



3 August 2015

HANG SENG BANK LIMITED 2015 INTERIM RESULTS - HIGHLIGHTS

- Operating profit up 14% to HK\$10,785m (HK\$9,496m for the first half of 2014).
- Operating profit excluding loan impairment charges and other credit risk provisions up 16% to HK\$11,379m (HK\$9,833m for the first half of 2014).
- Profit before tax up 120% to HK\$21,720m (HK\$9,877m for the first half of 2014). Excluding the gain on partial disposal of Industrial Bank in the first half of 2015, profit before tax up 12%.
- Attributable profit up 137% to HK\$20,048m (HK\$8,468m for the first half of 2014). Excluding the gain on partial disposal of Industrial Bank in the first half of 2015, attributable profit up 11%.
- Return on average shareholders' funds of 29.4% (15.9% for the first half of 2014). Excluding the gain on partial disposal of Industrial Bank in the first half of 2015, return on average shareholders' funds of 15.6% (16.6% for the first half of 2014).
- Earnings per share up 137% to HK\$10.49 per share (HK\$4.43 per share for the first half of 2014). Excluding the gain on partial disposal of Industrial Bank in the first half of 2015, earnings per share up 11%.
- Second interim dividend of HK\$1.10 per share; total dividends of HK\$2.20 per share for the first half of 2015 (HK\$2.20 per share for the first half of 2014).
- Total capital ratio of 21.8%, common equity tier 1 ('CET1') capital ratio of 17.1% and tier 1 ('T1') capital ratio of 18.5% at 30 June 2015; (total capital ratio of 15.7%, both CET1 and T1 capital ratios of 15.6% at 31 December 2014).
- Cost efficiency ratio of 31.1% (32.1% for the first half of 2014).

Partial disposal of shareholding in Industrial Bank Co., Ltd. ('Industrial Bank') in the first half of 2015

Reported results for the first half of 2015 include a gain on partial disposal of the ordinary shares of Industrial Bank of HK\$10,636m and details of the transaction are shown on page 68. Figures quoted as 'excluding the gain on partial disposal of Industrial Bank' have been adjusted for the above item.

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'.

The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions of Hong Kong dollars respectively.

The financial information in this news release is based on the unaudited consolidated financial statements of Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') for the six months ended 30 June 2015.

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Comment by Raymond Ch'ien, Chairman

The pace of economic growth was weak in the first half of 2015, reflecting the concerns over developments in Greece and falling commodity prices and weaker trade flows in emerging markets.

Against this backdrop, Hang Seng maintained good growth momentum to achieve an 11% increase in profit attributable to shareholders and earnings per share to HK\$9,412m and HK\$4.92 per share respectively after excluding the HK\$10,636m gain on the partial disposal of our holding in Industrial Bank.

The Directors have declared a second interim dividend of HK\$1.10 per share, bringing the total distribution for the first half of 2015 to HK\$2.20 per share, the same as in the first half of 2014.

Economic Environment

A slowdown in private consumption expenditure and trade activity saw Hong Kong's annual economic growth rate ease for the second consecutive quarter during the first quarter of 2015 to 2.1%. The competitive market environment and uncertainty over developments in the eurozone will continue to create challenges, but the strong labour market and accommodative monetary environment in Hong Kong should help to support domestic demand. We expect Hong Kong's full-year economic growth rate to be 2.4% for 2015.

In mainland China, the deleveraging process has led to a further slowing in the pace of economic expansion. Gross domestic product growth was 7% in the second quarter, unchanged from the first quarter. The People's Bank of China is continuing with measures to encourage economic activity, including cuts to the required reserve ratio and benchmark interest rates, and these steps should help to stabilise growth in the second half of the year. Our forecast for 2015 full-year economic growth on the Mainland is 7%.

The normalisation of US monetary policy and the possibility of further economic slowdown on the Mainland remain as concerns in the economic outlook for Asia. However, initiatives to strengthen economic ties between Hong Kong and the Mainland and promotion of the internationalisation of the renminbi should continue to create new possibilities for growing our business.

With customer-centred service as the driving force of our long-term strategy, we will deploy our resources to build on our competitive strengths, capture new opportunities and further enhance efficiency to generate increasing value for our shareholders.

Review by Rose Lee, Vice-Chairman and Chief Executive

Hang Seng achieved balanced growth in its core business in the first half of 2015. We continued to further enhance our network of service channels, embed closer collaboration to achieve synergy across our operations, and position ourselves to better leverage on our competitive strengths and capture new business opportunities.

The success of these coordinated initiatives is reflected in good growth in total operating income, operating profit, and profit attributable to shareholders excluding the Industrial Bank disposal gain.

Under competitive operating conditions, we achieved further diversification and growth in non-interest income, including strong growth in revenue from wealth management business. The upgrade of Prestige and Preferred Banking Centres and Business Banking Centres, our broad range of products, and improvements to our digital platforms drove the expansion of the target customer base.

Following the establishment of our exclusive partnership with Bupa, our ability to offer unique medical insurance services that meet the evolving needs of customers has strengthened our health-and-wealth proposition.

Our enhanced infrastructure and connectivity have enabled us to respond swiftly to market developments and to capitalise on cross-border policy initiatives such as Shanghai-Hong Kong Stock Connect and the establishment of Free Trade Zones. The increasing integration of our Hong Kong and mainland business is reflected in the realignment of our segment performance analysis.

Despite continuous downward pressure on net interest margin, growth in average interest-earning assets supported a solid increase in net interest income.

The partial disposal of our shareholding in Industrial Bank has strengthened our capital base and will ensure we remain well prepared to meet evolving regulatory requirements. Our forward-looking capital planning will enable us to continue to invest in our core business for long-term growth and to respond promptly to new business opportunities in the years ahead.

Financial Performance

Operating profit before loan impairment charges rose by 16%, or HK\$1,546m, to HK\$11,379m. Operating profit increased by 14%, or HK\$1,289m, to HK\$10,785m. Compared with the second half of 2014, operating profit before loan impairment charges and operating profit were up 6% and 8% respectively.

Attributable profit and earnings per share both increased by 137% to HK\$20,048m and HK\$10.49 per share respectively. Profit before tax was up 120% at HK\$21,720m. Excluding the Industrial Bank disposal gain, attributable profit and earnings per share both rose by 11% to HK\$9,412m and HK\$4.92 per share respectively, while profit before tax increased by 12% to HK\$11,084m. Compared with the second half of 2014, profit attributable to shareholders and earnings per share both grew by 7% and profit before tax was up 8% excluding the Industrial Bank disposal gain in 2015 and impairment loss in 2014.

Review by Rose Lee, Vice-Chairman and Chief Executive *(continued)*

The 11% increase in average interest-earning assets supported 8% growth in net interest income to HK\$10,441m. Net interest margin was 1.86%, compared with 1.92% and 1.88% for the first and second halves of 2014.

Non-interest income grew by 26%, or HK\$1,272m, to HK\$6,074m, due mainly to strong growth in securities-related and retail investment funds business in the more buoyant investment environment.

Our cost efficiency ratio improved to 31.1%, down 1.0 percentage point and 0.5 percentage points compared with the first and second halves of 2014.

At 30 June 2015, our total capital ratio was 21.8%, compared with 15.7% at 31 December 2014. Our common equity tier 1 capital ratio was 17.1% and our tier 1 capital ratio was 18.5%, compared with 15.6% for both ratios at the end of last year.

A Strategy for Long-term Growth

In a competitive market environment, the economic slowdown on the Mainland, ongoing uncertainty in the eurozone and the normalisation of monetary policy in the US will render operating conditions very challenging for the rest of the year.

We will continue to leverage our trusted brand and our competitive advantages as Hong Kong's leading domestic bank to drive cross-border business, particularly in the Yangtze River Delta and Pearl River Delta regions.

We will deepen existing customer relationships and achieve business growth by further enhancing our service delivery channels and portfolio of products, increasing investment in staff training and development, and improving efficiency while maintaining high standards of corporate governance and risk management.

The strengthening of our capital base and embedding of strategic initiatives will support sustainable growth in our core business and enhance the connectivity of our business and operations to capture new market opportunities.

We will leverage our strong manufacturing capabilities and collaborate with strategic partners to sustain growth in our health-and-wealth business. Our strong cross-border infrastructure and unique market position mean we are well placed to capitalise on business potential and partnerships relating to policy relaxations such as the Stock Connect schemes, the Mutual Recognition of Funds initiative and the development of offshore renminbi business activities.

We will continue to enhance portfolio management and return on risk-weighted assets.

Our people strategy centres on employee engagement to create a performance-driven culture that encourages teamwork, trust and professional integrity in striving for service excellence. Our talent management initiatives and organisational structure provide a robust platform to support staff development and innovative thinking while maximising the potential of individual employees.

Review by Rose Lee, Vice-Chairman and Chief Executive *(continued)*

The economic and social well-being of the communities that support us is crucial to our strategy for long-term growth and we will remain an active participant in a diverse range of corporate sustainability programmes that have a lasting impact on our community.

I wish to thank my colleagues for their dedication and contribution to our achievements in the first half of 2015. Their commitment and drive remains central to our ability to deliver service excellence to support sustainable business growth that will benefit our customers and shareholders.

Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported an unaudited profit attributable to shareholders of HK\$20,048m for the first half of 2015, up 137% compared with the first half of 2014. Earnings per share were up 137% at HK\$10.49. The result included a gain on partial disposal of Industrial Bank of HK\$10,636m. Excluding this gain, attributable profit increased by 11%.

Operating profit excluding loan impairment charges and other credit risk provisions grew by HK\$1,546m, or 16%, to HK\$11,379m. This reflects strong performance in our wealth management business and the growth in net interest income, driven by balance sheet growth. Under challenging operating conditions, the bank achieved robust growth in revenues across core business lines in the first half of 2015. Operating expenses also rose, but to a lesser extent than income.

Net interest income rose by HK\$770m, or 8%, to HK\$10,441m, primarily from the 11% growth in average interest-earning assets partly offset by a reduction in net interest margin. The increase in average interest-earning assets was supported by the 13% growth in both average customer lending and financial investments. Net interest margin decreased by six basis points to 1.86%, with net interest spread narrowing by seven basis points while contribution from net free funds increased by one basis point. Average loan spreads reduced, mainly in term lending, while customer deposits spread improved due to a change in deposit mix as low cost savings balances increased. Lower balance sheet management income was recorded, reflecting limited opportunity for deployment of new and maturing proceeds, resulting from tightened interbank placement spreads and compression of spreads on RMB assets.

Net fee income grew by HK\$822m, or 27%, to HK\$3,884m, due largely to strong performance of our wealth management business. Investment services expanded strongly, capturing opportunities from the buoyant stock market and favourable investment market sentiment in Hong Kong. Securities broking and related services income almost doubled, reflecting higher transaction volume. Income from retail investment fund sales grew strongly by 18%, supported by the bank's well diversified portfolio of products. Credit card fee income rose by 9% on the back of growth in the number of cards in issue, merchant acquiring business and cardholder spending. Fee income from account services, remittances and credit facilities also grew by 17%, 8% and 10% respectively.

Net trading income increased by HK\$316m, or 30%, to HK\$1,377m. Foreign exchange income rose by HK\$244m, or 25%, attributable to the bank's effort to expand customer-driven businesses and higher interest income from funding swap activities, partly offset by reduced demand for foreign exchange derivative products. Income from securities, derivatives and other trading activities rose by HK\$69m, or 96%, reflecting increased customer demand for equity-linked treasury products.

Dividend income increased from HK\$5m to HK\$125m, mainly attributable to the dividend received on the remaining shareholding of Industrial Bank in the first half of 2015. For 2014, the dividend on the shareholding of Industrial Bank was received in the second half of 2014.

Results summary *(continued)*

Income from insurance business (included under ‘net interest income’, ‘net fee income’, ‘net trading income’, ‘net income/(loss) from financial instruments designated at fair value’, ‘net insurance premium income’, ‘movement in present value of in-force long-term insurance business’ and ‘other’ within ‘other operating income’, ‘net gains from disposal of available-for-sale debt securities’, ‘share of profits from associates’ and after deducting ‘net insurance claims and benefits paid and movement in liabilities to policyholders’) increased by HK\$83m, or 4%, to HK\$2,242m. Net interest income and fee income from the life insurance business grew 2%, driven by the increase in debt securities portfolios, mainly from the growth of new and renewal insurance business. The investment return on life insurance business benefited from the favourable movement in equity markets during the first half of 2015. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or present value of in-force long-term insurance business (‘PVIF’). Net insurance premium income rose by 4% as a result of increase in new business premiums from sales of high net-worth and traditional whole life products, partly offset by lower new business premiums from deferred annuity products. During the first half of 2015, there was an update in the discount rate used for valuing insurance liabilities leading to an increase in net insurance claims and benefits paid and movement in liabilities to policyholders, and a corresponding increase in PVIF. The movement in PVIF increased by 87%, mainly resulting from the liability discount rate update, new sales with higher profit margins and a favourable change in market conditions. General insurance income increased by 19%, reflecting higher distribution commission income.

Operating expenses rose by HK\$496m, or 11%, to HK\$5,136m, reflecting our continuing investments in technology, services enhancement, staff-related costs as well as our mainland business. Staff costs increased by 11%, due mainly to the annual salary increment and higher performance-related remuneration. General and administrative expenses rose by 10%, primarily due to higher spending on IT, property rental and processing charges.

With the growth in net operating income before loan impairment charges and other credit risk provisions outpacing the increase in operating expenses, the cost efficiency ratio improved to 31.1%, compared with 32.1% and 31.6% for the first and second halves of 2014.

Loan impairment charges and other credit risk provisions rose by HK\$257m, or 76%, to HK\$594m. Individually assessed impairment charges increased from a low base of HK\$57m to HK\$294m, mainly arising from a small number of individually assessed impairments in Commercial Banking in Hong Kong and mainland China due to a more challenging credit environment in mainland China. Collectively assessed impairment charges also increased due to expanded credit card and personal loan portfolios. Compared with the second half of 2014, loan impairment charges and other credit risk provisions decreased by HK\$213m, or 26% due mainly to lower new impairment charges. The group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Operating profit grew by HK\$1,289m, or 14%, to HK\$10,785m.

Results summary (continued)

Profit before tax rose by 120% to HK\$21,720m after taking the following major items into account:

- the gain on partial disposal of Industrial Bank of HK\$10,636m;
- a HK\$40m increase in **gains less losses from financial investments and fixed assets**, due mainly to debt securities disposals in the first half of 2015;
- a HK\$52m, or 23% decrease in **net surplus on property revaluation**; and
- a HK\$70m, or 45% decrease in **share of profits from associates**, mainly from a property investment company.

Consolidated balance sheet and key ratios

Total assets grew by HK\$67bn, or 5%, to HK\$1,331bn when compared with the year-end, reflecting the group's balanced growth strategy to enhance profitability. Customer loans and advances increased by HK\$15bn, or 2%, to HK\$673bn, largely from growth in corporate and commercial lending as well as residential mortgages. We reinforced our strong position in the residential mortgage sector and maintained our market share in terms of new mortgage registrations. Residential mortgages increased by 6% when compared with the year-end. Overall credit quality remained sound with total gross impaired loans and advances as a percentage of gross loans and advances standing at 0.43% at the end of June 2015, and 0.32% at the end of December 2014. Customer deposits, including certificates of deposit and other debt securities in issue, rose by HK\$44bn, or 5%, to HK\$1,000bn. At 30 June 2015, the advances-to-deposits ratio was 67.3%, compared with 68.8% at 31 December 2014.

At 30 June 2015, shareholders' funds (excluding proposed dividends) were HK\$137bn, an increase of HK\$3bn, or 2%, against the year-end. Retained profits grew by HK\$16bn, or 19%, resulting from profit accumulation which included the gain on partial disposal of Industrial Bank and the appropriation of interim dividends. The premises revaluation reserve increased by HK\$692m, or 4%, reflecting an increase in the fair value of the bank's premises. The available-for-sale investment reserve decreased by HK\$14bn, or 85%, against the year-end, mainly due to the partial disposal of Industrial Bank.

The **return on average total assets** was 3.1%, compared with 1.5% and 1.1% for the first and second halves of 2014. The **return on average shareholders' funds** was 29.4%, compared with 15.9% in the first half of 2014 and 11.2% in the second half. Excluding the gain on partial disposal of Industrial Bank in the first half of 2015 and the impairment loss of HK\$2,103m on the bank's investment in Industrial Bank in the second half of 2014, return on average total assets was 1.5%, compared with 1.5% and 1.4% for the first and second halves of 2014. On the same basis, return on average shareholders' funds was 15.6%, compared with 16.6% and 16.2% for the first and second halves of last year. The decrease in return on average shareholders' funds when compared with the first half of 2014 was mainly due to the increase in average shareholders' funds which outpaced the growth in annualised profit.

Results summary *(continued)*

At 30 June 2015, the **total capital ratio, common equity tier 1 ('CET1') capital ratio and tier 1 ('T1') capital ratio** improved to 21.8%, 17.1% and 18.5% respectively, compared with 15.7%, 15.6% and 15.6% respectively at the year-end. The improvement was mainly due to the increase in capital base as a result of the partial disposal of the bank's shareholding in Industrial Bank in the first half of 2015, which largely reduced regulatory deductions on significant capital investments in unconsolidated financial sector entities. This favourable impact was partly offset by the 11% increase in risk-weighted assets, driven by the loan growth and regulatory requirements.

The Banking (Liquidity) Rules, effective on 1 January 2015, signified the implementation of Liquidity Coverage Ratio ('LCR') for category 1 Authorised Institution under Basel III liquidity standards in Hong Kong. The group is required under Rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR on a consolidated basis. The average LCR ratio reported for the quarters ended 30 June and 31 March 2015 under Basel III are therefore not directly comparable with the average liquidity ratio reported for the half-year ended 30 June and 31 December 2014, which were calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance. Under the Banking (Liquidity) Rules, the average LCR was 221.6% and 167.4% for the quarters ended 30 June and 31 March 2015 while the average liquidity ratio under the Fourth Schedule of the Hong Kong Banking Ordinance was 34.5% and 34.9% for the half-year ended 30 June and 31 December 2014 respectively.

Dividends

The Directors have declared a second interim dividend of HK\$1.10 per share, which will be payable on 8 September 2015 to shareholders on the register of shareholders as of 19 August 2015. Together with the first interim dividend, the total distribution for the first half of 2015 will amount to HK\$2.20 per share, the same as in the first half of 2014.

Hang Seng Bank Limited

Segmental analysis

<i>Figures in HK\$m</i>	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>
Half-year ended 30 June 2015					
Net interest income	5,503	2,991	1,705	242	10,441
Net fee income	2,803	844	147	90	3,884
Net trading income/(loss)	286	249	863	(21)	1,377
Net income from financial instruments designated at fair value	715	—	—	6	721
Dividend income	1	—	—	124	125
Net insurance premium income	5,874	373	—	—	6,247
Other operating income	1,584	86	19	156	1,845
Total operating income	16,766	4,543	2,734	597	24,640
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,819)	(306)	—	—	(8,125)
Net operating income before loan impairment charges and other credit risk provisions	8,947	4,237	2,734	597	16,515
Loan impairment (charges)/ releases and other credit risk provisions	(299)	(278)	(17)	—	(594)
Net operating income	8,648	3,959	2,717	597	15,921
Operating expenses [†]	(3,317)	(1,245)	(470)	(104)	(5,136)
Operating profit	5,331	2,714	2,247	493	10,785
Net gain on partial disposal of Industrial Bank	—	—	—	10,636	10,636
Gains less losses from financial investments and fixed assets	38	—	5	(8)	35
Net surplus on property revaluation	—	—	—	178	178
Share of profits from associates	85	1	—	—	86
Profit before tax	5,454	2,715	2,252	11,299	21,720
Share of profit before tax	<u>25.1 %</u>	<u>12.5 %</u>	<u>10.4 %</u>	<u>52.0 %</u>	<u>100.0 %</u>
Share of profit before tax (excluding the gain on partial disposal / impairment of Industrial Bank)	<u>49.2 %</u>	<u>24.5 %</u>	<u>20.3 %</u>	<u>6.0 %</u>	<u>100.0 %</u>
Operating profit excluding loan impairment charges and other credit risk provisions	5,630	2,992	2,264	493	11,379
[†] Depreciation/amortisation included in operating expenses	(27)	(14)	(3)	(474)	(518)
At 30 June 2015					
Total assets	<u>377,134</u>	<u>291,505</u>	<u>541,001</u>	<u>121,798</u>	<u>1,331,438</u>
Total liabilities	<u>751,324</u>	<u>236,701</u>	<u>178,054</u>	<u>25,885</u>	<u>1,191,964</u>
Interest in associates	<u>2,245</u>	<u>13</u>	<u>—</u>	<u>—</u>	<u>2,258</u>

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Segmental analysis (continued)

Figures in HK\$m

	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>
Half-year ended					
30 June 2014 (restated)					
Net interest income	5,006	2,528	2,085	52	9,671
Net fee income	2,037	849	103	73	3,062
Net trading income	144	276	630	11	1,061
Net income/(loss) from financial instruments designated at fair value	429	(1)	—	—	428
Dividend income	1	—	—	4	5
Net insurance premium income	5,950	54	—	—	6,004
Other operating income	904	45	—	182	1,131
Total operating income	14,471	3,751	2,818	322	21,362
Net insurance claims and benefits paid and movement in liabilities to policyholders	(6,847)	(42)	—	—	(6,889)
Net operating income before loan impairment charges and other credit risk provisions	7,624	3,709	2,818	322	14,473
Loan impairment (charges)/ releases and other credit risk provisions	(248)	(90)	1	—	(337)
Net operating income	7,376	3,619	2,819	322	14,136
Operating expenses [*]	(3,079)	(1,140)	(399)	(22)	(4,640)
Operating profit	4,297	2,479	2,420	300	9,496
Gains less losses from financial investments and fixed assets	—	—	3	(8)	(5)
Net surplus on property revaluation	—	—	—	230	230
Share of profits from associates	155	1	—	—	156
Profit before tax	4,452	2,480	2,423	522	9,877
Share of profit before tax	45.1%	25.1%	24.5%	5.3%	100.0%
Share of profit before tax (excluding the gain on partial disposal / impairment of Industrial Bank)	45.1%	25.1%	24.5%	5.3%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	4,545	2,569	2,419	300	9,833
[*] Depreciation/amortisation included in operating expenses	(26)	(16)	(3)	(416)	(461)

At 30 June 2014

Total assets	343,198	282,361	491,307	79,098	1,195,964
Total liabilities	696,708	225,363	142,718	21,674	1,086,463
Interest in associates	2,166	12	—	—	2,178

Hang Seng Bank Limited

Segmental analysis (continued)

<i>Figures in HK\$m</i>	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total
Half-year ended					
31 December 2014 (restated)					
Net interest income/(expense)	5,309	2,979	1,916	(4)	10,200
Net fee income	2,132	865	114	76	3,187
Net trading income	39	156	680	8	883
Net income/(loss) from financial instruments designated at fair value	777	–	–	(4)	773
Dividend income	–	–	–	1,205	1,205
Net insurance premium income	4,721	54	–	–	4,775
Other operating income	369	22	–	173	564
Total operating income	13,347	4,076	2,710	1,454	21,587
Net insurance claims and benefits paid and movement in liabilities to policyholders	(5,808)	(45)	–	–	(5,853)
Net operating income before loan impairment charges and other credit risk provisions	7,539	4,031	2,710	1,454	15,734
Loan impairment (charges)/ releases and other credit risk provisions	(295)	(502)	(10)	–	(807)
Net operating income	7,244	3,529	2,700	1,454	14,927
Operating expenses [†]	(3,151)	(1,181)	(432)	(209)	(4,973)
Operating profit	4,093	2,348	2,268	1,245	9,954
Impairment of investment in Industrial Bank	–	–	–	(2,103)	(2,103)
Gains less losses from financial investments and fixed assets	(1)	(1)	1	(50)	(51)
Net surplus on property revaluation	–	–	–	291	291
Share of profits from associates	81	–	–	–	81
Profit/(loss) before tax	4,173	2,347	2,269	(617)	8,172
Share of profit/(loss) before tax	51.1%	28.7%	27.8%	(7.6%)	100.0%
Share of profit before tax (excluding the gain on partial disposal / impairment of Industrial Bank)	40.6%	22.8%	22.1%	14.5%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	4,388	2,850	2,278	1,245	10,761
[†] Depreciation/amortisation included in operating expenses	(26)	(15)	(3)	(437)	(481)
At 31 December 2014					
Total assets	358,323	294,332	501,290	110,045	1,263,990
Total liabilities	717,572	231,673	155,465	20,087	1,124,797
Interest in associates	2,206	12	–	–	2,218

Segmental analysis *(continued)*

Retail Banking and Wealth Management ('RBWM') reported profit before tax of HK\$5,454m in the first half of 2015, a 23% increase compared with the first half of 2014. Operating profit excluding loan impairment charges reached HK\$5,630m, an increase of 24%. Operating profit grew by 24% to HK\$5,331m.

Net interest income grew 10% against first half of 2014 to HK\$5,503m, supported by balance sheet growth. Customer deposits and the lending portfolio recorded a balanced growth of 5% and 6% respectively compared to the year-end.

Non-interest income grew strongly by 32% to HK\$3,444m, reflecting a growth in net fee income as well as an improvement in net income from financial instruments designated at fair value. With initiatives to provide sales and services based on our customers' needs, our wealth management business income rose by 22% to HK\$4,254m as compared to the first half of 2014.

Unsecured lending continued to be a major business driver. With effective marketing campaigns and a good quality credit card customer base, card spending achieved year-on-year growth of 11% in Hong Kong. Total cards in circulation rose by 2% to 2.54 million year-on-year and we were the third largest card issuer of VISA and MasterCard cards in Hong Kong during the first half of 2015. Supported by customer analytics, we grew our personal loan portfolio with a more targeted approach from our existing customer base.

With a market share of 18% in terms of new mortgage registration, we maintained our top-three position for mortgage business in Hong Kong. Mortgage balances grew by 5% and 11% in Hong Kong and mainland China respectively compared to 2014 year-end.

Alongside a favourable investment market sentiment, we capitalised our time-to-market products and services to grow investment income by 50% against same period last year. Benefitting from substantial growth in equities market transaction volume, securities turnover and income increased significantly by 128% and 96% respectively. Retail investment funds income grew by 18%, driven by the 11% increase in turnover.

Total operating income for insurance business was in line with last year. With initiatives to broaden our protection and premium insurance plans offerings, we managed to diversify the life insurance product mix to create a more balanced business growth. The distribution of Hang Seng Bupa Precious Health Series has also strengthened our 'Wealth-and-Health' solutions to customers since its launch in late 2014.

Supported by enhanced customer propositions and product features focusing on customer's wealth management needs as well as premium banking experience offered at our Prestige and Preferred Banking Centres, we deepened relationships with affluent customers both in Hong Kong and mainland China and grew the Prestige and Preferred Banking customer base by 9% and 35% year-on-year respectively. Our branch refurbishment exercise, including the renovation of the Hong Kong main branch, has also strengthened our market positioning and supported our business growth objectives.

Segmental analysis *(continued)*

We continued to invest in our digital capabilities, with aims to enhance customer experience and capture new business opportunities. The number of e-Banking customers rose by 7% and 26% year-on-year in Hong Kong and mainland China respectively.

Commercial Banking ('CMB') achieved a 9% year-on-year increase in profits before tax to HK\$2,715m. Operating profit excluding loan impairment charges was up by 16% to HK\$2,992m. Operating profit grew by 9% to HK\$2,714m.

Net interest income reported a growth of 18% compared with first half of 2014, supported by effective cross-border collaboration and growth in current and saving deposits.

Non-interest income also rose by 6% to HK\$1,246m, buoyed by reasonable growth in various streams of non-fund income. Remittance income increased by 10%, supported by targeted marketing programmes and propositions that help customers strengthen their business connectivity in the Greater China region. We achieved good growth momentum in corporate wealth management, alongside with the favourable investment market sentiment and enriched product propositions in both life and general insurance. Securities and investment funds income were up 82% and 15% respectively. Insurance income also recorded a 36% increase.

Acquisition of quality mainland customers remains our key focus in driving growth for small and medium-sized enterprises ('SME') business, which represented 52% of newly acquired customers in the first half of 2015. New customers are the primary drivers of 5% growth in SME deposits, as well as a 21% increase in non-fund income from growth in corporate wealth management business. We continued to enrich our SME service propositions that reinforced our position as the preferred banking partner of SMEs. An expanded Business Banking Centre was opened in Sheung Wan in March 2015 to provide a pleasant environment for our customers to discuss their banking needs with us. For the 10th consecutive year, we received the 'Best SME's Partner Award' from The Hong Kong General Chamber of Small and Medium Business.

We continued our effort in syndicated lending and we ranked third in the Mandated Arranger League Table for Hong Kong and Macau Syndicated Loans in terms of number of deals in the first half of 2015 according to Thomson Reuters LPC data.

Our commitment to connect our commercial customers to business opportunities in the Greater China saw the implementation of various initiatives. We invested in infrastructures to enhance our cross-border payment and cash management capabilities that facilitated swift and timely cash management for our customers. We also launched Total Trade Focused Solutions to capture cross-border trade flow of our customers. The opening of Jinan branch in April 2015 enables us to tap business opportunities from the growing demand of commercial financial services at the Bohai Economic Rim. Our continual efforts to strengthen cross-border transactional capabilities and synergy between commercial banking teams in Hong Kong and the Mainland have helped us in winning the 'Outstanding Corporate/Commercial Banking - Cross Border Commercial Banking Award' from Metro Finance, Metro Finance Digital and Wen Wei Po.

Loan impairment charges increased from a low base, primarily due to a small number of individually assessed impairments in mainland China. We remained vigilant in managing asset quality by adopting proactive credit risk management and overall credit quality remained resilient.

Segmental analysis *(continued)*

Global Banking and Markets ('GBM') recorded a 7% decrease in profit before tax to HK\$2,252m. Operating profit excluding loan impairment charges was down by 6% to HK\$2,264m. Operating profit dropped 7% to HK\$2,247m.

Global Banking ('GB') achieved a 10% increase in total operating income to HK\$1,169m. Operating profit excluding loan impairment charges (mainly due to a one-off specific impairment) increased 7% to HK\$949m. Loan impairment charges remained low with robust management of asset quality. Profit before tax rose by 5% to HK\$932m.

With weakened loan demand, customer advances remained the same level as the year-end while net interest income increased 4%. Customer deposits grew 12% against the year-end, providing a solid base for asset growth.

Non-interest income recorded a strong growth of 46%, mainly due to increased income from Corporate Wealth Management, MPF and IPO activities. The newly launched Bupa medical insurance product is well received by our customers, with favourable sales recorded in the first half of 2015.

To better support customers in the Southeast Asian region, our Singapore branch has extended their services to corporate lending.

Global Markets ('GM') recorded a 14% decrease in profit before tax to HK\$1,320m. Operating profit excluding loan impairment charges fell by 14% to HK\$1,315m. Operating profit fell by 14% to HK\$1,315m.

Net interest income fell by 37% to HK\$727m, with limited opportunity for the deployment of new and maturing proceeds, resulting from tightened interbank placement spread as compared with last year.

Non-interest income increased by HK\$236m to HK\$838m. Total trading income increased by HK\$236m, or 38%, to HK\$859m. Foreign exchange trading income rose by 44% year-on-year, supported by an increase in foreign exchange and foreign exchange derivatives trading activity.

Under the challenging and low interest rate environment, GM strived to increase focus in growing non-fund income. We increased cross-selling of GM products to RBWM and CMB customers through collaboration to identify cross-selling opportunities and specific needs of customers. With higher stock market turnover and the launch of the Shanghai-Hong Kong Stock Connect scheme, customer demand on equity-related products has increased and income from equity-linked structured products increased substantially year-on-year.

To further diversify revenue, GM explored new business opportunities from liberalisation of mainland policies. In response to the Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong, we provide support for fund sales and development to capture opportunities from the rising customer demand on cross-border transactions and renminbi-denominated products.

Segmental analysis *(continued)*

Front-line channels (including e-Banking) and trading systems were enhanced to facilitate straight-through processing, enabling better position management. In May 2015, the Bank has officially joined OTC Clearing Hong Kong Limited as a direct member for central clearing of its over-the-counter derivatives. This strengthened our market standing as the leading domestic bank.

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Interest income	13,645	12,774	13,496
Interest expense	(3,204)	(3,103)	(3,296)
Net interest income	10,441	9,671	10,200
Fee income	4,638	3,757	3,955
Fee expense	(754)	(695)	(768)
Net fee income	3,884	3,062	3,187
Net trading income	1,377	1,061	883
Net income from financial instruments designated at fair value	721	428	773
Dividend income	125	5	1,205
Net insurance premium income	6,247	6,004	4,775
Other operating income	1,845	1,131	564
Total operating income	24,640	21,362	21,587
Net insurance claims and benefits paid and movement in liabilities to policyholders	(8,125)	(6,889)	(5,853)
Net operating income before loan impairment charges and other credit risk provisions	16,515	14,473	15,734
Loan impairment charges and other credit risk provisions	(594)	(337)	(807)
Net operating income	15,921	14,136	14,927
Employee compensation and benefits	(2,537)	(2,295)	(2,321)
General and administrative expenses	(2,081)	(1,884)	(2,171)
Depreciation of premises, plant and equipment	(462)	(406)	(425)
Amortisation of intangible assets	(56)	(55)	(56)
Operating expenses	(5,136)	(4,640)	(4,973)
Operating profit	10,785	9,496	9,954
Net gain on partial disposal of Industrial Bank	10,636	—	—
Impairment of investment in Industrial Bank	—	—	(2,103)
Gains less losses from financial investments and fixed assets	35	(5)	(51)
Net surplus on property revaluation	178	230	291
Share of profits from associates	86	156	81
Profit before tax	21,720	9,877	8,172
Tax expense	(1,672)	(1,409)	(1,509)
Profit for the period	20,048	8,468	6,663
Profit attributable to shareholders	20,048	8,468	6,663
Earnings per share (in HK\$)	10.49	4.43	3.48

Details of dividends payable to shareholders of the bank attributable to the profit for the half year are set out on page 36.

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Profit for the period	20,048	8,468	6,663
Other comprehensive income			
Items that will be reclassified subsequently to the income statement when specific conditions are met:			
Available-for-sale investment reserve:			
- fair value changes taken to equity:			
-- on debt securities	(9)	350	(31)
-- on equity shares	406	(417)	17,161
- fair value changes transferred to income statement:			
-- on hedged items	11	29	3
-- on disposal	(14,786)	2	(36)
-- on impairment	—	—	2,188
- deferred taxes	(25)	(76)	(20)
- exchange difference and others	(40)	(730)	207
Cash flow hedging reserve:			
- fair value changes taken to equity	157	(74)	392
- fair value changes transferred to income statement	(139)	70	(409)
- deferred taxes	(3)	1	3
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	(6)	(170)	15
Items that will not be reclassified subsequently to the income statement:			
Premises:			
- unrealised surplus on revaluation of premises	1,103	612	845
- deferred taxes	(184)	(103)	(141)
- exchange difference	—	(1)	(1)
Defined benefit plans:			
- actuarial gains on defined benefit plans	292	75	89
- deferred taxes	(48)	(12)	(15)
Share-based payments	2	(1)	(1)
Other comprehensive income for the period, net of tax	(13,269)	(445)	20,249
Total comprehensive income for the period	6,779	8,023	26,912
Total comprehensive income for the period attributable to shareholders	6,779	8,023	26,912

Hang Seng Bank Limited
Consolidated Balance Sheet
(unaudited)

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
ASSETS			
Cash and sight balances at central banks	40,317	7,721	11,311
Placings with and advances to banks	152,767	142,975	145,731
Trading assets	44,772	26,213	41,823
Financial assets designated at fair value	8,218	10,331	11,112
Derivative financial instruments	6,004	6,296	7,421
Reverse repurchase agreements – non-trading	1,904	2,309	1,296
Loans and advances to customers	673,022	632,947	658,431
Financial investments	328,198	297,303	318,032
Interest in associates	2,258	2,178	2,218
Investment properties	9,899	11,108	11,732
Premises, plant and equipment	25,664	21,594	21,898
Intangible assets	10,577	8,779	9,053
Other assets	27,838	26,210	23,932
Total assets	1,331,438	1,195,964	1,263,990
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	947,495	860,092	896,521
Repurchase agreements – non-trading	3,032	1,837	–
Deposits from banks	13,964	11,335	9,095
Trading liabilities	77,543	65,713	72,587
Financial liabilities designated at fair value	4,027	493	3,489
Derivative financial instruments	5,877	5,825	6,462
Certificates of deposit and other debt securities in issue	7,738	9,904	12,402
Other liabilities	22,887	24,451	21,304
Liabilities to customers under insurance contracts	96,986	89,049	92,442
Current tax liabilities	1,906	1,830	374
Deferred tax liabilities	4,695	4,114	4,304
Subordinated liabilities	5,814	11,820	5,817
Total liabilities	1,191,964	1,086,463	1,124,797
Equity			
Share capital	9,658	9,658	9,658
Retained profits	99,982	83,215	83,667
Other equity instruments	6,981	–	6,981
Other reserves	20,750	14,525	34,490
Proposed dividends	2,103	2,103	4,397
Shareholders' funds	139,474	109,501	139,193
Total equity and liabilities	1,331,438	1,195,964	1,263,990

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Share capital			
At beginning of period	9,658	9,559	9,658
Transfer from capital redemption reserve	—	99	—
	<u>9,658</u>	<u>9,658</u>	<u>9,658</u>
Retained profits (including proposed dividends)			
At beginning of period	88,064	82,885	85,318
Dividends to shareholders			
- dividends approved in respect of the previous year	(4,397)	(4,206)	—
- dividends declared in respect of the current period	(2,103)	(2,103)	(4,206)
Transfer	227	212	216
Total comprehensive income for the period	20,294	8,530	6,736
	<u>102,085</u>	<u>85,318</u>	<u>88,064</u>
Other equity instruments			
At beginning of period	6,981	—	—
Other equity instruments issued	—	—	6,981
	<u>6,981</u>	<u>—</u>	<u>6,981</u>
Other reserves			
Premises revaluation reserve			
At beginning of period	15,687	14,904	15,200
Transfer	(227)	(212)	(216)
Total comprehensive income for the period	919	508	703
	<u>16,379</u>	<u>15,200</u>	<u>15,687</u>
Available-for-sale investment reserve			
At beginning of period	17,012	(1,618)	(2,460)
Total comprehensive income for the period	(14,443)	(842)	19,472
	<u>2,569</u>	<u>(2,460)</u>	<u>17,012</u>
Cash flow hedging reserve			
At beginning of period	(11)	6	3
Total comprehensive income for the period	15	(3)	(14)
	<u>4</u>	<u>3</u>	<u>(11)</u>
Foreign exchange reserve			
At beginning of period	1,140	1,295	1,125
Total comprehensive income for the period	(6)	(170)	15
	<u>1,134</u>	<u>1,125</u>	<u>1,140</u>

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Other reserves			
At beginning of period	662	747	657
Cost of share-based payment arrangements	2	9	5
Transfer of capital redemption reserve	—	(99)	—
	<u>664</u>	<u>657</u>	<u>662</u>
Total equity			
At beginning of period	139,193	107,778	109,501
Dividends to shareholders	(6,500)	(6,309)	(4,206)
Other equity instruments issued	—	—	6,981
Cost of share-based payment arrangements	2	9	5
Total comprehensive income for the period	6,779	8,023	26,912
	<u>139,474</u>	<u>109,501</u>	<u>139,193</u>

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>
Net cash inflow/(outflow) from operating activities	38,787	(6,833)
Cash flows from investing activities		
Purchase of available-for-sale investments	(45,623)	(27,896)
Purchase of held-to-maturity debt securities	(1,283)	(430)
Proceeds from sale or redemption of available-for-sale investments	72,058	27,001
Proceeds from redemption of held-to-maturity debt securities	105	315
Net cash inflow from sale of loan portfolio	3,981	368
Purchase of properties, plant and equipment and intangible assets	(454)	(397)
Proceeds from sale of properties, plant and equipment and assets held for sale	1	2
Interest received from available-for-sale investments	964	731
Dividends received from available-for-sale investments	125	6
Net cash inflow/(outflow) from investing activities	29,874	(300)
Cash flows from financing activities		
Dividends paid	(6,500)	(6,309)
Interest paid for subordinated liabilities	(91)	(152)
Net cash outflow from financing activities	(6,591)	(6,461)
Increase/(decrease) in cash and cash equivalents	62,070	(13,594)
Cash and cash equivalents at 1 January	105,350	115,779
Effect of foreign exchange rate changes	(521)	42
Cash and cash equivalents at 30 June	166,899	102,227

Net interest income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Net interest income/(expense) arising from:			
- financial assets and liabilities that are not at fair value through profit and loss	11,270	10,754	11,134
- trading assets and liabilities	(819)	(1,085)	(929)
- financial instruments designated at fair value	(10)	2	(5)
	<u>10,441</u>	<u>9,671</u>	<u>10,200</u>
 Average interest-earning assets	 1,132,121	 1,016,759	 1,077,053
 Net interest spread	 1.72%	 1.79%	 1.75%
Net interest margin	1.86%	1.92%	1.88%

Net interest income rose by HK\$770m, or 8%, to HK\$10,441m, driven mainly by the 11% increase in average interest-earning assets.

Average interest-earning assets increased by HK\$115bn, or 11%, compared with the same period last year. Average customer lending increased by 13%, with notable growth in corporate and commercial and mortgage lending, while average financial investments increased by 13%.

Net interest margin narrowed by six basis points to 1.86% whilst the net interest spread decreased by seven basis points to 1.72%. Average loan spread on customer lending reduced, notably on corporate and commercial term lending. Lower balance sheet management income was recorded, reflecting limited opportunity for deployment of new and maturing proceeds as a result of the compression of the average interest spread on RMB assets due to the drop in RMB market interest rates. However, these were partly offset by improved customer deposits spread as a result of the change in deposit mix, with low cost savings balance increased.

The contribution from net free funds grew by one basis point to 0.14%, benefitting from the modest increase in the average interest rate.

Compared with the second half of 2014, net interest income grew by HK\$241m, or 2%, mainly supported by 5% increase in average interest-earning assets, notwithstanding more calendar days in the second half. The net interest margin decreased by two basis points.

Net interest income (continued)

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading as 'Net trading income'. Income arising from financial instruments designated at fair value through profit and loss is reported as 'Net income from financial instruments designated at fair value' (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

The table below presents the net interest income of Hang Seng, as included in the HSBC Group accounts:

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Net interest income and expense reported as 'Net interest income'			
- Interest income	13,482	12,687	13,350
- Interest expense	(2,227)	(1,933)	(2,222)
- Net interest income	11,255	10,754	11,128
Net interest income and expense reported as 'Net trading income'	(819)	(1,085)	(929)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	5	2	1
Average interest-earning assets	1,092,097	986,694	1,040,276
Net interest spread	1.96 %	2.09 %	2.01 %
Net interest margin	2.08 %	2.20 %	2.12 %

Net fee income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
- Securities broking and related services	1,167	602	753
- Retail investment funds	1,051	891	790
- Insurance	249	249	217
- Account services	216	184	208
- Remittances	208	193	211
- Cards	1,146	1,051	1,145
- Credit facilities	204	185	218
- Trade services	231	260	261
- Other	166	142	152
Fee income	4,638	3,757	3,955
Fee expense	(754)	(695)	(768)
	<u>3,884</u>	<u>3,062</u>	<u>3,187</u>

Net fee income increased by HK\$822m, or 27%, to HK\$3,884m when compared with the first half of 2014.

Securities broking and related services income rose significantly by 94%, reflecting higher stock market turnover in Hong Kong and favourable investment market sentiment. The buoyant stock markets also stimulated demand for retail investment funds and the related fee income increased by 18%.

Account services and remittances fee income grew by 17% and 8% respectively, reflecting the group's strong transactional capabilities.

Card services income was 9% higher than the first half of 2014, supported by the 11% increase in cardholder spending, 6% increase in merchant acquiring business as well as a 2% increase in the number of cards in circulation.

Credit facilities fee income rose by 10%, due mainly to higher fees from increased corporate lending.

Trade-related service income was down by 11%, reflecting the decrease in trade finance lending business.

Net trading income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
- Foreign exchange	1,239	995	829
- Interest rate derivatives	(47)	(1)	2
- Debt securities	75	43	22
- Equities and other trading	113	30	33
Dealing profits	1,380	1,067	886
Net loss from hedging activities	(3)	(6)	(3)
	<u>1,377</u>	<u>1,061</u>	<u>883</u>

Net trading income increased by HK\$316m, or 30%, to HK\$1,377m when compared with first half of 2014.

Foreign exchange income rose by HK\$244m, or 25%, contributed by increased customer flows and higher interest income from funding swaps[‡] activities, partly offset by reduced demand for foreign exchange derivative products. Debt securities recorded a higher revaluation gain of HK\$32m, mainly reflecting the movement in market interest rates. The increases were offset in part by the revaluation loss on interest rate derivatives products. Income from equities and other trading rose by HK\$83m, or 277%, driven by the increased customer demand for equity-linked treasury products.

[‡] *Global Markets employs foreign exchange swaps for its funding activities, which involves swapping a currency ('original currency') into another currency ('swap currency') at the spot exchange rate for short-term placement and simultaneously entering into a forward exchange contract to convert the funds back to the original currency on maturity of the placement. In accordance with HKAS 39, the exchange difference of the spot and forward contracts is required to be recognised as a foreign exchange gain/loss, while the corresponding interest differential between the original and swap funding is reflected in net interest income.*

Net income from financial instruments designated at fair value

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Net income on assets designated at fair value which back insurance and investment contracts	716	428	776
Net change in fair value of other financial instruments designated at fair value	5	—	(3)
	<u>721</u>	<u>428</u>	<u>773</u>

Net income from financial instruments designated at fair value increased by HK\$293m, or 68%, to HK\$721m, reflecting the fair value changes of assets held by the life insurance business due mainly to favourable equity market movements during the first half of 2015. To the extent that this fair value gain is attributable to policyholders, there is an offsetting movement reported under ‘net insurance claims and benefits paid and movement in liabilities to policyholders’ or ‘movement in present value of in-force long-term insurance business (‘PVIF’)’.

Other operating income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Rental income from investment properties	191	195	200
Movement in present value of in-force long-term insurance business	1,511	807	258
Others	143	129	106
	<u>1,845</u>	<u>1,131</u>	<u>564</u>

Other operating income rose by HK\$714m, or 63% compared with the first half of 2014, primarily due to the 87% increase in the movement in PVIF. During the first half of 2015, there was an update in the discount rate used for valuing insurance liabilities, resulting in an increase in PVIF. New sales with higher profit margins and a favourable change in market conditions also contributed to the increase in PVIF.

Analysis of income from wealth management business

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Investment income:			
- retail investment funds	1,051	891	790
- structured investment products [‡]	538	523	223
- securities broking and related services	1,143	586	736
- margin trading and others	50	55	47
	2,782	2,055	1,796
Insurance income:			
- life insurance	2,104	2,043	1,446
- general insurance and others	138	116	103
	2,242	2,159	1,549
Total	5,024	4,214	3,345

[‡] *Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net trading income.*

Wealth management business income maintained good growth momentum in the first half of 2015, achieving a 19% increase when compared with the same period last year. Investment income rose by 35%, mainly contributed by the 95% increase in securities broking and related services income and 18% increase in retail investment funds related income on the back of buoyant stock market conditions. Insurance business income grew by 4%.

Compared with the second half of 2014, wealth management business income grew by 50%, driven by the increase of 55% in investment income and 45% in insurance income.

Analysis of insurance business income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Life insurance:			
- net interest income and fee income	1,553	1,517	1,531
- investment return on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	918	604	735
- net insurance premium income	6,247	6,004	4,775
- net insurance claims and benefits paid and movement in liabilities to policyholders	(8,125)	(6,889)	(5,853)
- movement in present value of in-force long-term insurance business	1,511	807	258
	<u>2,104</u>	<u>2,043</u>	<u>1,446</u>
General insurance and others	138	116	103
Total	<u>2,242</u>	<u>2,159</u>	<u>1,549</u>

Life insurance business income rose by HK\$61m, or 3%, to HK\$2,104m.

Net interest income and fee income from the life insurance investment portfolio grew slightly as a result of net inflows from new and renewal life insurance business.

Investment returns on life insurance funds increased strongly by 52%, mainly reflecting the favourable equity market performance. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims and benefits paid and movement in liabilities to policyholders' or PVIF.

Net insurance premium income rose by 4% as a result of increases in new business premiums from sales of high net-worth and traditional whole life products, partly offset by lower new business premiums from deferred annuity products. The growth in insurance premium resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders.

During the first half of 2015, there was an update to the discount rate used for valuing insurance liabilities, resulting in an increase in net insurance claims and benefits paid and movement in liabilities to policyholders, with a corresponding increase in PVIF.

The movement in PVIF increased by 87%, mainly attributable to the liability discount rate update, new sales with a higher profit margins and a favourable change in market conditions.

General insurance income increased by 19%, reflecting higher distribution commission income following the establishment of our exclusive partnership with Bupa to offer unique medical insurance services to meet the evolving needs of customers.

Loan impairment charges and other credit risk provisions

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Net charge for impairment of loans and advances to customers:			
Individually assessed impairment allowances:			
- new allowances	334	179	520
- releases	(34)	(91)	(40)
- recoveries	(6)	(31)	(5)
	<u>294</u>	<u>57</u>	<u>475</u>
Net charge for collectively assessed impairment allowances	300	252	360
Other credit risk provisions	—	28	(28)
Loan impairment charges and other credit risk provisions	<u>594</u>	<u>337</u>	<u>807</u>

Loan impairment charges increased by HK\$257m, or 76%, reflecting the more challenging credit environment in mainland China. Overall credit quality remained relatively stable with gross impaired loans and advances as a percentage of gross loans and advances to customers standing at 0.43% at the end of June 2015, compared with 0.32% at the end of 2014. The group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Individually assessed impairment charges increased from a low base of a HK\$57m to HK\$294m, mainly due to the downgrade of a small number of individually assessed impairments in Commercial Banking in Hong Kong and mainland China. This was also affected by lower releases and recoveries from corporate and commercial customers in the first half of 2015.

Collectively assessed loan impairment charges increased by HK\$48m, or 19%. Impairment charges for credit card and personal loan portfolios increased due to the growth in portfolio balance while impairment allowances for loans not individually identified as impaired remained relatively stable.

Compared with second half of 2014, loan impairment charges and other credit risk provisions decreased by HK\$213m, or 26% due mainly to lower new impairment charges.

Operating expenses

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Employee compensation and benefits:			
- salaries and other costs	2,316	2,071	2,084
- retirement benefit costs	221	224	237
	2,537	2,295	2,321
General and administrative expenses:			
- rental expenses	346	336	346
- other premises and equipment	570	507	605
- marketing and advertising expenses	389	381	448
- other operating expenses	776	660	772
	2,081	1,884	2,171
Depreciation of premises, plant and equipment	462	406	425
Amortisation of intangible assets	56	55	56
	5,136	4,640	4,973
Cost efficiency ratio	31.1 %	32.1 %	31.6 %
Full-time equivalent staff numbers by region	At 30 June 2015	At 30 June 2014	At 31 December 2014
Hong Kong and others	7,993	7,894	8,278
Mainland	1,837	1,769	1,914
Total	9,830	9,663	10,192

Operating expenses increased by HK\$496m, or 11%, compared with the first half of 2014, reflecting the bank's continued investments in technology, services enhancement, staff-related costs as well as expansion of our mainland business.

Employee compensation and benefits increased by HK\$242m, or 11%, mainly in staff salaries and other costs, reflecting the annual salary increment and higher performance-related remuneration. General and administrative expenses were up 10%, due mainly to the rise in rental expenses and expenses on IT and processing charges. Depreciation charges were up 14%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation in Hong Kong and branch renovation costs.

At 30 June 2015, the group's number of full-time equivalent staff was down by 362 compared with the end of 2014.

The bank continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio lowered by one percentage point to 31.1%.

Net gain on partial disposal of Industrial Bank Co., Ltd ('Industrial Bank') and impairment of investment in Industrial Bank

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Net gain on partial disposal of Industrial Bank	10,636	—	—
Impairment of investment in Industrial Bank	—	—	(2,103)
	<u>10,636</u>	<u>—</u>	<u>(2,103)</u>

During the first half of 2015, the bank had disposed of 9.99% shareholding of Industrial Bank, and recorded a net gain of HK\$10,636m. Details of the transactions are shown on page 68.

Gains less losses from financial investments and fixed assets

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Gains less losses from disposal of available-for-sale equity securities	—	(3)	36
Net gains from disposal of available-for-sale debt securities	43	1	—
Gains less losses on disposal of loans and advances	—	2	1
Gains less losses on disposal of fixed assets	(8)	(5)	(3)
Impairment of investment in Yantai Bank	—	—	(85)
	<u>35</u>	<u>(5)</u>	<u>(51)</u>

Gains less losses from financial investments and fixed assets recorded a gain of HK\$35m in the first half of 2015 compared with a loss of HK\$5m in the first half of 2014, mainly due to the higher net gain from disposal of certain available-for-sale debt securities.

Tax expense

Taxation in the consolidated income statement represents:

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 31 December 2014</i>
Current tax – provision for Hong Kong profits tax			
Tax for the period	1,558	1,396	1,412
Adjustment in respect of prior periods	(31)	(96)	(4)
Current tax – taxation outside Hong Kong			
Tax for the period	38	13	138
Adjustment in respect of prior periods	—	12	1
Deferred tax			
Origination and reversal of temporary differences	107	84	(38)
Total tax expense	<u>1,672</u>	<u>1,409</u>	<u>1,509</u>

The current tax provision is based on the estimated assessable profit for the first half of 2015, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2014). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries 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.

Earnings per share

The calculation of earnings per share for the first half of 2015 is based on earnings of HK\$20,048m (HK\$8,468m and HK\$6,663m for the first and second halves of 2014 respectively) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first and second halves of 2014).

Dividends per share

	<i>Half-year ended 30 June 2015</i>		<i>Half-year ended 30 June 2014</i>		<i>Half-year ended 31 December 2014</i>	
	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>
First interim	1.10	2,103	1.10	2,103	—	—
Second interim	1.10	2,103	1.10	2,103	—	—
Third interim	—	—	—	—	1.10	2,103
Fourth interim	—	—	—	—	2.30	4,397
	2.20	4,206	2.20	4,206	3.40	6,500

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. In 2015, there was a change in the reportable segment information reported internally to the group's most senior executive management for the purposes of resources allocation and performance assessment. The change has taken into account of the increasingly integrated nature of our Hong Kong and mainland business. Previously, mainland China was presented as a separate segment. From 1 January 2015, mainland China was integrated within the three global businesses. To align with the internal reporting information, the group has presented the following four reportable segments. Corresponding amounts have been restated to ensure information is provided on a basis consistent with the revised segment information.

- **Retail Banking and Wealth Management** activities offer a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance and wealth management;
- **Commercial Banking** activities offer a comprehensive suite of products and services to corporate, commercial and SME customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;
- **Global Banking and Markets** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking, corporate lending, interest rates, foreign exchange, money markets, structured products and derivatives, etc. Global Banking and Markets also manages the funding and liquidity positions of the bank and other market risk positions arising from banking activities;
- **Other** mainly represents management of shareholders' funds and investments in premises, investment properties, equity shares and subordinated debt funding.

Segmental analysis (continued)

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of management overheads. Bank-owned premises are reported under the 'Other' segment. When these premises are utilised by Global Businesses, notional rent will be charged to the relevant business segments based on market rates.

Profit before tax contributed by the business segments for the periods stated is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 12.

<i>Figures in HK\$<i>m</i></i>	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>
<i>Half-year ended 30 June 2015</i>					
Profit before tax	<u>5,454</u>	<u>2,715</u>	<u>2,252</u>	<u>11,299</u>	<u>21,720</u>
Share of profit before tax	<u>25.1%</u>	<u>12.5%</u>	<u>10.4%</u>	<u>52.0%</u>	<u>100.0%</u>
Share of profit before tax (excluding the gain on partial disposal / impairment of Industrial Bank)	<u>49.2%</u>	<u>24.5%</u>	<u>20.3%</u>	<u>6.0%</u>	<u>100.0%</u>
<i>Half-year ended 30 June 2014 (restated)</i>					
Profit before tax	<u>4,452</u>	<u>2,480</u>	<u>2,423</u>	<u>522</u>	<u>9,877</u>
Share of profit before tax	<u>45.1%</u>	<u>25.1%</u>	<u>24.5%</u>	<u>5.3%</u>	<u>100.0%</u>
Share of profit before tax (excluding the gain on partial disposal / impairment of Industrial Bank)	<u>45.1%</u>	<u>25.1%</u>	<u>24.5%</u>	<u>5.3%</u>	<u>100.0%</u>
<i>Half-year ended 31 December 2014 (restated)</i>					
Profit/(loss) before tax	<u>4,173</u>	<u>2,347</u>	<u>2,269</u>	<u>(617)</u>	<u>8,172</u>
Share of profit/(loss) before tax	<u>51.1%</u>	<u>28.7%</u>	<u>27.8%</u>	<u>(7.6%)</u>	<u>100.0%</u>
Share of profit before tax (excluding the gain on partial disposal / impairment of Industrial Bank)	<u>40.6%</u>	<u>22.8%</u>	<u>22.1%</u>	<u>14.5%</u>	<u>100.0%</u>

Segmental analysis (continued)

(b) Geographic information

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-segment elimination'.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Mainland China</i>	<i>Others</i>	<i>Inter- segment elimination</i>	<i>Total</i>
<i>Half-year ended 30 June 2015</i>					
Total operating income	23,629	944	115	(48)	24,640
Profit before tax	21,627	14	79	—	21,720
<i>At 30 June 2015</i>					
Total assets	1,235,776	116,241	17,635	(38,214)	1,331,438
Total liabilities	1,099,668	105,912	17,097	(30,713)	1,191,964
Equity	136,108	10,329	538	(7,501)	139,474
Share capital	9,658	8,697	12	(8,709)	9,658
Interest in associates	2,237	21	—	—	2,258
Non-current assets [†]	45,025	1,111	4	—	46,140
<i>Half-year ended 30 June 2014</i>					
Total operating income	20,307	996	100	(41)	21,362
Profit before tax	9,654	162	61	—	9,877
<i>At 30 June 2014</i>					
Total assets	1,090,718	125,434	14,913	(35,101)	1,195,964
Total liabilities	984,146	115,308	14,487	(27,478)	1,086,463
Equity	106,572	10,126	426	(7,623)	109,501
Share capital	9,658	8,691	30	(8,721)	9,658
Interest in associates	2,149	29	—	—	2,178
Non-current assets [†]	40,384	1,096	1	—	41,481
<i>Half-year ended 31 December 2014</i>					
Total operating income	20,391	1,113	113	(30)	21,587
Profit/(loss) before tax	8,160	(58)	70	—	8,172
<i>At 31 December 2014</i>					
Total assets	1,165,918	127,948	14,636	(44,512)	1,263,990
Total liabilities	1,029,796	117,726	14,170	(36,895)	1,124,797
Equity	136,122	10,222	466	(7,617)	139,193
Share capital	9,658	8,700	12	(8,712)	9,658
Interest in associates	2,198	20	—	—	2,218
Non-current assets [†]	41,571	1,108	4	—	42,683

[†] Non-current assets consist of properties, plant and equipment, goodwill and other intangible assets.

Cash and sight balances at central banks

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Cash in hand	4,642	5,496	5,016
Sight balances at central banks	35,675	2,225	6,295
	<u>40,317</u>	<u>7,721</u>	<u>11,311</u>

Cash and sight balances at central banks increased by HK\$29bn, or 256%, compared with the end of 2014, mainly due to the increase in balance with Hong Kong Monetary Authority.

Placings with and advances to banks

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Balances with banks	30,079	7,828	15,972
Placings with and advances to banks maturing within one month	71,315	73,515	72,605
Placings with and advances to banks maturing after one month but less than one year	49,218	59,563	55,042
Placings with and advances to banks maturing after one year	2,155	2,069	2,112
	<u>152,767</u>	<u>142,975</u>	<u>145,731</u>

Trading assets

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Treasury bills	24,405	16,108	24,228
Other debt securities	17,129	8,778	13,499
Debt securities	41,534	24,886	37,727
Investment funds	23	35	40
Total trading securities	41,557	24,921	37,767
Other [‡]	3,215	1,292	4,056
Total trading assets	44,772	26,213	41,823
Debt securities:			
- listed in Hong Kong	11,940	5,013	9,829
- listed outside Hong Kong	1,402	647	424
	13,342	5,660	10,253
- unlisted	28,192	19,226	27,474
	41,534	24,886	37,727
Investment funds:			
- listed in Hong Kong	23	35	40
Total trading securities	41,557	24,921	37,767
Debt securities:			
Issued by public bodies:			
- central governments and central banks	37,699	21,770	34,481
- other public sector entities	—	—	—
	37,699	21,770	34,481
Issued by other bodies:			
- banks	718	627	598
- corporate entities	3,117	2,489	2,648
	3,835	3,116	3,246
	41,534	24,886	37,727
Investment funds:			
Issued by corporate entities	23	35	40
Total trading securities	41,557	24,921	37,767

[‡] This represents the amount receivable from counterparties on trading transactions not yet settled.

Trading assets increased by HK\$3bn, or 7%, compared with the end of 2014. Trading securities rose by HK\$4bn mainly due to increased holdings of Exchange Fund Bills and Notes.

Financial assets designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>			
Debt securities	70	60	75			
Equity shares	4,258	7,015	6,799			
Investment funds	<u>3,890</u>	<u>3,256</u>	<u>4,238</u>			
	<u>8,218</u>	<u>10,331</u>	<u>11,112</u>			
Debt securities:						
- listed in Hong Kong	20	11	20			
- listed outside Hong Kong	<u>50</u>	<u>49</u>	<u>55</u>			
	<u>70</u>	<u>60</u>	<u>75</u>			
Equity shares:						
- listed in Hong Kong	3,406	2,299	1,958			
- listed outside Hong Kong	<u>774</u>	<u>4,634</u>	<u>4,735</u>			
	<u>4,180</u>	<u>6,933</u>	<u>6,693</u>			
- unlisted	<u>78</u>	<u>82</u>	<u>106</u>			
	<u>4,258</u>	<u>7,015</u>	<u>6,799</u>			
Investment funds:						
- listed in Hong Kong	1,152	509	1,504			
- listed outside Hong Kong	<u>187</u>	<u>341</u>	<u>332</u>			
	<u>1,339</u>	<u>850</u>	<u>1,836</u>			
- unlisted	<u>2,551</u>	<u>2,406</u>	<u>2,402</u>			
	<u>3,890</u>	<u>3,256</u>	<u>4,238</u>			
	<u>8,218</u>	<u>10,331</u>	<u>11,112</u>			
Debt securities:						
Issued by public bodies:						
- other public sector entities	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">1</td></tr></table>	1	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">1</td></tr></table>	1	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">1</td></tr></table>	1
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Issued by other bodies:						
- banks	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">12</td></tr></table>	12	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">10</td></tr></table>	10	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">14</td></tr></table>	14
12						
10						
14						
- corporate entities	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">57</td></tr></table>	57	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">49</td></tr></table>	49	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">60</td></tr></table>	60
57						
49						
60						
	<u>69</u>	<u>59</u>	<u>74</u>			
	<u>70</u>	<u>60</u>	<u>75</u>			
Equity shares:						
Issued by banks	751	903	1,069			
Issued by public sector entities	10	13	9			
Issued by corporate entities	<u>3,497</u>	<u>6,099</u>	<u>5,721</u>			
	<u>4,258</u>	<u>7,015</u>	<u>6,799</u>			
Investment funds:						
Issued by banks	—	82	—			
Issued by corporate entities	<u>3,890</u>	<u>3,174</u>	<u>4,238</u>			
	<u>3,890</u>	<u>3,256</u>	<u>4,238</u>			
	<u>8,218</u>	<u>10,331</u>	<u>11,112</u>			

Loans and advances to customers

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Gross loans and advances to customers	675,086	634,413	660,269
Less:			
Loan impairment allowances:			
- individually assessed	(1,223)	(721)	(999)
- collectively assessed	(841)	(745)	(839)
	<u>673,022</u>	<u>632,947</u>	<u>658,431</u>

Loan impairment allowances against loans and advances to customers

<i>Figures in HK\$m</i>	<i>Individually assessed</i>	<i>Collectively assessed</i>	<i>Total</i>
At 1 January 2015	999	839	1,838
Amounts written off	(56)	(331)	(387)
Recoveries of loans and advances written off in previous years	6	36	42
New impairment allowances charged to income statement	334	342	676
Impairment allowances released to income statement	(40)	(42)	(82)
Unwinding of discount of loan impairment allowances recognised as 'interest income'	(18)	(3)	(21)
Exchange difference	(2)	—	(2)
At 30 June 2015	<u>1,223</u>	<u>841</u>	<u>2,064</u>

Total loan impairment allowances as a percentage of gross loans and advances to customers are as follows:

	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
	%	%	%
Loan impairment allowances:			
- individually assessed	0.18	0.11	0.15
- collectively assessed	0.12	0.12	0.13
Total loan impairment allowances	<u>0.30</u>	<u>0.23</u>	<u>0.28</u>

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.30% at 30 June 2015 compared with 0.28% at the end of 2014. Individually assessed allowances as a percentage of gross loans and advances increased by three basis points to 0.18%, reflecting the more challenging credit environment in mainland China. Collectively assessed allowances as a percentage of gross loans and advances remained stable and lowered by one basis point compared with 0.13% at the end of 2014. Overall credit quality remained stable.

Impaired loans and advances to customers and allowances

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Gross impaired loans and advances	2,871	1,292	2,115
Individually assessed allowances	(1,223)	(721)	(999)
	<u>1,648</u>	<u>571</u>	<u>1,116</u>
Individually assessed allowances as a percentage of gross impaired loans and advances	<u>42.6 %</u>	<u>55.8 %</u>	<u>47.2 %</u>
Gross impaired loans and advances as a percentage of gross loans and advances to customers	<u>0.43 %</u>	<u>0.20 %</u>	<u>0.32 %</u>

Impaired loans and advances to customers are those loans and advances where objective evidence exists that full repayment of principal or interest is considered unlikely.

Gross impaired loans and advances increased by HK\$756m, or 36%, to HK\$2,871m compared with the year end of 2014, due to the downgrade of a few corporate and commercial customers in Hong Kong and mainland China. Gross impaired loans and advances as a percentage of gross loans and advances to customers increased to 0.43% at 30 June 2015, compared with 0.32% at the year end of 2014. The group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Gross individually assessed impaired loans and advances	2,696	1,124	1,963
Individually assessed allowances	(1,223)	(721)	(999)
	<u>1,473</u>	<u>403</u>	<u>964</u>
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	<u>0.40 %</u>	<u>0.18 %</u>	<u>0.30 %</u>
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	<u>1,095</u>	<u>299</u>	<u>637</u>

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

Overdue loans and advances to customers

Loans and advances that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

	<i>At 30 June</i>		<i>At 30 June</i>		<i>At 31 December</i>	
	<i>2015</i>		<i>2014</i>		<i>2014</i>	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:						
- more than three months but not more than six months	557	0.1	168	—	449	0.1
- more than six months but not more than one year	937	0.1	100	—	98	—
- more than one year	590	0.1	640	0.1	558	0.1
	2,084	0.3	908	0.1	1,105	0.2

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Loans and advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at the period-end. Loans and advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, or when the loans and advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Overdue loans and advances increased by HK\$979m, or 89%, to HK\$2,084m compared with the year-end, due to the downgrade of a few corporate and commercial customers. Overdue loans and advances as a percentage of gross loans and advances to customers rose by ten basis points to 0.3% at 30 June 2015.

Rescheduled loans and advances to customers

Rescheduled loans and advances to customers and their expression as a percentage of gross loans and advances to customers are as follows:

	<i>At 30 June</i>		<i>At 30 June</i>		<i>At 31 December</i>	
	<i>2015</i>		<i>2014</i>		<i>2014</i>	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
Rescheduled loans and advances to customers	296	—	139	—	90	—

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status. A rescheduled loan and advance will continue to be disclosed as such unless the debt has been performing in accordance with the rescheduled terms for a period of six to 12 months. Rescheduled loans and advances to customers which have been overdue for more than three months under the rescheduled terms are reported as overdue loans and advances.

Rescheduled loans and advances stood at HK\$296m at 30 June 2015, an increase of HK\$206m or 229% compared with the year-end mainly due to certain newly rescheduled loans.

Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty. From 1 January 2015, 'Mainland China' is presented as a separate line as the balances under mainland China have exceeded 10% of the total loans and advances. Previously, 'Mainland China' and 'Others' were grouped under 'Rest of Asia Pacific'. Comparative figures for 2014 have been re-grouped to align with current period's presentation.

Figures in HK\$m

	<i>At 30 June 2015</i>				
	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	560,975	1,671	1,117	570	690
Mainland China	88,762	1,018	964	652	126
Others	25,349	7	3	1	25
	<u>675,086</u>	<u>2,696</u>	<u>2,084</u>	<u>1,223</u>	<u>841</u>

Figures in HK\$m

	<i>At 30 June 2014 (restated)</i>				
	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	527,996	869	828	530	615
Mainland China	84,236	244	76	189	109
Others	22,181	11	4	2	21
	<u>634,413</u>	<u>1,124</u>	<u>908</u>	<u>721</u>	<u>745</u>

Figures in HK\$m

	<i>At 31 December 2014 (restated)</i>				
	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	543,757	1,124	842	506	692
Mainland China	92,510	830	257	490	123
Others	24,002	9	6	3	24
	<u>660,269</u>	<u>1,963</u>	<u>1,105</u>	<u>999</u>	<u>839</u>

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA') is as follows:

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Gross loans and advances to customers for use in Hong Kong			
Industrial, commercial and financial sectors			
Property development	44,861	42,019	41,676
Property investment	107,675	111,550	112,589
Financial concerns	5,342	3,709	5,499
Stockbrokers	1,532	2,937	531
Wholesale and retail trade	25,672	24,979	27,550
Manufacturing	20,833	20,811	21,501
Transport and transport equipment	9,011	7,306	7,530
Recreational activities	120	137	125
Information technology	3,048	1,581	2,935
Other	43,231	35,958	34,279
	<u>261,325</u>	<u>250,987</u>	<u>254,215</u>
Individuals			
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	16,095	14,972	15,710
Loans and advances for the purchase of other residential properties	152,275	134,413	143,541
Credit card loans and advances	23,947	21,554	24,175
Other	19,372	17,265	17,039
	<u>211,689</u>	<u>188,204</u>	<u>200,465</u>
Total gross loans and advances for use in Hong Kong	473,014	439,191	454,680
Trade finance	40,484	51,737	41,537
Gross loans and advances for use outside Hong Kong	161,588	143,485	164,052
Gross loans and advances to customers	675,086	634,413	660,269

Gross loans and advances to customers by industry sector (continued)

Gross loans and advances to customers grew by HK\$15bn, or 2%, to HK\$675bn compared with the end of 2014.

Loans and advances for use in Hong Kong rose by 4%. Lending to the industrial, commercial and financial sectors grew by 3%. Lending to property development increased by 8% while lending to property investment fell by 4%. Lending to wholesale and retail trade and manufacturing sectors decreased by 7% and 3% respectively due to loan repayment. Growth in lending to 'Other' was attributable to working capital financing for certain large corporate customers.

Lending to individuals increased by 6% compared with the year-end. The bank was able to maintain its market share for the mortgage business and grew its residential mortgage lending to individuals by 6% compared with the end of 2014. Credit card advances remained stable when compared with the year-end. Other loans to individuals grew by 14%, reflecting the success of the bank in expanding its consumer finance business.

Trade finance declined by 3% against the year-end as certain cross-border documentary credit loans matured and repaid during the period, partly offset by the growth in other trade finance loan products as a result of the group's strategic repositioning to focus on core trade business.

Loans and advances for use outside Hong Kong fell by 2% compared with the end of 2014, attributable to the repayment of loans granted by Hong Kong Office. Lending by Hang Seng China decreased by 1% to HK\$65bn, underpinned by a decrease in corporate and commercial customers reflecting our prudent risk management strategy in the light of the more challenging credit environment in mainland China.

Financial investments

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Available-for-sale at fair value:			
- debt securities	246,590	200,179	205,747
- equity shares	5,007	26,851	44,039
- investment funds	10	45	10
Held-to-maturity debt securities at amortised cost	<u>76,591</u>	<u>70,228</u>	<u>68,236</u>
	<u>328,198</u>	<u>297,303</u>	<u>318,032</u>
Fair value of held-to-maturity debt securities	<u>79,210</u>	<u>71,753</u>	<u>70,829</u>
Treasury bills	139,176	105,192	107,503
Certificates of deposit	12,052	10,550	12,089
Other debt securities	<u>171,953</u>	<u>154,665</u>	<u>154,391</u>
Debt securities	<u>323,181</u>	<u>270,407</u>	<u>273,983</u>
Equity shares	5,007	26,851	44,039
Investment funds	<u>10</u>	<u>45</u>	<u>10</u>
	<u>328,198</u>	<u>297,303</u>	<u>318,032</u>
Debt securities:			
- listed in Hong Kong	16,114	14,045	12,574
- listed outside Hong Kong	<u>86,441</u>	<u>65,153</u>	<u>66,786</u>
	<u>102,555</u>	<u>79,198</u>	<u>79,360</u>
- unlisted	<u>220,626</u>	<u>191,209</u>	<u>194,623</u>
	<u>323,181</u>	<u>270,407</u>	<u>273,983</u>
Equity shares:			
- listed in Hong Kong	73	69	69
- listed outside Hong Kong	<u>3,608</u>	<u>25,946</u>	<u>42,736</u>
	<u>3,681</u>	<u>26,015</u>	<u>42,805</u>
- unlisted	<u>1,326</u>	<u>836</u>	<u>1,234</u>
	<u>5,007</u>	<u>26,851</u>	<u>44,039</u>
Investment funds:			
- unlisted	<u>10</u>	<u>45</u>	<u>10</u>
	<u>328,198</u>	<u>297,303</u>	<u>318,032</u>
Fair value of listed financial investments	<u>106,754</u>	<u>105,873</u>	<u>122,963</u>
Debt securities:			
Issued by public bodies:			
- central governments and central banks	<u>191,955</u>	<u>148,193</u>	<u>156,879</u>
- other public sector entities	<u>25,538</u>	<u>26,681</u>	<u>19,636</u>
	<u>217,493</u>	<u>174,874</u>	<u>176,515</u>
Issued by other bodies:			
- banks	<u>67,781</u>	<u>64,892</u>	<u>63,682</u>
- corporate entities	<u>37,907</u>	<u>30,641</u>	<u>33,786</u>
	<u>105,688</u>	<u>95,533</u>	<u>97,468</u>
	<u>323,181</u>	<u>270,407</u>	<u>273,983</u>
Equity shares:			
Issued by banks	4,505	26,441	43,556
Issued by corporate entities	<u>502</u>	<u>410</u>	<u>483</u>
	<u>5,007</u>	<u>26,851</u>	<u>44,039</u>
Investment funds:			
Issued by corporate entities	<u>10</u>	<u>45</u>	<u>10</u>
	<u>328,198</u>	<u>297,303</u>	<u>318,032</u>

Financial investments (continued)

Debt securities by rating agency designation

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
AA- to AAA	246,941	201,920	203,647
A- to A+	66,558	59,592	61,098
B+ to BBB+	7,402	6,765	6,670
Unrated	2,280	2,130	2,568
	<u>323,181</u>	<u>270,407</u>	<u>273,983</u>

Financial investments include treasury bills, certificates of deposit, other debt securities and equity shares intended to be held for an indefinite period of time.

Available-for-sale financial investments may be sold in response to needs for liquidity or changes in the market environment, and are carried at fair value with the gains and losses from changes in fair value recognised through equity reserves. Held-to-maturity debt securities are stated at amortised cost. Where debt securities have been purchased at premiums or discounts, the carrying value of the securities are adjusted to reflect the effective interest rate of the debt securities taking into account such premiums and discounts.

Financial investments grew by HK\$10bn, or 3%, compared with the year-end. Debt securities investments increased by HK\$49bn. Equity shares decreased by HK\$39bn, reflecting the bank's partial disposal of shareholding in Industrial Bank during the first half of 2015.

At 30 June 2015, about 99% of the group's holdings of debt securities were assigned investment grade ratings by rating agencies. The group did not hold any investments in structured investment vehicles, nor any sub-prime related assets such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

Interest in associates

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Share of net assets	<u>2,258</u>	<u>2,178</u>	<u>2,218</u>
	<u>2,258</u>	<u>2,178</u>	<u>2,218</u>

Intangible assets

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Present value of in-force long-term insurance business	9,774	8,005	8,263
Internally developed/acquired software	474	445	461
Goodwill	<u>329</u>	<u>329</u>	<u>329</u>
	<u>10,577</u>	<u>8,779</u>	<u>9,053</u>

Other assets

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Items in the course of collection from other banks	7,177	6,912	5,182
Bullion	3,854	3,392	3,681
Prepayments and accrued income	3,946	3,972	3,820
Acceptances and endorsements	6,326	6,928	5,715
Other accounts	<u>6,535</u>	<u>5,006</u>	<u>5,534</u>
	<u>27,838</u>	<u>26,210</u>	<u>23,932</u>

Current, savings and other deposit accounts

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Current, savings and other deposit accounts:			
- as stated in consolidated balance sheet	947,495	860,092	896,521
- structured deposits reported as trading liabilities	<u>36,715</u>	<u>47,042</u>	<u>40,380</u>
	<u>984,210</u>	<u>907,134</u>	<u>936,901</u>
By type:			
- demand and current accounts	83,459	73,367	76,807
- savings accounts	580,379	525,172	550,765
- time and other deposits	<u>320,372</u>	<u>308,595</u>	<u>309,329</u>
	<u>984,210</u>	<u>907,134</u>	<u>936,901</u>

Certificates of deposit and other debt securities in issue

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Certificates of deposit and other debt securities in issue:			
- as stated in consolidated balance sheet	7,738	9,904	12,402
- certificates of deposit in issue designated at fair value	3,510	—	2,994
- other debt securities in issue reported as trading liabilities	<u>4,680</u>	<u>3,743</u>	<u>4,223</u>
	<u>15,928</u>	<u>13,647</u>	<u>19,619</u>
By type:			
- certificates of deposit in issue	10,002	8,660	14,150
- other debt securities in issue	<u>5,926</u>	<u>4,987</u>	<u>5,469</u>
	<u>15,928</u>	<u>13,647</u>	<u>19,619</u>

Customer deposits, including current, savings and other deposits accounts, certificates of deposit and other debt securities in issue recorded growth of HK\$44bn, or 5% to HK\$1,000bn at 30 June 2015 from the year-end. Structured deposits, certificates of deposit and other debt securities in issue decreased due to the redemption of certificates of deposit.

At 30 June 2015, the advances-to-deposits ratio was 67.3%, compared with 68.8% at 31 December 2014.

Trading liabilities

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Other structured debt securities in issue	4,680	3,743	4,223
Structured deposits	36,715	47,042	40,380
Short positions in securities and others	36,148	14,928	27,984
	<u>77,543</u>	<u>65,713</u>	<u>72,587</u>

Short positions in securities and others rose by HK\$8bn, or 29% to HK\$36bn, mainly reflecting the increased demand for Exchange Fund Bills and Notes.

Other liabilities

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Items in the course of transmission to other banks	8,563	8,759	7,508
Accruals	3,463	3,247	3,859
Acceptances and endorsements	6,326	6,956	5,715
Retirement benefit liabilities	1,380	1,768	1,615
Other	3,155	3,721	2,607
	<u>22,887</u>	<u>24,451</u>	<u>21,304</u>

Subordinated liabilities

<i>Figures in HK\$m</i>		<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Nominal value	Description			
Amount owed to HSBC Group undertakings				
US\$775m	Floating rate subordinated loan debt due December 2020 [†]	—	6,007	—
US\$450m	Floating rate subordinated loan debt due July 2021	3,488	3,488	3,490
US\$300m	Floating rate subordinated loan debt due July 2022	<u>2,326</u>	<u>2,325</u>	<u>2,327</u>
		<u>5,814</u>	<u>11,820</u>	<u>5,817</u>
Representing:				
- measured at amortised cost		<u>5,814</u>	<u>11,820</u>	<u>5,817</u>

[†] The bank exercised its option to redeem the subordinated loan at par of US\$775m.

The outstanding subordinated loan debt serves to help the bank to maintain a balanced capital structure and support business growth.

Shareholders' funds

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Share capital	9,658	9,658	9,658
Retained profits	99,982	83,215	83,667
Other equity instruments	6,981	—	6,981
Premises revaluation reserve	16,379	15,200	15,687
Cash flow hedging reserve	4	3	(11)
Available-for-sale investment reserve			
- on debt securities	277	136	261
- on equity securities	2,292	(2,596)	16,751
Other reserves	1,798	1,782	1,802
Total reserves	<u>127,713</u>	<u>97,740</u>	<u>125,138</u>
	<u>137,371</u>	<u>107,398</u>	<u>134,796</u>
Proposed dividends	2,103	2,103	4,397
Shareholders' funds	<u>139,474</u>	<u>109,501</u>	<u>139,193</u>
Return on average shareholders' funds [‡]	<u>29.4 %</u>	<u>15.9 %</u>	<u>11.2 %</u>

[‡] For the half-year ended

Shareholders' funds (excluding proposed dividends) grew by HK\$3bn to HK\$137bn at 30 June 2015. Retained profits rose by HK\$16bn, mainly reflecting the growth in attributable profit, including the gain on partial disposal of Industrial Bank, after the appropriation of interim dividends during the period. The premises revaluation reserve increased by HK\$692m, reflecting an increase in fair value of the group's premises.

The available-for-sale investment reserve for equity securities decreased by HK\$14bn compared with 2014 year end, reflecting the partial disposal of the bank's investment in Industrial Bank during the period.

The return on average shareholders' funds was 29.4%, compared with 15.9% for the first half of 2014 and 11.2% for the second half. Excluding the gain on partial disposal of Industrial Bank in the first half of 2015 and the impairment loss of HK\$2,103m on the bank's investment in Industrial Bank in the second half of 2014, the return on average shareholders' funds was 15.6%, compared with 16.6% for the first half of 2014 and 16.2% for the second half.

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 2015.

Capital management

The following tables show the capital ratios, risk-weighted assets and capital base 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 group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. 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 bullion) 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.

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. Accordingly, the investment cost of these unconsolidated regulated financial entities is deducted from the capital base.

The bank and its subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 30 June 2015, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$6,382m (31 December 2014: HK\$6,229m).

There are no relevant capital shortfalls in any of the group's subsidiaries at 30 June 2015 (31 December 2014: nil) which are not included in its consolidation group for regulatory purposes.

The Banking (Capital) (Amendment) Rules 2014 came into effect on 1 January 2015 to implement the Basel III capital buffer requirements in Hong Kong. The changes include the phasing-in from 2016 to 2019 of the Capital Conservation Buffer ('CCB') which is designed to ensure banks build up capital outside periods of stress of 2.5% of risk-weighted assets, the Countercyclical Capital Buffer ('CCyB') which is set on an individual country basis and is built up during periods of excess credit growth to protect against future losses, and the Higher Loss Absorbency ('HLA') requirements for Domestic Systemically Important Banks ('D-SIB'). On 27 January 2015, the HKMA announced a CCyB for Hong Kong of 0.625% of risk-weighted assets from 1 January 2016 under the phase-in arrangements of Basel III, equivalent to 2.5% once fully phased in. On 16 March 2015, the HKMA announced its designation of the bank as a D-SIB in Hong Kong and required the bank to establish 0.375% of risk-weighted assets for HLA from 1 January 2016 under the phase-in arrangement, equivalent to 1.5% on full implementation.

During the period ended 30 June 2015, the group has complied with all of the externally imposed capital requirements by the HKMA.

Capital management (continued)

(a) Capital base

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Common Equity Tier 1 ('CET1') Capital			
Shareholders' equity	119,201	98,313	120,407
- Shareholders' equity per balance sheet	139,474	109,501	139,193
- Additional Tier 1 ('AT1') perpetual capital instrument	(6,981)	—	(6,981)
- Unconsolidated subsidiaries	(13,292)	(11,188)	(11,805)
Regulatory deductions to CET1 capital	(29,975)	(44,560)	(47,201)
- Cash flow hedging reserve	(22)	(1)	—
- Changes in own credit risk on fair valued liabilities	(7)	(5)	(4)
- Property revaluation reserves ¹	(22,654)	(21,006)	(21,784)
- Regulatory reserve	(6,382)	(6,063)	(6,229)
- Intangible assets	(433)	(400)	(417)
- Defined benefit pension fund assets	(34)	(31)	(35)
- Deferred tax assets net of deferred tax liabilities	(104)	(41)	(80)
- Valuation adjustments	(339)	(156)	(325)
- Significant capital investments in unconsolidated financial sector entities	—	(6,019)	(8,436)
- Excess AT1 deductions	—	(10,838)	(9,891)
Total CET1 Capital	89,226	53,753	73,206
AT1 Capital			
Total AT1 capital before regulatory deductions	6,981	—	6,981
- Perpetual capital instrument	6,981	—	6,981
Regulatory deductions to AT1 capital	—	—	(6,981)
- Significant capital investments in unconsolidated financial sector entities	—	(10,838)	(16,872)
- Excess AT1 deductions	—	10,838	9,891
Total AT1 Capital	6,981	—	—
Total Tier 1 ('T1') Capital	96,207	53,753	73,206
Tier 2 ('T2') Capital			
Total T2 capital before regulatory deductions	18,000	22,113	17,733
- Term subordinated debt	4,767	9,921	5,117
- Property revaluation reserves ¹	10,194	9,453	9,803
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	3,039	2,739	2,813
Regulatory deductions to T2 capital	(315)	(10,838)	(17,187)
- Significant capital investments in unconsolidated financial sector entities	(315)	(10,838)	(17,187)
Total T2 Capital	17,685	11,275	546
Total Capital	113,892	65,028	73,752

¹ 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.

Capital management (continued)

(a) Capital base (continued)

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the capital base as at 30 June 2015; it is not a projection. On this pro-forma basis, the group's CET1 capital ratio is 17.1%, which is above the Basel III minimum requirement, including CCB, CCyB and HLA.

Reconciliation of regulatory capital from transitional basis to a pro-forma Basel III end point basis

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
CET1 Capital on a transitional basis	89,226	53,753	73,206
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	—	(21,676)	(33,744)
Excess AT1 deductions	—	10,838	9,891
CET1 Capital end point basis	89,226	42,915	49,353
AT1 Capital on a transitional basis	6,981	—	—
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	—	10,838	16,872
Excess AT1 deductions	—	(10,838)	(9,891)
AT1 Capital end point basis	6,981	—	6,981
T2 Capital on a transitional basis	17,685	11,275	546
Grandfathered instruments			
- Term subordinated debt	(2,441)	(7,596)	(2,790)
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	—	10,838	16,872
T2 Capital end point basis	15,244	14,517	14,628

Capital management (continued)

(b) Risk-weighted assets by risk type

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Credit risk	453,899	410,284	418,880
Market risk	20,028	3,918	5,749
Operational risk	47,516	42,628	45,538
Total	<u>521,443</u>	<u>456,830</u>	<u>470,167</u>

(c) 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:

	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
CET1 capital ratio	17.1 %	11.8 %	15.6 %
Tier 1 capital ratio	18.5 %	11.8 %	15.6 %
Total capital ratio	21.8 %	14.2 %	15.7 %

(d) Capital instruments

The following is a summary of the group's CET1, AT1 and T2 capital instruments issued by the bank:

<i>Figures in HK\$m</i>	<i>Amount recognised in regulatory capital</i>		
	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
CET1 capital instruments			
Ordinary shares:			
1,911,842,736 issued and fully paid ordinary shares	9,658	9,658	9,658
AT1 capital instruments			
Perpetual capital instrument (nominal value: US\$900m)	6,981	—	6,981
T2 capital instruments			
Subordinated loan due 2020 (nominal value: US\$775m)	—	4,806	—
Subordinated loan due 2021 (nominal value: US\$450m)	2,441	2,790	2,790
Subordinated loan due 2022 (nominal value: US\$300m)	2,326	2,325	2,327

Capital management (continued)**(e) Leverage ratio**

The Leverage Ratio ('LR') was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. The ratio is a volume-based measure calculated as Basel III T1 capital divided by exposure measure representing total on and off balance sheet exposures. In accordance with the Basel III framework, there will be a parallel run period for the LR from 2013 to 2017. The Group is required under section 24A(6) of the Banking (Disclosure) Rules to disclose its LR calculated on a consolidated basis effective from 31 March 2015. Comparative figures are not required as this is the first year of disclosure.

At 30 June 2015

Leverage ratio 7.7 %

Figures in HK\$m

T1 capital	96,207
Exposure measure	1,255,187

(f) Additional information

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

- A description of the main features and the full terms and conditions of the group's capital instruments.
- A detailed breakdown of the group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA.
- A detailed breakdown of leverage ratio including the exposure measure and a summary comparison table using the standard templates as specified by the HKMA.

Liquidity information

The Banking (Liquidity) Rules ('BLR'), effective on 1 January 2015, signified the implementation of Liquidity Coverage Ratio ('LCR') for category 1 Institution under Basel III liquidity standards in Hong Kong. The liquidity information disclosures reported for the quarters ended 30 June and 31 March 2015 under Basel III are therefore not directly comparable with the disclosures reported for the half-year ended 30 June and 31 December 2014.

The group is required under rule 11(1) of the BLR to calculate its LCR on a consolidated basis. During the year of 2015, the group is required to maintain an LCR of not less than 60%, increasing to not less than 100% by January 2019. The average LCR for the quarters ended 30 June 2015 and 31 March 2015 are as follows:

	<i>Quarter ended</i> <i>30 June</i> <i>2015</i>	<i>Quarter ended</i> <i>31 March</i> <i>2015</i>
Average Liquidity Coverage Ratio	<u>221.6%</u>	<u>167.4%</u>

The liquidity position of the group remained strong in the first half of 2015. The average LCR increased by 54.2 percentage points from 167.4% for the quarter ended 31 March 2015 to 221.6% for the quarter ended 30 June 2015. The increase mainly reflecting the increase in high quality liquid assets as a result of redeployment of the sale proceeds from the partial disposal the bank's investment in Industrial Bank and the increase in customer deposits. There was a negative impact in the average LCR for the quarter ended 31 March 2015 mainly due to IPO activity.

Following the issuance of new FAQ by HKMA in July 2015 on the treatment of revocable commitments under the LCR, the bank is currently assessing the impact on the above average LCR.

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.

The average liquidity ratio, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, for the half-year ended 30 June and 31 December 2014 are as follows:

	<i>Half-year ended</i> <i>30 June</i> <i>2014</i>	<i>Half-year ended</i> <i>31 December</i> <i>2014</i>
Average liquidity ratio of the bank and its subsidiaries designated by the HKMA	<u>34.5 %</u>	<u>34.9 %</u>

Reconciliation of cash flow statement

(a) Reconciliation of operating profit to net cash flow from operating activities

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>
Operating profit	10,785	9,496
Net interest income	(10,441)	(9,671)
Dividend income	(125)	(5)
Loan impairment charges and other credit risk provisions	594	337
Depreciation	462	406
Amortisation of intangible assets	56	55
Amortisation of available-for-sale investments	25	20
Amortisation of held-to-maturity debt securities	(1)	–
Loans and advances written off net of recoveries	(345)	(281)
Movement in present value of in-force long-term insurance business	(1,511)	(807)
Interest received	12,727	12,439
Interest paid	(2,841)	(3,088)
Operating profit before changes in working capital	9,385	8,901
Change in treasury bills and certificates of deposit with original maturity more than three months	(16,986)	(18,983)
Change in placings with and advances to banks maturing after one month	5,824	5,023
Change in trading assets	(2,198)	6,541
Change in derivative financial instruments	832	929
Change in reverse repurchase agreements – non-trading	(608)	(2,309)
Change in loans and advances to customers	(18,227)	(46,464)
Change in other assets	(1,104)	(4,376)
Change in financial liabilities designated at fair value	517	–
Change in current, savings and other deposit accounts	50,974	35,094
Change in repurchase agreements – non-trading	3,032	1,837
Change in deposits from banks	4,953	(491)
Change in trading liabilities	4,956	3,596
Change in certificates of deposit and other debt securities in issue	(4,664)	1,303
Change in other liabilities	3,739	4,485
Elimination of exchange differences and other non-cash items	(1,616)	(1,774)
Cash generated from/(used in) from operating activities	38,809	(6,688)
Taxation paid	(22)	(145)
Net cash inflow/(outflow) from operating activities	38,787	(6,833)

Reconciliation of cash flow statement (continued)

(b) Analysis of the balances of cash and cash equivalents

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>
Cash and sight balances at central banks	40,317	7,721
Balances with banks	30,079	7,828
Items in the course of collection from other banks	7,177	6,912
Placings with and advances to banks		
maturing within one month	69,578	69,933
Treasury bills	28,311	18,592
Less: Items in the course of transmission to other banks	<u>(8,563)</u>	<u>(8,759)</u>
	<u>166,899</u>	<u>102,227</u>

Contingent liabilities, commitments and derivatives

<i>Figures in HK\$m</i>	<i>At 30 June 2015</i>	<i>At 30 June 2014</i>	<i>At 31 December 2014</i>
Direct credit substitutes	4,552	11,905	4,541
Transaction-related contingencies	3,108	2,097	2,474
Trade-related contingencies	13,541	16,063	13,355
Forward asset purchases	—	34	85
Commitments that are unconditionally cancellable without prior notice	303,965	256,666	280,000
Commitments which have an original maturity of not more than one year	6,391	4,283	4,286
Commitments which have an original maturity of more than one year	<u>24,275</u>	<u>23,000</u>	<u>26,029</u>
Contract amounts	<u>355,832</u>	<u>314,048</u>	<u>330,770</u>
Risk-weighted amounts	<u>32,568</u>	<u>32,290</u>	<u>31,464</u>

Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amounts</i>	<i>Credit equivalent amounts</i>	<i>Risk- weighted amounts</i>
<i>At 30 June 2015</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	525,622	3,535	1,168
Other exchange rate contracts	<u>171,846</u>	<u>5,601</u>	<u>4,719</u>
	<u>697,468</u>	<u>9,136</u>	<u>5,887</u>
Interest rate contracts:			
Interest rate swaps	242,035	1,380	430
Other interest rate contracts	<u>318</u>	<u>—</u>	<u>—</u>
	<u>242,353</u>	<u>1,380</u>	<u>430</u>
Other derivative contracts	<u>11,043</u>	<u>855</u>	<u>360</u>
	<i>Contract amounts</i>	<i>Credit equivalent amounts</i>	<i>Risk- weighted amounts</i>
<i>Figures in HK\$m</i>			
<i>At 30 June 2014</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	547,644	3,589	1,207
Other exchange rate contracts	<u>146,415</u>	<u>7,709</u>	<u>6,805</u>
	<u>694,059</u>	<u>11,298</u>	<u>8,012</u>
Interest rate contracts:			
Interest rate swaps	230,015	1,370	447
Other interest rate contracts	<u>981</u>	<u>—</u>	<u>—</u>
	<u>230,996</u>	<u>1,370</u>	<u>447</u>
Other derivative contracts	<u>5,529</u>	<u>399</u>	<u>212</u>

Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amounts</i>	<i>Credit equivalent amounts</i>	<i>Risk- weighted amounts</i>
<i>At 31 December 2014</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	556,036	4,353	1,525
Other exchange rate contracts	132,135	6,705	5,473
	<u>688,171</u>	<u>11,058</u>	<u>6,998</u>
Interest rate contracts:			
Interest rate swaps	228,436	1,280	405
Other interest rate contracts	2,130	1	—
	<u>230,566</u>	<u>1,281</u>	<u>405</u>
Other derivative contracts	<u>7,661</u>	<u>623</u>	<u>394</u>

The credit equivalent amounts are calculated for the purpose of deriving the risk-weighted amounts. The nominal contract amounts, credit equivalent amounts, risk-weighted amounts and the consolidation basis for the periods indicated were calculated in accordance with the Banking (Capital) Rules issued by the HKMA.

For the above analysis, contingent liabilities and commitments are credit-related instruments that include acceptances and endorsements, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit origination, portfolio management and collateral requirements as for customers applying for loans. As the facilities may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Contingent liabilities, commitments and derivatives (continued)

Derivative financial instruments are held for trading, designated at fair value, or designated as either fair value or cash flow hedges. The following table shows the nominal contract amounts and marked-to-market value of assets and liabilities by class of derivatives.

Figures in HK\$m	At 30 June 2015			At 30 June 2014			At 31 December 2014		
	Trading	Designated		Trading	Designated		Trading	Designated	
		at fair value	Hedging		at fair value	Hedging		at fair value	Hedging
Contract amounts:									
Interest rate contracts	188,695	3,500	55,268	192,187	—	39,367	191,497	3,000	41,153
Exchange rate contracts	898,567	—	7,034	907,196	—	2,659	867,294	—	4,332
Other derivative contracts	19,729	—	—	13,273	—	—	16,428	—	—
	1,106,991	3,500	62,302	1,112,656	—	42,026	1,075,219	3,000	45,485
Derivative assets:									
Interest rate contracts	1,048	24	67	880	—	72	760	—	42
Exchange rate contracts	4,248	—	255	4,771	—	417	5,878	—	491
Other derivative contracts	362	—	—	156	—	—	250	—	—
	5,658	24	322	5,807	—	489	6,888	—	533
Derivative liabilities:									
Interest rate contracts	1,023	—	494	764	—	692	640	1	538
Exchange rate contracts	4,066	—	32	4,270	—	9	5,044	—	10
Other derivative contracts	262	—	—	90	—	—	229	—	—
	5,351	—	526	5,124	—	701	5,913	1	548

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs.

Additional information**1. Statutory accounts and accounting policies**

The information in this news release does not constitute statutory accounts.

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2014 ('2014 accounts') which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and the HKMA.

The former auditor KPMG has reported on the 2014 accounts. 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 section 406(2), 407(2) or (3) of the predecessor Companies Ordinance (Cap 32).

Disclosures required by the Banking (Disclosure) Rules issued by the HKMA are contained in the bank's Interim Report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release.

The accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 152 to 171 of the 2014 accounts.

No significant accounting standards and amendments to standards issued by HKICPA were adopted by the group in preparing the bank's Interim Report.

2. The New Hong Kong Companies Ordinance (Cap. 622)

In accordance with the New Hong Kong Companies Ordinance (Cap. 622) ('NCO'), section 436 requires that when a company's statutory financial statements for a financial year are made available to others they must be accompanied by the auditor's report on those financial statements. When a company makes 'non-statutory accounts' available to others they must not be accompanied by the auditor's report on any related statutory financial statements. Instead, they must be accompanied by a special statement under section 436(3). As such, the statement has been included in note 1 'Statutory accounts and accounting policy' above.

In addition, a new 'business review report' has to be included in the Directors' Report in annual reports which is an analytical and forward looking review of the company or group. The change will be effective for annual periods beginning on or after 3 March 2014. The group will include a 'management discussion and analysis' ('MD&A') in its annual report for the group's performance during the financial year of 2015 and the material factors driving its results and financial position. The group will review and assess if the current MD&A has sufficient information included to meet the new requirement for its 2015 annual report.

Additional information (continued)

3. Major transaction – Partial disposal of the bank’s shareholding in Industrial Bank

On 10 February 2015, the bank entered into a placing agreement with Goldman Sachs Gao Hua Securities Company Limited to sell 5% (representing 952,616,838 ordinary shares) of its shareholding of the ordinary shares of Industrial Bank Co., Ltd. (‘Industrial Bank’), at a price of RMB13.36 per share (approximately HK\$16.58 per share). The disposal price represented a discount of approximately 7% to the closing price of Industrial Bank’s ordinary shares listed on the Shanghai Stock Exchange on the date of entry into the placing agreement. The transaction was completed on 13 February 2015.

On 12 May 2015, the bank entered into another placing agreement with Goldman Sachs Gao Hua Securities Company Limited and UBS Securities Co. Limited to sell 4.99% (representing 950,700,000 ordinary shares) of the ordinary shares of Industrial Bank, at a price of RMB17.68 per share (approximately HK\$22.08 per share). The purchase price per share represented a discount of approximately 5.96% to the closing price of Industrial Bank’s shares on the Shanghai Stock Exchange on the date of entry into the placing agreement. This transaction, together with the previous transaction in February mentioned above, raised approximately RMB30bn (approximately HK\$37bn) for the bank, before expenses.

The net gain on the sale of the shares on the two transactions mentioned above was HK\$11bn, representing the difference between the consideration and the carrying value of such shares at 31 December 2014 in the bank’s and the group’s financial statements, together with the reclassification of the related cumulative foreign exchange and revaluation reserve less the tax effect and expenses of the transactions. Following completion of the two transactions, the bank’s remaining shareholding in Industrial Bank represents approximately 0.88% of the ordinary shares of Industrial Bank.

Since there are significant financial implications as a result of the recognition of the gain on partial disposal in the income statement of 2015, the key financial results and performance metrics are not directly comparable with the first half of 2014. For comparison, we have prepared the following key financial results and performance metrics by excluding the partial disposal gain in the first half of 2015.

	<i>As reported</i>			<i>Excluding the gain on partial disposal of Industrial Bank</i>		
	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Change[†]</i>	<i>Half-year ended 30 June 2015</i>	<i>Half-year ended 30 June 2014</i>	<i>Change[†]</i>
Attributable profit	20,048	8,468	+137%	9,412	8,468	+11%
Profit before tax	21,720	9,877	+120%	11,084	9,877	+12%
Return on average shareholders’ funds (%)	29.4	15.9	+13.5pp	15.6	16.6	-1.0pp
Return on average total assets (%)	3.1	1.5	+1.6pp	1.5	1.5	—
Earnings per share (HK\$)	10.49	4.43	+137%	4.92	4.43	+11%

[†] Change in ‘pp’ represents change in percentage points.

Additional information (continued)**4. Property revaluation**

The group's premises and investment properties were revalued at 30 June 2015 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 'Fair Value Measurement' and takes into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for Group premises amounted to HK\$1,103m was credited to the premises revaluation reserve. The related deferred tax provision for Group premises was HK\$184m. Revaluation gains of HK\$178m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

The revaluation exercise also covered business premises and investment properties reclassified as properties held for sale. There was no revaluation gain recognised on these properties through the income statement during the period.

Additional information (continued)

5. Foreign currency positions

At 30 June 2015, the US dollar ('US\$') and Chinese renminbi ('RMB') were the currencies in which the group had non-structural foreign currency positions that were not less than 10% of the total net position in all foreign currencies. The group also had a RMB structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

<i>Figures in HK\$m</i>	<i>US\$</i>	<i>RMB</i>	<i>Other foreign currencies</i>	<i>Total foreign currencies</i>
<i>At 30 June 2015</i>				
Non-structural position				
Spot assets	190,834	169,403	103,328	463,565
Spot liabilities	(153,429)	(144,863)	(64,860)	(363,152)
Forward purchases	292,420	123,125	61,251	476,796
Forward sales	(327,490)	(136,603)	(99,772)	(563,865)
Net options position	179	(257)	40	(38)
Net long/(short)				
non-structural position	<u>2,514</u>	<u>10,805</u>	<u>(13)</u>	<u>13,306</u>
Structural position	<u>—</u>	<u>14,215</u>	<u>750</u>	<u>14,965</u>

<i>Figures in HK\$m</i>	<i>US\$</i>	<i>RMB</i>	<i>Other foreign currencies</i>	<i>Total foreign currencies</i>
<i>At 30 June 2014</i>				
Non-structural position				
Spot assets	185,629	152,815	71,846	410,290
Spot liabilities	(162,374)	(146,419)	(67,348)	(376,141)
Forward purchases	310,445	148,522	51,507	510,474
Forward sales	(328,858)	(154,612)	(56,066)	(539,536)
Net options position	60	(225)	149	(16)
Net long				
non-structural position	<u>4,902</u>	<u>81</u>	<u>88</u>	<u>5,071</u>
Structural position	<u>205</u>	<u>36,392</u>	<u>601</u>	<u>37,198</u>

Additional information (continued)

5. Foreign currency positions (continued)

<i>Figures in HK\$m</i>	<i>US\$</i>	<i>RMB</i>	<i>Other foreign currencies</i>	<i>Total foreign currencies</i>
<i>At 31 December 2014</i>				
Non-structural position				
Spot assets	188,559	163,709	83,596	435,864
Spot liabilities	(157,303)	(159,501)	(64,874)	(381,678)
Forward purchases	325,133	147,597	69,666	542,396
Forward sales	(347,341)	(151,149)	(88,460)	(586,950)
Net options position	205	(276)	74	3
Net long non-structural position	<u>9,253</u>	<u>380</u>	<u>2</u>	<u>9,635</u>
Structural position	<u>—</u>	<u>52,993</u>	<u>669</u>	<u>53,662</u>

6. Ultimate holding company

Hang Seng Bank is an indirectly held, 62.14%-owned, subsidiary of HSBC Holdings plc, which is incorporated in England.

7. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 19 August 2015, during which no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the bank's 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 no later than 4:30 pm on Tuesday, 18 August 2015. The second interim dividend will be payable on Tuesday, 8 September 2015, to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 19 August 2015. Shares of the bank will be traded ex-dividend as from Monday, 17 August 2015.

Additional information (continued)**8. Code on corporate governance practices**

The bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of 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 HKMA. The bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ‘Listing Rules’) throughout the six months ended 30 June 2015. Further, the Board has already established a Risk Committee (all members are Independent Non-executive Directors) which is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems. This practice is in line with the revised Corporate Governance Code under the Listing Rules which will apply to accounting periods beginning on or after 1 January 2016. To ensure that it is in line with international and local corporate governance best practices, the bank will constantly review and enhance its corporate governance framework.

The Audit Committee of the bank has reviewed the results of the bank for the six months ended 30 June 2015.

9. Board of Directors

At 3 August 2015, the Board of Directors of the bank comprises Dr Raymond K F Ch’ien* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan, Dr Henry K S Cheng*, Ms L Y Chiang*, Mr Andrew H C Fung, Dr Fred Zuli Hu*, Ms Irene Y L Lee*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent non-executive Directors

Non-executive Directors

Additional information (continued)

10. News release

This news release is available on the bank's website www.hangseng.com.

The Interim Report 2015, which contains all disclosures required by the Banking (Disclosure) Rules issued by the HKMA, will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release. Printed copies of the Interim Report 2015 will be sent to shareholders in late-August 2015.

Media enquiries to:

Walter Cheung

Telephone: (852) 2198 4020

Ruby Chan

Telephone: (852) 2198 4236