
	Gross carrying/ nominal amount	Allowance for ECL[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
Loans and advances to customers at amortised cost	**864,859**	**(15,258)**	874,039	(13,633)
Placings with and advances to banks at amortised cost	**96,069**	**(5)**	83,760	(4)
Other financial assets measured at amortised costs:	**123,422**	**(46)**	172,015	(59)
– cash and balances at central banks	**10,198**	**–**	10,564	–
– reverse repurchase agreements – non-trading	**25,778**	**–**	30,202	–
– financial investments	**57,603**	**(24)**	100,452	(14)
– other assets[2]	**29,843**	**(22)**	30,797	(45)
Total gross carrying amount on balance sheet	**1,084,350**	**(15,309)**	1,129,814	(13,696)
Loans and other credit related commitments	**343,647**	**(123)**	345,932	(155)
Financial guarantee and similar contracts	**2,020**	**(7)**	1,882	(4)
Total nominal amount off balance sheet[3]	**345,667**	**(130)**	347,814	(159)
Total	**1,430,017**	**(15,439)**	1,477,628	(13,855)

	Fair value	Memorandum Allowance for ECL	Fair value	Memorandum Allowance for ECL
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')[4]	**353,677**	**(7)**	301,294	(3)

1 *For retail unsecured revolving facilities, e.g. overdrafts and credit cards, the total ECL is recognised against the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the excess ECL is recognised against the loan commitments.*

2 *Includes only those financial instruments which are subject to the impairment requirements of HKFRS 9. 'Other assets' as presented within the Interim Condensed Consolidated Balance Sheet includes both financial and non-financial assets.*

3 *The figure does not include some loans commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amount does not agree with the figure shown in note 34 (a) of the Interim Condensed Consolidated Financial Statements which represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowances for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in Interim Condensed Consolidated Income Statement.*

(a) ***Credit Risk*** *(continued)*

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.

POCI: 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.

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

	Gross carrying/nominal amount[1]					*Allowance for ECL*					*ECL coverage (%)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*[2]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	714,514	104,313	45,910	122	864,859	(643)	(2,966)	(11,646)	(3)	(15,258)	0.09%	2.84%	25.37%	2.46%	1.76%
– personal	375,635	15,552	1,033	–	392,220	(336)	(993)	(179)	–	(1,508)	0.09%	6.39%	17.33%	N/A	0.38%
– corporate and commercial	307,939	88,358	44,877	122	441,296	(276)	(1,971)	(11,467)	(3)	(13,717)	0.09%	2.23%	25.55%	2.46%	3.11%
– non-bank financial institutions	30,940	403	–	–	31,343	(31)	(2)	–	–	(33)	0.10%	0.50%	N/A	N/A	0.11%
Placings with and advances to banks at amortised cost	96,061	8	–	–	96,069	(5)	–	–	–	(5)	0.01%	0.00%	N/A	N/A	0.01%
Other financial assets measured at amortised cost	120,972	2,388	62	–	123,422	(32)	(14)	–	–	(46)	0.03%	0.59%	0.00%	N/A	0.04%
Loans and other credit-related commitments	329,784	13,856	7	–	343,647	(68)	(53)	(2)	–	(123)	0.02%	0.38%	28.57%	N/A	0.04%
– personal	239,582	6,751	4	–	246,337	(3)	–	–	–	(3)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	73,628	7,070	3	–	80,701	(59)	(53)	(2)	–	(114)	0.08%	0.75%	66.67%	N/A	0.14%
– non-bank financial institutions	16,574	35	–	–	16,609	(6)	–	–	–	(6)	0.04%	0.00%	N/A	N/A	0.04%
Financial guarantee and similar contracts	1,700	320	–	–	2,020	(1)	(6)	–	–	(7)	0.06%	1.88%	N/A	N/A	0.35%
– personal	1	5	–	–	6	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
– corporate and commercial	1,309	315	–	–	1,624	(1)	(6)	–	–	(7)	0.08%	1.90%	N/A	N/A	0.43%
– non-bank financial institutions	390	–	–	–	390	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 30 June 2024	1,263,031	120,885	45,979	122	1,430,017	(749)	(3,039)	(11,648)	(3)	(15,439)	0.06%	2.51%	25.33%	2.46%	1.08%

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

2 *Purchased or originated credit-impaired ('POCI').*

(a) ***Credit Risk*** *(continued)*

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

	Gross carrying/nominal amount[1]					*Allowances for ECL*					*ECL coverage (%)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*[2]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	713,524	135,766	24,632	117	874,039	(709)	(3,766)	(9,158)	–	(13,633)	0.10%	2.77%	37.18%	0.00%	1.56%
– personal	378,928	20,150	829	–	399,907	(337)	(1,219)	(150)	–	(1,706)	0.09%	6.05%	18.09%	N/A	0.43%
– corporate and commercial	305,400	114,533	23,803	117	443,853	(335)	(2,542)	(9,008)	–	(11,885)	0.11%	2.22%	37.84%	0.00%	2.68%
– non-bank financial institutions	29,196	1,083	–	–	30,279	(37)	(5)	–	–	(42)	0.13%	0.46%	N/A	N/A	0.14%
Placings with and advances to banks at amortised cost	83,707	53	–	–	83,760	(4)	–	–	–	(4)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	170,288	1,657	70	–	172,015	(41)	(3)	(15)	–	(59)	0.02%	0.18%	21.43%	N/A	0.03%
Loans and other credit-related commitments	326,835	19,094	3	–	345,932	(84)	(71)	–	–	(155)	0.03%	0.37%	0.00%	N/A	0.04%
– personal	237,408	7,678	3	–	245,089	(4)	–	–	–	(4)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	68,626	10,609	–	–	79,235	(70)	(69)	–	–	(139)	0.10%	0.65%	N/A	N/A	0.18%
– non-bank financial institutions	20,801	807	–	–	21,608	(10)	(2)	–	–	(12)	0.05%	0.25%	N/A	N/A	0.06%
Financial guarantee and similar contracts	1,240	642	–	–	1,882	(1)	(3)	–	–	(4)	0.08%	0.47%	N/A	N/A	0.21%
– personal	1	5	–	–	6	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
– corporate and commercial	849	637	–	–	1,486	(1)	(3)	–	–	(4)	0.12%	0.47%	N/A	N/A	0.27%
– non-bank financial institutions	390	–	–	–	390	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2023	1,295,594	157,212	24,705	117	1,477,628	(839)	(3,843)	(9,173)	–	(13,855)	0.06%	2.44%	37.13%	0.00%	0.94%

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

2 *Purchased or originated credit-impaired ('POCI').*

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involve the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Management assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting the economic scenarios and their weightings.

The Central scenario is constructed to reflect the latest macroeconomic expectations. Outer scenarios incorporate the crystallisation of economic and geopolitical risks, including those relating to the outcome of recent and future elections, the Israel-Hamas war and disruptions in the Red Sea.

Management judgemental adjustments are used where modelled ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late-breaking events.

At 30 June 2024, there was an overall reduction in management judgemental adjustments compared with 31 December 2023, as modelled ECL better reflected the key risks.

(a)* *Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Methodology

At 30 June 2024, four economic scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and distributional estimates each quarter.

Three scenarios, the central, upside, and downside are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. The fourth scenario, the Downside 2, represents management's view of severe downside risks.

The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. It is created using consensus forecasts, which is the average of a panel of external forecasts.

The outer scenarios represent the tails of the distribution and are less likely to occur. The consensus Upside and Downside scenarios are created with reference to forecast probability distributions for select markets that capture economists' views of the entire range of economic outcomes. In the later years of those scenarios, projections revert to long-term consensus trend expectations. Reversion to trend is done with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario, the Downside 2, represents management's view of severe downside risks. It is a HSBC Group consistent, narrative-driven scenario that explores a more extreme economic outcome than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations and may instead explore alternative states of equilibrium, where economic variables move permanently away from past trends.

The consensus Downside and the consensus Upside scenarios are each calibrated to be consistent with a 10% probability. The Downside 2 is calibrated to a 5% probability. The Central scenario is assigned the remaining 75%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may choose to depart from this probability-based scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

In the second quarter of 2024, the assigned scenario weights were consistent with their calibrated probabilities, the same as in the fourth quarter of 2023. Economic forecasts for the Central scenario improved modestly, and the dispersion within consensus forecast panels remained low. Risks, including the increased policy risks relating to the outcome of elections across key markets and elevated geopolitical tensions, were deemed to be reflected in the Downside scenarios.

Scenarios produced to calculate ECL are aligned to top and emerging risks.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Description of economic scenarios

The economic assumptions presented in this section are with reference to external forecasts and estimates for the purpose of calculating ECL.

Forecasts may change and remain subject to uncertainty. Outer scenarios are constructed so that they capture risks that could alter the trajectory of the economy and are designed to encompass the potential crystallisation of key economic and financial risks.

GDP forecasts in the Central scenario have improved in the second quarter of 2024 compared with the fourth quarter of 2023. At the same time, expectations for interest rate cuts have been scaled back. In the second quarter of 2024, risks to the economic outlook included a number of significant geopolitical issues and uncertainty relating to election outcomes.

Within Downside scenarios, the economic consequences from the crystallisation of those risks were captured by higher commodity and goods prices, the re-acceleration of inflation, a further rise in interest rates and global recession.

The scenarios used to calculate ECL are described below.

The consensus Central scenario

GDP growth is expected to slow in 2024 relative to the previous year in the US and Europe, as elevated interest rates continue to squeeze household finances and corporate margins. Inflation is expected to continue to decline, as wage growth and services inflation moderate. Lower inflation and looser labour market conditions are expected to enable major central banks to embark on a gradual reduction in policy rates. Growth only recovers to its long-term expected trend in later years, once central banks have lowered interest rates from current levels.

In mainland China and Hong Kong, GDP growth is also expected to be slower in 2024 relative to 2023 amid weak private sector confidence, falling property valuations and moderate global trade growth.

Despite those headwinds, growth in mainland China is still expected to remain close to the official target as authorities have increased fiscal and monetary support to the economy. At the same time, the continued recovery in the tourism and related sectors is expected to continue, while the recent suspension of property transaction taxes is expected to bring about a gradual recovery in the market towards the end of the year.

The key features of our Central scenario are:

- GDP growth rates are expected to slow in 2024 relative to 2023, followed by a moderate recovery in 2025. Weaker growth is caused by high interest rates, which act to deter consumption and investment.
- Unemployment is expected to remain flat or rise moderately from current levels.
- Inflation is expected to fall as services inflation and wage growth moderates. It is anticipated that inflation converges towards central banks' target rates in 2025. In mainland China, weak consumption and excess supply have caused inflation to drop sharply but further policy support lifts demand and inflation rises over the scenario.
- Weak conditions in housing markets are expected to persist through 2024 and 2025 in Hong Kong and mainland China, as higher interest rates and, in many cases, declining prices, depress activity.
- Challenging conditions are also forecast to continue in the commercial property sector in a number of our key markets. Structural changes to demand in the office segment in particular are driving lower valuations.
- Policy interest rates are forecast to have peaked and are projected to decline in 2024. In the longer term, they are expected to remain at a higher level than in the pre-pandemic period.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Central scenario *(continued)*

The Central scenario was created from consensus forecasts available in late May, and reviewed continually until the end of June 2024. In accordance with Group's scenario framework, a probability weight of 75% has been assigned to the Central scenario across all major markets.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario.

Central scenario	***Hong Kong*** *%*	***Mainland China*** *%*
GDP growth		
Annual average growth rate: 2024	2.9	4.9
Annual average growth rate: 2025	2.8	4.4
Annual average growth rate: 2026	2.5	4.2
Annual average growth rate: 2027	2.5	3.9
Annual average growth rate: 2028	2.4	3.7
5-year average (3Q 2024 – 2Q 2029)	2.6	4.1
Unemployment rate		
Annual average: 2024	3.0	5.2
Annual average: 2025	3.0	5.1
Annual average: 2026	3.0	5.1
Annual average: 2027	3.0	5.0
Annual average: 2028	3.0	5.0
5-year average (3Q 2024 – 2Q 2029)	3.0	5.1
House Price Growth		
Annual average growth rate: 2024	(8.7)	(5.7)
Annual average growth rate: 2025	0.8	(1.0)
Annual average growth rate: 2026	4.3	0.6
Annual average growth rate: 2027	2.4	1.9
Annual average growth rate: 2028	2.6	2.3
5-year average (3Q 2024 – 2Q 2029)	1.7	0.4
Probability	75	75

Note: The annual average growth rate refers to full year average. The 5-year average is computed by using the projection of time period from 3Q 2024 to 2Q 2029.

The consensus Upside scenario

Compared to the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to the long-run trend expectations. It also incorporates a faster fall in the rate of inflation than incorporated in the Central scenario.

The scenario is consistent with a number of key upside risk themes. These include a faster reduction in policy interest rates, a de-escalation in geopolitical tensions as the Israel-Hamas and Russia-Ukraine wars move towards conclusions, and an improvement in the US-China relationship.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario.

***(a) Credit Risk** (continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Upside scenario *(continued)*

Consensus Upside scenario best outcome

	Hong Kong %	***Mainland China*** %
GDP growth (%, Start-to-peak)	20.8 (2Q29)	28.7 (2Q29)
Unemployment rate (%, Min)	2.5 (1Q25)	4.8 (2Q26)
House price index (%, Start-to-peak)	22.9 (2Q29)	8.1 (2Q29)
Probability	10	10

Note: 'Start-to-peak' is the cumulative change to the highest level of the series during the 20-quarter projection from 3Q24 to 2Q29. For GDP growth, it is based on seasonal adjusted series. '%, Min' is the lowest projected unemployment rate in the scenario.

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks.

These include an escalation of geopolitical tensions, which disrupt key commodity and goods markets, causing inflation and interest rates to rise, and creating a global recession.

As the geopolitical environment remains volatile and complex, risks include:

- continued differences between the US and China, which lead to increased trade frictions and higher inflation, due to an escalation in tariff actions and rising costs;
- election outcomes that deliver adverse policies that work to undermine global trade growth and international supply chains;
- a broader and more prolonged conflict in the Middle East that undermines confidence, drives an increase in global energy costs and reduces trade and investment; and
- a potential escalation in the Russia-Ukraine war, which expands beyond Ukraine's borders, and further disrupts energy, fertiliser and food supplies.

High inflation and higher interest rates also remain key risks. Should geopolitical tensions escalate, a rise in energy and food prices would increase pressure on household budgets and firms' costs.

A wage-price spiral, triggered by higher inflation and labour supply shortages, could put sustained upward pressure on wages and services prices, aggravating cost pressures and increasing the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from central banks, a steeper trajectory for interest rates, significantly higher defaults and, ultimately, a deep economic recession.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices fall. The scenario features an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker consumption demand begin to dominate, and commodity prices and inflation fall again.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Downside scenario.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Downside scenario *(continued)*

Consensus Downside scenario worst outcome

	Hong Kong		*Mainland China*	
	%		*%*	
GDP growth (%, Start-to-trough)	(2.3)	(4Q24)	(2.3)	(4Q24)
Unemployment rate (%, Max)	4.4	(2Q26)	6.6	(2Q26)
House price index (%, Start-to-trough)	(5.2)	(2Q25)	(9.8)	(1Q26)
Probability		10		10

Note: 'Start-to-trough' is the cumulative change to the lowest level of the series during the 20-quarter projection from 3Q24 to 2Q29. For GDP growth, it is based on seasonal adjusted series. '%, Max' is the highest projected unemployment rate in the scenario.

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including a further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets.

In the scenario, as inflation surges and central banks tighten monetary policy further, confidence evaporates. However, this impulse is assumed to prove short-lived, as recession takes hold, causing a sharp fall in demand, leading commodity prices to correct sharply and global price inflation to fall.

The following table describes key macroeconomic variables and the probabilities assigned in the Downside 2 scenario.

Downside 2 scenario worst outcome

	Hong Kong		*Mainland China*	
	%		*%*	
GDP growth (%, Start-to-trough)	(8.0)	(3Q25)	(7.7)	(2Q25)
Unemployment rate (%, Max)	6.4	(2Q25)	6.6	(4Q26)
House price index (%, Start-to-trough)	(35.8)	(2Q27)	(28.1)	(3Q26)
Probability		5		5

Note: 'Start-to-trough' is the cumulative change to the lowest level of the series during the 20-quarter projection from 3Q24 to 2Q29. For GDP growth, it is based on seasonal adjusted series. '%, Max' is the highest projected unemployment rate in the scenario.

Scenario weightings

In reviewing the economic environment, the level of risk and uncertainty, management has considered both global and country specific factors.

In the second quarter of 2024, key considerations around uncertainty attached to the Central scenario projections focused on:

- the outlook for real estate in our key markets, particularly in the Hong Kong and mainland China;
- the lagged impact of elevated interest rates on household finances and businesses, and the implications of volatility in monetary policy expectations on growth and employment;
- the announcements of elections in the UK and France, as well as the forthcoming election in the US. Potential policy uncertainty arising from these elections was a major discussion point; and
- geopolitical risks, including the Middle East and Russia-Ukraine wars.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Scenario weightings *(continued)*

Although these risk factors remain significant, management assessed that they were adequately reflected in the scenarios at their calibrated probabilities.

It was noted that economic forecasts had improved modestly and dispersion of forecasts around the consensus have either remained stable, or have moved lower. Similarly, financial market measures of volatility also remained very low through the second quarter of 2024.

This has led management to assign scenario probabilities that are aligned to the standard scenario probability calibration framework. This entailed assigning a 75% probability weighting to the Central scenario in our major markets. The consensus Upside scenario was assigned a 10% weighting, and the consensus Downside scenario was given 10%. The Downside 2 was assigned a 5% weighting.

In support of the decision, it was noted that policymakers in mainland China are expected to implement additional stimulus measures to support the economy, which would reduce the uncertainty attached to current forecasts. Hong Kong faces a similar backdrop, where targeted policy support is expected to maintain a steady pace of economic growth.

Critical estimates and judgements

The calculation of ECL under HKFRS 9 involves significant judgements, assumptions and estimates at 30 June 2024. These included:

- the selection and configuration of economic scenarios, given the constant change in economic conditions and distribution of economic risks; and
- estimating the economic effects of those scenarios on ECL, where similar observable historical condition cannot be captured by the credit risk models.

How economic scenarios are reflected in ECL calculation

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail portfolios are set out in pages 64 to 65 of the Annual Report 2023. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default.

Economic forecasts and ECL model responses to these forecasts are subject to a degree of uncertainty. The models continue to be supplemented by management judgemental adjustments where required.

Management judgmental adjustments

In the context of HKFRS 9, management judgemental adjustments are typically short-term increases or decreases to the modelled allowance for ECL at either a customer, segment, or portfolio level, where management believes allowances do not sufficiently reflect the credit risk/expected credit losses at the reporting date. These can relate to risks or uncertainties that are not reflected in the models and/or any late-breaking events with significant uncertainty, subject to management review and challenge.

Management judgmental adjustments include refining model inputs and outputs and using adjustments to ECL based on management judgment and higher level quantitative analysis for impacts that are difficult to model.

The effects of management judgmental adjustments are considered for both balances and allowance for ECL when determining whether or not a significant increase in credit risk has occurred and is allocated to a stage where appropriate. This is in accordance with the internal adjustments framework.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Management judgmental adjustments *(continued)*

Management judgemental adjustments are reviewed under the governance process for HKFRS 9 (as detailed in the section 'Credit risk management' on page 65 of the Annual Report 2023.

Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

The drivers of management judgemental adjustments continue to evolve with the economic environment and as new risks emerge.

In addition to management judgemental adjustments there are also 'Other adjustments', which are made to address process limitations and data/model deficiencies and can also include where appropriate, the impact of new models where governance has sufficiently progressed to allow a reasonable estimate of ECL allowance to be incorporated into the total reported ECL.

'Management judgemental adjustments' and 'Other adjustments' constitute the total value of adjustments to modelled allowance for ECL.

Management judgmental adjustments made in estimating the reported ECL at 30 June 2024 are set out in the following table.

Management judgmental adjustments to ECL:

	Retail	Wholesale	Total
		30 June 2024	
Corporate lending adjustments	**–**	**138**	**138**
Macroeconomic-related adjustments	**128**	**–**	**128**
Other lending adjustments	**20**	**22**	**42**
Total	**148**	**160**	**308**
		31 December 2023	
Corporate lending adjustments	–	243	243
Macroeconomic-related adjustments	271	–	271
Other lending adjustments	(21)	37	16
Total	250	280	530

Note: Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL, respectively.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Management judgmental adjustments *(continued)*

In the wholesale portfolio, management judgemental adjustments were HK$138m at 30 June 2024 (31 December 2023: HK$243m), including adjustments to exposures for high-risk and vulnerable sectors in our key markets.

In the retail portfolio, management judgemental adjustments mainly relate to macroeconomic conditions and few high risk segments.

There was an ECL increase of HK$148m at 30 June 2024 (31 December 2023: HK$250m increase).

- Macroeconomic-related adjustments increased ECL by HK$128m (31 December 2023: HK$271m increase). These adjustments were primarily in relation to risks related to future macroeconomic conditions.

- Other retail lending adjustments increased ECL by HK$20m (31 December 2023: HK$21m decrease) reflecting other potential risk segments.

There was a significant reduction in the amount of adjustments from 31 December 2023 as performance remained resilient.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for unsecured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Wholesale and Retail sensitivity

The wholesale and retail sensitivity tables present the 100% weighted results. These exclude portfolios held by the insurance business and small portfolios, and as such cannot be directly compared with personal and wholesale lending presented in other credit risk tables. In both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable with the current period, because they reflect different risks relative to the consensus scenarios for the period end.

The wholesale and retail sensitivity analysis is stated inclusive of management judgmental adjustments, as appropriate to each scenario and scope of sensitivity.

For both retail and wholesale portfolios, the gross carrying amount of financial instruments are the same under each scenario. For similar risk profile and product characteristics, the sensitivity impact is therefore largely the result of changes in macroeconomic assumptions.

Wholesale analysis

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

	Hong Kong	***Mainland China***
ECL of financial instruments subject to significant measurement uncertainty[2]	***30 June 2024***	
Reported ECL	**1,995**	**503**
Central scenario	**1,860**	**444**
Upside scenario	**1,384**	**316**
Downside scenario	**2,714**	**762**
Downside 2 scenario	**4,317**	**1,470**
ECL of financial instruments subject to significant measurement uncertainty[2]	*31 December 2023*	
Reported ECL	2,533	602
Central scenario	2,362	530
Upside scenario	1,819	370
Downside scenario	3,317	896
Downside 2 scenario	5,412	1,847

1 *Excludes ECL and financial instruments on defaulted obligors because the measure of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*

2 *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*

3 *ECL sensitivity is calculated by applying a 100% weighting to each scenario described above, and then applying judgemental overlays where determined appropriate.*

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

ECL of loans and advances to customers[2]	***Hong Kong***	***Mainland China***
	30 June 2024	
Reported ECL	**1,349**	**30**
Central scenario	**1,069**	**27**
Upside scenario	**947**	**26**
Downside scenario	**1,626**	**32**
Downside 2 scenario	**6,072**	**74**
ECL of loans and advances to customers[2]	*31 December 2023*	
Reported ECL	1,554	21
Central scenario	1,303	19
Upside scenario	1,153	19
Downside scenario	2,176	22
Downside 2 scenario	5,115	45

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

2 *ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.*

3 *ECL sensitivity is calculated by applying a 100% weighting to each scenario described above, and then applying judgemental overlays where determined appropriate.*

At 30 June 2024, the most significant level of ECL sensitivity was observed in Hong Kong driven by the relative size of the portfolio. Hong Kong mortgages had low levels of reported ECL due to secured nature. Credit cards and other unsecured lending are more sensitive to economic forecasts, and therefore reflected the highest level of ECL sensitivity during the first half of 2024.

(a) ***Credit Risk*** *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees

	Non credit – impaired				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	Gross carrying/ nominal amount	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*
At 1 January 2024	**1,125,306**	**(798)**	**155,555**	**(3,840)**	**24,635**	**(9,158)**	**117**	**–**	**1,305,613**	**(13,796)**
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(47,142)	77	47,142	(77)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	47,313	(338)	(47,313)	338	–	–	–	–	–	–
– transfers to Stage 3	(3,574)	3	(20,981)	971	24,555	(974)	–	–	–	–
– transfers from Stage 3	10	(2)	28	(2)	(38)	4	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	124	–	(133)	–	(7)	–	–	–	(16)
New financial assets originated and purchased[2]	177,578	(110)	2,716	(75)	–	–	–	–	180,294	(185)
Assets derecognised (including final repayments)	(131,230)	47	(17,537)	188	(414)	13	–	–	(149,181)	248
Changes to risk parameters – further lending/(repayments)	(23,541)	94	(779)	184	(3,715)	18	5	–	(28,030)	296
Changes in risk parameters – credit quality	–	151	–	(588)	–	(1,261)	–	(3)	–	(1,701)
Assets written off	–	–	–	–	(1,069)	1,069	–	–	(1,069)	1,069
Foreign exchange and others	(2,722)	35	(334)	9	1,963	(1,352)	–	–	(1,093)	(1,308)
At 30 June 2024	**1,141,998**	**(717)**	**118,497**	**(3,025)**	**45,917**	**(11,648)**	**122**	**(3)**	**1,306,534**	**(15,393)**

	Total
Change in ECL in income statement (charge)/release for the period	(1,358)
Add: Recoveries	101
Add/(less): Others	(253)
Total ECL (charge)/release for the period	**(1,510)**

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees *(continued)*

	At 30 June 2024		*For the half-year ended 30 June 2024*
	Gross carrying/ nominal amount	*Allowance for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	**1,306,534**	**(15,393)**	**(1,510)**
Other financial assets measured at amortised cost	**123,422**	**(46)**	**9**
Forward forward deposit placed	**61**	**–**	**–**
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	**1,430,017**	**(15,439)**	**(1,501)**
Debt instruments measured at FVOCI[3]	**354,493**	**(7)**	**(4)**
Performance and other guarantees	**20,059**	**(23)**	**5**
Total allowances for ECL/total consolidated income statement ECL charge for the period	**1,804,569**	**(15,469)**	**(1,500)**

1 *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

2 *Includes the new financial assets originated and purchased during the period, but subsequently transferred from stage 1 to stage 2 or stage 3 at 30 June 2024.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Interim Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.*

4 *The financial information included in this table forms part of the Interim Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees *(continued)*

	Non credit – impaired				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	Gross carrying/ nominal amount	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*
At 1 January 2023	1,162,085	(827)	179,597	(4,920)	23,943	(7,802)	301	(19)	1,365,926	(13,568)
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(68,066)	97	68,066	(97)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	26,207	(309)	(26,207)	309	–	–	–	–	–	–
– transfers to Stage 3	(1,301)	84	(8,400)	1,959	9,701	(2,043)	–	–	–	–
– transfers from Stage 3	7	(2)	41	(2)	(48)	4	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	126	–	(194)	–	(18)	–	–	–	(86)
New financial assets originated and purchased[2]	265,973	(208)	7,699	(188)	–	–	–	–	273,672	(396)
Assets derecognised (including final repayments)	(205,674)	71	(59,207)	468	(459)	8	(114)	–	(265,454)	547
Changes to risk parameters – further lending/(repayments)	(50,316)	137	(5,610)	736	(2,866)	2,689	(70)	19	(58,862)	3,581
Changes in risk parameters – credit quality	–	22	–	(1,923)	–	(7,607)	–	–	–	(9,508)
Assets written off	–	–	–	–	(5,600)	5,600	–	–	(5,600)	5,600
Foreign exchange and others	(3,609)	11	(424)	12	(36)	11	–	–	(4,069)	34
At 31 December 2023	1,125,306	(798)	155,555	(3,840)	24,635	(9,158)	117	–	1,305,613	(13,796)

	Total
Change in ECL in income statement (charge)/release for the year	(5,862)
Add: Recoveries	229
Add/(less): Others	(580)
Total ECL (charge)/release for the year	(6,213)

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees *(continued)*

	At 31 December 2023		*For the year ended 31 December 2023*
	Gross carrying/ nominal amount	*Allowance for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,305,613	(13,796)	(6,213)
Other financial assets measured at amortised cost	172,015	(59)	(12)
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,477,628	(13,855)	(6,225)
Debt instruments measured at FVOCI[3]	302,013	(3)	3
Performance and other guarantees	21,086	(28)	(26)
Total allowances for ECL/total consolidated income statement ECL charge for the year	1,800,727	(13,886)	(6,248)

1 *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

2 *Includes the new financial assets originated and purchased during the period, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2023.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments

The five credit quality classifications defined in the table below each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. Under HKFRS 9 retail lending credit quality is based on a 12-month point-in-time ('PIT') probability-weighted PD. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

	Sovereign debt securities and bills	*Other debt securities and bills*	*Wholesale lending*		*Retail lending*	
Credit Quality classification[1,2]	*External credit rating*	*External credit rating*	*Internal credit rating*	*12-month Basel probability of default %*	*Internal credit rating*	*12-month probability-weighted PD %*
Strong	BBB and above	A- and above	CRR1 to CRR2	0-0.169	Band 1 and 2	0-0.500
Good	BBB- to BB	BBB+ to BBB-	CRR3	0.170-0.740	Band 3	0.501-1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741-4.914	Band 4 and 5	1.501-20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915-99.999	Band 6	20.001-99.999
Credit-impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

1 *Customer risk rating ('CRR').*

2 *12-month point-in-time ('PIT') probability-weighted probability of default ('PD').*

Quality classification definitions

- *Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.*
- *Good exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.*
- *Satisfactory exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.*
- *Sub-standard exposures require varying degrees of special attention and default risk is of greater concern.*
- *Credit-impaired exposures have been assessed as described on note 2 (j) on the Consolidated Financial Statements in Annual Report 2023.*

(a) Credit Risk (continued)

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
Loans and advances to customers at amortised cost	467,241	130,765	191,046	29,775	46,032	864,859	(15,258)	849,601
– stage 1	464,233	123,644	125,476	1,161	–	714,514	(643)	713,871
– stage 2	3,008	7,121	65,570	28,614	–	104,313	(2,966)	101,347
– stage 3	–	–	–	–	45,910	45,910	(11,646)	34,264
– POCI	–	–	–	–	122	122	(3)	119
Placings with and advances to banks at amortised cost	95,762	289	18	–	–	96,069	(5)	96,064
– stage 1	95,762	281	18	–	–	96,061	(5)	96,056
– stage 2	–	8	–	–	–	8	–	8
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	106,072	11,155	6,027	106	62	123,422	(46)	123,376
– stage 1	104,475	11,126	5,368	3	–	120,972	(32)	120,940
– stage 2	1,597	29	659	103	–	2,388	(14)	2,374
– stage 3	–	–	–	–	62	62	–	62
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	254,633	44,022	44,228	757	7	343,647	(123)	343,524
– stage 1	254,584	40,012	35,017	171	–	329,784	(68)	329,716
– stage 2	49	4,010	9,211	586	–	13,856	(53)	13,803
– stage 3	–	–	–	–	7	7	(2)	5
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	483	828	557	152	–	2,020	(7)	2,013
– stage 1	483	820	397	–	–	1,700	(1)	1,699
– stage 2	–	8	160	152	–	320	(6)	314
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2024	924,191	187,059	241,876	30,790	46,101	1,430,017	(15,439)	1,414,578
Debt instruments at FVOCI[1]								
– stage 1	354,491	2	–	–	–	354,493	(6)	354,487
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2024	354,491	2	–	–	–	354,493	(6)	354,487

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Interim Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 34 (a) of the Interim Condensed Consolidated Financial Statements.*

3 *The financial information included in this table forms part of the Interim Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) **Credit Risk** *(continued)*

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution *(continued)*

	Gross carrying/notional amount							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowance for ECL*	*Net*
Loans and advances to customers at amortised cost	463,501	135,307	215,875	34,607	24,749	874,039	(13,633)	860,406
– stage 1	460,946	120,509	130,717	1,352	–	713,524	(709)	712,815
– stage 2	2,555	14,798	85,158	33,255	–	135,766	(3,766)	132,000
– stage 3	–	–	–	–	24,632	24,632	(9,158)	15,474
– POCI	–	–	–	–	117	117	–	117
Placings with and advances to banks at amortised cost	83,476	258	26	–	–	83,760	(4)	83,756
– stage 1	83,440	241	26	–	–	83,707	(4)	83,703
– stage 2	36	17	–	–	–	53	–	53
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	153,073	12,482	6,174	216	70	172,015	(59)	171,956
– stage 1	153,066	12,145	5,077	–	–	170,288	(41)	170,247
– stage 2	7	337	1,097	216	–	1,657	(3)	1,654
– stage 3	–	–	–	–	70	70	(15)	55
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	250,585	51,099	43,362	883	3	345,932	(155)	345,777
– stage 1	250,131	44,382	32,225	97	–	326,835	(84)	326,751
– stage 2	454	6,717	11,137	786	–	19,094	(71)	19,023
– stage 3	–	–	–	–	3	3	–	3
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	444	797	509	132	–	1,882	(4)	1,878
– stage 1	444	604	191	1	–	1,240	(1)	1,239
– stage 2	–	193	318	131	–	642	(3)	639
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2023	951,079	199,943	265,946	35,838	24,822	1,477,628	(13,855)	1,463,773
Debt instruments at FVOCI[1]								
– stage 1	302,011	2	–	–	–	302,013	(3)	302,010
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2023	302,011	2	–	–	–	302,013	(3)	302,010

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Interim Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 34 (a) of the Interim Condensed Consolidated Financial Statements.*

***(a) Credit Risk** (continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate

The following table presents the Group's total exposure to borrowers classified in the mainland China commercial real estate ('CRE') sector where the ultimate parent is based in mainland China, as well as all CRE exposures booked on mainland China balance sheets. The exposures at 30 June 2024 are split by country/territory and credit quality including allowances for ECL by stage.

	At 30 June 2024			At 31 December 2023		
	Hong Kong	Mainland China	Total	Hong Kong	Mainland China	Total
Loans and advances to customers[1]	18,455	9,021	27,476	22,453	12,041	34,494
Guarantees issued and others[2]	90	–	90	205	–	205
Total mainland China CRE exposure	18,545	9,021	27,566	22,658	12,041	34,699
Distribution of mainland China CRE exposure by credit quality						
– Strong	133	726	859	1,151	392	1,543
– Good	768	2,115	2,883	1,807	3,157	4,964
– Satisfactory	1,396	4,417	5,813	2,690	6,276	8,966
– Sub-standard	3,912	342	4,254	4,169	683	4,852
– Credit-impaired	12,336	1,421	13,757	12,841	1,533	14,374
	18,545	9,021	27,566	22,658	12,041	34,699
Allowance for ECL by credit quality						
– Strong	–	1	1	–	1	1
– Good	1	8	9	1	17	18
– Satisfactory	2	153	155	14	66	80
– Sub-standard	265	87	352	224	239	463
– Credit-impaired	6,794	517	7,311	6,407	479	6,886
	7,062	766	7,828	6,646	802	7,448
Allowance for ECL by stage						
– Stage 1	–	31	31	2	47	49
– Stage 2	268	218	486	237	276	513
– Stage 3	6,791	517	7,308	6,407	479	6,886
– POCI	3	–	3	–	–	–
	7,062	766	7,828	6,646	802	7,448
ECL coverage %	38.1	8.5	28.4	29.3	6.7	21.5

1 *Amounts represent gross carrying amount.*

2 *Amounts represent nominal amount.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate *(continued)*

CRE financing refers to lending that focuses on commercial development and investment in real estate and covers commercial, residential and industrial assets. The exposures in the table are related to companies whose primary activities are focused on these activities. Lending is generally focused on tier 1 and 2 cities. The table also includes financing provided to a corporate or financial entity for the purchase or financing of a property which supports the overall operations of the business. Such exposures are outside of our normal definition of Commercial Real Estate, as applied elsewhere in this report, but are provided here for a more comprehensive view of our mainland property exposure.

The exposures in the table above had 35% of exposure booked with a credit quality of 'satisfactory' or above (31 December 2023: 45%) reflecting sustained stress in the China CRE market, including weakness in both property market fundamentals and financing conditions for borrowers operating in this sector.

Allowances for ECL are substantially against unsecured exposures. For secured exposures, allowances for ECL are minimal due to the nature of security held.

Total China CRE exposure has reduced to HK$27,566m, down HK$7,133m since 31 December 2023 as a result of de-risking measures and repayments. At 30 June 2024, the Group had allowances for ECL of HK$7,062m (31 December 2023: HK$6,646m) held against mainland China commercial real estate exposures booked in Hong Kong.

Market conditions remain subdued as a result of generally weak sentiment and residential property transaction levels. A series of policy measures have been introduced by the Chinese government to stabilise the market, with some initial improvement in sentiment driving an early rebound in secondary market transactions. We continue to closely monitor developments in the real estate sector, including the extent to which government support measures are driving a sustained stabilization in property market fundamentals and financing conditions.

Hong Kong Commercial Real Estate

The following table presents the Group's CRE lending booked in Hong Kong and not fall under the China CRE sector. The exposures are split by stage and credit quality.

	At 30 June 2024	*At 31 December 2023*
Gross loans and advances to customers by stage		
– Stage 1	**88,392**	90,383
– Stage 2	**37,865**	46,549
– Stage 3	**13,485**	1,081
Total	**139,742**	138,013
Allowance for ECL	**1,294**	1,245
Gross loans and advances to customers by credit quality		
– Strong	**20,809**	22,605
– Good	**36,983**	36,974
– Satisfactory	**56,600**	63,308
– Sub-standard	**11,865**	14,045
– Credit-impaired	**13,485**	1,081
Total	**139,742**	138,013

Approximately two thirds of the Hong Kong CRE portfolio (excluding exposure to mainland China borrowers) is secured.

(a) Credit Risk *(continued)*

Credit quality of financial instruments *(continued)*

Hong Kong Commercial Real Estate *(continued)*

Unsecured exposures are typically granted to strong, listed CRE developers, which commonly are members of conglomerate groups with diverse cashflows. There has been relatively little credit deterioration in this portfolio. All unsecured exposures are performing, with close to 90% rated Strong or Good.

There has been some credit deterioration in the portfolio of secured exposures, as certain borrowers have sought payment deferrals to accommodate debt serviceability challenges. Nevertheless, collateral coverage remains strong. As at 30 June 2024, the weighted average LTV:

- Of performing exposures rated sub-standard was below 50%;
- Of impaired exposures was below 60%. This has driven relatively low levels of Stage 3 allowance for ECL.

Collateral coverage levels have remained broadly stable during the past 6 months despite an observed softening of property valuations. This reflects generally conservative LTVs at loan inception, providing headroom for collateral depreciation, as well as a trend of borrower deleveraging and loan right-sizing at the point of refinance to mitigate against higher interest rates.

Collateral values are subject to regular assessments and updates in line with our existing practice. Through ongoing portfolio reviews and stress testing, vulnerable borrowers, including those with higher loan to value levels, have been identified and are subject to heightened monitoring and management.

(b) Treasury Risk

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of an adverse impact on earnings or capital due to structural or transactional foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.

The key development in treasury risk management in the first half of 2024 is the HKD3 billion share buy-back programme announced in April 2024.

Capital Risk

Overview

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group recognises the impact of different level of equity capital on shareholder returns and seeks to maintain a prudent balance between advantages and flexibility provided by a strong capital position and higher returns on equity through greater leverage.

Framework

The policy on capital management sets out the Group's capital management framework. The framework sets out our approach to determining key capital risk appetites for Common Equity Tier 1 ('CET1'), Tier 1 ('T1'), Total capital, loss-absorbing capacity ('LAC') and leverage ratio, which enables us to manage our capital in a consistent manner. Regulatory capital and economic capital are the two primary measures used for the management and control of capital.

Capital measures:

- regulatory capital is the capital which we are required to hold in accordance with the rules established by regulator; and
- economic capital is the internally calculated capital requirement to support risks to which the Group is exposed to and forms a core part of the internal capital adequacy assessment process ('ICAAP').

(b) ***Treasury Risk*** *(continued)*

Capital Risk *(continued)*

Framework *(continued)*

ICAAP is an assessment of the Group's capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, and the implications of stress testing. ICAAP is driven by an assessment of risks, including credit, market, operational, pensions, insurance, structural foreign exchange, interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and the Group is continuing to develop the approach for climate risk management. The ICAAP supports the determination of the capital risk appetites, and enables the assessment and determination of capital requirements by regulator.

An annual Group capital plan is prepared and approved by the Board with the objectives of maintaining an optimal amount of capital and a suitable mix between different components of capital. The Group manages its own capital within the context of the approved annual capital plan, which determines the level of risk-weighted asset ('RWA') growth as well as the optimal amount and components of capital required to support planned business growth. Capital and RWA are monitored and managed against the plan, with capital forecasts reported to relevant governance committees. As part of the Group's capital management objectives, subsidiary with capital generated in excess of planned requirement will return to the Bank, normally by way of dividends. The Group also raised subordinated debt in accordance with HSBC Group's guidelines regarding cost, market conditions, timing and maturity profile.

The Bank is primarily a provider of equity capital to its subsidiaries. These investments are substantially funded by the Bank's own capital and profit. The Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the Consolidated Balance Sheet: share capital, retained profits, other equity instruments and other reserves. Capital also includes impairment allowances and regulatory reserve for general banking risks as allowed under Banking (Capital) Rules.

The following tables show the capital base, RWA and capital ratios as contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority ('HKMA') by the Bank on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules. The basis is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of our website www.hangseng.com.

The Group uses the advanced internal ratings-based approach ('IRB') to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the Group uses the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group uses standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

Risk-weighted assets by risk type

	At 30 June 2024	*At 31 December 2023*
Credit risk	**617,728**	592,283
Market risk	**18,001**	19,898
Operational risk	**65,542**	62,088
Total	**701,271**	674,269

(b) Treasury Risk *(continued)*

Capital Risk *(continued)*

Capital Base

The following table sets out the composition of the Group's capital base under Basel III at 30 June 2024 and 31 December 2023. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

	At 30 June 2024	At 31 December 2023
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	149,659	151,744
– Shareholders' equity per balance sheet	166,320	168,131
– Additional Tier 1 ('AT1') perpetual capital instruments	(11,731)	(11,744)
– Unconsolidated subsidiaries	(4,930)	(4,643)
Non-controlling interests	–	–
– Non-controlling interests per balance sheet	47	53
– Non-controlling interests in unconsolidated subsidiaries	(47)	(53)
Regulatory deductions to CET1 capital	(33,423)	(29,485)
– Cash flow hedge reserve	84	37
– Changes in own credit risk on fair valued liabilities	(1)	(4)
– Property revaluation reserves*	(24,177)	(24,570)
– Regulatory reserve	(437)	–
– Intangible assets	(3,413)	(3,388)
– Defined benefit pension fund assets	(128)	–
– Deferred tax assets net of deferred tax liabilities	(407)	(481)
– Valuation adjustments	(160)	(153)
– Excess of total expected loss amount over total eligible provisions under the IRB approach	(4,784)	(926)
Total CET1 Capital	116,236	122,259
AT1 Capital		
Total AT1 capital before and after regulatory deductions	11,731	11,744
– Perpetual capital instruments	11,731	11,744
Total AT1 Capital	11,731	11,744
Total Tier 1 ('T1') Capital	127,967	134,003
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	11,077	11,275
– Property revaluation reserves*	10,880	11,056
– Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	197	219
Regulatory deductions to T2 capital	(1,045)	(1,045)
– Significant capital investments in unconsolidated financial sector entities	(1,045)	(1,045)
Total T2 Capital	10,032	10,230
Total Capital	137,999	144,233

* *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

(b) ***Treasury Risk*** *(continued)*

Capital Risk *(continued)*

Capital ratios (as a percentage of risk-weighted assets)

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	At 30 June 2024	*At 31 December 2023*
CET1 capital ratio	**16.6%**	18.1%
Tier 1 capital ratio	**18.2%**	19.9%
Total capital ratio	**19.7%**	21.4%

In addition, the capital ratios of all tiers as of 30 June 2024 would be reduced by approximately 0.3 percentage point after the prospective second interim dividend payment for 2024 (31 December 2023: reduced by approximately 0.9 percentage point after the prospective fourth interim dividend payment for 2023). The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2024	*Pro-forma At 31 December 2023*
CET1 capital ratio	**16.3%**	17.2%
Tier 1 capital ratio	**17.9%**	19.0%
Total capital ratio	**19.4%**	20.5%

Dividend policy

Objective

The Bank's medium to long term dividend objective is to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation.

Considerations

The declaration of dividends is made at the discretion of the Board, which will take into account all relevant factors including the following:

- regulatory requirements;
- financial results;
- level of distributable reserves;
- general business conditions and strategies;
- strategic business plan and capital plan;
- statutory and regulatory restrictions on dividend payment; and
- any other factors the Board may deem relevant.

(b) Treasury Risk *(continued)*

Capital Risk *(continued)*

Dividend policy *(continued)*

Phasing and Timing

Under normal circumstances and if the Board determines to declare a dividend at its discretion, dividends would be declared on a quarterly basis. The phasing of dividends would be planned on a prudent basis to allow for any unforeseen events, which might arise towards the end of an accounting period. Phasing of dividends would also take account of the volatility of the Bank's profits.

Non-trading book foreign exchange exposures

Structural foreign exchange exposures

Structural foreign exchange exposures arise from net assets or capital investments in foreign operations together with any associated hedging. A foreign operation is defined as a subsidiary, branch, where the activities are conducted in a currency other than that of the reporting entity. An entity's functional reporting currency is normally that of the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recognised in other comprehensive income ('OCI'). The Group uses Hong Kong dollar as our presentation currency in our consolidated financial statements. Therefore, our consolidated balance sheet is affected by exchange differences between Hong Kong dollar and all the non-Hong Kong dollar functional currencies of underlying foreign operations.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of foreign operations subject to minimum regulatory capital requirements are largely protected from the effect of changes in exchange rates.

The Group's foreign exchange exposures are prepared in accordance with the HKMA 'Return of Foreign Currency Position -(MA(BS)6)'.

For details of the Group's structural and non-structural foreign currency positions, please refer to the Banking Disclosure Statement that is available in the 'Regulatory Disclosures' section of the Bank's website.

Transactional foreign exchange exposures

Transactional foreign exchange exposures arise from transactions in the banking book generating profit and loss or OCI reserves in a currency other than the reporting currency of the operating entity. Transactional foreign exchange exposure generated through profit and loss is periodically transferred to Global Markets and managed within limits. Transactional foreign exchange exposure generated through OCI reserves is managed within an agreed limit framework.

Liquidity and funding risk

Liquidity risk is the risk that an entity does not have sufficient resources to meet its financial obligations when they fall due, or can only secure them at excessive cost. This may cause potential breaches in regulatory or internal metrics such as the Liquidity Coverage Ratio ('LCR') or the Internal Liquidity Metrics ('ILM'). Funding risk is the risk that an entity does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. This may cause potential breaches in regulatory or internal metrics such as the Net Stable Funding Ratio ('NSFR').

(b) Treasury Risk *(continued)*

Liquidity and funding risk *(continued)*

Liquidity and funding risk profile

The Group adopts HSBC Group's policies, metrics and controls to manage liquidity and funding risk. The policies are designed to be adaptable to changing business models, markets and regulations. The policies are designed to ensure that Group and entity management have oversight of our liquidity and funding risks in order to manage them appropriately. We manage liquidity and funding risk at an operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group.

Operating entities are required to meet internal and applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, processes and systems for the identification, measurement, management and monitoring of liquidity and funding risk over an appropriate set of time horizons, including risk appetite and also assesses the capability to manage liquidity and funding effectively in each major entity. Liquidity and funding risk metrics are set and managed at entity level but are subject to global review and challenge to ensure consistency of approach and application of the HSBC Group's policies and controls.

Structure and organisation

ALCM teams are responsible for the application of policies and controls at a local operating entity level. The elements of the Group's policies and controls are underpinned by a robust governance framework, the two major elements of which are:

- ALCOs at the Group and entity level; and
- annual ILAAP support determination of risk appetite. All operating entities are required to prepare an ILAAP document at appropriate frequency.

The Board is ultimately responsible for determining the types and magnitude of liquidity risk that the Group is able to take and ensuring that there is an appropriate organisation structure for managing this risk. Under authorities delegated by the Executive Committee, the Group ALCO is responsible for managing all Asset, Liability and Capital Management issues including liquidity and funding risk management.

The Group ALCO delegates to the Group Tactical Asset and Liability Management Committee ('TALCO') the task of reviewing various analysis of the Group pertaining to liquidity and funding.

Compliance with liquidity and funding requirements is monitored by the ALCO and is reported to the Risk Management Meeting ('RMM'), Executive Committee, Risk Committee ('RC') and the Board of Directors on a regular basis. This process includes:

- maintaining compliance with relevant regulatory requirements of the reporting entity;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- managing contingent liquidity commitment exposures within pre-determined limits;

(b) Treasury Risk *(continued)*

Liquidity and funding risk *(continued)*

Structure and organisation (continued)

- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken during stress, while minimising adverse long term implications for the business.

Governance

ALCM teams apply the Group's policies and controls at both an individual entity and Group level, and are responsible for the implementation of Group-wide and local regulatory policy at a legal entity level. Markets Treasury has responsibility for cash and liquidity management.

Treasury Risk Management carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury. Their work includes setting control standards, advising on policy implementation, and reviewing and challenging of reporting.

Internal Audit provide independent assurance that risk is managed effectively.

The management of liquidity and funding risk

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The critical Board risk appetite measures are the LCR, ILM and NSFR. An appropriate funding and liquidity profile is managed through a wider set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement or other appropriate metric;
- an ILM requirement;
- a depositor concentration limit;
- cumulative term funding maturity concentrations limit;
- liquidity metrics to monitor minimum requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

(b) ***Treasury Risk*** *(continued)*

Liquidity and funding risk *(continued)*

Sources of funding

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

Currency mismatch

The Group follows the HSBC Group policy which requires all operating entities to manage currency mismatch risk for material currencies. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the FX swap markets.

Additional collateral obligations

Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant CSA contracts), the additional collateral required to post in the event of downgrade in credit ratings is nil.

Liquidity information

The Group is required to calculate its LCR and NSFR on a consolidated basis in accordance with rule 11 (1) of The Banking (Liquidity) Rules ('BLR') and to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the reportable periods are as follows:

	Quarter ended 30 June 2024	***Quarter ended 31 March 2024***	*Quarter ended 30 June 2023*	*Quarter ended 31 March 2023*
Average LCR	**277.2%**	**276.8%**	245.0%	276.7%

The Group maintained a strong average LCR of 277.2% at 30 June 2024 (31 December 2023: 260.6%) which is well above the statutory requirement. The average LCR increased from 260.6% for the quarter ended 31 December 2023 to 277.2% for the quarter ended 30 June 24, mainly reflecting the increase in holding of HQLA supported by the increase in commercial surplus.

The composition of the Group's high quality liquid assets ('HQLA') as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

	Weighted amount (average value) at quarter ended			
	30 June 2024	***31 March 2024***	*30 June 2023*	*31 March 2023*
Level 1 assets	**393,516**	**379,665**	402,508	454,223
Level 2A assets	**10,125**	**10,378**	12,182	12,928
Level 2B assets	**3,544**	**3,187**	3,293	4,044
Total weighted amount of HQLA	**407,185**	**393,230**	417,983	471,195

The NSFRs at the reportable quarter-end are as follows:

	Quarter ended 30 June 2024	***Quarter ended 31 March 2024***	*Quarter ended 30 June 2023*	*Quarter ended 31 March 2023*
NSFR	**168.2%**	**171.7%**	161.4%	163.6%

***(b) Treasury Risk** (continued)*

Liquidity and funding risk *(continued)*

Liquidity information (continued)

The funding position of the Group remained strong for the first half of 2024. The period end NSFR were 168.2% and 171.7% for the quarters ended 30 June and 31 March 2024 respectively, compared with 161.4% and 163.6% for the quarters ended 30 June and 31 March 2023 respectively.

To comply with the Banking (Disclosure) Rules, the details of liquidity information can be found in the Regulatory Disclosures section of our website www.hangseng.com.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the business segments where the risks originate.

The following tables set out the assessed impact to a hypothetical base case projection of our NII under an immediate shock of 100bps to the current market-implied path of interest rates across all currencies on 1 July 2024 (effects in the coming 12 months).

The sensitivities shown represent a hypothetical simulation of the base case income, assuming a static balance sheet and no management actions from Markets Treasury.

The sensitivity analysis performed in the case of a down-shock does not include floors to market rates. However, floors have been maintained for deposits and loans to customers where this is contractual or where negative rates would not be applied.

An immediate interest rate rise of 100bps would increase projected NII for the 12 months to 30 June 2025 by HK$1,335m. An immediate interest rate fall of 100bps would decrease projected NII for the 12 months to 30 June 2025 by HK$1,708m.

NII sensitivity to an instantaneous change in yield curves (12 months) by currency:

	100bp parallel increase	*100bp parallel decrease*
Change in July 2024 to June 2025 (based on balance sheet at 30 June 2024)		
– HKD	**441**	**(618)**
– USD	**(18)**	**5**
– Other	**912**	**(1,095)**
Total	**1,335**	**(1,708)**
Change in January 2024 to December 2024 (based on balance sheet at 31 December 2023)		
– HKD	895	(1,038)
– USD	191	(213)
– Other	701	(955)
Total	1,787	(2,206)

(c) Market Risk

Market risk is the risk of adverse financial impact on trading activities arising from changes in market parameters, such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.

A summary of the Group's current policies and practices for the management of market risk is set out in 'Market Risk' section on pages 97 to 100 of the Annual Report 2023.

Market risk in the first half of 2024

Inflation expectations have been in focus during the first half of 2024, against the backdrop of resilient economic growth and elections in multiple countries. Central bank policies have diverged, with the Fed holding interest rates unchanged and the Bank of Japan concluding its period of negative interest rates by raising the overnight interest rate to a range of about zero to 0.1 per cent, while the ECB and some other European central banks cut rates in June. After trending upwards until April, government bond yields have generally fallen in Q224, largely driven by lower inflation and expectations of central banks' easing. Japanese government bond yields have instead risen to the highest in the last decade following central bank's historic policy shift. In Europe, the France-Germany yield spread has widened amid uncertainty from the French legislative elections. Equities have risen to multiple record highs in the US and in Europe, amid strong corporate earnings and positive sentiment in the technology sector. Some emerging markets equities have tended to outperform developed markets during Q224, particularly in Asia. In foreign exchange markets, the US dollar strengthening has continued, mostly in line with interest rate differentials. The Yen has weakened to multidecade lows against the US Dollar. Whilst sentiment has remained resilient in credit markets, credit spreads have widened marginally during June, with a more pronounced increase for high-yield credit compared to investment-grade.

We continued to manage market risk prudently in the first half of 2024. Sensitivity exposures and VaR remained within risk appetite as the business pursue its core market-making activity in support of our customers. Market risk was managed using complementary set of risk measures and limits including stress test and scenario analysis.

Trading portfolios

VaR of the trading portfolios

Trading VaR predominantly resides within Global Markets. Interest rate risks were the main drivers of trading VaR. The VaR for trading activity on 30 June 2024 was higher comparing to that on 30 June 2023, mainly driven by interest rate trading portfolio.

The table below shows the Group's trading VaR for the following periods.

	At 30 June 2024	***Minimum during the first half of 2024***	***Maximum during the first half of 2024***	***Average for the first half of 2024***	*At 30 June 2023*	*Minimum during the first half of 2023*	*Maximum during the first half of 2023*	*Average for the first half of 2023*
VaR								
Trading	**51**	**32**	**55**	**43**	45	28	55	41
Foreign exchange trading	**32**	**6**	**35**	**20**	4	1	12	5
Interest rate trading	**72**	**33**	**74**	**54**	47	30	53	42
Credit spread trading	**1**	**0**	**3**	**1**	1	0	1	1
Portfolio diversification	**(54)**	**N/A**	**N/A**	**(32)**	(7)	N/A	N/A	(7)

(c) Market Risk *(continued)*

Equities exposures

The Group's equities exposures are reported as 'Financial assets mandatorily measured at fair value through profit or loss', 'Financial investments' and 'Trading assets' in the Interim Condensed Consolidated Financial Statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Insurance manufacturing operation risk

Overview

The majority of the risk in the insurance business derives from manufacturing activities of our insurance subsidiary, Hang Seng Insurance Company Limited ('HSIC') and can be categorised as insurance underwriting risk and financial risk. Financial risk includes the risk of not being able to match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible, exposure of which arises from market risk, credit risk and liquidity risk. Insurance underwriting risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received.

A summary of our policies and practices regarding the risk management of insurance operation, our insurance model and the main contracts we manufacture is provided on pages 110 to 117 of the Annual Report 2023.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operation described in the Annual Report 2023.

Insurance manufacturing operation risk profile in the first half of 2024

The risk profile of our insurance manufacturing business is measured using a risk-based capital approach. Assets and liabilities are measured on a market value basis and a capital requirement is defined to ensure that there is a less than 1-in-200 chance of insolvency over a one-year time horizon, given the risks that the business are exposed to. The risk-based capital approach is largely aligned to the HSBC Group's economic capital basis as well as the recent Hong Kong Risk Based Capital Regulation ('HKRBC') being developed. The HKRBC coverage ratio (economic net asset value divided by the HKRBC requirement) is a key risk appetite measure. HSIC has set out the risk appetite and tolerance level so as to ensure there are buffers for HSIC to remain solvent, allowing for business-as-usual volatility and extreme but plausible stress events and as triggers in which management actions are required.

(d) Insurance manufacturing operation risk (continued)

The following table shows the composition of assets and liabilities by type of contract:

Balance sheet of insurance manufacturing subsidiary by type of contract[5]

	Life direct participating contracts[1]	*Life other[2]*	*Other contracts[3]*	*Shareholders' assets and liabilities*	*Total*
At 30 June 2024					
Financial assets:					
– financial assets mandatorily measured at fair value through profit or loss	156,150	8,358	49	–	164,557
– derivative	327	18	–	–	345
– financial investments	–	–	179	5,208	5,387
– other financial assets[4]	10,456	559	60	2,145	13,220
Total financial assets	166,933	8,935	288	7,353	183,509
Insurance contract assets	–	8	–	–	8
Reinsurance contract assets	–	5,312	–	–	5,312
Other assets and investment properties	5,864	312	2	3,270	9,448
Total assets	172,797	14,567	290	10,623	198,277
Liabilities under investment contracts designated at fair value	–	–	260	–	260
Insurance contract liabilities	170,949	9,151	–	–	180,100
Reinsurance contract liabilities	–	1,002	–	–	1,002
Deferred tax	–	–	–	9	9
Derivative financial instruments	107	6	–	1	114
Other liabilities	3,249	174	18	2,214	5,655
Total liabilities	174,305	10,333	278	2,224	187,140
Total equity	–	–	–	11,137	11,137
Total liabilities and equity	174,305	10,333	278	13,361	198,277

1 *Life direct participating contracts are measured under the variable fee approach measurement model.*

2 *Life other contracts are measured under the general measurement model. Life other contracts mainly include protection type contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating contracts.*

3 *Other contracts includes investment contracts for which the Group does not bear significant insurance risk.*

4 *Comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.*

5 *Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with the Bank's non-insurance operations.*

(d) ***Insurance manufacturing operation risk*** *(continued)*

Balance sheet of insurance manufacturing subsidiary by type of contract[5] *(continued)*

	Life direct participating contracts[1]	*Life other[2]*	*Other contracts[3]*	*Shareholders' assets and liabilities*	*Total*
At 31 December 2023					
Financial assets:					
– financial assets mandatorily measured at fair value through profit or loss	148,205	8,377	47	–	156,629
– derivative	46	3	–	–	49
– financial investments	–	–	191	8,150	8,341
– other financial assets[4]	4,230	239	45	986	5,500
Total financial assets	152,481	8,619	283	9,136	170,519
Insurance contract assets	–	10	–	–	10
Reinsurance contract assets	–	5,378	–	–	5,378
Other assets and investment properties	6,168	338	2	2,923	9,431
Total assets	158,649	14,345	285	12,059	185,338
Liabilities under investment contracts designated at fair value	–	–	264	–	264
Insurance contract liabilities	158,595	8,614	–	–	167,209
Reinsurance contract liabilities	–	1,111	–	–	1,111
Deferred tax	–	–	–	10	10
Derivative financial instruments	145	8	–	2	155
Other liabilities	3,393	191	11	2,102	5,697
Total liabilities	162,133	9,924	275	2,114	174,446
Total equity	–	–	–	10,892	10,892
Total liabilities and equity	162,133	9,924	275	13,006	185,338

1 *Life direct participating contracts are measured under the variable fee approach measurement model.*

2 *Life other contracts are measured under the general measurement model. Life other contracts mainly include protection type contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating contracts.*

3 *Other contracts includes investment contracts for which the Group does not bear significant insurance risk.*

4 *Comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.*

5 *Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with the Bank's non-insurance operations.*

(unaudited)
(Expressed in millions of Hong Kong dollars)

Interim Condensed Consolidated Income Statement

	note	***Half-year ended 30 June 2024***	*Half-year ended 30 June 2023*
Interest income[1]		**30,826**	28,507
Interest expense		**(15,343)**	(13,316)
Net interest income	4	**15,483**	15,191
Fee income		**4,016**	4,056
Fee expense		**(1,452)**	(1,390)
Net fee income	5	**2,564**	2,666
Net income/(loss) from financial instruments measured at fair value through profit or loss	6	**2,822**	6,110
Gains less losses from financial investments	7	**14**	2
Dividend income	8	**6**	16
Insurance finance income/(expenses)		**(2,000)**	(5,454)
Insurance service results		**1,187**	1,025
– Insurance revenue		**1,691**	1,396
– Insurance service expense		**(504)**	(371)
Other operating income/(losses)	9	**355**	384
Net operating income before change in expected credit losses and other credit impairment charges		**20,431**	19,940
Change in expected credit losses and other credit impairment charges	10	**(1,500)**	(1,924)
Net operating income		**18,931**	18,016
Employee compensation and benefits		**(3,024)**	(2,952)
General and administrative expenses		**(2,975)**	(2,812)
Depreciation expenses		**(962)**	(954)
Amortisation of intangible assets		**(562)**	(438)
Operating expenses	11	**(7,523)**	(7,156)
Impairment loss on intangible assets		**(12)**	(2)
Operating profit		**11,396**	10,858
Net surplus/(deficit) on property revaluation		**(139)**	(1)
Share of profits/(losses) of associate		**50**	104
Profit before tax		**11,307**	10,961
Tax expense	12	**(1,419)**	(1,139)
Profit for the period		**9,888**	9,822
Profit attributable to:			
Shareholders of the Bank		**9,893**	9,827
Non-controlling interests		**(5)**	(5)
(Figures in HK$)			
Earnings per share – basic and diluted	13	**5.04**	4.99

[1] *Interest income is calculated using the effective interest method and comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*

Details of dividends payable to shareholders of the Bank attributable to the profit for the period are set out in note 14.

The notes on pages 60 to 91 form part of these Interim Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Interim Condensed Consolidated Statement of Comprehensive Income

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023 (re-presented)*[1]
Profit for the period	**9,888**	9,822
Other comprehensive income		
Items that will be reclassified subsequently to the profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI') reserve:		
– fair value gains/(losses) taken to equity	**(184)**	(158)
– fair value (gains)/losses transferred to the income statement:		
– on hedged items	**310**	136
– on disposal	**(14)**	(2)
– expected credit losses/(recoveries) recognised in the income statement	**4**	(4)
– deferred taxes	**(24)**	4
Cash flow hedge reserve:		
– fair value gains/(losses) taken to equity	**3,368**	1,133
– fair value (gains)/losses transferred to the income statement	**(3,420)**	(764)
– deferred taxes	**9**	(61)
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and associate	**(360)**	(742)
Items that will not be reclassified subsequently to the profit or loss:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
– fair value gains/(losses) taken to equity	**(2)**	12
– deferred taxes	**–**	(2)
Equity instruments designated at FVOCI:		
– fair value gains/(losses) taken to equity	**73**	(169)
Premises:		
– unrealised surplus/(deficit) on revaluation of premises	**85**	612
– deferred taxes	**(15)**	(104)
Defined benefit plans:		
– actuarial gains/(losses) on defined benefit plans	**248**	115
– deferred taxes	**(41)**	(19)
Others	**(34)**	–
Other comprehensive income for the period, net of tax	**3**	(13)
Total comprehensive income for the period	**9,891**	9,809
Total comprehensive income for the period attributable to:		
– shareholders of the Bank	**9,896**	9,814
– non-controlling interests	**(5)**	(5)
	9,891	9,809

1 *Where applicable, the exchange differences have been included as part of the respective items for the current period's presentation, whereas those exchange differences were separately presented in the prior period. Correspondingly, the comparative figures have been re-presented to conform with current period's presentation.*

The notes on pages 60 to 91 form part of these Interim Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Balance Sheet

	note	*At 30 June 2024*	*At 31 December 2023*
ASSETS			
Cash and balances at central banks	16	**10,198**	10,564
Trading assets	17	**40,294**	44,018
Derivative financial instruments	18	**17,006**	14,959
Financial assets mandatorily measured at fair value through profit or loss	19	**164,832**	156,872
Reverse repurchase agreements – non-trading		**25,778**	30,202
Placings with and advances to banks	20	**96,064**	83,756
Loans and advances to customers	21	**849,601**	860,406
Financial investments	22	**415,341**	405,792
Interest in an associate	23	**2,376**	2,363
Investment properties	24	**11,833**	12,000
Property, plant and equipment	24	**26,349**	27,075
Intangible assets	25	**4,365**	4,335
Other assets	26	**44,416**	39,752
Total assets		**1,708,453**	1,692,094
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		**11,102**	19,707
Current, savings and other deposit accounts	27	**1,169,784**	1,153,062
Repurchase agreements – non-trading		**20,320**	12,767
Trading liabilities	28	**18,994**	35,227
Derivative financial instruments	18	**11,863**	14,478
Financial liabilities designated at fair value	29	**50,728**	45,633
Certificates of deposit in issue		**7,305**	9,857
Other liabilities	30	**37,846**	33,759
Insurance contract liabilities		**180,189**	167,264
Current tax liabilities		**2,670**	990
Deferred tax liabilities		**3,794**	3,675
Subordinated liabilities	31	**27,491**	27,491
Total liabilities		**1,542,086**	1,523,910
Equity			
Share capital	32	**9,658**	9,658
Retained profits		**125,322**	126,624
Other equity instruments	33	**11,731**	11,744
Other reserves		**19,609**	20,105
Total shareholders' equity		**166,320**	168,131
Non-controlling interests		**47**	53
Total equity		**166,367**	168,184
Total equity and liabilities		**1,708,453**	1,692,094

The notes on pages 60 to 91 form part of these Interim Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Interim Condensed Consolidated Statement of Changes in Equity

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign exchange reserve	Other reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2024	9,658	11,744	126,624	18,525	1,579	(96)	(571)	668	168,131	53	168,184
Profit for the period	–	–	9,893	–	–	–	–	–	9,893	(5)	9,888
Other comprehensive income (net of tax)	–	–	173	70	165	(43)	(360)	(2)	3	–	3
Debt instruments at FVOCI	–	–	–	–	92	–	–	–	92	–	92
Equity instruments designated at FVOCI	–	–	–	–	73	–	–	–	73	–	73
Cash flow hedges	–	–	–	–	–	(43)	–	–	(43)	–	(43)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Property revaluation	–	–	–	70	–	–	–	–	70	–	70
Actuarial gains on defined benefit plans	–	–	207	–	–	–	–	–	207	–	207
Others	–	–	(34)	–	–	–	(360)	–	(394)	–	(394)
Total comprehensive income for the period	–	–	10,066	70	165	(43)	(360)	(2)	9,896	(5)	9,891
Redemption and repayment of AT1 capital instrument[3]	–	(4,700)	–	–	–	–	–	–	(4,700)	–	(4,700)
Issue of new AT1 capital instrument[3]	–	4,687	–	–	–	–	–	–	4,687	–	4,687
Dividends paid[4]	–	–	(8,400)	–	–	–	–	–	(8,400)	–	(8,400)
Coupons paid on AT1 capital instruments	–	–	(282)	–	–	–	–	–	(282)	–	(282)
Movement in respect of share-based payment arrangements	–	–	(5)	–	–	–	–	(2)	(7)	–	(7)
Share buy-back[5]	–	–	(3,005)	–	–	–	–	–	(3,005)	–	(3,005)
Others	–	–	–	–	–	–	–	–	–	(1)	(1)
Transfers[6]	–	–	324	(324)	–	–	–	–	–	–	–
At 30 June 2024	9,658	11,731	125,322	18,271	1,744	(139)	(931)	664	166,320	47	166,367

1 *Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 30 June 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$437m (31 December 2023: nil).*

2 *Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

3 *In the first half of 2024, the Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m.*

4 *Dividends paid represented the payment of fourth interim dividend of 2023 and the first interim dividend of 2024 amounted to HK$6,118m and HK$2,282m respectively.*

5 *In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which is expected to complete by September 2024. As at 30 June 2024, there was unused amount of HK$1.0bn recognised as financial liability. For details, please refer to note 32 'Share Capital'.*

6 *This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties, and in 2H 2023, it also included the transfer from financial assets at FVOCI reserve to retained earnings in relation to the disposal loss of equity investments at FVOCI.*

Interim Condensed Consolidated Statement of Changes in Equity *(continued)*

				Other reserves							
	Share capital	*Other equity instruments*	*Retained profits*	*Premises revaluation reserve*	*Financial assets at FVOCI reserve*	*Cash flow hedge reserve*	*Foreign exchange reserve*	*Others*	*Total shareholders' equity*	*Non-controlling interests*	*Total equity*
At 1 January 2023	9,658	11,744	118,717	18,338	1,737	(816)	(122)	677	159,933	65	159,998
Profit for the period	–	–	9,827	–	–	–	–	–	9,827	(5)	9,822
Other comprehensive income (net of tax)	–	–	96	508	(193)	308	(742)	10	(13)	–	(13)
Debt instruments at FVOCI	–	–	–	–	(24)	–	–	–	(24)	–	(24)
Equity instruments designated at FVOCI	–	–	–	–	(169)	–	–	–	(169)	–	(169)
Cash flow hedges	–	–	–	–	–	308	–	–	308	–	308
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	10	10	–	10
Property revaluation	–	–	–	508	–	–	–	–	508	–	508
Actuarial gains on defined benefit plans	–	–	96	–	–	–	–	–	96	–	96
Others	–	–	–	–	–	–	(742)	–	(742)	–	(742)
Total comprehensive income for the period	–	–	9,923	508	(193)	308	(742)	10	9,814	(5)	9,809
Dividends paid	–	–	(5,927)	–	–	–	–	–	(5,927)	–	(5,927)
Coupons paid on AT1 capital instruments	–	–	(282)	–	–	–	–	–	(282)	–	(282)
Movement in respect of share-based payment arrangements	–	–	(4)	–	–	–	–	(15)	(19)	–	(19)
Others	–	–	–	–	–	–	–	–	–	(3)	(3)
Transfers	–	–	308	(308)	–	–	–	–	–	–	–
At 30 June 2023	9,658	11,744	122,735	18,538	1,544	(508)	(864)	672	163,519	57	163,576
At 1 July 2023	9,658	11,744	122,735	18,538	1,544	(508)	(864)	672	163,519	57	163,576
Profit for the period	–	–	8,021	–	–	–	–	–	8,021	(5)	8,016
Other comprehensive income (net of tax)	–	–	220	305	(1)	412	293	(1)	1,228	–	1,228
Debt instruments at FVOCI	–	–	–	–	378	–	–	–	378	–	378
Equity instruments designated at FVOCI	–	–	–	–	(379)	–	–	–	(379)	–	(379)
Cash flow hedges	–	–	–	–	–	412	–	–	412	–	412
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(1)	(1)	–	(1)
Property revaluation	–	–	–	305	–	–	–	–	305	–	305
Actuarial losses on defined benefit plans	–	–	(22)	–	–	–	–	–	(22)	–	(22)
Others	–	–	242	–	–	–	293	–	535	–	535
Total comprehensive income for the period	–	–	8,241	305	(1)	412	293	(1)	9,249	(5)	9,244
Dividends paid	–	–	(4,206)	–	–	–	–	–	(4,206)	–	(4,206)
Coupons paid on AT1 capital instruments	–	–	(426)	–	–	–	–	–	(426)	–	(426)
Movement in respect of share-based payment arrangements	–	–	(2)	–	–	–	–	(3)	(5)	–	(5)
Others	–	–	–	–	–	–	–	–	–	1	1
Transfers	–	–	282	(318)	36	–	–	–	–	–	–
At 31 December 2023	9,658	11,744	126,624	18,525	1,579	(96)	(571)	668	168,131	53	168,184

(Expressed in millions of Hong Kong dollars)

Interim Condensed Consolidated Cash Flow Statement

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Profit before tax	**11,307**	10,961
Adjustments for non-cash items:		
Depreciation and amortisation	**1,524**	1,392
Net interest income	**(15,483)**	(15,191)
Dividend income	**(6)**	(16)
Gains less losses from financial investments	**(14)**	(2)
Share of (profits)/losses of associate	**(50)**	(104)
Net (surplus)/deficit on property revaluation	**139**	1
Change in expected credit losses and other credit impairment charges	**1,500**	1,924
Impairment loss on intangible assets	**12**	2
Loans and advances written off net of recoveries	**(968)**	(607)
Elimination of exchange differences and other non-cash items	**4,775**	(2,476)
Changes in operating assets and liabilities		
Change in trading assets	**3,724**	4,385
Change in derivative financial instruments	**(4,662)**	(1,806)
Change in financial assets mandatorily measured at fair value through profit or loss	**(8,865)**	(3,482)
Change in reverse repurchase agreements – non-trading maturing after one month	**(736)**	3,196
Change in placings with and advances to banks maturing after one month	**(4,118)**	9,295
Change in loans and advances to customers	**9,180**	37,416
Change in financial investments of insurance business	**110**	(297)
Change in other assets	**(1,776)**	(158)
Change in repurchase agreements – non-trading	**7,553**	(3,120)
Change in deposits from banks	**(8,605)**	(1,896)
Change in current, savings and other deposit accounts	**16,722**	(99,809)
Change in trading liabilities	**(16,233)**	(9,854)
Change in financial liabilities designated at fair value	**5,095**	8,312
Change in certificates of deposit in issue	**(2,552)**	(63,868)
Change in other liabilities	**4,396**	(2,413)
Change in insurance contract liabilities	**12,925**	9,655
Interest received	**26,858**	28,618
Interest paid	**(16,353)**	(11,775)
Dividends received from financial investments	**(9)**	(3)
Tax paid	**–**	(664)
Net cash from/(used in) operating activities	**25,390**	(102,384)
Purchase of financial investments	**(399,174)**	(406,292)
Proceeds from sale or redemption of financial investments	**383,984**	482,093
Repayment of shareholders' loan to an associated company	**–**	2
Purchase of property, plant and equipment and intangible assets	**(757)**	(718)
Net cash from/(used in) investing activities	**(15,947)**	75,085
Interest paid for subordinated liabilities	**(908)**	(894)
Principal and interest elements of lease payments	**(264)**	(263)
Dividends paid	**(8,400)**	(5,927)
Share buy-back	**(1,951)**	—
Coupons paid on AT1 capital instruments	**(282)**	(282)
Net cash from/(used in) financing activities	**(11,805)**	(7,366)
Net increase/(decrease) in cash and cash equivalents	**(2,362)**	(34,665)
Cash and cash equivalents at 1 January	**97,191**	152,818
Exchange differences in respect of cash and cash equivalents	**(1,477)**	315
Cash and cash equivalents at 30 June	**93,352**	118,468

Interim Condensed Consolidated Cash Flow Statement *(continued)*

	Half-year ended 30 June 2024	Half-year ended 30 June 2023
Cash and cash equivalents comprise[1]:		
– cash and balances at central banks	**10,198**	8,968
– balances with banks	**5,749**	6,421
– items in the course of collection from other banks	**4,429**	5,116
– placings with and advances to banks maturing within one month	**32,888**	28,812
– reverse repurchase agreements with banks maturing within one month	**8,715**	8,826
– treasury bills	**33,743**	65,037
– net settlement accounts and cash collateral to banks within one month	**2,748**	1,852
– less: items in the course of transmission to other banks	**(5,118)**	(6,564)
	93,352	118,468

1 *At 30 June 2024, the amount of cash and cash equivalents that was not available for use by the Group was HK$9,013m (30 June 2023: HK$18,835m), of which HK$4,538m (30 June 2023: HK$5,641m) was related to mandatory deposits at central banks.*

1 Basis of preparation

The Interim Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and all its subsidiaries ('the Group') have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ('HKAS') 34, '*Interim Financial Reporting*', issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The Interim Condensed Consolidated Financial Statements were reviewed by the Audit Committee. The Board of Directors of the Bank has approved the Interim Condensed Consolidated Financial Statements on 31 July 2024.

The Interim Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standard ('HKFRS').

The preparation of the Interim Condensed Consolidated Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the Interim Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2023.

The following disclosures in the Risk and Capital Management sections form an integral part of the Interim Condensed Consolidated Financial Statements:

- Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees; and

- Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution.

In accordance with the Group's policy to provide disclosures that help stakeholders to understand the Group's performance, financial position and changes thereto, the information provided in the Notes on the Interim Condensed Consolidated Financial Statements and the risk disclosures in the Risk and Capital Management sections goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

The Interim Condensed Consolidated Financial Statements are unaudited, but has been reviewed by PricewaterhouseCoopers ('PwC') 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 HKICPA. PwC's independent review report to the Board of Directors is included on page 92.

2 Accounting policies

Except as described below, the accounting policies applied in prepared this Interim Condensed Consolidated Financial Statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2023, as disclosed in the Annual Report 2023.

Standards applied during the half-year ended 30 June 2024

There were no new standards or amendments to standards that had a material effect on these Interim Condensed Consolidated Financial Statements.

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 issued 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 a company's financial performance. It will replace HKAS 1 '*Presentation of Financial Statements*' but carries over many requirements from this 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 is expected to have an impact on presenting information in the financial statements, in particular the income statement. The Group is currently assessing data readiness and undertaking a gap analysis to achieve clarity before developing a more detailed implementation plan.

New standards and amendments to IFRS Accounting Standards

The IASB has published a number of standards and amendments to IFRS Accounting Standards which are effective from 1 January 2026 and 2027, 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. The amendments include clarifications on how ESG-linked features could affect the assessment of contractual cash flows. Further, the amendments provide clarification on the date on which a financial asset or a financial liability is derecognised. The Group is currently assessing the potential impact.

IFRS 19 'Subsidiaries without Public Accountability: Disclosures'

In May 2024, the IASB issued IFRS 19 '*Subsidiaries without Public Accountability: Disclosures*', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims at simplifying financial reporting for eligible subsidiary companies by allowing reduced disclosures. The Group is currently assessing whether this would be applicable to any subsidiaries of the Group and will consider stakeholder's information needs when deciding whether IFRS 19 will be applied within those entities.

2 Accounting policies *(continued)*

Use of estimates and judgements

Management believes that the Group's critical accounting estimates and judgements are those which relate to the impairment of amortised cost and FVOCI debt financial assets, the valuation of financial instruments, interest in an associate and insurance contract liabilities. There was no major change in the current period to the critical estimates and judgements applied in 2023, which are stated in note 1 of the Annual Report 2023.

3 Basis of consolidation

These Interim Condensed Consolidated Financial Statements cover the consolidated position of the Group, unless otherwise stated, and include the attributable share of the results and reserves of its associate. For regulatory reporting, the basis of consolidation is different from the basis of consolidation for accounting purposes. They are disclosed under the 'Risk' section.

4 Net interest income

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Interest income arising from:		
– financial assets measured at amortised cost	**24,471**	23,722
– financial assets measured at FVOCI	**6,355**	4,785
	30,826	28,507
Interest expense arising from financial liabilities measured at amortised cost	**(15,343)**	(13,316)
Net interest income	**15,483**	15,191
of which:		
– interest income from impaired financial assets	**554**	420
– interest expense from subordinated liabilities	**(892)**	(823)

5 Net fee income

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
– securities broking and related services	**676**	666
– retail investment funds	**630**	526
– insurance	**166**	221
– account services	**239**	204
– remittances	**123**	140
– cards	**1,522**	1,497
– credit facilities	**209**	241
– imports/exports	**112**	131
– other	**339**	430
Fee income	**4,016**	4,056
Fee expense	**(1,452)**	(1,390)
	2,564	2,666
of which:		
Net fee income on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**695**	836
– fee income	**2,093**	2,103
– fee expense	**(1,398)**	(1,267)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**404**	415
– fee income	**456**	458
– fee expense	**(52)**	(43)

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

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Net trading income	**1,554**	1,096
– trading income	**1,553**	1,113
– other trading expense from ineffective fair value hedges	**1**	(17)
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(999)**	(758)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**2,249**	5,773
– financial assets/liabilities held to meet liabilities under insurance contracts	**2,255**	5,775
– liabilities to customers under investment contracts	**(6)**	(2)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**18**	(1)
	2,822	6,110

7 Gains less losses from financial investments

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Net gains/(losses) from disposal of debt securities measured at FVOCI	**14**	2

8 Dividend income

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Dividend income for financial investments measured at FVOCI:		
– unlisted investments	**6**	16

9 Other operating income/(losses)

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Rental income from investment properties	**179**	156
Income/(expense) arising from reinsurance contracts held	**180**	115
Net gains/(losses) from disposal of fixed assets	**(5)**	(1)
Others	**1**	114
	355	384

10 Change in expected credit losses and other credit impairment charges

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Loans and advances to banks and customers	**1,533**	1,984
– new allowances net of allowance releases	**1,582**	2,001
– recoveries of amounts previously written off	**(101)**	(77)
– other movements	**52**	60
Loan commitments and guarantees	**(28)**	(50)
Other financial assets	**(5)**	(10)
	1,500	1,924

11 Operating expenses

	Half-year ended 30 June 2024	Half-year ended 30 June 2023 (re-presented)[1]
Employee compensation and benefits:		
– salaries and other costs	**3,191**	3,023
– retirement benefit costs	**247**	253
– of which: defined benefit scheme	***58***	*67*
– of which: defined contribution scheme	***189***	*186*
Total employee compensation and benefits	**3,438**	3,276
Less: Cost directly attributable to insurance business	**(414)**	(324)
	3,024	2,952
General and administrative expenses:		
– rental expenses	**9**	10
– other premises and equipment	**1,038**	960
– marketing and advertising expenses	**259**	241
– other operating expenses	**1,853**	1,760
Total general and administrative expenses	**3,159**	2,971
Less: Cost directly attributable to insurance business	**(184)**	(159)
	2,975	2,812
Depreciation of premises, plant and equipment (note 24)	**734**	715
Depreciation of right-of-use assets	**228**	239
Amortisation of intangible assets	**562**	438
	7,523	7,156

1 *The disclosure has been enhanced to disclose additional information on the nature and function of the expenses. Comparatives have been re-presented accordingly. There has been no change in the respective sub-total amounts.*

12 Tax expense

Taxation in the Interim Condensed Consolidated Income Statement represents:

	Half-year ended 30 June 2024	*Half-year ended 30 June 2023*
Current tax – provision for Hong Kong profits tax		
– Tax for the period	**1,722**	1,213
– Adjustment in respect of prior periods	**–**	5
Current tax – taxation outside Hong Kong		
– Tax for the period	**8**	15
– Adjustment in respect of prior periods	**(68)**	–
Deferred tax		
Origination and reversal of temporary differences	**(243)**	(94)
Total tax expense	**1,419**	1,139

The current tax provision is based on the estimated assessable profit for the first half of 2024, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2023: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries/regions are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in July 2023.

13 Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2024 is based on earnings of HK$9,611m (HK$9,545m for the first half of 2023), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue, excluding own shares held, of 1,906,825,147 shares (1H 2023: 1,911,842,736 shares).

14 Dividends/Distributions

(a) Dividends to ordinary shareholders

	Half-year ended 30 June 2024		*Half-year ended 30 June 2023*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.20**	**2,282**	1.10	2,103
Second interim	**1.20**	**2,275**	1.10	2,103
	2.40	**4,557**	2.20	4,206

On 31 July 2024, the Directors of the Bank declared a second interim dividend in respect of the year ending 31 December 2024 of HK$1.20 per ordinary share, a distribution of approximately HK$2,275m. This distribution will be paid on 5 September 2024. No liability is recognised in the Interim Condensed Consolidated Financial Statements in respect of this dividend.

14 Dividends/Distributions *(continued)*

(b) Distributions to holders of AT1 capital instruments classified as equity

	Half-year ended 30 June 2024	Half-year ended 30 June 2023
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.00 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)	**282**	282
	282	282

15 Segmental analysis

Hong Kong Financial Reporting Standard 8 ('HKFRS 8') requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. To align with the internal reporting information, the Group has presented the following five reportable segments.

– **Wealth and Personal Banking** offers an extensive array of products and services tailored to the personal banking, consumer lending, and wealth management requirements of individual customers. These services typically encompass current and savings accounts, time deposits, mortgage and personal loans, credit cards, insurance, investment and a variety of wealth management options;

– **Commercial Banking** provides a comprehensive suite of products and services to corporate, commercial, and small and medium sized enterprises ('SME') clients. This includes corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, distribution of general and key-person insurance, investment services, and corporate wealth management;

– **Global Banking** delivers custom financial solutions to major corporate and institutional clients, utilising a long-term relationship management strategy. Services include general and transaction banking, corporate lending, deposits, and cash management;

– **Global Markets** offers tailored solutions and services across foreign exchange, bullion, equities, fixed income, and securities financing. It also manages the funding, liquidity position of the Group, and other market risk positions arising from banking and client activities;

– **Other** mainly represents the Group's holdings of premises apart from outlets dedicated for Wealth and Personal Banking, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

For segmental reporting purposes, revenue allocation reflects the benefits of capital and other funding resources distributed to the business segments through internal capital allocation and fund transfer pricing mechanisms. Costs of central support services and functions are allocated based on cost drivers that reflect or correlate with service usage. Premises owned by the Bank but not dedicated to WPB are included under the 'Other' segment. When these premises are utilised by business segments, a notional rent is charged to those segments with reference to market rates.

15 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Half-year ended 30 June 2024						
Net interest income/(expense)	8,402	4,503	1,318	789	471	15,483
Net fee income/(expense)	1,601	615	158	(22)	212	2,564
Net income/(loss) from financial instruments measured at fair value through profit or loss	2,436	135	(3)	790	(536)	2,822
Gains less losses from financial investments	–	–	–	14	–	14
Dividend income	–	–	–	–	6	6
Insurance finance income/(expenses)	(2,000)	–	–	–	–	(2,000)
Insurance service results	1,187	–	–	–	–	1,187
– of which: – Insurance revenue	*1,691*	–	–	–	–	*1,691*
– Insurance service expense	*(504)*	–	–	–	–	*(504)*
Other operating income/(losses)	185	1	2	–	167	355
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	11,811	5,254	1,475	1,571	320	20,431
– of which: – external	*382*	*4,650*	*4,467*	*10,649*	*283*	*20,431*
– inter-segment	*11,429*	*604*	*(2,992)*	*(9,078)*	*37*	–
Change in expected credit losses and other credit impairment charges	(167)	(1,203)	(126)	(4)	–	(1,500)
Net operating income/(loss)	11,644	4,051	1,349	1,567	320	18,931
Operating expenses *	(4,534)	(1,750)	(413)	(362)	(464)	(7,523)
Impairment loss on intangible assets	–	–	–	–	(12)	(12)
Operating profit/(loss)	7,110	2,301	936	1,205	(156)	11,396
Net surplus/(deficit) on property revaluation	–	–	–	–	(139)	(139)
Share of profits/(losses) of associate	50	–	–	–	–	50
Profit/(loss) before tax	7,160	2,301	936	1,205	(295)	11,307
Share of profit/(loss) before tax	63.3%	20.4%	8.3%	10.6%	(2.6%)	100.0%
** Depreciation/amortisation included in operating expenses*	(404)	(6)	(1)	(1)	(1,112)	(1,524)
As at 30 June 2024						
Total assets	610,476	266,744	220,783	589,170	21,280	1,708,453
– of which: Gross loans and advances to customers	*392,128*	*268,141*	*204,590*	–	–	*864,859*
Total liabilities	1,091,269	273,662	62,108	86,322	28,725	1,542,086
– of which: Customer deposits[2]	*882,811*	*263,838*	*58,125*	–	–	*1,204,774*
Interest in an associate	2,376	–	–	–	–	2,376

15 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Half-year ended 30 June 2024						
– securities broking and related services	623	41	–	12	–	676
– retail investment funds	624	6	–	–	–	630
– insurance	30	97	39	–	–	166
– account services	152	83	4	–	–	239
– remittances	24	83	16	–	–	123
– cards	1,511	13	–	–	(2)	1,522
– credit facilities	6	131	72	–	–	209
– imports/exports	–	101	11	–	–	112
– other	30	71	17	7	214	339
Fee income	3,000	626	159	19	212	4,016
Fee expense	(1,399)	(11)	(1)	(41)	–	(1,452)
Net fee income/(expense)	1,601	615	158	(22)	212	2,564

15 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other*[1]	*Total*
Half-year ended 30 June 2023						
Net interest income/(expense)	8,047	4,444	1,306	604	790	15,191
Net fee income/(expense)	1,697	638	169	(22)	184	2,666
Net income/(loss) from financial instruments measured at fair value through profit or loss	5,950	88	(35)	801	(694)	6,110
Gains less losses from financial investments	–	–	–	2	–	2
Dividend income	–	–	–	–	16	16
Insurance finance income/(expenses)	(5,454)	–	–	–	–	(5,454)
Insurance service results	1,025	–	–	–	–	1,025
– of which: – Insurance revenue	*1,396*	–	–	–	–	*1,396*
– Insurance service expense	*(371)*	–	–	–	–	*(371)*
Other operating income/(losses)	235	3	–	–	146	384
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	11,500	5,173	1,440	1,385	442	19,940
– of which: – external	*1,967*	*6,127*	*3,813*	*8,720*	*(687)*	*19,940*
– inter-segment	*9,533*	*(954)*	*(2,373)*	*(7,335)*	*1,129*	*–*
Change in expected credit losses and other credit impairment charges	(309)	(1,550)	(71)	5	1	(1,924)
Net operating income/(loss)	11,191	3,623	1,369	1,390	443	18,016
Operating expenses *	(4,252)	(1,796)	(389)	(351)	(368)	(7,156)
Impairment loss on intangible assets	–	–	–	–	(2)	(2)
Operating profit/(loss)	6,939	1,827	980	1,039	73	10,858
Net surplus/(deficit) on property revaluation	–	–	–	–	(1)	(1)
Share of profits/(losses) of associate	104	–	–	–	–	104
Profit/(loss) before tax	7,043	1,827	980	1,039	72	10,961
Share of profit/(loss) before tax	64.2%	16.7%	8.9%	9.5%	0.7%	100.0%
** Depreciation/amortisation included in operating expenses*	(409)	(6)	(1)	(1)	(975)	(1,392)
As at 31 December 2023						
Total assets	605,718	278,658	207,882	578,704	21,132	1,692,094
– of which: Gross loans and advances to customers	*399,878*	*278,055*	*196,106*	–	–	*874,039*
Total liabilities	1,066,147	266,297	60,266	101,330	29,870	1,523,910
– of which: Customer deposits[2]	*867,583*	*255,937*	*57,091*	–	–	*1,180,611*
Interest in an associate	2,363	–	–	–	–	2,363

15 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other[1]	Total
Half-year ended 30 June 2023						
– securities broking and related services	618	36	1	11	–	666
– retail investment funds	520	6	–	–	–	526
– insurance	90	94	37	–	–	221
– account services	128	73	3	–	–	204
– remittances	44	80	16	–	–	140
– cards	1,484	13	–	–	–	1,497
– credit facilities	10	154	77	–	–	241
– imports/exports	–	116	15	–	–	131
– other	134	79	22	11	184	430
Fee income	3,028	651	171	22	184	4,056
Fee expense	(1,331)	(13)	(2)	(44)	–	(1,390)
Net fee income/(expense)	1,697	638	169	(22)	184	2,666

1 *Including inter-segment elimination, of which total assets amounted to HK$30.6bn as at 30 June 2024 (HK$29.0bn as at 31 December 2023) and total liabilities amounted to HK$21.1bn as at 30 June 2024 (HK$19.5bn as at 31 December 2023).*

2 *Customer deposits balances include current, savings and other deposit accounts and structured deposit.*

15 Segmental analysis *(continued)*

(b) Information by geographical region

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds. Consolidation adjustments made in preparing the Group's financial statements upon consolidation are included in the 'Inter-region elimination'.

	Hong Kong	*Mainland China*	*Others*	*Inter-region elimination*	*Total*
Half-year ended 30 June 2024					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**19,358**	**993**	**87**	**(7)**	**20,431**
Profit before tax	**11,040**	**244**	**23**	**–**	**11,307**
At 30 June 2024					
Total assets	**1,615,099**	**108,742**	**15,572**	**(30,960)**	**1,708,453**
Total liabilities	**1,456,739**	**92,875**	**13,961**	**(21,489)**	**1,542,086**
Interest in an associate	**2,376**	**–**	**–**	**–**	**2,376**
Non-current assets*	**41,220**	**1,311**	**16**	**–**	**42,547**
Half-year ended 30 June 2023					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	18,464	1,420	102	(46)	19,940
Profit before tax	10,101	803	57	–	10,961
At 31 December 2023					
Total assets	1,597,338	106,606	17,541	(29,391)	1,692,094
Total liabilities	1,437,280	90,678	15,855	(19,903)	1,523,910
Interest in an associate	2,363	–	–	–	2,363
Non-current assets*	41,955	1,432	23	–	43,410

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

16 Cash and balances at central banks

	At 30 June 2024	At 31 December 2023
Cash in hand	**7,100**	7,899
Balances at central banks	**3,098**	2,665
	10,198	10,564

17 Trading assets

	At 30 June 2024	At 31 December 2023
Treasury bills	**19,079**	18,191
Other debt securities	**21,151**	25,757
Investment funds/equity shares	**26**	33
Reverse repurchase agreements	**38**	37
	40,294	44,018

18 Derivative financial instruments

The Group transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge the Group's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value.

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Group employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

18 Derivative financial instruments *(continued)*

The following table shows the notional contract amounts and fair value of assets and liabilities by each class of derivatives.

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	**1,102,418**	**55,256**	**1,157,674**	**5,589**	**2,806**	**8,395**	**4,771**	**13**	**4,784**
Interest rate	**732,805**	**76,342**	**809,147**	**6,949**	**855**	**7,804**	**6,208**	**190**	**6,398**
Equity and other	**32,791**	**–**	**32,791**	**807**	**–**	**807**	**681**	**–**	**681**
At 30 June 2024	**1,868,014**	**131,598**	**1,999,612**	**13,345**	**3,661**	**17,006**	**11,660**	**203**	**11,863**

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	1,051,190	34,189	1,085,379	6,053	1,020	7,073	6,674	416	7,090
Interest rate	830,159	62,925	893,084	6,881	592	7,473	6,414	331	6,745
Equity and other	27,433	–	27,433	413	–	413	643	–	643
At 31 December 2023	1,908,782	97,114	2,005,896	13,347	1,612	14,959	13,731	747	14,478

19 Financial assets mandatorily measured at fair value through profit or loss

	At 30 June 2024	*At 31 December 2023*
Treasury bills	**1,053**	1,958
Other debt securities	**120,115**	116,993
Equity shares	**10,974**	8,125
Investment funds	**31,900**	28,963
Other	**790**	833
	164,832	156,872

20 Placings with and advances to banks

	At 30 June 2024	*At 31 December 2023*
Balances with banks	**5,749**	4,012
Placings with and advances to banks maturing within one month	**32,888**	26,433
Placings with and advances to banks maturing after one month but less than one year	**52,083**	47,962
Placings with and advances to banks maturing after one year	**5,349**	5,353
Less: Allowances for expected credit losses	**(5)**	(4)
	96,064	83,756
of which:		
Placings with and advances to central banks	**6,682**	6,901

21 Loans and advances to customers

	At 30 June 2024	At 31 December 2023
Gross loans and advances to customers	**864,859**	874,039
Less: Allowances for expected credit losses	**(15,258)**	(13,633)
	849,601	860,406
Expected credit losses as a percentage of gross loans and advances to customers	**1.76%**	1.56%
Gross impaired loans and advances	**46,032**	24,749
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**5.32%**	2.83%

22 Financial investments

	At 30 June 2024	At 31 December 2023
Financial investments measured at FVOCI:		
– treasury bills	**271,511**	221,746
– other debt securities	**82,166**	79,548
– equity shares	**4,085**	4,060
	357,762	305,354
Debt instruments measured at amortised cost:		
– treasury bills	**773**	41,293
– other debt securities	**56,830**	59,159
Less: Allowances for expected credit losses	**(24)**	(14)
	57,579	100,438
	415,341	405,792

There were no overdue financial investments at 30 June 2024 and 31 December 2023 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

23 Interest in an associate

	At 30 June 2024	At 31 December 2023
Share of net assets	**2,376**	2,363

24 Property, plant and equipment

	At 30 June 2024	At 31 December 2023
Premises	**23,758**	24,268
Plant and equipment[1]	**1,563**	1,657
Other right of use assets	**1,028**	1,150
Premises, plant and equipment	**26,349**	27,075
Investment properties	**11,833**	12,000
	38,182	39,075

[1] *Includes leasehold land and building assets for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.*

Movement in owned property, plant and equipment

	Premises	**Investment properties**	**Plant and equipment**	**Total**
Cost or valuation:				
At 1 January 2024	**24,268**	**12,000**	**4,415**	**40,683**
Additions	**–**	**4**	**144**	**148**
Disposals and write-offs	**–**	**–**	**(98)**	**(98)**
Elimination of accumulated depreciation on revalued premises	**(501)**	**–**	**–**	**(501)**
Surplus/(deficit) on revaluation:				
– credited to premises revaluation reserve	**91**	**–**	**–**	**91**
– debited to income statement	**–**	**(248)**	**–**	**(248)**
Transfer	**(79)**	**76**	**–**	**(3)**
Exchange adjustments and other	**(21)**	**1**	**(8)**	**(28)**
At 30 June 2024	**23,758**	**11,833**	**4,453**	**40,044**
Accumulated depreciation:				
At 1 January 2024	**–**	**–**	**(2,758)**	**(2,758)**
Charge for the period (note 11)	**(504)**	**–**	**(230)**	**(734)**
Attributable to assets sold or written off	**–**	**–**	**93**	**93**
Elimination of accumulated depreciation on revalued premises	**501**	**–**	**–**	**501**
Transfer	**3**	**–**	**–**	**3**
Exchange adjustments and other	**–**	**–**	**5**	**5**
At 30 June 2024	**–**	**–**	**(2,890)**	**(2,890)**
Net book value at 30 June 2024	**23,758**	**11,833**	**1,563**	**37,154**
Representing:				
– measure at cost	**–**	**–**	**1,563**	**1,563**
– measure at valuation	**23,758**	**11,833**	**–**	**35,591**
	23,758	**11,833**	**1,563**	**37,154**

24 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment *(continued)*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 January 2023	24,287	11,998	4,275	40,560
Additions	4	28	95	127
Disposals and write-offs	–	–	(52)	(52)
Elimination of accumulated depreciation on revalued premises	(484)	–	–	(484)
Surplus/(deficit) on revaluation:				
– credited to premises revaluation reserve	626	–	–	626
– debited to income statement	–	(6)	–	(6)
Transfer	(1)	1	–	–
Exchange adjustments and other	(43)	1	(17)	(59)
At 30 June 2023	24,389	12,022	4,301	40,712
Accumulated depreciation:				
At 1 January 2023	–	–	(2,443)	(2,443)
Charge for the period (note 11)	(484)	–	(231)	(715)
Attributable to assets sold or written off	–	–	51	51
Elimination of accumulated depreciation on revalued premises	484	–	–	484
Exchange adjustments and other	–	–	11	11
At 30 June 2023	–	–	(2,612)	(2,612)
Net book value at 30 June 2023	24,389	12,022	1,689	38,100
Representing:				
– measure at cost	–	–	1,689	1,689
– measure at valuation	24,389	12,022	–	36,411
	24,389	12,022	1,689	38,100

24 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment *(continued)*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 July 2023	24,389	12,022	4,301	40,712
Additions	2	29	206	237
Disposals and write-offs	–	–	(99)	(99)
Elimination of accumulated depreciation on revalued premises	(496)	–	–	(496)
Surplus/(deficit) on revaluation:				
– credited to premises revaluation reserve	358	–	–	358
– debited to income statement	–	(51)	–	(51)
Transfer	(2)	2	–	–
Exchange adjustments and other	17	(2)	7	22
At 31 December 2023	24,268	12,000	4,415	40,683
Accumulated depreciation:				
At 1 July 2023	–	–	(2,612)	(2,612)
Charge for the period	(496)	–	(234)	(730)
Attributable to assets sold or written off	–	–	93	93
Elimination of accumulated depreciation on revalued premises	496	–	–	496
Exchange adjustments and other	–	–	(5)	(5)
At 31 December 2023	–	–	(2,758)	(2,758)
Net book value at 31 December 2023	24,268	12,000	1,657	37,925
Representing:				
– measure at cost	–	–	1,657	1,657
– measure at valuation	24,268	12,000	–	36,268
	24,268	12,000	1,657	37,925

25 Intangible assets

	At 30 June 2024	*At 31 December 2023*
Internally developed software	**3,964**	3,870
Acquired software	**72**	136
Goodwill	**329**	329
	4,365	4,335

26 Other assets

	At 30 June 2024	At 31 December 2023
Items in the course of collection from other banks	**4,429**	3,748
Bullion	**6,337**	1,161
Prepayments and accrued income	**7,101**	7,356
Acceptances and endorsements	**9,350**	9,531
Less: Allowances for expected credit losses	**(15)**	(31)
Retirement benefits assets	**153**	–
Reinsurance contract assets	**5,312**	5,377
Settlement accounts	**3,521**	3,917
Cash collateral	**2,224**	3,653
Other accounts	**6,004**	5,040
	44,416	39,752

Other accounts included 'Assets held for sale' of HK$272m (31 December 2023: HK$247m).

27 Current, savings and other deposit accounts

	At 30 June 2024	At 31 December 2023
Current, savings and other deposit accounts:		
– as stated in Interim Condensed Consolidated Balance Sheet	**1,169,784**	1,153,062
– structured deposits reported as financial liabilities designated at fair value (note 29)	**34,990**	27,549
	1,204,774	1,180,611
By type:		
– demand and current accounts	**77,842**	82,597
– savings accounts	**537,531**	546,220
– time and other deposits	**589,401**	551,794
	1,204,774	1,180,611

28 Trading liabilities

	At 30 June 2024	At 31 December 2023
Short positions in securities	**18,994**	35,227

29 Financial liabilities designated at fair value

	At 30 June 2024	At 31 December 2023
Certificates of deposit in issue	**13,588**	14,646
Structured deposits (note 27)	**34,990**	27,549
Other structured debt securities in issue	**1,890**	3,174
Liabilities to customers under investment contracts	**260**	264
	50,728	45,633

At 30 June 2024, there was insignificant accumulated gain/loss in fair value attributable to changes in own credit risk for financial liabilities designated at fair value (31 December 2023: accumulated gain of HK$2m).

30 Other liabilities

	At 30 June 2024	At 31 December 2023
Items in the course of transmission to other banks	**5,118**	4,536
Accruals	**8,468**	9,299
Acceptances and endorsements	**9,350**	9,531
Reinsurance contract liabilities	**1,002**	1,110
Retirement benefit liabilities	**–**	76
Settlement accounts	**1,956**	1,598
Cash collateral	**5,161**	2,177
Lease liabilities	**1,076**	1,206
Other	**5,715**	4,226
	37,846	33,759

31 Subordinated liabilities

Nominal value	Description	At 30 June 2024	At 31 December 2023
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,123**	3,126
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,993**	4,991
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,995**	2,994
		27,491	27,491
Representing:			
– measured at amortised cost		**27,491**	27,491

1 *Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.*

2 *Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.*

3 *Interest rate at three-month HK dollar HIBOR plus 1.342 per cent per annum, payable quarterly, to the maturity date.*

4 *Interest rate at compounded SOFR plus 2.0478 per cent per annum, payable quarterly, to the maturity date.*

5 *Interest rate at three-month HK dollar HIBOR plus 1.000 per cent per annum, payable quarterly, to the maturity date.*

6 *Interest rate at three-month HK dollar HIBOR plus 1.680 per cent per annum, payable quarterly, to the maturity date.*

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during the first half of 2024 (2023: Nil).

32 Share capital

Ordinary shares issued and fully paid:	***Number of shares***	***HK$m***	*Number of shares*	*HK$m*
At 1 January 2024/2023	**1,911,842,736**	**9,658**	1,911,842,736	9,658
Less: Shares bought back and cancelled	**(15,688,700)**	**–**	–	–
At 30 June 2024/31 December 2023	**1,896,154,036**	**9,658**	1,911,842,736	9,658

During the first half of 2024, the total number of ordinary shares repurchased was 19,002,600. Of the repurchased shares, 3,313,900 shares were awaiting cancellation as at 30 June 2024. Except for the share buy-back, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the Bank's listed securities during the first half of 2024. There was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the listed securities during the first half of 2023.

33 Other equity instruments

Nominal value	Description	***At 30 June 2024***	*At 31 December 2023*
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**7,044**	7,044
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[2]	**–**	4,700
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2029[3]	**4,687**	–
		11,731	11,744

1 *Coupon rate is 6.03% each year and then three-month US dollar LIBOR plus 4.02 per cent per annum, payable quarterly, from the first call date.*

2 *Coupon rate was 6.00% each year and then three-month US dollar LIBOR plus 4.06 per cent per annum, payable quarterly, from the first call date. The US$600 million fixed to floating rate perpetual capital instrument was redeemed in June 2024, and was a non-cash transaction.*

3 *Newly issued in June 2024, and was a non-cash transaction. Coupon rate is 7.50% each year and then compounded SOFR plus 3.24 per cent per annum, payable quarterly, from the first call date.*

The additional tier 1 capital instruments above are held by our immediate holding company. They, which are qualified as loss-absorbing capacity, are perpetual and subordinated. The coupon payments of these capital instruments may be cancelled at the sole discretion of the Bank. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

34 Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	At 30 June 2024	At 31 December 2023
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	**2,020**	1,882
Performance and other guarantees[2]	**20,058**	21,087
Other contingent liabilities	**5**	4
	22,083	22,973
Commitments[3]		
Documentary credits and short-term trade-related transactions	**1,832**	3,422
Forward asset purchases and forward forward deposits placed	**14,741**	15,087
Undrawn formal standby facilities, credit lines and other commitments to lend	**474,682**	485,123
	491,255	503,632

1 *Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*

2 *Performance and other guarantees include re-insurance letters of credit related to particular transactions, trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment, performance bonds, bid bonds, standby letters of credit and other transaction-related guarantees.*

3 *Includes HK$343,647m of commitments at 30 June 2024 (31 December 2023: HK$345,932m) 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 representative of future liquidity requirements.

(b) Contingencies

There is no material litigation expected to result in a significant adverse effect on the financial position of the Group, either collectively or individually. Management believes that adequate provisions have been made in respect of such litigation.

35 Other commitments

Capital commitments

At 30 June 2024, capital commitments, mainly related to the commitment for renovation of branches and offices, were HK$377m (31 December 2023: HK$239m).

36 Material related-party transactions

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

37 Fair value of financial instruments

(a) Fair value 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 2023.

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

	Fair value hierarchy					
	Quoted market price Level 1	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities**	*Total*
Recurring fair value measurements						
At 30 June 2024						
Assets						
Trading assets	**36,669**	**3,625**	**–**	**40,294**	**–**	**40,294**
Derivative financial instruments	**563**	**10,518**	**–**	**11,081**	**5,925**	**17,006**
Financial assets mandatorily measured at fair value through profit or loss	**27,499**	**109,203**	**28,130**	**164,832**	**–**	**164,832**
Financial investments	**315,787**	**41,058**	**917**	**357,762**	**–**	**357,762**
Liabilities						
Trading liabilities	**18,994**	**–**	**–**	**18,994**	**–**	**18,994**
Derivative financial instruments	**342**	**7,193**	**–**	**7,535**	**4,328**	**11,863**
Financial liabilities designated at fair value	**–**	**31,564**	**19,164**	**50,728**	**–**	**50,728**
At 31 December 2023						
Assets						
Trading assets	39,932	4,086	–	44,018	–	44,018
Derivative financial instruments	286	8,816	–	9,102	5,857	14,959
Financial assets mandatorily measured at fair value through profit or loss	22,688	106,709	27,475	156,872	–	156,872
Financial investments	258,834	45,448	1,072	305,354	–	305,354
Liabilities						
Trading liabilities	35,227	–	–	35,227	–	35,227
Derivative financial instruments	82	9,251	–	9,333	5,145	14,478
Financial liabilities designated at fair value	–	31,884	13,749	45,633	–	45,633

* *Included derivative contracts transacted with HSBC entities which are mainly classified within Level 2 of the valuation hierarchy.*

37 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
At 30 June 2024							
Transfer from Level 1 to Level 2	**8,664**	**418**	**361**	**–**	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**7,333**	**184**	**–**	**–**	**–**	**–**	**–**
At 31 December 2023							
Transfer from Level 1 to Level 2	6,903	1,961	–	–	–	–	–
Transfer from Level 2 to Level 1	4,916	2,092	–	–	–	–	–

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.

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

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
At 30 June 2024							
Investment funds and equity shares	**917**	**–**	**25,452**	**–**	**–**	**–**	**–**
Debt securities	**–**	**–**	**2,678**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**19,164**	**–**
	917	**–**	**28,130**	**–**	**–**	**19,164**	**–**
At 31 December 2023							
Investment funds and equity shares	1,072	–	24,798	–	–	–	–
Debt securities	–	–	2,677	–	–	–	–
Structured notes	–	–	–	–	–	13,749	–
	1,072	–	27,475	–	–	13,749	–

37 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2024	**1,072**	**–**	**27,475**	**–**	**–**	**13,749**	**–**
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	130	–	–	22	–
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	(155)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	86	–
Purchases	–	–	6,221	–	–	–	–
Issues/deposit taking	–	–	–	–	–	28,885	–
Sales	–	–	(18)	–	–	–	–
Settlements	–	–	(5,206)	–	–	(23,551)	–
Transfers out	–	–	(472)	–	–	(55)	–
Transfers in	–	–	–	–	–	28	–
At 30 June 2024	**917**	**–**	**28,130**	**–**	**–**	**19,164**	**–**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(630)	–	–	(32)	–

37 Fair value of financial instruments *(continued)*

(a) ***Fair value of financial instruments carried at fair value*** *(continued)*

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2023	1,633	–	20,280	4	–	22,022	4
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,270	(3)	–	11	(3)
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	150	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	6	–
Purchases	–	–	1,395	–	–	–	–
Issues/deposit taking	–	–	–	–	–	32,148	–
Settlements	–	–	(1,940)	–	–	(31,490)	–
Transfers out	–	–	–	–	–	(955)	–
Transfers in	–	–	–	–	–	21	–
At 30 June 2023	1,783	–	21,005	1	–	21,763	1
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,444	1	–	(27)	(1)

37 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 July 2023	1,783	–	21,005	1	–	21,763	1
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	11	(1)	–	(87)	(1)
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	(500)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	71	–
Purchases	–	–	2,536	–	–	–	–
Issues/deposit taking	–	–	–	–	–	25,918	–
Sales	(211)	–	–	–	–	–	–
Settlements	–	–	(81)	–	–	(33,856)	–
Transfers out	–	–	–	–	–	(150)	–
Transfers in	–	–	4,004	–	–	90	–
At 31 December 2023	1,072	–	27,475	–	–	13,749	–
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(322)	(1)	–	18	1

For the first half of 2024, the transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatility for pricing the instrument.

37 Fair value of financial instruments *(continued)*

(a) *Fair value of financial instruments carried at fair value* *(continued)*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The key unobservable inputs to Level 3 financial instruments include volatility and correlation for structured notes and deposits valued using option models, bid quotes for corporate bonds valued using approaches that take into account of market comparables, and multiple items for investment funds and equity shares and strategic investments. In the absence of an active market, the fair value of investment funds and equity shares and strategic investments is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The change in fair values due to changes in reasonably possible alternative assumptions for these unobservable inputs is not significant.

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. 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, the availability and reliability of observable proxies and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval. The sensitivity of Level 3 fair values to reasonably possible alternative assumptions is not significant.

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	At 30 June 2024				At 31 December 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
Investment funds and equity shares	**1,273**	**(1,273)**	**32**	**(32)**	1,239	(1,239)	79	(79)
Debt securities	**187**	**(187)**	**–**	**–**	134	(134)	–	–
	1,460	**(1,460)**	**32**	**(32)**	1,373	(1,373)	79	(79)

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.

37 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Effect of changes in significant unobservable assumptions to reasonably possible alternatives *(continued)*

Quantitative information about significant unobservable inputs in Level 3 valuations

			Range	
	Valuation technique(s)	***Unobservable input(s)***	***At 30 June 2024***	*At 31 December 2023*
Assets				
Investment funds and equity shares	See footnote 1	See footnote 1		
Debt securities	Discount cash flow	Credit spread	**0.12% – 4.60%**	0.27% – 5.74%
Liabilities				
Structured notes	Option model	Equity volatility	**8.88% – 68.50%**	8.75% – 8.90%
		Equity correlation	**43.20% – 94.00%**	40.66% – 94.00%
		FX volatility	**3.01% – 16.99%**	3.23% – 18.43%
		Interest rate curve	**2.36% – 4.15%**	N/A

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. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.*

The table above lists the key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2024. Detailed description of the categories of key unobservable inputs are set out in note 49(a) of the Group's Annual Report 2023.

37 Fair value of financial instruments *(continued)*

(b) Fair value of financial instruments not carried at fair value

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the Interim Condensed Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	At 30 June 2024		At 31 December 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Reverse repurchase agreements – non-trading	**25,778**	**25,777**	30,202	30,197
Placings with and advances to banks	**96,064**	**96,069**	83,756	83,761
Loans and advances to customers	**849,601**	**824,100**	860,406	844,587
Financial investments – at amortised cost	**57,579**	**56,870**	100,438	100,047
Financial Liabilities				
Deposits from banks	**11,102**	**11,102**	19,707	19,707
Current, savings and other deposit accounts	**1,169,784**	**1,170,445**	1,153,062	1,153,614
Repurchase agreements – non-trading	**20,320**	**20,325**	12,767	12,768
Certificates of deposit in issue	**7,305**	**7,310**	9,857	9,856
Subordinated liabilities	**27,491**	**28,071**	27,491	27,795

Other financial instruments not carried at fair value are typically short-term in nature or reprice to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

The bases for measuring the fair values of financial instruments that are not carried at fair value are explained in note 49(b) of the Group's Annual Report 2023.

38 Interim Condensed Consolidated Financial Statements and statutory financial statements

The financial information relating to the year ended 31 December 2023 that is included in these Interim Condensed Consolidated Financial Statements does not constitute the Bank's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the Hong Kong Monetary Authority.

The auditor has reported on those statutory financial statements for the year ended 31 December 2023. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The Annual Report for the year ended 31 December 2023, which includes the statutory financial statements, can be obtained from the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The disclosures as required under the Banking (Disclosure) Rules can be viewed in the Banking Disclosure Statement that is available in the Regulatory Disclosures section of the Bank's website (www.hangseng.com).

39 Immediate and ultimate holding companies

The immediate and ultimate holding companies of the Bank are The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong) and HSBC Holdings plc (incorporated in England) respectively.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF HANG SENG BANK LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 53 to 91, which comprises the interim condensed consolidated balance sheet of Hang Seng Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') as at 30 June 2024 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and notes, comprising material accounting policy information and other explanatory information[1]. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 '*Interim Financial Reporting*' issued by the Hong Kong Institute of Certified Public Accountants. 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*'. 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 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

Corporate Governance Principles and Practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of its shareholders ('Shareholders'), customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority. The Bank has also fully complied with all the principles of good corporate governance and code provisions; and adopted the recommended best practices, where appropriate, set out in the Corporate Governance Code contained in Appendix C1 of the Rules Governing the Listing of Securities ('Listing Rules') on The Stock Exchange of Hong Kong Limited ('Stock Exchange') throughout the six months ended 30 June 2024.

The Bank aims to achieve governance excellence in all respects and to be in line with international and local corporate governance best practices. The Bank has been constantly reviewing and enhancing its corporate governance framework by referring to market trend as well as guidelines and requirements issued by regulatory authorities. Throughout the first six months of 2024, the Bank has also implemented several governance initiatives within the Group to streamline the oversight framework of the parent/subsidiaries for reporting efficiency and quality enhancement.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2024.

Highlights for the First Half of 2024

The Bank embraces good corporate governance as one of its core values and as the foundation of achieving consistent and sustainable performance. During the six months ended 30 June 2024, we have been continuously seeking opportunities to enhance our corporate governance practices:

- **Hybrid Annual General Meeting:** The annual general meeting of the Bank was held on 8 May 2024 ('2024 AGM') in the form of a hybrid meeting, allowing Shareholders of the Bank to attend the 2024 AGM in person at the Bank's Headquarters or to join via the live online webcast system. Attending via the online platform allowed the Shareholders to view the live meeting proceedings, attend the 2024 AGM, submit questions by text and vote online in real-time. The hybrid 2024 AGM allowed for a more flexible and inclusive way for Shareholders to participate in the meeting either in-person or online.

- **Board and Board Committees Succession:** The Board conducts continuous board refreshment. With effect from the conclusion of the 2024 AGM, WANG Xiao Bin, an Independent Non-executive Director of the Bank, has succeeded Kenneth NG Sing Yip to become the Chairman of the Risk Committee of the Bank. The re-election of the Board Chairman at the 2024 AGM was supported by the Shareholders with high percentage of votes. The Board and Board Committees discharge their responsibilities effectively and the high governance standard is supported by the Board diversity and inclusions.

- **Independent Review of Non-executive Directors' Remuneration:** The Remuneration Committee of the Bank has appointed an independent leadership consulting firm to conduct a review of market practices on Non-executive Directors ('NEDs') fees which included an updated benchmarking exercises covering banks and constituent companies of the Hang Seng Index. The increases of the fees payable by the Bank to the NEDs serve to make the NEDs' remuneration more competitive for retention and recruitment purposes and also to reflect the increase in their time commitment and workload. Such increases received strong support from the Shareholders with high percentage of votes at the 2024 AGM.

- **Implementation of Automatic Share Buy-back Programme:** After considering different options in returning surplus capital to the Shareholders, the Bank implemented the Automatic Share Buy-back Programme for five months and the Stock Exchange has granted a wavier from strict compliance with the requirements under Rule 10.06(2)(e) of the Listing Rules in respect of the buy-back of shares under the Automatic Share Buy-back Programme during restricted periods preceding the periodic announcement of its results. The waiver enables the Bank to optimize the buy-back programme administration and maximise the opportunities for the Bank to implement the Automatic Share Buy-back Programme to the fullest extent up to the targeted HK$3 billion.

- **Corporate Governance Initiatives:** Throughout the first half of 2024, the Bank has continued implementing several governance initiatives including (i) annual review of Delegation of Authority Framework; (ii) annual evaluation of Board effectiveness; (iii) semi-annual review of the skills matrix of the Board members; (iv) periodical talent round table with the Board to ensure a pipeline of successors for leadership transition; and (v) annual review of the compliance of Subsidiary Accountability Framework to enhance meeting efficiency and reporting quality through simplification of board and committee processes.

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix C3 to the Listing Rules). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2024.

Changes in Directors' Information

Changes in Directors' Information since the date of the Annual Report 2023 of the Bank or (as the case may be) the date of announcement for the appointment of Director issued by the Bank subsequent to the date of the Annual Report 2023, and up to the date of release of the interim results of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below.

Irene LEE Yun Lien

New appointments

- The Better Hong Kong Foundation (Member of the Board of Trustees)

Cessation of appointments

- Hong Kong Monetary Authority (Member of The Exchange Fund Advisory Committee)
- The Hongkong and Shanghai Banking Corporation Limited (Member of Audit Committee; Member of Risk Committee)

Diana Ferreira CESAR JP

New appointments

- The Community Chest of Hong Kong (Second Vice President and Campaign Committee Chairman)

Cessation of appointments

- The Community Chest of Hong Kong (Chairman of Corporate and Employee Contribution Programme Organising Committee)

Cordelia CHUNG

New appointments

- HKSTP Foundation Limited (Member of the Board)

David LIAO Yi Chien JP

New appointments
- Justice of the Peace
- HSBC Bank (China) Company Limited (Chairman and Non-executive Director; Member of Nomination Committee; Member of Remuneration Committee)

LIN Huey Ru

Cessation of appointments
- GGV Capital Pte. Ltd. (Venture Partner)

WANG Xiao Bin

New appointments
- Cathay Pacific Airways Limited[1] (Independent Non-executive Director; Chair of Audit Committee; Member of Board Risk Committee)

Re-designation
- Hang Seng Bank Limited[1] (re-designated from Member of Risk Committee to Chairman of Risk Committee)

Cessation of appointments
- Worley Limited[1] (Independent Non-executive Director; Member of Audit and Risk Committee; Member of Nominations Committee)

Notes:

(1) The securities of these companies are listed on a securities market in Hong Kong or overseas.

(2) Updated biographical details of the Bank's Directors are also available on the website of the Bank (www.hangseng.com/en-hk/about-us/directors-organisation/board-of-directors/).

(3) Kenneth NG Sing Yip stepped down as an Independent Non-executive Director of the Bank, and ceased to be the Chairman of the Risk Committee and a member of the Nomination Committee of the Bank, all with effect from the conclusion of the AGM on 8 May 2024.

Adjustment of NEDs' Remuneration

At the 2024 AGM, the increases of the fees payable by the Bank to the NEDs (which have taken effect immediately after the 2024 AGM) were approved by the Shareholders with strong support. Details of the adjustment of NEDs' remuneration are set out in the 2024 AGM Circular to the Shareholders dated 28 March 2024.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' and Alternate Chief Executives' Interests

As at 30 June 2024, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/issued share capital
Number of ordinary shares in the Bank						
Director:						
Kathleen C H Gan	2,500	–	–	–	2,500	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Diana Cesar	522,365	–	–	133,779[(1)]	656,144	0.00
Kathleen C H Gan	349,225	–	–	149,882[(1)]	499,107	0.00
Patricia S W Lam	367,270	–	–	–	367,270	0.00
Irene Y L Lee	15,000	–	–	–	15,000	0.00
David Y C Liao	828,223	–	–	596,377[(1)]	1,424,600	0.00
Say Pin Saw	56,848	–	–	31,496[(1)]	88,344	0.00
Alternate Chief Executives:						
Kathy K W Cheung	106,159	–	–	21,343[(1)]	127,502	0.00
Vivien W M Chiu	33,802[(2)]	79,570[(3)]	–	10,395[(1)]	123,767	0.00
Rannie W L Lee	39,727	–	–	21,591[(1)]	61,318	0.00

Interests in debentures of associated corporation of the Bank

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
Perpetual subordinated contingent convertible securities issued by HSBC Holdings plc					
Alternate Chief Executive:					
Vivien W M Chiu	–	US$300,000[(3)]	–	–	US$300,000

Notes:

(1) These included interests in conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives.

(2) These included 1,933 ordinary shares in HSBC Holdings plc jointly held by Vivien W M Chiu and her family member.

(3) Vivien W M Chiu's spouse had interests in the total amount of US$300,000 of perpetual subordinated contingent convertible securities issued by HSBC Holdings plc. These perpetual subordinated contingent convertible securities would be converted into 79,570 ordinary shares in HSBC Holdings plc upon the occurrence of capital adequacy trigger event. Ms Chiu's family interests set out in the table under 'Interests in shares' and the table under 'Interests in debentures of associated corporation of the Bank' represented the same interests.

Conditional Awards of Shares

As at 30 June 2024, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under various HSBC Share Plans were as follows:

	Awards held as at 1 January 2024	Awards made during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2024[1]
Directors:				
Diana Cesar	113,680	98,165	78,066	133,779
Kathleen C H Gan	141,470	68,178	59,766	149,882
David Y C Liao	466,693	280,260	150,576	596,377
Say Pin Saw	35,916	26,433	31,148	31,496
Alternate Chief Executives:				
Kathy K W Cheung	18,621	23,217	20,495	21,343
Vivien W M Chiu	5,506	7,644	2,793	10,395
Rannie W L Lee	15,493	24,505	18,407	21,591

Note:

(1) This included additional shares arising from scrip dividends, if any.

The interests of Kathy K W Cheung, Vivien W M Chiu, Kathleen C H Gan and Say Pin Saw in ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan have been included in their 'Personal Interests' disclosed in the table under 'Interests in shares'.

All the interests stated above represented long positions. As at 30 June 2024, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2024.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 30 June 2024, the following corporations had interests or short positions of 5% or more in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporations	Capacity in which Ordinary Shares were held	Number of Ordinary Shares Interested (Percentage of total)[2]
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner/Custodian	1,191,484,902[1] (62.83%)
HSBC Asia Holdings Limited	Interest of controlled corporations	1,191,484,902[1] (62.83%)
HSBC Holdings plc	Interest of controlled corporations	1,195,511,509[1] (63.04%)

Notes:

(1) The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, HSBC Asia Holdings Limited and HSBC Holdings plc were deemed to be interested in the ordinary shares in which The Hongkong and Shanghai Banking Corporation Limited was shown to be interested.

(2) The percentage represents the number of the Bank's ordinary shares interested divided by the total number of the Bank's issued ordinary shares as at 30 June 2024 (i.e. 1,896,154,036 ordinary shares).

All the interests stated above represented long positions. As at 30 June 2024, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Purchase, Sale or Redemption of the Bank's Listed Securities

In April 2024, the Bank commenced the Automatic Share Buy-back Programme to buy back up to HK$3 billion of its ordinary shares on the Stock Exchange, details of which was announced on 9 April 2024.

During the six months ended 30 June 2024, the Bank bought back 19,002,600 ordinary shares on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$1,986 million and 15,688,700 ordinary shares were subsequently cancelled. The remaining 3,313,900 ordinary shares bought back were cancelled on 9 July 2024.

Details of the ordinary shares bought back are set out below:

Month	Number of Ordinary Shares bought back	Purchase price per Ordinary Share			Aggregate consideration (excluding expenses)
		Highest	Lowest	Average	
		HK$	*HK$*	*HK$*	*HK$*
April 2024	7,534,000	105.00	93.90	99.04	746,194,325.64
May 2024	6,654,700	117.20	102.90	109.32	727,507,403.23
June 2024	4,813,900	111.40	99.90	106.51	512,745,608.22
	19,002,600				1,986,447,337.09

Save as disclosed above, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the first half of 2024.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2023 in respect of the remuneration of employees, remuneration policies and staff development.

Financial Calendar

2024 Interim Results

Announcement date	31 July 2024

2024 Second Interim Dividend

Announcement date	31 July 2024
Ex-dividend date	13 August 2024
Latest time for lodging share transfer documents for registration	14 August 2024 (Not later than 4:30 pm)
Book close and record date	15 August 2024
Payment date	5 September 2024

2024 Interim Report

To be despatched to Shareholders	At or about the end of August 2024

Dividend

The Board declares the payment of a second interim dividend for 2024 of HK$1.20 per share. The second interim dividend will be payable in cash on Thursday, 5 September 2024 to Shareholders whose names appear on the Register of Shareholders of the Bank on Thursday, 15 August 2024.

The Register of Shareholders of the Bank will be closed on Thursday, 15 August 2024, for the purpose of determining the Shareholders' entitlement to the second interim dividend, on which date no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Bank's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 pm on Wednesday, 14 August 2024. Ordinary shares of the Bank will be traded ex-dividend as from Tuesday, 13 August 2024.

Electronic Communication

This Interim Report, in English and Chinese versions, is available on the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited ('HKEx') (www.hkexnews.hk). Shareholders are encouraged to access the Bank's corporate communications electronically via the Bank's website to help protect the environment.

If the Shareholders who have chosen (or are deemed to have chosen) to read this Interim Report on the Bank's website, have difficulty in reading or gaining access to this Interim Report via the Bank's website for any reason, the Bank will promptly send this Interim Report in printed form free of charge upon the Shareholders' request. The Shareholders may change their choice of means of receipt or language of the Bank's future corporate communications at any time, free of charge, by giving the Bank c/o the Bank's Share Registrar reasonable notice in writing or by email to hangseng@computershare.com.hk. The Shareholders may also download the request form from the Bank's website (www.hangseng.com) or HKEx's website (www.hkexnews.hk).

CORPORATE INFORMATION

The Board

Independent Non-executive Chairman

Irene LEE Yun Lien

Executive Directors

Diana Ferreira CESAR JP (Chief Executive)
SAW Say Pin

Non-executive Directors

Kathleen GAN Chieh Huey
David LIAO Yi Chien JP

Independent Non-executive Directors

Cordelia CHUNG
Clement KWOK King Man
Patricia LAM Sze Wan
LIN Huey Ru
WANG Xiao Bin

Committees

Executive Committee

Diana Ferreira CESAR JP (Chairman)
Jordan CHEUNG Wang Chun
Kathy CHEUNG Ka Wai
Maggie CHEUNG Ka Ki
Vivien CHIU Wai Man
Rose CHO Mui
Liz CHOW Tan Ling
Mabel CHU Wing Lui
Gloria HO Lok Sze
Betty LAW Shuk Man
Gilbert LEE Man Lung
Rannie LEE Wah Lun
Regina LEE Sau Yee
SAW Say Pin
Ryan SONG Yue Sheng
Shelley ZHOU Wenwen

Audit Committee

Clement KWOK King Man (Chairman)
Irene LEE Yun Lien
WANG Xiao Bin

Remuneration Committee

Cordelia CHUNG (Chairman)
Patricia LAM Sze Wan
Irene LEE Yun Lien

Risk Committee

WANG Xiao Bin (Chairman)
Irene LEE Yun Lien
LIN Huey Ru

Nomination Committee

Irene LEE Yun Lien (Chairman)
Diana Ferreira CESAR JP
Cordelia CHUNG
Patricia LAM Sze Wan
David LIAO Yi Chien JP

Notes:

(1) Terms of Reference of the Bank's Audit Committee, Remuneration Committee, Risk Committee and Nomination Committee are available on the websites of the Bank and HKEx.

(2) List of Directors identifying their role and function is available on the websites of the Bank and HKEx.

Company Secretary

Maggie CHEUNG Ka Ki

Registered Office

83 Des Voeux Road Central, Hong Kong
Website: www.hangseng.com
Email: hangseng@computershare.com.hk

Stock Codes

The Stock Exchange of Hong Kong Limited:
11 (HKD counter) and 80011 (RMB counter)

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Depositary*

BNY Mellon Shareowner Services
PO Box 43006
Providence, RI 02940-3078, USA
Website: www.computershare.com/investor
Email: shrrelations@cpushareownerservices.com

* The Bank offers investors in the United States a Sponsored Level-1 American Depositary Receipts Programme through The Bank of New York Mellon Corporation.

This Interim Report 2024 contains certain forward-looking statements with respect to the Group's: financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; and ESG targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about the Group's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. The Group makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the relevant regulators, summary financial statements to shareholders, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by the Group's Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

These include, but are not limited to:

– changes in general economic conditions in the markets in which we operate, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment levels and the creditworthiness of customers beyond those factored into consensus forecasts; the Russia-Ukraine war and the Israel-Hamas war and their impact on global economies, which could have a material adverse effect on (among other things) our financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for our ECL measurements (including, without limitation, as a result of the Russia-Ukraine war and the Israel-Hamas war, inflationary pressures, commodity price changes, and ongoing developments in the commercial real estate sector in mainland China); potential changes in the Group's dividend policy; changes and volatility in foreign exchange rates and interest rates levels, including the accounting impact resulting from financial reporting in respect of hyperinflationary economies; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect our ability to meet our obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments producing social instability or legal uncertainty, such as the Russia-Ukraine war or the Israel-Hamas war (including the continuation and escalation thereof) and the related imposition of sanctions and trade restrictions, supply chain restrictions and disruptions, sustained increases in energy prices and key commodity prices, claims of human rights violations, diplomatic tensions, including between China and the US, the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, alongside other potential areas of tension, which may adversely affect the Group by creating regulatory, reputational and market risks; the efficacy of government, customer, and the Group's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the transition to net zero carbon emissions, each of which can impact the Group both directly and indirectly through our customers and which may result in potential financial and non-financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using us as a conduit for illegal activities without our knowledge; the discontinuation of certain key Ibors and the transition of the remaining legacy Ibor contracts to near risk-free benchmark rates, which continues to expose the Group to some financial and non-financial risks; and price competition in the market segments we serve;

- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which we operate and the consequences thereof (including, without limitation, actions taken as a result of changes in government following national elections in the jurisdictions where the group operates); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to the Group, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies; and

- factors specific to the Group, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); our ability to achieve our financial, investment, capital and to contribute to HSBC Group's ESG ambitions (including the positions set forth in HSBC Group's thermal coal phase-out policy and energy policy and HSBC Group's targets to reduce its on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors), which may result in our failure to achieve any of the expected benefits of our strategic priorities; evolving regulatory requirements and the development of new technologies, including artificial intelligence, affecting how we manage model risk; model limitations or failure, including, without limitation, the impact that high inflationary pressures and rising interest rates have had on the performance and usage of financial models, which may require us to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions we base our financial statements on; changes in our ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to us or any of our subsidiaries, which could increase the cost or decrease the availability of our funding and affect our liquidity position and net interest margin; changes to the reliability and security of our data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact our ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; our dependence on loan payments and dividends from subsidiaries to meet our obligations; changes in our reporting frameworks and accounting standards, which have had and may continue to have a material impact on the way we prepare our financial statements; our ability to successfully execute planned strategic acquisitions and disposals; changes in our ability to manage third-party, fraud, financial crime and reputational risks inherent in our operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel; and changes in our ability to develop sustainable finance and ESG-related products consistent with the evolving expectations of our regulators, and our capacity to measure the environmental and social impacts from our financing activity (including as a result of data limitations and changes in methodologies), which may affect our ability to contribute to HSBC's ESG ambitions, including its net zero ambition, its targets to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors and the positions set forth in HSBC's thermal coal phase-out policy and its energy policy, and increase the risk of greenwashing. Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in risk related discussions in this Interim Report 2024.

Additional detailed information concerning important factors, including but not limited to ESG-related factors, that could cause actual results to differ materially from those anticipated or implied in any forward-looking statement in this Interim Report 2024 is available in our Annual Report for the year ended 31 December 2023.

This Interim Report 2024 contains a number of images, graphics, text boxes and credentials which aim to give a high-level overview of certain elements of our disclosures and to improve accessibility for readers. These images, graphics, text boxes and credentials are designed to be read within the context of the Interim Report 2024 as a whole.

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