3 August 2016

HANG SENG BANK LIMITED
2016 INTERIM RESULTS - HIGHLIGHTS

- Operating profit excluding loan impairment charges and other credit risk provisions down 10% to HK$10,237m (HK$11,414m for the first half of 2015; up 12% compared with HK$9,133m for the second half of 2015).

- Operating profit down 12% to HK$9,516m (HK$10,820m for the first half of 2015; up 10% compared with HK$8,619m for the second half of 2015).

- Profit before tax down 56% to HK$9,499m (HK$21,720m for the first half of 2015). Excluding the gain on partial disposal of Industrial Bank[†] in the first half of 2015, profit before tax down 14%; up 8% compared with the second half of 2015.

- Attributable profit down 60% to HK$8,005m (HK$20,048m for the first half of 2015). Excluding the gain on partial disposal of Industrial Bank[†] in the first half of 2015, attributable profit down 15%; up 8% compared with the second half of 2015.

- Return on average ordinary shareholders' equity of 12.4%. Excluding the gain on partial disposal of Industrial Bank[†] in the first half of 2015, return on average ordinary shareholders' equity of 14.5% for the first half of 2015 and 10.6% for the second half of 2015.

- Earnings per share down 60% to HK$4.19 per share (HK$10.49 per share for the first half of 2015). Excluding the gain on partial disposal of Industrial Bank[†] in the first half of 2015, earnings per share down 15%; up 12% compared with the second half of 2015.

- Second interim dividend of HK$1.10 per share; total dividends of HK$2.20 per share for the first half of 2016 (HK$2.20 per share for the first half of 2015).

- Common equity tier 1 ('CET1') capital ratio of 16.8%, tier 1 ('T1') capital ratio of 18.1% and total capital ratio of 21.2%, at 30 June 2016. (CET1 capital ratio of 17.7%, T1 capital ratio of 19.1% and total capital ratio of 22.1% at 31 December 2015).

- Cost efficiency ratio of 32.7% (31.0% for the first half of 2015; 36.9% for the second half of 2015).

[†]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 HK$10,636m gain on partial disposal of the ordinary shares of Industrial Bank. Figures quoted as 'excluding the gain on partial disposal of Industrial Bank' have been adjusted for this item. Details of the computation are shown on page 58.

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 press release is based on the unaudited condensed consolidated financial statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the six months ended 30 June 2016.

Comment by Raymond Ch'ien, Chairman

The international economy was characterised by weak growth in the first half of 2016. In the US, growth was only 1% and concerns over the strength of the labour market led the Federal Reserve to scale back its planned cycle of interest rate hikes. In Europe, the uncertainty and financial market volatility created by the UK referendum on EU membership cast a cloud over the economic outlook for the region.

Against this backdrop, Hang Seng leveraged its competitive strengths to maintain momentum for long-term growth.

Due mainly to the active investment market's impact on the Bank's bottom line in the first half of 2015, profit attributable to shareholders and earnings per share were down 15% year-on-year at HK$8,005m and HK$4.19 per share respectively after excluding the 2015 HK$10,636m gain on the partial disposal of our holding in Industrial Bank. Compared with the second half of 2015, profit attributable to shareholders grew by 8% and earnings per share were up 12%.

The Directors have declared a second interim dividend of HK$1.10 per share, bringing the total distribution for the first half of 2016 to HK$2.20 per share, the same as in the first half of 2015.

Economic Environment

The slowdown in mainland growth and rising signs of softness in the global recovery are posing downside risks for the economic performance of Hong Kong. GDP growth in the first quarter of 2016 hit a four-year low of 0.8%. In particular, consumer concerns over the uncertain economic outlook saw private consumption expenditure, which has been a primary driver of growth in recent years, ease to 1.1% – its slowest rate since the third quarter of 2009. Given the current economic challenges, our forecast for Hong Kong's 2016 full-year GDP growth is 1.3%.

On the Mainland, the process of economic deleveraging is continuing to moderate the pace of expansion. GDP growth was 6.7% in the second quarter, the same as in the first quarter. The shift from an economy driven largely by investment and exports to one that is more reliant on consumption and services will remain a drag on growth in the months ahead, although scope exists for the authorities to implement macroeconomic policies that will minimise the risk of a sharper slowdown. We expect 2016 full-year GDP growth on the Mainland to be 6.7%.

Volatility in the international markets and the ongoing effects of the Mainland's economic transition will remain as challenges to economic growth in Asia in the short-to-medium term. However, the further opening up of the financial sector on the Mainland as well as its push to extend and strengthen regional and international economic ties, particularly as part of the 'One Belt, One Road' initiative, will generate new opportunities for business growth.

In an increasingly uncertain global economic environment, our strong market position and solid capital base will support our ability to drive forward with our long-term growth strategy and meet the diverse needs of our client base. We will leverage our competitive strengths and deploy our resources to enhance efficiency, deepen relationships with customers and acquire new business to achieve increasing value for shareholders.

Review by Rose Lee, Vice-Chairman and Chief Executive

In challenging operating conditions, Hang Seng Bank returned solid results in the first half of 2016.

Profitability and income were down against the high baseline created by the buoyant investment sector and exceptional market conditions in the first half of 2015, but we recorded satisfactory growth in net operating income, operating profit and profit attributable to shareholders compared with the second half of 2015.

We maintained a healthy liquidity position and strong capital base to enable us to proactively manage evolving regulatory requirements and support future growth.

With increasing pressure on lending spreads, net interest margin was maintained through effective management of our asset liability structure and improved returns from the balance sheet management portfolio.

Enhancements to the distribution network further expanded our target customer base and deepened customer engagement. We maintained our competitive cost structure with upgrades to technology and our digital platform.

We stepped up cross-border connectivity initiatives to capitalise on business opportunities arising from policy developments in mainland China. In February this year, our Hang Seng China H-Share Index Fund was among the first batch of northbound funds offered to mainland investors under the Mainland-Hong Kong Mutual Recognition of Funds initiative. In June, we received approval to establish the Mainland's first onshore foreign-majority-owned joint venture fund management company in Qianhai.

Financial Performance

Operating profit before loan impairment charges fell by 10% year-on-year to HK$10,237m and operating profit was down 12% to HK$9,516m. Compared with the second half of 2015, however, operating profit before loan impairment charges and operating profit were up 12% and 10% respectively.

Excluding the impact of HK$10,636m gain on the partial disposal of our holding in Industrial Bank in the first half of 2015, profit attributable to shareholders fell by 15% to HK$8,005m, earnings per share were down 15% at HK$4.19 and profit before tax declined by 14% to HK$9,499m. Compared with the second half of 2015, profit attributable to shareholders grew by 8%, earnings per share increased by 12% and profit before tax was up 8%. On a reported basis, year-on-year profit attributable to shareholders and earnings per share were both down 60% and profit before tax fell by 56%, reflecting the impact of the Industrial Bank disposal gain.

A 6% rise in average interest-earning assets supported 5% growth in net interest income to HK$11,003m. Net interest margin was 1.85%, compared with 1.86% and 1.80% for the first and second halves of 2015.

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

Non-interest income fell by 31% to HK$4,214m, mainly reflecting the significant decline in investment market activity versus the buoyant investment environment in the first half of 2015. Compared with the second half of 2015, non-interest income was up 12%, due primarily to an improvement in returns from the life insurance funds investment portfolio.

Operating expenses were HK$4,980m, down 3% year-on-year and 7% compared with the second half of 2015. Our cost efficiency ratio was 32.7%.

At 30 June 2016, our total capital ratio was 21.2%, compared with 22.1% at 31 December 2015. Our common equity tier 1 capital ratio was 16.8% and our tier 1 capital ratio was 18.1%, compared with 17.7% and 19.1% respectively at the end of last year.

The 'Ever-growing Bank'

Operating conditions will remain challenging with the uncertain global environment and economic adjustment on the Mainland.

To sustain Hang Seng's 'Ever-growing Bank' objective, we will continue to sharpen our competitive edge by leveraging our leading domestic bank's attributes to grow stable and quality earnings.

Based on our strong capital and healthy liquidity, we are well positioned to develop our sustainable growth strategies. Our integrated wholesale and retail banking propositions will continue to attract quality deposits to maintain funding and cost competitiveness, and maximise income from cross-selling opportunities.

Hang Seng's loyal customer base of 3.5 million is our most valuable asset. Our focus in strengthening analytics and refining client segmentation has been rewarded by the increase of numbers of target Prestige Banking customers, driving revenue growth. At the same time, we are able to offer our retail customers greater convenience and enhanced service as we deepen our knowledge about their needs and behaviour.

The upgrade of our branch network, digital and mobile platforms have strengthened customer engagement and enhanced our operational cost effectiveness.

We offer time-to-market solutions in response to volatile market developments and increasing customer preference for principal-protected, well-diversified investment options with stable yields. Our retirement planning, health and wealth propositions and education plans are tailored to cater to the evolving needs of our customers.

The industrial, commerce, retail and service sectors are the pillars of the Hong Kong economy. Our Commercial Banking teams have been enhancing their sector expertise to support our corporate clients by offering timely market information, and tailored funding, investment, liquidity and risk management propositions.

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

As Hong Kong's leading domestic bank, Hang Seng has greatly benefitted from policy developments under CEPA. In addition to Hang Seng Bank (China) Ltd's onshore branch network, Hang Seng has developed a 'mixed business' banking model in the Pearl River Delta, with the establishment of our securities investment advisory joint venture, GZHS Research Co., Ltd; our recently approved foreign-majority-owned asset management joint venture in Qianhai; and the launch of the northbound Hang Seng China H-Share Index Fund. We are working closely with Bupa to explore the potential of an integrated health services proposition for customers in the Pearl River Delta. We will ride on our successful experience to further develop cross-border investment and insurance initiatives.

I would like to thank my colleagues for their dedication in driving our customer-focused business strategy. We are committed to embedding a value-based corporate culture that recognises, nurtures and rewards talent.

Currently ranked by IMD as the most competitive economy in the world, Hong Kong is an important international centre for finance and trade, and a primary gateway for cross-border commercial activities between the Mainland and the international community. As the leading local bank in our home market, we will leverage our competitive strengths and unique market position to sustain growth and deliver service excellence for customers and value for shareholders.

First half of 2016 compared with first half of 2015

In the challenging global market conditions, Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') maintained broad-based business momentum, reflecting the success of our customer-focused strategy for sustainable growth. **Operating profit excluding loan impairment charges and other credit risk provisions** was HK$10,237m, down 10% on the first half of 2015, due mainly to the reduction in wealth management income against the high baseline created by the favourable investment market sentiment in the first half of 2015. The decline in wealth management income was partially offset by higher net interest income resulting from initiatives to leverage our strong balance sheet and success with efforts to contain operating expenses at a lower level than in the same period in 2015. **Operating profit** was HK$9,516m, down 12% when compared with the first half of last year, due mainly to higher loan impairment charges. The HK$10,636m gain on our partial disposal of Industrial Bank in the first half of 2015 saw **profit attributable to shareholders** fall by 60% to HK$8,005m in the first half of 2016. Excluding this gain and after taking into account the property revaluation deficit compared with a revaluation surplus for first half of 2015, attributable profit was down 15%.

Net interest income increased by HK$562m, or 5%, to HK$11,003m, underpinned by the 6% growth in average interest-earning assets together with strong growth in Treasury balance sheet management income. The growth in average interest-earning assets was mainly supported by the 3% increase in average customer deposits. Average customer lending rose by 1%, reflecting early repayments of foreign currency loans, a contraction in cross-border funding activities and a decline in trade finance lending. Average financial investments grew by 34% and interbank placements decreased by 32%. Net interest income also benefited from the increased return from expanded life insurance funds investment portfolio. Net interest margin decreased by one basis point to 1.85%, while net interest spread widened by two basis points. Average loan spreads – particularly for term lending – remained under pressure, while customer deposits spreads improved with an increase in low-cost savings deposits accounts resulting in a more favourable deposit mix. Treasury's active management of interest rate risk and efforts to enhance returns on the increased commercial surplus led to an increase in balance sheet management income.

Net fee income decreased by HK$1,031m, or 27%, to HK$2,853m, driven by lower wealth management business income as investment sentiment weakened in the unfavourable market conditions. Income from securities broking dropped by 53%, reflecting the decline in stock market trading turnover. Income from retail investment fund sales declined by 29%. However, income from credit card, insurance, account services and remittances grew by 3%, 5%, 6% and 13% respectively.

Net trading income decreased by HK$922m, or 67%, to HK$455m. Foreign exchange income was down by HK$698m, or 56%, as increased revenue from higher customer activity was more than offset by reduced demand for foreign exchange-linked structured treasury products – particularly renminbi-linked structured products – and lower income from funding swaps. Income from securities, derivatives and other trading activities recorded a loss of HK$113m, compared with a gain of HK$141m for the same period last year, mainly reflecting the unfavourable movement in equity options trading under the life insurance business investment portfolio and the movement in market interest rates.

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', 'share of profits from associates' and after deducting 'net insurance claims and benefits paid and movement in liabilities to policyholders') was HK$1,898m, down 15% on the first half of 2015, but up 66% on the second half. Net interest income and fee income from life insurance business grew by 13% compared with the first half of 2015, driven by the increase in average debt securities portfolios. The investment return on life insurance business recorded a loss of HK$394m compared with a gain of HK$918m for the first half of 2015, reflecting the unfavourable market conditions. 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 decreased by 10% due mainly to the combined effect of the decrease in new and renewal premiums and increased reinsurance premiums on new treaty arrangements for the in-force portfolio. Total policies in-force rose by 2% year-on-year. The decline in insurance premiums resulted in a corresponding decrease in net insurance claims and benefits paid and movement in liabilities to policyholders.

The movement in PVIF decreased by 6%, due mainly to the unfavourable change in market conditions update during the first half of 2016. The decrease was partly offset by an increase in the value of new business written. General insurance income was broadly in line with that for same period last year.

Operating expenses decreased by HK$156m, or 3%, to HK$4,980m, reflecting careful cost control. Staff costs were down by 4%, reflecting lower performance-related pay expenses, which were partly offset by the annual salary increment. The Group will continue to grow its digital capabilities and realise efficiency gains through increased automation and enhancement of our operational infrastructure. We will also step up training to build a more flexible and productive workforce to drive efficient growth.

Depreciation charges were up 19%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation last year and branch renovation costs, which partly offset by the 7% decrease in general and administrative expenses.

The Group continued to focus on enhancing operational efficiency while maintaining growth momentum. The cost efficiency ratio rose by 1.7 percentage points to 32.7% when compared with the first half of 2015. The combined effect of the 5% increase in net operating income before loan impairment charges and the 7% reduction in operating expenses contributed to a 4.2-percentage-points improvement in the cost efficiency ratio compared to the 36.9% recorded in the second half of 2015.

Loan impairment charges and other credit risk provisions increased by HK$127m, or 21%, to HK$721m, reflecting the more challenging credit environment in mainland China. Gross impaired loans and advances increased by HK$977m, or 36%, to HK$3,714m against last year-end, due mainly to certain corporate exposures in mainland China. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.55% at the end of June 2016, compared with 0.43% at the end of June 2015 and 0.40% at the end of December 2015. Overall credit quality remained sound and we remain alert and monitor portfolio indicators for early signs of weakness.

Individually assessed impairment charges increased by HK$45m, or 15%, to HK$339m, mainly due to the downgrade of certain numbers 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 increased by HK$82m, or 27%, to HK$382m, mainly reflecting the increase in the collective impairment charges on the credit card portfolio. Impairment allowances for loans not individually identified as impaired remained relatively stable. The Group maintains a cautious outlook on the credit environment and will proactively enhance asset quality by continuing our conservative approach in growing our loan portfolio.

Profit before tax decreased by HK$12,221m, or 56%, to HK$9,499m (down 14% after excluding the gain on partial disposal of Industrial Bank in the first half of 2015) after taking the following major items into account:

- the gain on partial disposal of Industrial Bank of HK$10,636m in the first half of 2015;
- a revaluation deficit of HK$77m in the first half of 2016 compared with a revaluation surplus of HK$178m in the first half of 2015 in **net surplus on property revaluation**; and
- a HK$26m decrease in **share of profits from associates**, mainly from a property investment company.

First half of 2016 compared with second half of 2015

Against the second half of 2015, the Group continued to made good progress and achieved sustainable growth in revenues to return solid results for first half of 2016. Operating profit excluding loan impairment charges and other credit risk provisions increased by HK$1,104m, or 12%, driven by the increase in both net interest income and non-interest income and the reduction in operating expenses.

Net interest income grew by HK$279m, or 3%, due mainly to a 2% increase in average interest earning assets and a stable net interest margin despite continuous downward pressure in the wake of continued challenging market conditions and more calendar days in the second-half.

Non-interest income increased by HK$435m, or 12%, contributed by the strong growth of 27% in wealth management income. Investment income was broadly in line with second half of 2015, with higher income from retail investment funds and structured investment products more than offset by lower brokerage income as a result of sluggish equity markets. Income from life insurance business achieved good growth, reflecting the decrease in net loss on the investment return from life insurance funds, benefiting from a less volatile fair value movement in global equity market.

Operating expenses dropped by 7%, largely attributable to decreased headcount through increased automation and enhancement of our operational infrastructure, reduced performance-related pay expenses and good cost containment in general and administrative expenses.

Operating profit was up 10%, despite higher loan impairment charges. Profit attributable to shareholders grew by 8%, to HK$8,005m in the first half of 2016, after taking into account the revaluation deficit on property revaluation in first half of 2016 compared with a revaluation gain for second half of 2015.

Balance sheet and key ratios

Assets

Total assets were HK$1,321bn at 30 June 2016, maintaining broadly the same level as last year-end.

Cash and sight balances at central banks increased by HK$9bn, or 87%, to HK$19bn, reflecting the increase in the commercial surplus placed with the Hong Kong Monetary Authority.

Trading assets rose by HK$12bn, or 29%, to HK$52bn, primarily as a result of the switching of interbank lending to treasury bills and government securities, mainly Exchange Fund Bills and Notes.

Customer loans and advances decreased by HK$11bn, or 2%, to HK$678bn, since the end of 2015 in the wake of subdued credit demand. Loan for use in Hong Kong increased by 2%, primarily in property development and investment, financial concerns, information technology and working capital financing for certain large corporate customers. Lending to individuals maintained broadly the same level as last year-end. The Group continued to maintain its market share for the mortgage business and grew its residential mortgage lending compared with the end of 2015. Trade finance declined by 13% against last year-end due mainly to the contraction in cross-border lending activities and sluggish market conditions leading to drop in trade finance coupled with keen pricing competition amongst banks. Loans and advances for use outside Hong Kong fell by 8% compared with the end of 2015, attributable to the decline in cross-border funding activities and early repayment of loans granted by Hong Kong Office and our mainland banking subsidiary. Overall credit quality remained sound.

Financial investments increased by HK$3bn, or 1%, to HK$375bn, reflecting the increased deployment of commercial surplus in debt securities given the subdued credit demand. The increase was also contributed by the growth in life insurance business during the period.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, decreased marginally by HK$7bn, or 1%, to HK$991bn compared with last year-end. There was an increase in savings and current deposit accounts more than offset by the decrease in time deposit. At 30 June 2016, the advances-to-deposits ratio was 68.5%, compared with 69.1% at 31 December 2015.

At 30 June 2016, shareholders' funds were HK$137bn, fell by HK$5bn, or 4%, against last year-end. Retained profits decreased by HK$5bn, or 5%, reflecting profit accumulation more than offset by the payment of 2016 first interim dividend and 2015 special and fourth interim dividends. The premises revaluation reserve remained relatively stable. The available-for-sale investment reserve decreased by HK$0.2bn, or 12%, against last year-end, mainly reflecting the fair value movement of the Group's investment in Industrial Bank.

Key ratios

The **return on average total assets** was 1.2%, compared with 3.1% and 1.1% for the first and second halves of 2015. The **return on average ordinary shareholders' equity** was 12.4%, compared with 31.0% in the first half of 2015 and 10.6% in the second half. Excluding the gain on partial disposal of Industrial Bank in the first half of 2015, return on average total assets were 1.5% and 1.1% for the first and second halves of 2015. On the same basis, return on average ordinary shareholders' equity were 14.5% and 10.6% for the first and second halves of last year. The decrease in return on average ordinary shareholders' equity when compared with the first half of 2015 was mainly due to the decrease in annualised profit. Compared with the second half of 2015, return on average ordinary shareholders' equity improved.

At 30 June 2016, the **total capital ratio, common equity tier 1 ('CET1') capital ratio and tier 1 ('T1') capital ratio** were 21.2%, 16.8% and 18.1% respectively, compared with 22.1%, 17.7% and 19.1% respectively at the year-end. The decrease was mainly due to the payment of special interim dividend for 2015 following the disposal of the majority of the Bank's shareholding interest in Industrial Bank.

Under the Banking (Liquidity) Rules, the average LCR was 257.1% for both the quarters ended 30 June and 31 March 2016 respectively compared with 221.6% and 167.4% for the quarters ended 30 June and 31 March 2015. The liquidity position of the Group remained strong for the first half of 2016 as the Group has deployed the commercial surplus in high quality liquid assets given the subdued credit demand.

Dividends

The Directors have declared a second interim dividend of HK$1.10 per share, which will be payable on 13 September 2016 to shareholders on the register of shareholders as of 23 August 2016. Together with the first interim dividend, the total distribution for the first half of 2016 will amount to HK$2.20 per share, the same as in the first half of 2015.

Figures in HK$m	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total
Half-year ended 30 June 2016					
Net interest income/(expense)	6,016	3,011	2,020	(44)	11,003
Net fee income	1,788	828	143	94	2,853
Net trading (loss)/income	(282)	14	702	21	455
Net loss from financial instruments designated at fair value	(22)	(3)	(4)	(1)	(30)
Dividend income	1	–	–	173	174
Net insurance premium income	5,222	386	–	–	5,608
Other operating income	1,460	142	37	149	1,788
Total operating income	14,183	4,378	2,898	392	21,851
Net insurance claims and benefits paid and movement in liabilities to policyholders	(6,331)	(303)	–	–	(6,634)
Net operating income before loan impairment charges and other credit risk provisions	7,852	4,075	2,898	392	15,217
Loan impairment (charges)/releases and other credit risk provisions	(366)	(372)	17	–	(721)
Net operating income	7,486	3,703	2,915	392	14,496
Operating expenses *	(3,086)	(1,211)	(441)	(242)	(4,980)
Operating profit	4,400	2,492	2,474	150	9,516
Net deficit on property revaluation	–	–	–	(77)	(77)
Share of profits from associates	60	–	–	–	60
Profit before tax	4,460	2,492	2,474	73	9,499
Share of profit before tax	47.0 %	26.2 %	26.0 %	0.8 %	100.0 %
Operating profit excluding loan impairment charges and other credit risk provisions	4,766	2,864	2,457	150	10,237
* *Depreciation/amortisation included in operating expenses*	(14)	(3)	(1)	(584)	(602)
At 30 June 2016					
Total assets	398,830	288,496	555,052	78,989	1,321,367
Total liabilities	775,100	233,755	151,925	23,874	1,184,654
Interest in associates	2,276	15	–	–	2,291

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
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	1,622	86	24	148	1,880
Total operating income	16,804	4,543	2,739	589	24,675
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	8,985	4,237	2,739	589	16,550
Loan impairment charges and other credit risk provisions	(299)	(278)	(17)	–	(594)
Net operating income	8,686	3,959	2,722	589	15,956
Operating expenses *	(3,317)	(1,245)	(470)	(104)	(5,136)
Operating profit	5,369	2,714	2,252	485	10,820
Net gain on partial disposal of Industrial Bank	–	–	–	10,636	10,636
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	25.1%	12.5%	10.4%	52.0%	100.0%
Share of profit before tax (excluding the gain on partial disposal of Industrial Bank)	49.2%	24.5%	20.3%	6.0%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	5,668	2,992	2,269	485	11,414
** Depreciation/amortisation included in operating expenses*	(27)	(14)	(3)	(474)	(518)
At 30 June 2015					
Total assets	377,134	291,505	541,001	121,798	1,331,438
Total liabilities	751,324	236,701	178,054	25,885	1,191,964
Interest in associates	2,245	13	–	–	2,258

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 31 December 2015					
Net interest income	5,778	2,938	1,793	215	10,724
Net fee income	2,061	828	173	92	3,154
Net trading (loss)/income	(214)	161	713	(7)	653
Net (loss)/income from financial instruments designated at fair value	(847)	(8)	–	16	(839)
Dividend income	–	–	–	17	17
Net insurance premium income	3,492	106	–	–	3,598
Other operating income/(loss)	1,848	41	(2)	152	2,039
Total operating income	12,118	4,066	2,677	485	19,346
Net insurance claims and benefits paid and movement in liabilities to policyholders	(4,756)	(87)	–	–	(4,843)
Net operating income before loan impairment charges and other credit risk provisions	7,362	3,979	2,677	485	14,503
Loan impairment (charges)/releases and other credit risk provisions	(321)	(246)	53	–	(514)
Net operating income	7,041	3,733	2,730	485	13,989
Operating expenses ✝	(3,306)	(1,236)	(476)	(328)	(5,346)
Impairment loss on intangible assets	(5)	–	–	(19)	(24)
Operating profit	3,730	2,497	2,254	138	8,619
Net surplus on property revaluation	–	–	–	83	83
Share of profits from associates	66	–	–	–	66
Profit before tax	3,796	2,497	2,254	221	8,768
Share of profit before tax	43.3%	28.5%	25.7%	2.5%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	4,051	2,743	2,201	138	9,133
✝ Depreciation/amortisation included in operating expenses	(30)	(13)	(3)	(503)	(549)
At 31 December 2015					
Total assets	392,667	302,086	571,178	68,498	1,334,429
Total liabilities	753,208	253,626	167,178	18,436	1,192,448
Interest in associates	2,261	14	–	–	2,275

Retail Banking and Wealth Management ('RBWM') recorded a 16% year-on-year decline in operating profit before loan impairment charges to HK$4,766m, an 18% drop in operating profit to HK$4,400m and an 18% decrease in profit before tax to HK$4,460m. This mainly reflects the higher level of market activity in the first half of 2015, as well as the adverse impact of the subsequent downturn in global investment sentiment on wealth management business. Compared with the second half of 2015, operating profit before loan impairment charges increased by 18%, operating profit rose by 18% and profit before tax was up 17%.

In the uncertain economic environment, we made good use of our extensive network and trusted brand to achieve solid balance sheet growth. Together with improved returns from fixed-income investments in our insurance investment portfolio, this balance sheet growth drove a 9% year-on-year increase in net interest income to HK$6,016m. Customer deposits grew by 3% and the lending portfolio remained the same compared with 2015 year-end, notwithstanding the seasonal impact of card receivables.

The poor investment market sentiment compared with the upbeat conditions in the first half of 2015 led to a 47% year-on-year decline in non-interest income to HK$1,836m. Wealth management business income fell by 32% to HK$2,901m. Compared with the second half of 2015, however, we recorded increases in non-interest income and wealth management income of 16% and 18% respectively.

Unsecured lending continued to be a stable revenue driver. With effective marketing campaigns and a good quality credit card customer base, card spending achieved year-on-year growth of 3% in Hong Kong. We retained our position as Hong Kong's second-largest and third-largest card issuer for VISA and MasterCard cards respectively. Supported by strong customer analytics and enhancements to our digital services platform, we grew the personal loan portfolio in Hong Kong by 2% compared with 2015 year-end.

In a slow property market during the first half of 2016, we sustained our top-three position for mortgage business in Hong Kong, with a market share of 16% in terms of new mortgage registrations. Mortgage balances remained the same in Hong Kong and grew by 2% on the Mainland compared with 2015 year-end.

The unfavourable global investment market conditions had an adverse impact on investment income in the first half of 2016, which dropped by 41%. In line with the slump in equities market transactions against the high base of the first half of 2015, our securities turnover and revenue declined by 65% and 57% respectively. Retail investment funds turnover and revenue dropped by 41% and 29% respectively. We capitalised on our time-to-market strength to accommodate the increase in customer demand for capital-protected products. We continued to capture cross-border business opportunities created by ongoing policy relaxation on the Mainland. The Hang Seng China H-Share Index Fund was among the first batch of northbound funds offered to retail investors on the Mainland under the Mainland-Hong Kong Mutual Recognition of Funds scheme.

Insurance income decreased by 21% compared with the first half of 2015, due mainly to lower returns from the insurance investment portfolio. Leveraging our broad range of insurance products we grew new annualised premium by 9% year-on-year. The distribution of the Hang Seng Bupa PreciousHealth Series continued to underpin our ability to provide tailored 'wealth-and-health' solutions to customers. We launched the PreciousWay Education Life Insurance Plan to assist customers with planning for the future education needs of their younger family members.

Strong customer analytics enabled us to improve customer segmentation and needs-based selling. We leveraged our high-value proposition and tailored products and services to drive a 32% increase in the number of premium clients within our Prestige Banking customer base in Hong Kong.

We continued to invest in new technology and expand our digital services to deepen and broaden customer engagement by providing a wider range of products and bringing better value through interactive lifestyle partnerships. Recent initiatives include adding online document submission for lending products to our personal mobile banking app and e-banking platform. We also introduced an online 'Investment Corner' service that includes timely commentaries on market developments to help customers better plan their investment strategies.

Commercial Banking ('CMB') reported a 4% year-on-year drop in operating profit before loan impairment charges to HK$2,864m and an 8% decline in both operating profit and profit before tax to HK$2,492m. Compared with the second half of 2015, operating profit before loan impairment charges grew by 4%, and operating profit and profit before tax were both broadly unchanged.

In the challenging economic conditions, net interest income grew by 1% compared with a year earlier and was up 2% against the second half of 2015, driven by higher current and savings deposit balances particularly for small and medium-sized enterprises (SMEs). Customer loans were down by 4% compared with last year-end as a result of softer loan demand in Hong Kong and on the Mainland.

Non-interest income declined by 15%, due mainly to a reduction in income from renminbi-related business and a fall in wealth management income due to market volatility. A reduction in hedging activities by customers as a result of renminbi exchange fluctuations led to an 86% drop in structured foreign exchange income. Income from securities trading also fell by 12% due to lower market turnover. These drops were partly offset by good growth in insurance, remittances and vanilla foreign exchange transactions. Insurance income recorded a 31% increase, reflecting efficient and collaborative sales distribution efforts. Effective marketing drove a 15% growth in remittance income. Income from vanilla foreign exchange transactions rose by 31%, reflecting focused efforts to deepen relationships with customers. Compared with the second half of 2015, non-interest income was up by 2%.

SME business continued to be an important driver of sustainable revenue growth. Acquiring quality new customers remained a key focus, with mainland customers representing 61% of newly acquired SME customers in the first half of 2016. Net interest income from SME business reported satisfactory growth of 7%, due mainly to a rise in average customer deposits. Remittances and account-related fees achieved good growth of 15%. We further enriched our SME service propositions with the launch of Business Insurance Solutions (BIS), a packaged general insurance product covering 10 different insurance classes, that provides SME customers with a flexible one-stop insurance solution. We continued to upgrade our digital services to offer greater convenience to customers. SME customers that apply for Business Loans or Commercial Cards can now submit applications and upload supporting documents through our Business e-Banking website.

We focused on enhancing our cash management capabilities to further differentiate our offerings from our peers and capture an increased share of our customers' banking business. We implemented a two-way cross-border renminbi sweeping solution to help customers better manage their liquidity needs. On the Mainland, we are one of the first foreign banks to provide retailers with support for collection consumer payments through Apple Pay and WeChat.

Approval to open free-trade accounts for commercial customers enabled us to offer a wider range of financial solutions to clients engaged in cross-border business.

Credit quality remained robust as we continued to proactively manage credit risk and asset quality. We also enhanced our portfolio management to optimise returns on risk-weighted assets.

Our continued efforts to provide dedicated services has been recognised by a number of awards, including 'Best in Treasury and Working Capital - SMEs, Hong Kong' in The Asset Triple A Treasury, Trade and Risk Management Awards 2016 and 'The Best Payment Bank in Hong Kong' in The Asian Banker Transaction Banking Awards 2016. We were also named 'Best Trade Finance Product Innovation Bank' at the fifth China Trade Finance Annual Conference.

Global Banking and Markets reported year-on-year growth of 8% in operating profit before loan impairment charges to HK$2,457m and a 10% rise in operating profit and profit before tax to HK$2,474m. Compared with the second half of 2015, operating profit before loan impairment charges grew by 12%, and operating profit and profit before tax were both up 10%.

Global Banking ('GB') recorded a 1% year-on-year decline in total operating income to HK$1,157m. Operating profit before loan impairment charges also dropped by 1% to HK$936m. A net release in loan impairment charges resulted in 2% growth of profit before tax to HK$953m.

Net interest income increased by 1% to HK$988m. Customer advances grew by 1% compared with 2015 year-end. Customer deposits were down by 9%.

Non-interest income fell by 12% to HK$169m, due mainly to the decline in fee income from credit-related activities.

Global Markets ('GM') reported a 15% year-on-year rise in both operating profit and profit before tax to HK$1,521m.

We achieved a 42% increase in net interest income to HK$1,032m, driven mainly by higher returns resulting from effective balance sheet management.

Non-interest income fell by 16% to HK$709m, due primarily to the 19% drop in trading income. Reduced customer demand for foreign-exchange structured products was partly offset by an increase in income from vanilla foreign exchange products.

Under the challenging and low interest rate environment, we focused on growing non-fund income. Leveraging the Bank's strong relationships with customers, we collaborated closely with RBWM and CMB to increase cross-selling of GM products.

In response to further liberalisation in renminbi-related business, we strived to provide timely market information and products to meet customer needs in the volatile foreign exchange market.

In response to PBOC's announcement of introducing qualified foreign players at the end of last year, the Bank has submitted the application for China Interbank FX Market membership to China Foreign Exchange Trade System (CFETS) in the first half of 2016. In early July, CFETS officially approved the Bank's application for the membership, which will enable us to conduct foreign exchange transactions through CFETS directly for renminbi purchases and sales business.

Figures in HK$m	**Half-year ended 30 June 2016**	*Half-year ended 30 June 2015*	*Variance (%) against half-year ended 30 June 2015*	*Half-year ended 31 December 2015*	*Variance (%) against half-year ended 31 December 2015*
Interest income	**13,303**	13,645	(3)	13,418	(1)
Interest expense	**(2,300)**	(3,204)	28	(2,694)	15
Net interest income	**11,003**	10,441	5	10,724	3
Fee income	**3,776**	4,638	(19)	3,986	(5)
Fee expense	**(923)**	(754)	(22)	(832)	(11)
Net fee income	**2,853**	3,884	(27)	3,154	(10)
Net trading income	**455**	1,377	(67)	653	(30)
Net income/(loss) from financial instruments designated at fair value	**(30)**	721	(104)	(839)	96
Dividend income	**174**	125	39	17	924
Net insurance premium income	**5,608**	6,247	(10)	3,598	56
Other operating income	**1,788**	1,880	(5)	2,039	(12)
Total operating income	**21,851**	24,675	(11)	19,346	13
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(6,634)**	(8,125)	18	(4,843)	(37)
Net operating income before loan impairment charges and other credit risk provisions	**15,217**	16,550	(8)	14,503	5
Loan impairment charges and other credit risk provisions	**(721)**	(594)	(21)	(514)	(40)
Net operating income	**14,496**	15,956	(9)	13,989	4
Employee compensation and benefits	**(2,441)**	(2,537)	4	(2,356)	(4)
General and administrative expenses	**(1,937)**	(2,081)	7	(2,441)	21
Depreciation of premises, plant and equipment	**(551)**	(462)	(19)	(495)	(11)
Amortisation of intangible assets	**(51)**	(56)	9	(54)	6
Operating expenses	**(4,980)**	(5,136)	3	(5,346)	7
Impairment loss on intangible assets	–	–	–	(24)	–
Operating profit	**9,516**	10,820	(12)	8,619	10
Net gain on partial disposal of Industrial Bank	–	10,636	–	–	–
Net surplus / (deficit) on property revaluation	**(77)**	178	(143)	83	(193)
Share of profits from associates	**60**	86	(30)	66	(9)
Profit before tax	**9,499**	21,720	(56)	8,768	8
Tax expense	**(1,494)**	(1,672)	11	(1,322)	(13)
Profit for the period	**8,005**	20,048	(60)	7,446	8
Profit attributable to shareholders	**8,005**	20,048	(60)	7,446	8
Earnings per share – basic and diluted (in HK$)	**4.19**	10.49	(60)	3.73	12

Details of dividends payable to shareholders of the Bank attributable to the profit for the half year are set out on page 33.

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Profit for the period	**8,005**	20,048	7,446
Other comprehensive income			
Items that will be reclassified subsequently to the condensed consolidated income statement when specific conditions are met:			
Available-for-sale investment reserve:			
- fair value changes taken to equity:			
-- on debt securities	**839**	(9)	(407)
-- on equity shares	**(356)**	406	(223)
- fair value changes transferred to condensed consolidated income statement:			
-- on hedged items	**(564)**	11	80
-- on disposal	**(75)**	(14,786)	27
- share of changes in equity of associates			
-- fair value changes	**–**	–	(5)
- deferred taxes	**(27)**	(25)	44
- exchange difference and others	**(48)**	(40)	(146)
Cash flow hedging reserve:			
- fair value changes taken to equity	**(1,165)**	157	34
- fair value changes transferred to condensed consolidated income statement	**1,145**	(139)	(49)
- deferred taxes	**3**	(3)	2
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	**(257)**	(6)	(534)
Items that will not be reclassified subsequently to the condensed consolidated income statement:			
Premises:			
- unrealised surplus on revaluation of premises	**277**	1,103	775
- deferred taxes	**(47)**	(184)	(130)
- exchange difference	**(4)**	–	(7)
Defined benefit plans:			
- actuarial (losses)/gains on defined benefit plans	**(688)**	292	130
- deferred taxes	**113**	(48)	(22)
Share-based payments	**6**	2	–
Other comprehensive income for the period, net of tax	**(848)**	(13,269)	(431)
Total comprehensive income for the period	**7,157**	6,779	7,015
Total comprehensive income for the period attributable to shareholders	**7,157**	6,779	7,015

Figures in HK$m	**At 30 June 2016**	*At 30 June 2015*	*Variance (%) against 30 June 2015*	*At 31 December 2015*	*Variance (%) against 31 December 2015*
ASSETS					
Cash and sight balances at central banks	**18,938**	40,317	(53)	10,118	87
Placings with and advances to banks	**97,307**	152,767	(36)	123,990	(22)
Trading assets	**52,091**	44,772	16	40,373	29
Financial assets designated at fair value	**9,897**	8,218	20	7,903	25
Derivative financial instruments	**9,084**	6,004	51	11,595	(22)
Reverse repurchase agreements – non-trading	–	1,904	–	–	–
Loans and advances to customers	**678,442**	673,022	1	688,946	(2)
Financial investments	**375,403**	328,198	14	372,272	1
Interest in associates	**2,291**	2,258	1	2,275	1
Investment properties	**10,329**	9,899	4	10,075	3
Premises, plant and equipment	**26,074**	25,664	2	26,186	–
Intangible assets	**13,641**	10,577	29	12,221	12
Other assets	**27,870**	27,838	–	28,475	(2)
Total assets	**1,321,367**	1,331,438	(1)	1,334,429	(1)
LIABILITIES AND EQUITY					
Liabilities					
Current, savings and other deposit accounts	**951,545**	947,495	–	959,228	(1)
Repurchase agreements – non-trading	**1,761**	3,032	(42)	2,315	(24)
Deposits from banks	**14,159**	13,964	1	18,780	(25)
Trading liabilities	**58,156**	77,543	(25)	62,917	(8)
Financial liabilities designated at fair value	**4,004**	4,027	(1)	3,994	–
Derivative financial instruments	**11,590**	5,877	97	9,988	16
Certificates of deposit and other debt securities in issue	**6,416**	7,738	(17)	5,191	24
Other liabilities	**23,817**	22,887	4	20,891	14
Liabilities under insurance contracts	**104,425**	96,986	8	101,817	3
Current tax liabilities	**1,546**	1,906	(19)	185	736
Deferred tax liabilities	**4,907**	4,695	5	4,817	2
Subordinated liabilities	**2,328**	5,814	(60)	2,325	–
Total liabilities	**1,184,654**	1,191,964	(1)	1,192,448	(1)
Equity					
Share capital	**9,658**	9,658	–	9,658	–
Retained profits	**100,615**	102,085	(1)	105,363	(5)
Other equity instruments	**6,981**	6,981	–	6,981	–
Other reserves	**19,459**	20,750	(6)	19,979	(3)
Shareholders' funds	**136,713**	139,474	(2)	141,981	(4)
Total equity and liabilities	**1,321,367**	1,331,438	(1)	1,334,429	(1)

For the half-year ended 30 June 2016

Figures in HK$m	Share capital	Other equity instruments	Retained profits and proposed dividend	Other Reserves: Premises revaluation reserve	Other Reserves: Available-for-sale investment reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others	Total shareholders' equity
At 1 January 2016	**9,658**	**6,981**	**105,363**	**16,777**	**1,939**	**(9)**	**600**	**672**	**141,981**
Profit for the period	–	–	**8,005**	–	–	–	–	–	**8,005**
Other comprehensive income (net of tax)	–	–	**(569)**	**226**	**(231)**	**(17)**	**(257)**	–	**(848)**
Available-for-sale investments	–	–	–	–	**(231)**	–	–	–	**(231)**
Cash flow hedges	–	–	–	–	–	**(17)**	–	–	**(17)**
Property revaluation	–	–	–	**226**	–	–	–	–	**226**
Actuarial losses on defined benefit plans	–	–	**(575)**	–	–	–	–	–	**(575)**
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–
Exchange differences and others	–	–	**6**	–	–	–	**(257)**	–	**(251)**
Total comprehensive income for the period	–	–	**7,436**	**226**	**(231)**	**(17)**	**(257)**	–	**7,157**
Dividends paid	–	–	**(12,427)**	–	–	–	–	–	**(12,427)**
Coupon paid to holder of AT1 capital instrument	–	–	–	–	–	–	–	–	–
Movement in respect of share-based payment arrangements	–	–	–	–	–	–	–	**2**	**2**
Transfers	–	–	**243**	**(243)**	–	–	–	–	–
At 30 June 2016	**9,658**	**6,981**	**100,615**	**16,760**	**1,708**	**(26)**	**343**	**674**	**136,713**

For the half-year ended 30 June 2015

Figures in HK$m	Share capital	Other equity instruments	Retained profits and proposed dividend	Other Reserves: Premises revaluation reserve	Other Reserves: Available-for-sale investment reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others	Total shareholders' equity
At 1 January 2015	9,658	6,981	88,064	15,687	17,012	(11)	1,140	662	139,193
Profit for the period	–	–	20,048	–	–	–	–	–	20,048
Other comprehensive income (net of tax)	–	–	246	919	(14,443)	15	(6)	–	(13,269)
Available-for-sale investments	–	–	–	–	(14,443)	–	–	–	(14,443)
Cash flow hedges	–	–	–	–	–	15	–	–	15
Property revaluation	–	–	–	919	–	–	–	–	919
Actuarial gains on defined benefit plans	–	–	244	–	–	–	–	–	244
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–
Exchange differences and others	–	–	2	–	–	–	(6)	–	(4)
Total comprehensive income for the period	–	–	20,294	919	(14,443)	15	(6)	–	6,779
Dividends paid	–	–	(6,500)	–	–	–	–	–	(6,500)
Coupon paid to holder of AT1 capital instrument	–	–	–	–	–	–	–	–	–
Movement in respect of share-based payment arrangements	–	–	–	–	–	–	–	2	2
Transfers	–	–	227	(227)	–	–	–	–	–
At 30 June 2015	9,658	6,981	102,085	16,379	2,569	4	1,134	664	139,474

For the half-year ended 31 December 2015

Figures in HK$m	Share capital	Other equity instruments	Retained profits and proposed dividend	Other Reserves: Premises revaluation reserve	Other Reserves: Available-for-sale investment reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others	Total shareholders' equity
At 1 July 2015	9,658	6,981	102,085	16,379	2,569	4	1,134	664	139,474
Profit for the period	–	–	7,446	–	–	–	–	–	7,446
Other comprehensive income (net of tax)	–	–	108	638	(630)	(13)	(534)	–	(431)
Available-for-sale investments	–	–	–	–	(625)	–	–	–	(625)
Cash flow hedges	–	–	–	–	–	(13)	–	–	(13)
Property revaluation	–	–	–	638	–	–	–	–	638
Actuarial gains on defined benefit plans	–	–	108	–	–	–	–	–	108
Share of other comprehensive income of associates	–	–	–	–	(5)	–	–	–	(5)
Exchange differences and others	–	–	–	–	–	–	(534)	–	(534)
Total comprehensive income for the period	–	–	7,554	638	(630)	(13)	(534)	–	7,015
Dividends paid	–	–	(4,206)	–	–	–	–	–	(4,206)
Coupon paid to holder of AT1 capital instrument	–	–	(310)	–	–	–	–	–	(310)
Movement in respect of share-based payment arrangements	–	–	–	–	–	–	–	8	8
Transfers	–	–	240	(240)	–	–	–	–	–
At 31 December 2015	9,658	6,981	105,363	16,777	1,939	(9)	600	672	141,981

Net interest income

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Net interest income/(expense) arising from:			
- financial assets and liabilities that are not at fair value through profit and loss	**11,488**	11,270	11,372
- trading assets and liabilities	**(467)**	(819)	(631)
- financial instruments designated at fair value	**(18)**	(10)	(17)
	11,003	10,441	10,724
Average interest-earning assets	**1,199,059**	1,132,121	1,180,549
Net interest spread	**1.74%**	1.72%	1.69%
Net interest margin	**1.85%**	1.86%	1.80%

Net interest income rose by HK$562m, or 5%, to HK$11,003m, driven mainly by the 6% increase in average interest-earning assets and the increased interest income from the life insurance funds investment portfolio.

Average interest-earning assets increased by HK$67bn, or 6%, compared with the same period last year. Average customer lending increased by 1%, mainly affected by subdued loan demand together with the decrease in cross-border funding activities and early repayments of foreign currency loans. Average financial investments increased by 34% partly offset by the 32% fall in interbank placement.

Net interest margin narrowed by one basis point to 1.85% whilst the net interest spread increased by two basis points to 1.74%. Average loan spread on customer lending reduced, notably on corporate and commercial term lending. Higher balance sheet management income was recorded as a result of Treasury’s active management of the interest rate risk and efforts to enhance returns on commercial surplus. Customer deposits spread also widen as a result of the change in deposit mix, with low cost savings balance increased.

The contribution from net free funds fell by three basis points to 0.11%, reflecting the decrease in the average market interest rates.

Compared with the second half of 2015, net interest income grew by HK$279m, or 3%, mainly supported by 2% increase in average interest-earning assets, notwithstanding more calendar days in the second half. The net interest margin increased by five 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 the Group, as included in the HSBC Group financial statements:

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Net interest income and expense reported as 'Net interest income'			
- Interest income	**13,161**	13,482	13,261
- Interest expense	**(1,693)**	(2,227)	(1,908)
- Net interest income	**11,468**	11,255	11,353
Net interest income and expense reported as 'Net trading income'	**(467)**	(819)	(631)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	**2**	5	2
Average interest-earning assets	**1,153,941**	1,092,097	1,139,761
Net interest spread	**1.91 %**	1.96 %	1.87 %
Net interest margin	**2.00 %**	2.08 %	1.98 %

Net fee income

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
- Securities broking and related services	**545**	1,167	705
- Retail investment funds	**741**	1,051	712
- Insurance	**262**	249	223
- Account services	**229**	216	223
- Remittances	**234**	208	236
- Cards	**1,180**	1,146	1,240
- Credit facilities	**204**	204	216
- Trade services	**209**	231	260
- Other	**172**	166	171
Fee income	**3,776**	4,638	3,986
Fee expense	**(923)**	(754)	(832)
	2,853	3,884	3,154

In 2016, certain expenditure in respect of credit card loyalty programme previously presented in 'General and administrative expenses' is presented in 'Fee expense' to more appropriately reflect the nature of the expenditure. This accounted for the majority of the increase in fee expense during the period.

Net trading income

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
- Foreign exchange[⌖]	**541**	1,239	861
- Interest rate derivatives	**(64)**	(47)	15
- Debt securities	**49**	75	–
- Equities and other trading	**(98)**	113	(223)
Dealing profits	**428**	1,380	653
Net gain/(loss) from hedging activities	**27**	(3)	–
	455	1,377	653

[⌖] *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/(loss) from financial instruments designated at fair value

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Net (loss)/income on assets designated at fair value which back insurance and investment contracts	**(26)**	716	(855)
Net change in fair value of other financial instruments designated at fair value	**(4)**	5	16
	(30)	721	(839)

Net income/(loss) from financial instruments designated at fair value recorded net loss of HK$30m, compared with a net gain of HK$721m for the first half 2015, reflecting the fair value changes of assets held by the life insurance business due mainly to a favourable equity market movements in the first half of 2015. To the extent that this fair value (loss)/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')'. Compared with second half of 2015, the net loss reduced by HK$809m, or 96%, reflecting a more stable fair value movement since last year-end.

Other operating income

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Rental income from investment properties	**181**	191	191
Movement in present value of in-force long-term insurance business	**1,420**	1,511	1,657
Gains less losses from financial investments and fixed assets	**65**	35	(29)
Others	**122**	143	220
	1,788	1,880	2,039

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Investment income:			
- retail investment funds	**741**	1,051	712
- structured investment products[†]	**209**	538	122
- securities broking and related services	**529**	1,143	686
- margin trading and others	**52**	50	50
	1,531	2,782	1,570
Insurance income:			
- life insurance	**1,759**	2,104	1,019
- general insurance and others	**139**	138	121
	1,898	2,242	1,140
Total	**3,429**	5,024	2,710

[†] *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.*

In challenging operating conditions, wealth management business income fell by HK$1,595m, or 32%, to HK$3,429m. Investment income fell by 45%, mainly due to the decrease in income from retail investment funds, structured investment products and securities broking and related services as investment sentiment weakened. Insurance business income decreased by 15%, reflecting a more favourable market conditions in the first half of 2015.

Compared with the second half of 2015, wealth management business income grew by 27%, driven by the increase of 66% in insurance income which benefitted from a less volatile market conditions while investment income remained intact.

Analysis of insurance business income

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Life insurance:			
- net interest income and fee income	**1,759**	1,553	1,677
- investment return on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**(394)**	918	(1,070)
- net insurance premium income	**5,608**	6,247	3,598
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(6,634)**	(8,125)	(4,843)
- movement in present value of in-force long-term insurance business	**1,420**	1,511	1,657
	1,759	2,104	1,019
General insurance and others	**139**	138	121
Total	**1,898**	2,242	1,140

Loan impairment charges and other credit risk provisions

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Net charge for impairment of loans and advances to customers:			
Individually assessed impairment allowances:			
- new allowances	**379**	334	260
- releases	**(35)**	(34)	(16)
- recoveries	**(5)**	(6)	(10)
	339	294	234
Net charge for collectively assessed impairment allowances	**382**	300	280
Loan impairment charges and other credit risk provisions	**721**	594	514

Operating expenses

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Employee compensation and benefits:			
- salaries and other costs	**2,232**	2,316	2,132
- retirement benefit costs	**209**	221	224
	2,441	2,537	2,356
General and administrative expenses:			
- rental expenses	**342**	346	350
- other premises and equipment	**585**	570	631
- marketing and advertising expenses	**215**	389	513
- other operating expenses	**795**	776	947
	1,937	2,081	2,441
Depreciation of premises, plant and equipment	**551**	462	495
Amortisation of intangible assets	**51**	56	54
	4,980	5,136	5,346
Cost efficiency ratio	**32.7%**	31.0%	36.9%

Full-time equivalent staff numbers by region	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Hong Kong and others	**7,919**	7,993	8,306
Mainland China	**1,719**	1,837	1,835
Total	**9,638**	9,830	10,141

In 2016, certain expenditure in respect of credit card loyalty programme previously presented in ‘General and administrative expenses’ is presented in ‘Fee expense’ to more appropriately reflect the nature of the expenditure.

Tax expense

Taxation in the condensed consolidated income statement represents:

Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
Current tax – provision for Hong Kong profits tax			
Tax for the period	**1,354**	1,558	1,334
Adjustment in respect of prior periods	–	(31)	(25)
Current tax – taxation outside Hong Kong			
Tax for the period	**38**	38	12
Adjustment in respect of prior periods	**(1)**	–	–
Deferred tax			
Origination and reversal of temporary differences	**103**	107	1
Total tax expense	**1,494**	1,672	1,322

The current tax provision is based on the estimated assessable profit for the first half of 2016, 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 2015). 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 – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2016 is based on earnings of HK$8,005m (HK$20,048m for the first half of 2015 and HK$7,136m for the second half of 2015 after deducting the coupon paid on AT1 capital instrument of HK$310m) 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 2015).

Dividends per share

	Half-year ended 30 June 2016		*Half-year ended 30 June 2015*		*Half-year ended 31 December 2015*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*	*HK$ per share*	*HK$m*
(a) Dividends to ordinary shareholders						
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	–	–	–	–	2.40	4,588
Special interim dividend	–	–	–	–	3.00	5,736
	2.20	**4,206**	2.20	4,206	6.50	12,427

	Half-year ended 30 June 2016	*Half-year ended 30 June 2015*	*Half-year ended 31 December 2015*
	HK$m	*HK$m*	*HK$m*
(b) Distribution to holder of AT1 capital instrument classified as equity			
Coupon paid on AT1 capital instrument	–	–	310

Segmental analysis

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

- **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 13.

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Half-year ended 30 June 2016					
Profit before tax	**4,460**	**2,492**	**2,474**	**73**	**9,499**
Share of profit before tax	**47.0%**	**26.2%**	**26.0%**	**0.8%**	**100.0%**
Half-year ended 30 June 2015					
Profit before tax	5,454	2,715	2,252	11,299	21,720
Share of profit before tax	25.1%	12.5%	10.4%	52.0%	100.0%
Share of profit before tax (excluding the gain on partial disposal of Industrial Bank)	49.2%	24.5%	20.3%	6.0%	100.0%
Half-year ended 31 December 2015					
Profit before tax	3,796	2,497	2,254	221	8,768
Share of profit before tax	43.3%	28.5%	25.7%	2.5%	100.0%

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'.

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-segment elimination***	***Total***
Half-year ended 30 June 2016					
Total operating income	**20,736**	**1,029**	**130**	**(44)**	**21,851**
Profit before tax	**9,359**	**55**	**85**	**–**	**9,499**
At 30 June 2016					
Total assets	**1,240,205**	**101,653**	**19,294**	**(39,785)**	**1,321,367**
Total liabilities	**1,106,309**	**90,040**	**18,619**	**(30,314)**	**1,184,654**
Equity	**133,896**	**11,613**	**675**	**(9,471)**	**136,713**
Share capital	**9,658**	**9,873**	**–**	**(9,873)**	**9,658**
Interest in associates	**2,290**	**1**	**–**	**–**	**2,291**
Non-current assets[ф]	**49,019**	**1,005**	**20**	**–**	**50,044**
Half-year ended 30 June 2015					
Total operating income	23,662	946	115	(48)	24,675
Profit before tax	21,627	14	79	–	21,720
At 30 June 2015					
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[ф]	45,025	1,111	4	–	46,140
Half-year ended 31 December 2015					
Total operating income	18,144	1,112	134	(44)	19,346
Profit before tax	8,597	87	84	–	8,768
At 31 December 2015					
Total assets	1,244,606	113,718	19,260	(43,155)	1,334,429
Total liabilities	1,105,668	101,806	18,655	(33,681)	1,192,448
Equity	138,938	11,912	605	(9,474)	141,981
Share capital	9,658	10,093	–	(10,093)	9,658
Interest in associates	2,272	3	–	–	2,275
Non-current assets[ф]	47,414	1,046	22	–	48,482

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

Cash and sight balances at central banks

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Cash in hand	**4,640**	4,642	5,259
Sight balances at central banks	**14,298**	35,675	4,859
	18,938	40,317	10,118

Placings with and advances to banks

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Balances with banks	**13,689**	30,079	13,446
Placings with and advances to banks maturing within one month	**48,894**	71,315	56,163
Placings with and advances to banks maturing after one month but less than one year	**32,480**	49,218	52,182
Placings with and advances to banks maturing after one year	**2,244**	2,155	2,199
	97,307	152,767	123,990

Trading assets

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Treasury bills	**36,651**	24,405	21,405
Other debt securities	**14,851**	17,129	16,675
Debt securities	**51,502**	41,534	38,080
Investment funds	**28**	23	21
Total trading securities	**51,530**	41,557	38,101
Other[ǂ]	**561**	3,215	2,272
Total trading assets	**52,091**	44,772	40,373
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**50,868**	37,699	35,386
- other public sector entities	**–**	–	–
	50,868	37,699	35,386
Issued by other bodies:			
- banks	**330**	718	768
- corporate entities	**304**	3,117	1,926
	634	3,835	2,694
	51,502	41,534	38,080
Investment funds:			
Issued by corporate entities	**28**	23	21
Total trading securities	**51,530**	41,557	38,101

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

Financial assets designated at fair value

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Treasury bills	**–**	–	1,070
Debt securities	**419**	70	66
Equity shares	**4,453**	4,258	1,838
Investment funds	**5,025**	3,890	4,929
	9,897	8,218	7,903
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**–**	–	1,070
- other public sector entities	**1**	1	1
	1	1	1,071
Issued by other bodies:			
- banks	**–**	12	6
- corporate entities	**418**	57	59
	418	69	65
	419	70	1,136
Equity shares:			
Issued by banks	**721**	751	423
Issued by public sector entities	**140**	10	6
Issued by corporate entities	**3,592**	3,497	1,409
	4,453	4,258	1,838
Investment funds:			
Issued by corporate entities	**5,025**	3,890	4,929
	9,897	8,218	7,903

Loans and advances to customers

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Gross loans and advances to customers	**680,184**	675,086	690,561
Less:			
Loan impairment allowances:			
- individually assessed	**(896)**	(1,223)	(807)
- collectively assessed	**(846)**	(841)	(808)
	678,442	673,022	688,946

Loan impairment allowances against loans and advances to customers

Figures in HK$m	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January 2016	**807**	**808**	**1,615**
Amounts written off	**(222)**	**(371)**	**(593)**
Recoveries of loans and advances written off in previous years	**5**	**36**	**41**
New impairment allowances charged to condensed consolidated income statement	**379**	**418**	**797**
Impairment allowances released to condensed consolidated income statement	**(40)**	**(36)**	**(76)**
Unwinding of discount of loan impairment allowances recognised as ‘interest income’	**(27)**	**(3)**	**(30)**
Exchange difference	**(6)**	**(6)**	**(12)**
At 30 June 2016	**896**	**846**	**1,742**

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

	At 30 June 2016	*At 30 June 2015*	*At 31 December 2015*
	%	%	%
Loan impairment allowances:			
- individually assessed	**0.13**	0.18	0.12
- collectively assessed	**0.12**	0.12	0.12
Total loan impairment allowances	**0.25**	0.30	0.24

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.25% at 30 June 2016 compared with 0.24% at the end of 2015. Individually assessed allowances as a percentage of gross loans and advances increased by one basis point to 0.13%, reflecting the more challenging credit environment in mainland China. Collectively assessed allowances as a percentage of gross loans and advances remained stable at 0.12%. Overall credit quality remained stable.

Impaired loans and advances to customers and allowances

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Gross impaired loans and advances	**3,714**	2,871	2,737
Individually assessed allowances	**(896)**	(1,223)	(807)
	2,818	1,648	1,930
Individually assessed allowances as a percentage of gross impaired loans and advances	**24.1 %**	42.6 %	29.5 %
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.55 %**	0.43 %	0.40 %

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$977m, or 36%, to HK$3,714m compared with last year-end, 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 0.55% at 30 June 2016, compared with 0.40% at the year end of 2015. The Group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Gross individually assessed impaired loans and advances	**3,483**	2,696	2,505
Individually assessed allowances	**(896)**	(1,223)	(807)
	2,587	1,473	1,698
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	**0.51 %**	0.40 %	0.36 %
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	**2,086**	1,095	1,651

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:

	At 30 June 2016		*At 30 June 2015*		*At 31 December 2015*	
	HK$m	***%***	*HK$m*	*%*	*HK$m*	*%*
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	**680**	**0.1**	557	0.1	696	0.1
- more than six months but not more than one year	**740**	**0.1**	937	0.1	543	0.1
- more than one year	**1,185**	**0.2**	590	0.1	912	0.1
	2,605	**0.4**	2,084	0.3	2,151	0.3

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$454m, or 21%, to HK$2,605m compared with the year-end, reflecting 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 10 basis points to 0.4% at 30 June 2016.

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:

	At 30 June 2016		*At 30 June 2015*		*At 31 December 2015*	
	HK$m	***%***	*HK$m*	*%*	*HK$m*	*%*
Rescheduled loans and advances to customers	**120**	–	296	–	140	–

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 decreased by HK$20m, or 14%, to HK$120m when compared with last year-end.

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.

Figures in HK$m	***At 30 June 2016***				
	Gross loans and advances	***Individually impaired loans and advances***	***Overdue loans and advances***	***Individually assessed allowances***	***Collectively assessed allowances***
Hong Kong	**571,374**	**2,145**	**1,977**	**492**	**622**
Mainland China	**79,818**	**1,323**	**627**	**396**	**167**
Others	**28,992**	**15**	**1**	**8**	**57**
	680,184	**3,483**	**2,605**	**896**	**846**

Figures in HK$m	*At 30 June 2015*				
	Gross loans and advances	*Individually impaired loans and advances*	*Overdue loans and advances*	*Individually assessed allowances*	*Collectively assessed allowances*
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
	675,086	2,696	2,084	1,223	841

Figures in HK$m	*At 31 December 2015*				
	Gross loans and advances	*Individually impaired loans and advances*	*Overdue loans and advances*	*Individually assessed allowances*	*Collectively assessed allowances*
Hong Kong	567,668	1,667	1,539	414	605
Mainland China	97,131	829	611	392	171
Others	25,762	9	1	1	32
	690,561	2,505	2,151	807	808

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:

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Gross loans and advances to customers for use in Hong Kong			
Industrial, commercial and financial sectors			
Property development	**48,178**	44,861	43,951
Property investment	**110,863**	107,675	108,840
Financial concerns	**6,731**	5,342	5,556
Stockbrokers	**183**	1,532	32
Wholesale and retail trade	**25,461**	25,672	27,272
Manufacturing	**20,098**	20,833	21,478
Transport and transport equipment	**8,920**	9,011	9,608
Recreational activities	**20**	120	114
Information technology	**5,342**	3,048	3,821
Other	**45,779**	43,231	42,307
	271,575	261,325	262,979
Individuals			
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**16,973**	16,095	16,446
Loans and advances for the purchase of other residential properties	**158,763**	152,275	158,275
Credit card loans and advances	**25,064**	23,947	25,982
Other	**20,124**	19,372	19,737
	220,924	211,689	220,440
Total gross loans and advances for use in Hong Kong	**492,499**	473,014	483,419
Trade finance	**40,593**	40,484	46,885
Gross loans and advances for use outside Hong Kong	**147,092**	161,588	160,257
Gross loans and advances to customers	**680,184**	675,086	690,561

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

Gross loans and advances to customers decreased by HK$10bn, or 2%, to HK$680bn when compared with last year-end as credit demand remained weak amid economic slowdown and contraction in cross-border funding activities.

Loans and advances for use in Hong Kong rose by 2%. Lending to the industrial, commercial and financial sectors grew by 3%. Lending to property development and investment grew by 10% and 2% respectively. Financial concerns lending grew by 21%. In tandem with the lackluster retail sales performance, wholesale and retail trade lending was down by 7%. Manufacturing and transport and transport equipment lending declined by 6% and 7% respectively, mainly due to loan repayment. Information technology lending grew by 40%, reflecting new drawdown. Growth in lending to 'Other' was attributable to working capital financing for certain large corporate customers.

Lending to individuals remained broadly the same as last year-end. In a subdued property market, the Group maintained the market share for mortgage business and grew its residential mortgage when compared with last year-end. Credit card advances fell by 4%, as seasonal factors offset a year-on-year increase of 3% in cardholder spending. Other loans to individuals grew by 2%.

Trade finance fell by 13% against last year-end due mainly to the contraction in cross-border lending activities and sluggish market conditions leading to drop in trade finance coupled with keen pricing competition amongst banks.

Loans and advances for use outside Hong Kong fell by 8% compared with the end of 2015, mainly attributable to the decline in cross-border funding activities and early repayment of loans granted by Hong Kong office and our mainland banking subsidiary.

Financial investments

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Available-for-sale at fair value:			
- debt securities	**287,165**	246,590	285,808
- equity shares	**4,207**	5,007	4,633
- investment funds	–	10	9
Held-to-maturity debt securities at amortised cost	**84,031**	76,591	81,822
	375,403	328,198	372,272
Fair value of held-to-maturity debt securities	**88,717**	79,210	84,571
Treasury bills	**151,383**	139,176	152,014
Certificates of deposit	**10,139**	12,052	12,053
Other debt securities	**209,674**	171,953	203,563
Debt securities	**371,196**	323,181	367,630
Equity shares	**4,207**	5,007	4,633
Investment funds	–	10	9
	375,403	328,198	372,272
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**218,180**	191,955	223,589
- other public sector entities	**28,027**	25,538	25,959
	246,207	217,493	249,548
Issued by other bodies:			
- banks	**81,544**	67,781	75,840
- corporate entities	**43,445**	37,907	42,242
	124,989	105,688	118,082
	371,196	323,181	367,630
Equity shares:			
Issued by banks	**3,533**	4,505	4,096
Issued by corporate entities	**674**	502	537
	4,207	5,007	4,633
Investment funds:			
Issued by corporate entities	–	10	9
	375,403	328,198	372,272

Debt securities by rating agency designation

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
AA- to AAA	**271,183**	246,941	277,556
A- to A+	**89,551**	66,558	79,526
B+ to BBB+	**7,704**	7,402	8,136
Unrated	**2,758**	2,280	2,412
	371,196	323,181	367,630

Financial investments include treasury bills, certificates of deposit, other debt securities, equity shares and investment funds 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.

Interest in associates

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Share of net assets	**2,291**	2,258	2,275
	2,291	2,258	2,275

Intangible assets

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Present value of in-force long-term insurance business	**12,851**	9,774	11,431
Internally developed/acquired software	**461**	474	461
Goodwill	**329**	329	329
	13,641	10,577	12,221

Other assets

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Items in the course of collection from other banks	**8,433**	7,177	6,922
Bullion	**1,945**	3,854	3,536
Prepayments and accrued income	**3,644**	3,946	3,717
Acceptances and endorsements	**4,224**	6,326	5,724
Reinsurer’s share of liabilities under insurance contracts	**6,882**	3,717	5,782
Other accounts	**2,742**	2,818	2,794
	27,870	27,838	28,475

Current, savings and other deposit accounts

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Current, savings and other deposit accounts:			
- as stated in condensed consolidated balance sheet	**951,545**	947,495	959,228
- structured deposits reported as trading liabilities	**25,624**	36,715	27,440
	977,169	984,210	986,668
By type:			
- demand and current accounts	**92,844**	83,459	86,644
- savings accounts	**638,640**	580,379	615,135
- time and other deposits	**245,685**	320,372	284,889
	977,169	984,210	986,668

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Certificates of deposit and other debt securities in issue:			
- as stated in condensed consolidated balance sheet	**6,416**	7,738	5,191
- certificates of deposit in issue designated at fair value	**3,508**	3,510	3,491
- other debt securities in issue reported as trading liabilities	**3,822**	4,680	2,351
	13,746	15,928	11,033
By type:			
- certificates of deposit in issue	**8,758**	10,002	7,491
- other debt securities in issue	**4,988**	5,926	3,542
	13,746	15,928	11,033

Trading liabilities

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Other structured debt securities in issue	**3,822**	4,680	2,351
Structured deposits	**25,624**	36,715	27,440
Short positions in securities and others	**28,710**	36,148	33,126
	58,156	77,543	62,917

Trading liabilities fell by HK$5bn, or 8%, to HK$58bn when compared with last year-end, mainly due to the decrease in short positions in securities and others related to Exchange Fund Bills and Notes.

Other liabilities

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Items in the course of transmission to other banks	**10,588**	8,563	7,586
Accruals	**2,833**	3,463	3,531
Acceptances and endorsements	**4,224**	6,326	5,724
Retirement benefit liabilities	**1,728**	1,380	1,013
Other	**4,444**	3,155	3,037
	23,817	22,887	20,891

Subordinated liabilities

Figures in HK$m		***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Nominal value	Description			
Amounts owed to HSBC Group undertakings				
US$450m	Floating rate subordinated loan debt due July 2021	–	3,488	–
US$300m	Floating rate subordinated loan debt due July 2022	**2,328**	2,326	2,325
		2,328	5,814	2,325
Representing:				
- measured at amortised cost		**2,328**	5,814	2,325

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

Shareholders' funds

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Share capital	**9,658**	9,658	9,658
Retained profits	**100,615**	102,085	105,363
Other equity instruments	**6,981**	6,981	6,981
Premises revaluation reserve	**16,760**	16,379	16,777
Cash flow hedging reserve	**(26)**	4	(9)
Available-for-sale investment reserve			
- on debt securities	**225**	277	23
- on equity securities	**1,483**	2,292	1,916
Other reserves	**1,017**	1,798	1,272
Total reserves	**127,055**	129,816	132,323
Shareholders' funds	**136,713**	139,474	141,981
Annualised return on average ordinary shareholders' equity for the half-year ended	**12.4 %**	31.0 %	10.6 %

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 2016.

Capital management

The following tables show the capital ratios, capital buffers, 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. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base as determined in accordance with Part 3 of the Banking (Capital) Rules.

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 2016, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK$5,823m (31 December 2015: HK$6,610m).

There are no relevant capital shortfalls in any of the Group's subsidiaries at 30 June 2016 (31 December 2015: nil) which are not included in its consolidation group for regulatory purposes.

During the period, the Group has complied with all of the externally imposed capital requirements by the HKMA.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Common Equity Tier 1 ('CET1') Capital			
Shareholders' equity	**114,350**	119,201	120,963
- Shareholders' equity per condensed consolidated balance sheet	**136,713**	139,474	141,981
- AT1 perpetual capital instrument	**(6,981)**	(6,981)	(6,981)
- Unconsolidated subsidiaries	**(15,382)**	(13,292)	(14,037)
Regulatory deductions to CET1 capital	**(29,783)**	(29,975)	(30,687)
- Cash flow hedging reserve	**(8)**	(22)	(11)
- Changes in own credit risk on fair valued liabilities	**(17)**	(7)	(6)
- Property revaluation reserves[1]	**(23,042)**	(22,654)	(23,135)
- Regulatory reserve	**(5,823)**	(6,382)	(6,610)
- Intangible assets	**(421)**	(433)	(421)
- Defined benefit pension fund assets	**(22)**	(34)	(35)
- Deferred tax assets net of deferred tax liabilities	**(142)**	(104)	(115)
- Valuation adjustments	**(308)**	(339)	(354)
Total CET1 Capital	**84,567**	89,226	90,276
AT1 Capital			
Total AT1 capital before and after regulatory deductions	**6,981**	6,981	6,981
- Perpetual capital instrument	**6,981**	6,981	6,981
Total AT1 Capital	**6,981**	6,981	6,981
Total Tier 1 ('T1') Capital	**91,548**	96,207	97,257
Tier 2 ('T2') Capital			
Total T2 capital before regulatory deductions	**15,651**	18,000	15,746
- Term subordinated debt	**2,328**	4,767	2,325
- Property revaluation reserves[1]	**10,368**	10,194	10,411
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**2,955**	3,039	3,010
Regulatory deductions to T2 capital	**(315)**	(315)	(315)
- Significant capital investments in unconsolidated financial sector entities	**(315)**	(315)	(315)
Total T2 Capital	**15,336**	17,685	15,431
Total Capital	**106,884**	113,892	112,688

[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)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Credit risk	**444,700**	453,899	446,753
Market risk	**9,876**	20,028	13,698
Operational risk	**50,180**	47,516	49,023
Total	**504,756**	521,443	509,474

(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:

	At 30 June 2016	*At 30 June 2015*	*At 31 December 2015*
CET1 capital ratio	**16.8 %**	17.1 %	17.7 %
T1 capital ratio	**18.1 %**	18.5 %	19.1 %
Total capital ratio	**21.2 %**	21.8 %	22.1 %

The Basel III rules set out the minimum capital requirements, to be phased in sequentially from 1 January 2013 and become fully effective on 1 January 2019. On a pro-forma basis that takes no account of, for example, any future profits or management action and any change in the current regulations or their application before full implementation, the Group's capital ratios at Basel III end point are the same as above as at 30 June 2016. The pro-forma Basel III end point basis position is a mechanical application of the current rules to the capital base as at 30 June 2016, it is not a projection.

(d) Capital buffers (as a percentage of risk-weighted assets)

With effect from 1 January 2016, the following capital buffers are phased-in and the applicable ratios to the Group on a consolidated basis are as follows:

	At 30 June 2016
Capital conservation buffer ratio	**0.625 %**
Higher loss absorbency ratio	**0.375 %**
Countercyclical capital buffer ratio	**0.537 %**
Total	**1.537 %**

Capital management *(continued)*

(e) Capital instruments

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

	Amount recognised in regulatory capital		
Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
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	6,981
T2 capital instruments			
Subordinated loan due 2021 (nominal value: US$450m)	–	2,441	–
Subordinated loan due 2022 (nominal value: US$300m)	**2,328**	2,326	2,325

(f) 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.

	At 30 June 2016	*At 30 June 2015*	*At 31 December 2015*
Leverage ratio	**7.4 %**	7.7 %	7.8 %
Figures in HK$m			
T1 capital	**91,548**	96,207	97,257
Exposure measure	**1,236,337**	1,255,187	1,248,642

The decrease in the LR from 31 December 2015 to 30 June 2016 was mainly due to a decrease in T1 capital, attributed to the payment of special interim dividend for 2015.

Capital management *(continued)*

(g) 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.
- Geographical breakdown of risk-weighted assets in relation to private sector credit exposures and the applicable countercyclical capital buffer ratio for each jurisdiction using the standard template as specified by the HKMA.

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its Liquidity Coverage Ratio ('LCR') on a consolidated basis, under the Basel III LCR standard which came into effect from 1 January 2015. During the year of 2016, the Group is required to maintain a LCR of not less than 70%, increasing to not less than 100% by January 2019. The average LCR for the reportable periods are as follows:

	Quarter ended 30 June 2016	***Quarter ended 31 March 2016***	*Quarter ended 30 June 2015*	*Quarter ended 31March 2015*
Average Liquidity Coverage Ratio	**257.1 %**	**257.1 %**	221.6 %	167.4 %

The liquidity position of the Group remained strong for the first half of 2016 as the Group has deployed the commercial surplus in high quality liquid assets given the subdued credit demand.

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.

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 30 June 2016***	*At 30 June 2015*	*At 31 December 2015*
Contract amounts			
Direct credit substitutes	**6,849**	4,552	7,558
Transaction-related contingencies	**4,442**	3,108	3,336
Trade-related contingencies	**10,137**	13,541	11,217
Commitments that are unconditionally cancellable without prior notice	**327,535**	303,965	323,270
Commitments which have an original maturity of not more than one year	**4,071**	6,391	2,642
Commitments which have an original maturity of more than one year	**28,353**	24,275	22,126
	381,387	355,832	370,149
Risk-weighted amounts	**39,414**	32,568	36,227

The table above gives the nominal contract amounts and risk-weighted amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the Group. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 3C(1) of the Banking (Capital) Rules.

Figures in HK$m	***Contract amounts***	***Risk-weighted amounts***	***Fair value***
At 30 June 2016			
Exchange rate contracts:			
Foreign exchange	**666,790**	**1,295**	**832**
Other exchange rate contracts	**153,476**	**2,882**	**1,375**
	820,266	**4,177**	**2,207**
Interest rate contracts:			
Interest rate swaps	**289,328**	**240**	**173**
Other interest rate contracts	**1,362**	–	**1**
	290,690	**240**	**174**
Other derivative contracts	**17,414**	**344**	**349**

Contingent liabilities, commitments and derivatives *(continued)*

Figures in HK$m	*Contract amounts*	*Risk-weighted amounts*	*Fair value*
At 30 June 2015			
Exchange rate contracts:			
Foreign exchange	525,622	1,168	1,104
Other exchange rate contracts	171,846	4,719	1,322
	697,468	5,887	2,426
Interest rate contracts:			
Interest rate swaps	242,035	430	356
Other interest rate contracts	318	–	–
	242,353	430	356
Other derivative contracts	11,043	360	189

Figures in HK$m	*Contract amounts*	*Risk-weighted amounts*	*Fair value*
At 31 December 2015			
Exchange rate contracts:			
Foreign exchange	556,913	1,365	1,858
Other exchange rate contracts	146,297	5,496	3,084
	703,210	6,861	4,942
Interest rate contracts:			
Interest rate swaps	268,924	263	32
Other interest rate contracts	948	–	–
	269,872	263	32
Other derivative contracts	15,581	418	248

The above table is compiled in accordance with the 'Capital Adequacy Ratio' return submitted to the HKMA. This return is prepared using a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

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 2016***			*At 30 June 2015*			*At 31 December 2015*		
	Trading	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:									
Interest rate contracts	**247,407**	**3,500**	**46,954**	188,695	3,500	55,268	213,414	3,500	57,640
Exchange rate contracts	**940,390**	—	**20,804**	898,567	—	7,034	819,332	–	15,359
Other derivative contracts	**24,984**	—	–	19,729	—	–	23,901	–	–
	1,212,781	**3,500**	**67,758**	1,106,991	3,500	62,302	1,056,647	3,500	72,999
Derivative assets:									
Interest rate contracts	**1,218**	**30**	**17**	1,048	24	67	875	20	84
Exchange rate contracts	**7,019**	—	**222**	4,248	—	255	9,875	–	388
Other derivative contracts	**578**	—	–	362	—	–	353	–	–
	8,815	**30**	**239**	5,658	24	322	11,103	20	472
Derivative liabilities:									
Interest rate contracts	**1,286**	—	**970**	1,023	—	494	867	–	429
Exchange rate contracts	**7,903**	—	**1,294**	4,066	—	32	8,273	–	163
Other derivative contracts	**137**	—	–	262	—	–	256	–	–
	9,326	—	**2,264**	5,351	—	526	9,396	–	592

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

1. Statutory financial statements and accounting policies

The financial information relating to the year ended 31 December 2015 that is included in this press release does not constitute the Group's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the Hong Kong Monetary Authority.

The auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622). Disclosures required by the Banking (Disclosure) Rules issued by the HKMA are contained in the Group's condensed consolidated financial statements 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 press release.

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 143 to 159 of the 2015 statutory financial statements.

During the period, the Group has adopted the following amendments to standards which have insignificant or no effect on the Group's condensed consolidated financial statements.

- Amendments to Hong Kong Accounting Standard ('HKAS') 1 'Disclosure Initiative'
- Amendments to HKAS 16 'Property, Plant and Equipment' and HKAS 38 'Intangible Assets'
- Amendments to HKAS 27 'Separate Financial Statements'
- Amendments to Hong Kong Financial Reporting Standard ('HKFRS') 10, HKFRS 12 and HKAS 28 'Investments Entities'
- Amendments to HKFRS 11 'Joint Arrangements'

The Annual Report for the year ended 31 December 2015, which includes the statutory financial statements, can be obtained on request from the Company Secretarial Services Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from the Bank's website www.hangseng.com.

2. Comparative figures

Certain comparative figures have been adjusted to conform with the current period's presentation.

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

During the first half of 2015, the Bank has sold 9.99% (representing 1,903,316,838 ordinary shares) of its shareholding of the ordinary shares of Industrial Bank Co., Ltd. ('Industrial Bank'), and recognised a gain of HK$10,636m for the first half of 2015.

Since there are significant financial implications as a result of the recognition of the gain on partial disposal in the condensed consolidated income statement for the first half of 2015, the key financial results and performance metrics for the first half of 2016 are not directly comparable. 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.

	As reported					***Excluding the gain on partial disposal of Industrial Bank in the first half of 2015***	
Figures in HK$m	***Half-year ended 30 June 2016***	*Half-year ended 30 June 2015*	*Variance against half-year ended 30 June 2015*[†]	*Half-year ended 31 December 2015*	*Variance against half-year ended 31 December 2015*[†]	*Half-year ended 30 June 2015*	*Variance against half-year ended 30 June 2015*[†]
Attributable profit	**8,005**	20,048	-60%	7,446	+8%	9,412	-15%
Profit before tax	**9,499**	21,720	-56%	8,768	+8%	11,084	-14%
Return on average ordinary shareholders' equity (%)	**12.4**	31.0	-18.6pp	10.6	+1.8pp	14.5	-2.1pp
Return on average total assets (%)	**1.2**	3.1	-1.9pp	1.1	+0.1pp	1.5	-0.3pp
Earnings per share (HK$)	**4.19**	10.49	-60%	3.73	+12%	4.92	-15%

[†] *Change in 'pp' represents change in percentage points.*

4. Property revaluation

The Group's premises and investment properties were revalued at 30 June 2016 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$277m was credited to the premises revaluation reserve. The related deferred tax provision for Group premises was HK$47m. Excluding the fair value gain on properties backing insurance contracts, revaluation deficit of HK$77m on investment properties were recognised through the condensed consolidated income statement.

5. Foreign currency positions

At 30 June 2016, the US dollar ('US$') was the currency in which the Group had non-structural foreign currency position that was not less than 10% of the total net position in all foreign currencies. The Group also had a Chinese renminbi ('RMB') structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

Figures in HK$m	*US$*	*RMB*	*Other foreign currencies*	*Total foreign currencies*
At 30 June 2016				
Non-structural position				
Spot assets	**180,635**	**131,142**	**132,201**	**443,978**
Spot liabilities	**(158,187)**	**(114,052)**	**(67,832)**	**(340,071)**
Forward purchases	**395,772**	**179,633**	**43,793**	**619,198**
Forward sales	**(415,813)**	**(196,786)**	**(108,086)**	**(720,685)**
Net options position	**202**	**(60)**	**(237)**	**(95)**
Net long/(short) non-structural position	**2,609**	**(123)**	**(161)**	**2,325**
Structural position	**–**	**14,536**	**895**	**15,431**

Figures in HK$m	*US$*	*RMB*	*Other foreign currencies*	*Total foreign currencies*
At 30 June 2015				
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	2,514	10,805	(13)	13,306
Structural position	–	14,215	750	14,965

5. Foreign currency positions *(continued)*

Figures in HK$m	*US$*	*RMB*	*Other foreign currencies*	*Total foreign currencies*
At 31 December 2015				
Non-structural position				
Spot assets	204,267	148,933	137,573	490,773
Spot liabilities	(169,779)	(128,759)	(66,796)	(365,334)
Forward purchases	320,566	153,574	35,151	509,291
Forward sales	(355,062)	(170,630)	(106,024)	(631,716)
Net options position	212	(328)	121	5
Net long non-structural position	204	2,790	25	3,019
Structural position	—	15,238	816	16,054

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 Tuesday, 23 August 2016, 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 Monday, 22 August 2016. The second interim dividend will be payable on Tuesday, 13 September 2016, to shareholders whose names appear on the register of shareholders of the Bank on Tuesday, 23 August 2016. Shares of the Bank will be traded ex-dividend as from Friday, 19 August 2016.

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 2016. The Bank also constantly reviews and enhances its corporate governance framework to ensure that it is in line with international and local corporate governance best practices.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2016.

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9. Board of Directors

At 3 August 2016, 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#, Mr Patrick K W Chan, Dr Henry K S Cheng*, Ms L Y Chiang*, Mr Andrew H C Fung, Dr Fred Zuliu 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

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10. Press release

This press release is available on the Bank's website www.hangseng.com.

The Interim Report 2016, 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 press release. Printed copies of the Interim Report 2016 will be sent to shareholders in late-August 2016.

Press enquiries to:

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