31 July 2017

HANG SENG BANK LIMITED
2017 INTERIM RESULTS - HIGHLIGHTS

- Attributable profit up 23% to HK$9,838m (HK$8,005m for the first half of 2016).
- Profit before tax up 23% to HK$11,646m (HK$9,499m for the first half of 2016).
- Operating profit up 23% to HK$11,732m (HK$9,516m for the first half of 2016).
- Operating profit excluding loan impairment charges and other credit risk provisions up 21% to HK$12,402m (HK$10,237m for the first half of 2016).
- Return on average ordinary shareholders' equity of 14.6% (12.4% for the first half of 2016).
- Earnings per share up 23% to HK$5.15 per share (HK$4.19 per share for the first half of 2016).
- Second interim dividend of HK$1.20 per share; total dividends of HK$2.40 per share for the first half of 2017 (HK$2.20 per share for the first half of 2016).
- Common equity tier 1 ('CET1') capital ratio of 16.2%, tier 1 ('T1') capital ratio of 17.4% and total capital ratio of 20.2% at 30 June 2017. (CET1 capital ratio of 16.6%, T1 capital ratio of 17.9% and total capital ratio of 20.8% at 31 December 2016.)
- Cost efficiency ratio of 29.8% (32.7% for the first half of 2016).

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 2017.

Comment by Raymond Ch'ien, Chairman

The international economic environment was characterised by moderate expansion in the first half of 2017. The US economy picked up speed in the second quarter to record annualised GDP growth of 2.6%, compared with 1.2% for the first quarter. Recovery in the eurozone remains on a steady path, with first-quarter GDP growth of nearly 2%.

With global economic conditions returning to a more stable footing, Hang Seng's investments in technology and business infrastructure have strengthened our ability to act quickly on new business opportunities and to further leverage the advantages of our leading market position and trusted brand.

Attributable profit and earnings per share both grew by 23% year on year to HK$9,838m and HK$5.15 per share respectively. Compared with the second half of 2016, attributable profit and earnings per share rose by 20% and 25% respectively.

Return on average ordinary shareholders' equity was 14.6%, compared with 12.4% and 11.9% in the first and second halves of 2016.

The Directors have declared a second interim dividend of HK$1.20 per share. This brings the total distribution for the first half of 2017 to HK$2.40 per share, compared with HK$2.20 per share in the first half of 2016.

Economic Environment

Hong Kong has benefited from the improvement in the external environment. GDP growth in the first quarter hit a six-year high of 4.3%. Although the pace of expansion may slow in the coming quarters due to the high base of comparison, we expect full-year growth for 2017 to improve upon the 2% recorded last year.

Despite the challenges of ongoing economic deleveraging in mainland China, the economy has demonstrated resilience, resulting in a 6.9% expansion in GDP during the first half of the year. While risks to growth remain on the downside, we expect the more supportive global economic conditions and the Central Government's ongoing stimulus measures to maintain mainland GDP growth for 2017 at a similar level to 2016.

The upward trend in the global economy brought greater stability to the operating environment during the first half of the year. At the same time, continuing uncertainties over future international trade flows, the evolving credit conditions and the impact of the ongoing economic transition on the Mainland will continue to create challenges for business in our markets of operation.

Backed by our competitive strengths and deep understanding of the needs of our clients, we will deploy our resources to realise further gains in efficiency and build on the good progress we have made to provide long-term value for shareholders.

As we have previously announced, the first half of 2017 marked the conclusion of Rose Lee's tenure as Vice-Chairman and Chief Executive of the Bank. On behalf of the Board, I would like to express deep appreciation to Rose for her dynamic leadership and outstanding contributions to driving the sustainable growth and trusted reputation of Hang Seng. She is passing the baton on to her successor, Louisa Cheang, with the Bank in robust financial health to meet the challenges ahead.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

Hang Seng Bank returned strong results for the first half of 2017. We strengthened our commitment to service excellence with new initiatives to keep customer needs at the heart of the Hang Seng experience. As international economic conditions improved, our investments in technology and the continuous enhancement of our business infrastructure enabled us to respond swiftly to the changing needs of clients.

We achieved solid growth in net interest income and non-interest income, with all business segments recording increases in income and profitability.

Supported by our customer segmentation strategy, we leveraged our strong data analytics capabilities, extensive distribution network and comprehensive suite of financial management offerings to deliver the right products and services to customers. Along with the upturn in investment market sentiment, this drove good growth in wealth management income.

Our improved engagement with customers facilitated the acquisition of new deposits and the expansion of lending. Supported by higher interest rates, we actively managed our assets and liabilities to record an increase in the net interest margin.

Our strong cross-border and cross-business connectivity remained key competitive advantages in capturing new business and ensuring we are well positioned for sustainable long-term growth. Hang Seng China recorded solid growth in its balance sheet and maintained good cost control, but profitability was adversely affected by tightening interest margins due to the rise in the cost of renminbi funding. Initiatives to strengthen our mainland investment services proposition were reflected in increased sales of retail investment funds. We also began manufacturing funds on the Mainland. In April, Hang Seng Qianhai Fund Management Company Limited, our foreign-majority-owned joint venture fund management company, launched its first public fund.

With the growth in net operating income outpacing the increase in operating expenses, we recorded a 2.9-percentage-point improvement in our cost efficiency ratio which, at 29.8%, is one of the lowest in the banking industry in Hong Kong.

Financial Performance

Attributable profit and earnings per share both increased by 23% to HK$9,838m and HK$5.15 per share respectively. Profit before tax was up 23% at HK$11,646m. Compared with the second half of 2016, attributable profit, earnings per share and profit before tax were up 20%, 25% and 21% respectively.

Operating profit increased by 23% to HK$11,732m. Operating profit excluding loan impairment charges was up 21% at HK$12,402m. Compared with the second half of 2016, both operating profit and operating profit excluding loan impairment charges grew by 23%.

Net operating income increased by 17% to HK$16,987m. Compared with the second half of 2016, net operating income was up 15%.

Net interest income grew by 7% to HK$11,814m, reflecting the 3% increase in average interest-earning assets and the improvement in the net interest margin. Compared with the second half of 2016, net interest income was up 5%. Net interest margin was 1.94%, compared with 1.85% and 1.86% for the first and second halves of 2016.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

As investment sentiment improved, our enhanced big data and customer segmentation capabilities enabled us to more effectively leverage our broad portfolio of health-and-wealth products to achieve a 39% increase in both non-interest income and wealth management income. Compared with the second half of 2016, non-interest income and wealth management income were up 41% and 45% respectively.

Our cost efficiency ratio was 29.8%, compared with 32.7% and 34.3% for the first and second halves of last year.

Loan impairment charges and other credit risk provisions were HK$670m, compared with HK$721m and HK$592m for the first and second halves of 2016. We actively managed our lending portfolio to ensure overall credit quality remained stable.

At 30 June 2017, our common equity tier 1 capital ratio was 16.2% and our tier 1 capital ratio was 17.4%, compared with 16.6% and 17.9% respectively at 31 December 2016. Our total capital ratio was 20.2%, compared with 20.8% at the end of last year.

Positioning for Sustainable Growth

The international economy gained a more stable footing in the first half of 2017. However, continuing economic deleveraging on the Mainland and uncertainties in the global arena, including the direction of future international trade and interest rate policies, will continue to create challenging operating conditions in the second half of the year.

We will build on the good progress we have made by maintaining our sustainable growth strategy. We will further leverage our position as the leading domestic bank in Hong Kong and reinforce our competitive strengths such as our trusted brand, large base of loyal customers and extensive distribution network.

We will continue to focus on providing core banking services to customers. Our investments in technology, data analytics and our physical and digital service channels have improved our ability to engage more effectively with clients, offer them greater convenience and choice, and respond quickly to their changing needs and market developments. These enhanced service capabilities have led to more business across our key banking lines and increases in the customer base in target segments. Continuing improvements to our cross-business connectivity will facilitate more effective cross-selling and closer collaboration to drive sustainable growth.

We will strengthen our support for SME customers by further enhancing our transactional banking and liquidity management services. Our well-integrated cross-border infrastructure has placed us well to offer customers comprehensive financial management solutions and act swiftly to capture new business created by ongoing financial reforms on the Mainland and major developments such as the Guangdong-Hong Kong-Macau Bay Area and 'One Belt, One Road' initiatives.

We will continue to invest in enhancing efficiency and deepening our understanding of the needs and priorities of our diverse range of clients.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

We will maintain a strong capital base and healthy liquidity position to ensure we are well-prepared to respond to future changes in business conditions and regulatory requirements.

The professionalism and dedication of our people is crucial to our long-term success. I wish to thank my colleagues at all levels for their contributions to growing our business and upholding our reputation as a financial services provider of choice.

With service excellence as the key principle of our business strategy, we will continue to drive forward with initiatives to deliver on our sustainable growth objectives and increase value for customers and shareholders.

Results Summary

Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') leveraged their core strengths to generate good growth momentum and achieve strong results for the first half of 2017. **Profit attributable to shareholders and profit before tax** were both up 23% at HK$9,838m and HK$11,646m respectively. **Operating profit** was HK$11,732m, up 23% compared with the first half of 2016. **Operating profit excluding loan impairment charges and other credit risk provisions** grew by HK$2,165m, or 21%, to HK$12,402m, with solid growth in both net interest income and non-interest income. We used our time-to-market advantage and extensive distribution network to capitalise on the improved investor sentiment, achieving strong growth of 39% in wealth management income.

Net interest income increased by HK$811m, or 7%, to HK$11,814m, reflecting the 3% rise in average interest-earning assets. Net interest margin improved by nine basis points to 1.94% when compared with the same period last year, with improved customer deposit spreads being partly offset by compressed customer loan spreads. Treasury grasped opportunities in the interbank market and successfully enhanced returns on new and existing assets, resulting in an increase in balance sheet management portfolio income.

Net fee income increased by HK$441m, or 15%, to HK$3,294m, with growth being recorded across most core business lines. Strong customer demand and favourable market sentiment drove the 32% rise in stockbroking and related services fee income and growth of 31% in retail investment funds fee income. Benefitting from higher distribution fees received from non-life insurance products as well as commission originating from life reinsurance business solutions, insurance-related fee income rose by 12%. Gross fee income from credit card business grew by 9%. Credit facilities fee income rose by 27%, due mainly to higher fees from increased corporate lending. Fees from account services and remittances recorded growth of 7% and 9% respectively, driven by increased business volume.

Net trading income grew by HK$933m, or 205%, to HK$1,388m. Foreign exchange income increased by HK$628m, or 116%, attributable mainly to the increase in customer activity and higher income from funding swaps. There was also a revaluation gain on cross-currency swaps supporting life insurance contracts compared with a revaluation loss for the same period last year.

Income from interest rate derivatives, debt securities, equities and other trading activities recorded a gain of HK$220m compared with a loss of HK$113m for the same period last year. Income from sales of the Bank's equity-linked structured product registered higher income whereas the revaluation loss of equity-linked derivatives products in the life insurance business investment portfolio was lower as a result of the favourable fair value movement when compared with the same period last year. The favourable market interest rate movement also benefitted interest rate derivatives income.

Net income/(loss) from financial instruments designated at fair value recorded a gain of HK$988m compared with a loss of HK$30m for the same period in 2016, reflecting improved returns on financial assets supporting insurance contracts liabilities as a result of favourable equity market. 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 and in present value of in-force long-term insurance business ('PVIF').

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’) grew by HK$850m, or 45% to HK$2,748m. Net interest income and fee income from life insurance business increased by 2%. Investment returns on life insurance business improved, recording a gain of HK$980m compared with a loss of HK$394m for the same period last year, reflecting changes in the fair value of assets held by the life insurance business and the favourable movement of equity markets. To the extent that these investment returns are attributable to policyholders, there is an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders and in present value of in-force long-term insurance business (‘PVIF’).

Net insurance premium income increased by 27%, reflecting the combined effect of higher premiums received from successful sales initiatives for annuity and universal life products and increased renewal business, and the decrease in reinsurance premiums on new treaty arrangements for the in-force portfolio. The rise in insurance premiums resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders.

The movement in PVIF decreased by 48%, mainly reflecting the net effect of market conditions update and higher life insurance sales during the period. General insurance income increased by 12%.

Loan impairment charges and other credit risk provisions decreased by HK$51m, or 7%, to HK$670m. Gross impaired loans and advances decreased by HK$99m, or 3%, to HK$3,136m against 2016 year-end. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.42% at the end of June 2017, compared with 0.55% at the end of June 2016 and 0.46% at the end of December 2016. Overall credit quality remained stable.

Individually assessed impairment charges decreased by HK$12m, or 4%, to HK$327m. Increases in new impairment charges from corporate and commercial customers for Hong Kong loan portfolios were offset by lower charges for mainland loan portfolios during the period.

Collectively assessed impairment charges fell by HK$39m, or 10%, to HK$343m, reflecting decreases in collectively assessed impairment charges on the credit card and personal loan portfolios, partly offset by higher impairment allowances for loans not individually identified as impaired. The Group maintains a cautious outlook on the credit environment and will proactively enhance asset quality by continuing to take a prudent approach in growing the loan portfolio.

Operating expenses increased by HK$275m, or 6%, to HK$5,255m, reflecting the Bank's continued investment in technology, services enhancement and staff-related costs. Staff costs were up 4%, due mainly to the annual salary increment and higher performance-related pay expenses.

Depreciation charges increased by 9%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation at last year-end and the increased depreciation on a bank property as a result of the change in property usage to support back-office functions. General and administrative expenses rose by 6%, due mainly to rises in IT and processing charges.

The Group continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio improved by 2.9 percentage points compared with the same period last year to 29.8%.

Profit before tax increased by HK$2,147m, or 23%, to HK$11,646m after taking into account the following major items:

- a revaluation surplus of HK$50m compared with a revaluation deficit of HK$77m in the first half of 2016 in **net surplus/(deficit) on property revaluation**; and
- a loss of HK$136m compared with a profit of HK$60m in the first half of 2016 in **share of profits/(losses) of associates**, mainly from a revaluation deficit on a property investment company.

First half of 2017 compared with second half of 2016

Against the second half of 2016, attributable profit grew by HK$1,631m, or 20%, driven by solid growth in both net interest income and non-interest income.

Net interest income grew by HK$563m, or 5%, mainly supported by the increase in average interest-earning assets and improvement in net interest margin despite there being more calendar days in the second half of 2016. Non-interest income increased by HK$1,712m, or 41%, driven mainly by an increase in wealth management income. There was an improvement in investment services income, with higher income from retail investment funds, securities brokerage and structured investment products. Insurance income also registered good growth, benefitting from a revaluation gain on cross-currency swaps supporting life insurance contract liabilities and higher investment returns as a result of the favourable movement of the equities market.

Operating expenses were broadly in line with the second half of 2016, with increases in staff costs and depreciation largely offset by lower general and administrative expenses. Loan impairment charges increased by 13%, reflecting higher individually assessed impairment charges.

Condensed consolidated balance sheet and key ratios

Assets

Total assets rose by HK$24bn, or 2%, to HK$1,401bn at 30 June 2017 since 2016 year-end, reflecting progress with the Group's strategy to enhance profitability through sustainable growth.

Cash and sight balances at central banks decreased by HK$7bn, or 32%, to HK$16bn, due mainly to the decrease in the commercial surplus placed with the Hong Kong Monetary Authority ('HKMA'). Placings with banks fell by HK$2bn, or 2%, to HK$102bn. Trading assets increased by HK$1bn, or 2%, to HK$45bn.

Customer loans and advances (net of impairment allowances) grew by HK$44bn, or 6%, to HK$743bn, compared with the end of 2016. Loans for use in Hong Kong increased by 8%, mainly in property development and investment, wholesale and retail trade, manufacturing, transport, and working capital financing for certain large corporate customers. Lending to individuals increased by 4% when compared with the end of 2016. The Group continued to maintain its market share for mortgage business, with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending growing by 3% and 14% respectively. Trade finance lending maintained at broadly the same level as last year-end. Loans and advances for use outside Hong Kong increased by 3%, driven largely by lending on the Mainland.

Financial investments decreased by HK$3bn, or 1%, to HK$395bn, reflecting the partial redeployment of the commercial surplus in debt securities to support the growth in customer loans and advances.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$28bn, or 3%, to HK$1,057bn since last year-end, with increased contribution from current and savings account deposits. At 30 June 2017, the advances-to-deposits ratio was 70.3%, compared with 67.9% at 31 December 2016.

At 30 June 2017, shareholders' equity was up HK$4bn, or 3%, at HK$145bn against last year-end. Retained profits grew by HK$3bn, or 2%, reflecting profit accumulation partly offset by the payment of the 2016 fourth interim dividend and 2017 first interim dividend. The premises revaluation reserve increased by HK$0.6bn, or 4%, reflecting the upward trend in the commercial property market. The available-for-sale investment reserve increased by HK$0.5bn, or 35%, mainly reflecting the fair value movement of the Group's investment in the available-for-sale investment securities as a result of market movements. Other reserves, primarily the foreign exchange reserve, increased by HK$0.3bn, or 67%, mainly reflecting the appreciation of the renminbi.

Key ratios

Return on average total assets was 1.4%, compared with 1.2% for both the first and second halves of 2016. **Return on average ordinary shareholders' equity** was 14.6%, compared with 12.4% in the first half and 11.9% in the second half of 2016.

At 30 June 2017, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.2%, 17.4% and 20.2% respectively, compared with 16.6%, 17.9% and 20.8% respectively at 2016 year-end. The reduction reflects the net effect of an increase in capital base and a 5% rise in risk-weighted assets mainly driven by loan growth.

Under the Banking (Liquidity) Rules, the average **Liquidity Coverage Ratio ('LCR')** was 256.7% and 267.7% for the quarters ended 30 June and 31 March 2017, compared with 257.1% for the quarters ended 30 June 2016 and 31 March 2016 respectively. The average liquidity position of the Group remained strong for the first half of 2017.

Dividends

The Directors have declared a second interim dividend of HK$1.20 per share, which will be payable on 31 August 2017 to shareholders on the register as of 15 August 2017. Together with the first interim dividend, the total distribution for the first half of 2017 is HK$2.40 per share.

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Half-year ended 30 June 2017					
Net interest income/(expense)	**6,619**	**3,288**	**1,969**	**(62)**	**11,814**
Net fee income	**2,104**	**934**	**163**	**93**	**3,294**
Net trading income/(loss)	**347**	**252**	**827**	**(38)**	**1,388**
Net income from financial instruments designated at fair value	**983**	**3**	**2**	–	**988**
Gains less losses from financial investments	**30**	–	**18**	–	**48**
Dividend income	**1**	–	–	**6**	**7**
Net insurance premium income	**6,668**	**439**	–	–	**7,107**
Other operating income	**730**	**175**	–	**134**	**1,039**
Total operating income	**17,482**	**5,091**	**2,979**	**133**	**25,685**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(7,677)**	**(351)**	–	–	**(8,028)**
Net operating income before loan impairment charges and other credit risk provisions	**9,805**	**4,740**	**2,979**	**133**	**17,657**
Loan impairment (charges)/ releases and other credit risk provisions	**(261)**	**(410)**	**1**	–	**(670)**
Net operating income	**9,544**	**4,330**	**2,980**	**133**	**16,987**
Operating expenses ♦	**(3,170)**	**(1,337)**	**(507)**	**(241)**	**(5,255)**
Operating profit	**6,374**	**2,993**	**2,473**	**(108)**	**11,732**
Net surplus on property revaluation	–	–	–	**50**	**50**
Share of losses of associates	**(136)**	–	–	–	**(136)**
Profit before tax	**6,238**	**2,993**	**2,473**	**(58)**	**11,646**
Share of profit before tax	**53.6%**	**25.7%**	**21.2%**	**(0.5)%**	**100%**
Operating profit excluding loan impairment charges and other credit risk provisions	**6,635**	**3,403**	**2,472**	**(108)**	**12,402**
♦ *Depreciation/amortisation included in operating expenses*	**(13)**	**(2)**	**(1)**	**(640)**	**(656)**
At 30 June 2017					
Total assets	**424,640**	**325,332**	**585,005**	**66,364**	**1,401,341**
Total liabilities	**830,546**	**259,499**	**146,445**	**19,954**	**1,256,444**
Interest in associates	**2,093**	–	–	**1**	**2,094**

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Half-year ended 30 June 2016 (restated)					
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 income/(loss)	(282)	14	702	21	455
Net loss from financial instruments designated at fair value	(22)	(3)	(4)	(1)	(30)
Gains less losses from financial investments	36	–	32	7	75
Dividend income	1	–	–	173	174
Net insurance premium income	5,222	386	–	–	5,608
Other operating income	1,424	142	5	142	1,713
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 ♦	(3,108)	(1,225)	(446)	(201)	(4,980)
Operating profit	4,378	2,478	2,469	191	9,516
Net deficit on property revaluation	–	–	–	(77)	(77)
Share of profits/(losses) of associates	61	–	–	(1)	60
Profit before tax	4,439	2,478	2,469	113	9,499
Share of profit before tax	46.7%	26.1%	26.0%	1.2%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	4,744	2,850	2,452	191	10,237
♦ Depreciation/amortisation included in operating expenses	(14)	(3)	(1)	(584)	(602)
At 31 December 2016					
Total assets	411,949	305,914	586,740	72,639	1,377,242
Total liabilities	798,473	254,521	161,387	22,175	1,236,556
Interest in associates	2,273	–	–	1	2,274

Retail Banking and Wealth Management ('RBWM') recorded a 40% year-on-year increase in operating profit excluding loan impairment charges to HK$6,635m. Operating profit grew by 46% to HK$6,374m and profit before tax rose by 41% to HK$6,238m.

We made good use of our extensive network and trusted brand to achieve balance sheet growth and maintain a stable source of funding. Net interest income increased by 10% to HK$6,619m. In mainland China, our strategy to leverage low-cost new funding helped drive a 23% rise in net interest income.

We achieved a 74% increase in non-interest income to HK$3,186m. Supported by our all-weather product portfolio, customer segmentation strategy and strong time-to-market capabilities, we successfully grew wealth management business. In the first half of 2017, wealth management business income increased by 42% to HK$4,044m.

We captured market uptake in the first half of 2017 to achieve a 31% rise in investment services income. In line with the more active equities market compared with the first half of 2016, our securities revenue increased by 28%. Supported by our all-weather product offerings and enhanced customer propositions, we captured a 33% increase in other investment services revenue excluding securities. In the first half of 2017, we continued to enrich our product suite with the launch of our FX2 service, a new online forex and precious metal trading service that enables customers to hold long and short positions flexibly to capture opportunities arising from market movements. We also issued tranche-based certificates of deposit (CD) to enrich choices for customers looking for fixed-income investment products. Upon the establishment of Hang Seng Qianhai Fund Management Company Limited, the first foreign-majority-owned joint venture fund management company established on the Mainland under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), we launched our first public fund on the Mainland in April 2017.

Insurance income grew by 50% compared with the first half of 2016. The favourable equities market sentiment together with our active portfolio management resulted in better investment returns on insurance business. Our ability to provide tailored 'wealth-and-health' solutions through a broad range of insurance products and our extensive distribution network led to good growth in new business. Life insurance new annualised premiums grew by 15%.

Unsecured lending remained key contributor to revenue. Despite slow retail sales and strong competition in Hong Kong, effective marketing and our large base of credit card customers enabled us to achieve stable year-on-year growth in card receivables. Property market sentiment improved in the first half of 2017, resulting in a higher volume of transactions. We further strengthened our mortgage sales capability in strategic areas to capture market opportunities. We continued to rank among the top three banks for new mortgage business in Hong Kong, with a market share of 15% in terms of new mortgage registrations. Mortgage balances grew by 4% compared with 2016 year-end.

Supported by strong analytics, we leveraged our customer segmentation strategy to deepen customer relationships based on needs-based selling. In the Prestige Banking segment, we leveraged our high-value proposition and premium wealth management solutions to drive solid business growth. In the first half of 2017, we successfully expanded our Prestige Signature customer base by 25% year-on-year in Hong Kong.

We invested in new technology and upgrading our digital platform to cope with the growing demand for secure, fast and convenient banking services. We continued to better engage our customers by strengthening our end-to-end digital platforms for financial services and providing tailored market and product information. Year-on-year, the number of Personal e-Banking customers increased by 8% in Hong Kong.

Commercial Banking ('CMB') achieved a 19% year-on-year growth in operating profit excluding loan impairment charges to HK$3,403m. Both operating profit and profit before tax were up 21% at HK$2,993m.

Our strategic initiatives to grow SME business helped drive a 9% increase in net interest income and a 36% rise in non-interest income. Close collaboration between our Hong Kong and Mainland teams supported a 7% expansion in customer loans compared with 2016 year-end. Average current and savings deposit balances grew by 12% year-on-year.

We have invested in upgrading our infrastructure to enhance our transactional banking capabilities. We provided comprehensive domestic and cross-border liquidity management solutions to meet the financial management needs of our customers. In the active stock market conditions, our Receivables Management System helped securities firm customers seamlessly manage receivables and act swiftly in the carrying out of trading activities. Fees from remittances and account-related services grew by 20%. Foreign exchange income was up by 41%, driven by close collaboration with Global Markets. On the Mainland, we further strengthened our partnership with Sinosure, China's largest export credit insurance company, to expand our range of insurance policies and export banking services.

Wealth management income grew by 28% year-on-year, supported by effective sales distribution and the favourable investment market sentiment. Investment services income was up 55% and insurance income increased by 19%. We launched a new online platform to enable our customers to make online shipment declarations and obtain instant insurance certification.

We continued to upgrade our digital banking services with the aim of delivering a more efficient and user friendly experience. We revamped our Business Internet Banking platform to expand our ability to provide a wide range of time-to-market products. Through our Business Banking mobile app, customers can now upload documentation for loan and card applications. We have also extended auto-enrolled SMS notification services on inward/outward remittance telegraphic transfers to mainland and overseas customers.

We remained vigilant in managing our credit risk and upholding the overall quality of our assets.

We have received a number of awards in recognition of our efforts to enhance our services, including 'Best Transaction Bank', 'Best Cash Management Bank' and 'Best Payment Bank' in Hong Kong from *The Asian Banker*, 'Best Bank in Hong Kong' from *The Corporate Treasurer* and 'Best in Treasury and Working Capital – SMEs, Hong Kong' from *The Asset.*

Global Banking and Markets ('GBM') reported a year-on-year increase of 1% in operating profit excluding loan impairment charges to HK$2,472m. Operating profit and profit before tax were broadly in line with the first half of 2016 at HK$2,473m.

Global Banking ('GB') reported a year-on-year decline of 10% in operating profit excluding loan impairment charges to HK$844m. Operating profit and profit before tax both declined by 11% to HK$845m.

Net operating income recorded an 8% drop to HK$1,075m. Net interest income fell by 9% to HK$903m, due primarily to margin squeeze on loans. With increased commission income from trade finance and transactional banking services, non-interest income increased by 1% to HK$171m.

Against the backdrop of stronger than expected loan demand from corporate customers, driven mainly by investment activities, lending grew by 9% to HK$151bn compared with 2016 year-end. Marketing initiatives focused on our transactional banking services helped drive stable growth in current and savings accounts deposits and foreign exchange income.

Global Markets ('GM') reported a 7% year-on-year increase in both operating profit and profit before tax to HK$1,628m.

Net interest income rose by 3% to HK$1,066m, driven mainly by higher income resulting from Hong Kong dollar portfolio. We continued to closely monitor market movements throughout the year and managed the interest rate risk to achieve yield enhancement.

Non-interest income increased by 18% to HK$839m. Total trading income rose by 18% to HK$825m, due mainly to our success in meeting the growing demand from customers for vanilla foreign exchange products.

In the challenging interest rate environment, we focused on growing non-fund income. Leveraging our deep understanding of the needs of different customers, we collaborated closely with RBWM, CMB and GB and resulted in increased 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 the different needs of customers in the volatile foreign exchange market.

In May, the People's Bank of China and the Hong Kong Monetary Authority (HKMA) jointly announced the Bond Connect initiative. The benefit under this initiative is twofold. On one hand, the initiative offers the Bank a new investment channel to access to the mainland bond market for portfolio diversification and management. On the other hand, being one of the settlement banks appointed by HKMA, the Bank is eligible to offer various financial services, such as foreign exchange conversion, settlement, liquidity support and hedging services to eligible offshore investors.

Figures in HK$m	***Half-year ended 30 June*** ***2017***	*2016*	*Variance (%)*
Interest income	**13,989**	13,303	5
Interest expense	**(2,175)**	(2,300)	5
Net interest income	**11,814**	11,003	7
Fee income	**4,418**	3,776	17
Fee expense	**(1,124)**	(923)	(22)
Net fee income	**3,294**	2,853	15
Net trading income	**1,388**	455	205
Net income/(loss) from financial instruments designated at fair value	**988**	(30)	n.a.
Gains less losses from financial investments	**48**	75	(36)
Dividend income	**7**	174	(96)
Net insurance premium income	**7,107**	5,608	27
Other operating income	**1,039**	1,713	(39)
Total operating income	**25,685**	21,851	18
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,028)**	(6,634)	(21)
Net operating income before loan impairment charges and other credit risk provisions	**17,657**	15,217	16
Loan impairment charges and other credit risk provisions	**(670)**	(721)	7
Net operating income	**16,987**	14,496	17
Employee compensation and benefits	**(2,540)**	(2,441)	(4)
General and administrative expenses	**(2,059)**	(1,937)	(6)
Depreciation of premises, plant and equipment	**(603)**	(551)	(9)
Amortisation of intangible assets	**(53)**	(51)	(4)
Operating expenses	**(5,255)**	(4,980)	(6)
Operating profit	**11,732**	9,516	23
Net surplus/(deficit) on property revaluation	**50**	(77)	n.a.
Share of profits/(losses) of associates	**(136)**	60	n.a.
Profit before tax	**11,646**	9,499	23
Tax expense	**(1,812)**	(1,494)	(21)
Profit for the period	**9,834**	8,005	23
Attributable to:			
Shareholders of the company	**9,838**	8,005	23
Non-controlling interests	**(4)**	–	n.a.
Earnings per share – basic and diluted (in HK$)	**5.15**	4.19	23

Details of dividends payable to shareholders of the Bank attributable to the profit for the half year are set out on page 29.

Figures in HK$m	***Half-year ended 30 June*** ***2017***	*2016*
Profit for the period	**9,834**	8,005
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	**343**	839
-- on equity shares	**211**	(356)
- fair value changes transferred to condensed consolidated income statement:		
-- on hedged items	**(52)**	(564)
-- on disposal	**(48)**	(75)
- deferred taxes	**(24)**	(27)
- exchange difference and other	**70**	(48)
Cash flow hedging reserve:		
- fair value changes taken to equity	**(1,372)**	(1,165)
- fair value changes transferred to condensed consolidated income statement	**1,575**	1,145
- deferred taxes	**(34)**	3
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**343**	(257)
Items that will not be reclassified subsequently to the condensed consolidated income statement:		
Premises:		
- unrealised surplus on revaluation of premises	**1,043**	277
- deferred taxes	**(176)**	(47)
- exchange difference	**6**	(4)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**180**	(688)
- deferred taxes	**(29)**	113
Others	**(6)**	6
Other comprehensive income for the period, net of tax	**2,030**	(848)
Total comprehensive income for the period	**11,864**	7,157
Total comprehensive income for the period attributable to:		
- shareholders of the company	**11,868**	7,157
- non-controlling interests	**(4)**	–
	11,864	7,157

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*	*Variance (%)*
ASSETS			
Cash and sight balances at central banks	**15,872**	23,299	(32)
Placings with and advances to banks	**101,685**	103,460	(2)
Trading assets	**45,100**	44,427	2
Financial assets designated at fair value	**9,914**	8,523	16
Derivative financial instruments	**7,834**	16,695	(53)
Loans and advances to customers	**743,179**	698,992	6
Financial investments	**394,671**	398,137	(1)
Interests in associates	**2,094**	2,274	(8)
Investment properties	**10,034**	9,960	1
Premises, plant and equipment	**27,543**	26,772	3
Intangible assets	**15,176**	14,443	5
Other assets	**28,239**	30,260	(7)
Total assets	**1,401,341**	1,377,242	2
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	**1,012,827**	989,539	2
Repurchase agreements – non-trading	**6,770**	1,805	275
Deposits from banks	**4,127**	14,075	(71)
Trading liabilities	**78,380**	68,124	15
Financial liabilities designated at fair value	**4,039**	3,991	1
Derivative financial instruments	**8,641**	13,303	(35)
Certificates of deposit and other debt securities in issue	**1,151**	5,116	(78)
Other liabilities	**18,606**	24,765	(25)
Liabilities under insurance contracts	**112,472**	108,326	4
Current tax liabilities	**1,392**	25	5,468
Deferred tax liabilities	**5,697**	5,160	10
Subordinated liabilities	**2,342**	2,327	1
Total liabilities	**1,256,444**	1,236,556	2
Equity			
Share capital	**9,658**	9,658	–
Retained profits	**107,787**	105,204	2
Other equity instruments	**6,981**	6,981	–
Other reserves	**20,414**	18,783	9
Total shareholders' equity	**144,840**	140,626	3
Non-controlling interests	**57**	60	(5)
Total equity	**144,897**	140,686	3
Total equity and liabilities	**1,401,341**	1,377,242	2

For the half-year ended 30 June 2017

Figures in HK$m	Share capital	Other equity instruments	Retained profits	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 share-holders' equity	Non-controlling interests	Total equity
At 1 January 2017	**9,658**	**6,981**	**105,204**	**16,982**	**1,434**	**(128)**	**(162)**	**657**	**140,626**	**60**	**140,686**
Profit for the period	–	–	**9,838**	–	–	–	–	–	**9,838**	**(4)**	**9,834**
Other comprehensive income (net of tax)	–	–	**151**	**873**	**500**	**169**	**343**	**(6)**	**2,030**	–	**2,030**
Available-for-sale investments	–	–	–	–	**500**	–	–	–	**500**	–	**500**
Cash flow hedges	–	–	–	–	–	**169**	–	–	**169**	–	**169**
Property revaluation	–	–	–	**873**	–	–	–	–	**873**	–	**873**
Actuarial gains on defined benefit plans	–	–	**151**	–	–	–	–	–	**151**	–	**151**
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–	–	–
Exchange differences and others	–	–	–	–	–	–	**343**	**(6)**	**337**	–	**337**
Total comprehensive income for the period	–	–	**9,989**	**873**	**500**	**169**	**343**	**(6)**	**11,868**	**(4)**	**11,864**
Dividends paid	–	–	**(7,647)**	–	–	–	–	–	**(7,647)**	–	**(7,647)**
Coupon paid to holder of AT1 capital instrument	–	–	–	–	–	–	–	–	–	–	–
Movement in respect of share-based payment arrangements	–	–	**(3)**	–	–	–	–	**(4)**	**(7)**	–	**(7)**
Others	–	–	–	–	–	–	–	–	–	**1**	**1**
Transfers	–	–	**244**	**(244)**	–	–	–	–	–	–	–
At 30 June 2017	**9,658**	**6,981**	**107,787**	**17,611**	**1,934**	**41**	**181**	**647**	**144,840**	**57**	**144,897**

For the half-year ended 30 June 2016

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

For the half-year ended 31 December 2016

				Other Reserves							
Figures in HK$m	**Share capital**	**Other equity instruments**	**Retained profits**	**Premises revaluation reserve**	**Available-for-sale investment reserve**	**Cash flow hedge reserve**	**Foreign exchange reserve**	**Others**	**Total share-holders' equity**	**Non-controlling interests**	**Total equity**
At 1 July 2016	9,658	6,981	100,615	16,760	1,708	(26)	343	674	136,713	–	136,713
Profit for the period	–	–	8,207	–	–	–	–	–	8,207	(8)	8,199
Other comprehensive income (net of tax)	–	–	675	472	(274)	(102)	(505)	–	266	–	266
Available-for-sale investments	–	–	–	–	(274)	–	–	–	(274)	–	(274)
Cash flow hedges	–	–	–	–	–	(102)	–	–	(102)	–	(102)
Property revaluation	–	–	–	472	–	–	–	–	472	–	472
Actuarial gains on defined benefit plans	–	–	681	–	–	–	–	–	681	–	681
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–	–	–
Exchange differences and others	–	–	(6)	–	–	–	(505)	–	(511)	–	(511)
Total comprehensive income for the period	–	–	8,882	472	(274)	(102)	(505)	–	8,473	(8)	8,465
Dividends paid	–	–	(4,206)	–	–	–	–	–	(4,206)	–	(4,206)
Coupon paid to holder of AT1 capital instrument	–	–	(346)	–	–		–	–	(346)	–	(346)
Movement in respect of share-based payment arrangements	–	–	9	–	–	–	–	(17)	(8)	–	(8)
Others	–	–	–	–	–	–	–	–	–	68	68
Transfers	–	–	250	(250)	–	–	–	–	–	–	–
At 31 December 2016	9,658	6,981	105,204	16,982	1,434	(128)	(162)	657	140,626	60	140,686

Net interest income

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**12,369**	11,488
- trading assets and liabilities	**(533)**	(467)
- financial instruments designated at fair value	**(22)**	(18)
	11,814	11,003
Average interest-earning assets	**1,230,985**	1,199,059
Net interest spread	**1.84%**	1.74%
Net interest margin	**1.94%**	1.85%

Net interest income increased by HK$811m, or 7%, to HK$11,814m, driven mainly by the 3% increase in average interest-earning assets and improvement in net interest margin.

Average interest-earning assets increased by HK$32bn, or 3%, when compared with the first half of 2016. Average customer lending increased by 5%, with notable growth in corporate and commercial and mortgage lending. Average financial investments increased by 2% partly offset by the 10% fall in interbank placement.

Net interest margin improved by nine basis points to 1.94% whilst the net interest spread increased by 10 basis points to 1.84%. Average customer deposits spread widened as a result of the change in deposit mix, with increased contribution from low cost savings accounts and current deposit accounts balance. There was an improvement in balance sheet management portfolio income as Treasury grasped opportunities in the interbank market and successfully enhanced the returns on new and existing assets. Average loan spread on customer lending reduced, notably on corporate and commercial term lending. Contribution from net free funds fell by one basis point to 0.10%.

Compared with the second half of 2016, net interest income increased by HK$563m, or 5%, mainly supported by increase in average interest-earning assets and improvement in net interest margin despite more calendar days in the second half of 2016.

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/(loss) from financial instruments designated at fair value' (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

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

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**13,791**	13,161
- Interest expense	**(1,449)**	(1,693)
- Net interest income	**12,342**	11,468
Net interest income and expense reported as 'Net trading income'	**(533)**	(467)
Net interest income and expense reported as 'Net income/(loss) from financial instruments designated at fair value'	**5**	2
Average interest-earning assets	**1,190,694**	1,153,941
Net interest spread	**2.02%**	1.91%
Net interest margin	**2.09%**	2.00%

Net fee income

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
- Securities broking and related services	**720**	545
- Retail investment funds	**969**	741
- Insurance	**293**	262
- Account services	**246**	229
- Remittances	**255**	234
- Cards	**1,289**	1,180
- Credit facilities	**259**	204
- Trade services	**203**	209
- Other	**184**	172
Fee income	**4,418**	3,776
Fee expense	**(1,124)**	(923)
	3,294	2,853

Net trading income

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
- Foreign exchange[ϕ]	**1,169**	541
- Interest rate derivatives	**78**	(64)
- Debt securities	**39**	49
- Equities and other trading	**103**	(98)
Dealing profits	**1,389**	428
Net gain/(loss) from hedging activities	**(1)**	27
	1,388	455

[ϕ] *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 2017***	*Half-year ended 30 June 2016*
Net income/(loss) on assets designated at fair value which back insurance and investment contracts	**986**	(26)
Net change in fair value of other financial instruments designated at fair value	**2**	(4)
	988	(30)

Net income/(loss) from financial instruments designated at fair value recorded a gain of HK$988m compared with a loss of HK$30m for the same period in 2016, reflecting improved returns on financial assets supporting insurance contracts liabilities as a result of favourable equity market. 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 and in present value of in-force long-term insurance business ('PVIF').

Gains less losses from financial investments

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Net gains from disposal of available-for-sale equity securities	–	7
Net gains from disposal of available-for-sale debt securities	**48**	68
	48	75

Other operating income

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Rental income from investment properties	**183**	181
Movement in present value of in-force long-term insurance business	**742**	1,420
Gains less losses on disposal of fixed assets	**(15)**	(10)
Others	**129**	122
	1,039	1,713

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Investment services income⁺:		
- retail investment funds	**904**	687
- structured investment products	**291**	209
- securities broking and related services	**705**	529
- margin trading and others	**46**	52
	1,946	1,477
Insurance income:		
- life insurance:		
- net interest income and fee income	**1,791**	1,759
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**980**	(394)
- net insurance premium income	**7,107**	5,608
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,028)**	(6,634)
- movement in present value of in-force long-term insurance business	**742**	1,420
	2,592	1,759
- general insurance and others	**156**	139
Total	**4,694**	3,375

⁺ *Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net trading income.*

Wealth management income registered strong growth in the first half of 2017, achieving 39% increase when compared with the same period last year. Investment services income rose by 32%, with retail investment funds and securities broking related services income increased by 32% and 33% respectively. Life insurance business income increased by 47%, driven by the gains on the equity portfolio and cross currency swap supporting insurance contracts.

Loan impairment charges and other credit risk provisions

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Net charge for impairment of loans and advances to customers:		
Individually assessed impairment charges:		
- new charges	**380**	379
- releases	**(44)**	(35)
- recoveries	**(9)**	(5)
	327	339
Collectively assessed impairment charges	**343**	382
	670	721

Operating expenses

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Employee compensation and benefits:		
- salaries and other costs	**2,343**	2,232
- retirement benefit costs	**197**	209
	2,540	2,441
General and administrative expenses:		
- rental expenses	**312**	342
- other premises and equipment	**697**	585
- marketing and advertising expenses	**198**	215
- other operating expenses	**852**	795
	2,059	1,937
Depreciation of premises, plant and equipment	**603**	551
Amortisation of intangible assets	**53**	51
	5,255	4,980
Cost efficiency ratio	**29.8%**	32.7%

Full-time equivalent staff numbers by region	***At 30 June 2017***	*At 30 June 2016*
Hong Kong and others	**7,751**	7,919
Mainland	**1,705**	1,719
Total	**9,456**	9,638

Tax expense

Taxation in the condensed consolidated income statement represents:

Figures in HK$m	***Half-year ended 30 June 2017***	*Half-year ended 30 June 2016*
Current tax – provision for Hong Kong profits tax		
- Tax for the period	**1,554**	1,354
Current tax – taxation outside Hong Kong		
- Tax for the period	**16**	38
- Adjustment in respect of prior periods	**(2)**	(1)
Deferred tax		
- Origination and reversal of temporary differences	**244**	103
Total tax expense	**1,812**	1,494

The current tax provision is based on the estimated assessable profit for 2017, 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 2016). 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 2017 is based on earnings of HK$9,838m (HK$8,005m for the first half of 2016) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first half of 2016).

Dividends per share

	Half-year ended 30 June 2017		*Half-year ended 30 June 2016*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
Dividends to ordinary shareholders				
First interim	**1.20**	**2,294**	1.10	2,103
Second interim	**1.20**	**2,294**	1.10	2,103
	2.40	**4,588**	2.20	4,206

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 the Bank's holdings of premises, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(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 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 2017					
Profit before tax	**6,238**	**2,993**	**2,473**	**(58)**	**11,646**
Share of profit before tax	**53.6%**	**25.7%**	**21.2%**	**(0.5)%**	**100.0%**
Half-year ended 30 June 2016 (restated)					
Profit before tax	4,439	2,478	2,469	113	9,499
Share of profit before tax	46.7%	26.1%	26.0%	1.2%	100.0%

Segmental analysis *(continued)*

(b) Information by geographic region

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

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-region elimination***	***Total***
Half-year ended 30 June 2017					
Income and expense					
Total operating income	**24,657**	**921**	**140**	**(33)**	**25,685**
Profit before tax	**11,470**	**81**	**95**	**–**	**11,646**
At 30 June 2017					
Total assets	**1,308,942**	**111,719**	**19,561**	**(38,881)**	**1,401,341**
Total liabilities	**1,167,084**	**99,999**	**18,718**	**(29,357)**	**1,256,444**
Equity	**141,858**	**11,720**	**843**	**(9,524)**	**144,897**
Share capital	**9,658**	**9,966**	**–**	**(9,966)**	**9,658**
Interest in associates	**2,093**	**1**	**–**	**–**	**2,094**
Non-current assets[⌖]	**51,628**	**1,110**	**15**	**–**	**52,753**
Half-year ended 30 June 2016					
Income and expense					
Total operating income	20,736	1,029	130	(44)	21,851
Profit before tax	9,359	55	85	–	9,499
At 31 December 2016					
Total assets	1,292,392	102,552	20,063	(37,765)	1,377,242
Total liabilities	1,154,324	91,171	19,301	(28,240)	1,236,556
Equity	138,068	11,381	762	(9,525)	140,686
Share capital	9,658	9,669	–	(9,669)	9,658
Interest in associates	2,273	1	–	–	2,274
Non-current assets[⌖]	50,170	987	18	–	51,175

[⌖] *Non-current assets consist of investment properties, premises, plant and equipment, and intangible assets.*

Cash and sight balances at central banks

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Cash in hand	**6,238**	7,618
Sight balances at central banks	**9,634**	15,681
	15,872	23,299

Placings with and advances to banks

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Balances with banks	**5,898**	7,456
Placings with and advances to banks maturing within one month	**57,998**	36,399
Placings with and advances to banks maturing after one month but less than one year	**35,452**	57,314
Placings with and advances to banks maturing after one year	**2,337**	2,291
	101,685	103,460

Trading assets

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Treasury bills	**23,133**	27,733
Other debt securities	**18,826**	10,880
Debt securities	**41,959**	38,613
Investment funds	**21**	16
Total trading securities	**41,980**	38,629
Other[⌖]	**3,120**	5,798
Total trading assets	**45,100**	44,427

[⌖] *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 2017***	*At 31 December 2016*
Debt securities	**393**	369
Equity shares	**6,336**	4,648
Investment funds	**3,185**	3,506
	9,914	8,523

Loans and advances to customers

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Gross loans and advances to customers	**745,299**	700,851
Less:		
Loan impairment allowances:		
- individually assessed	**(1,129)**	(923)
- collectively assessed	**(991)**	(936)
	743,179	698,992

Loan impairment allowances against loans and advances to customers

Figures in HK$m	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January 2017	**923**	**936**	**1,859**
Amounts written off	**(114)**	**(338)**	**(452)**
Recoveries of loans and advances written off in previous period	**9**	**43**	**52**
New impairment allowances charged to condensed consolidated income statement	**380**	**386**	**766**
Impairment allowances released to condensed consolidated income statement	**(53)**	**(43)**	**(96)**
Unwinding of discount of loan impairment allowances recognised as 'interest income'	**(29)**	**(2)**	**(31)**
Exchange difference	**13**	**9**	**22**
At 30 June 2017	**1,129**	**991**	**2,120**

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

	At 30 June 2017	*At 31 December 2016*
	%	%
Loan impairment allowances:		
- individually assessed	**0.15**	0.13
- collectively assessed	**0.13**	0.13
Total loan impairment allowances	**0.28**	0.26

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.28% at 30 June 2017 compared with 0.26% at the end of 2016. Individually assessed allowances as a percentage of gross loans and advances increased by two basis point to 0.15%. Collectively assessed allowances as a percentage of gross loans and advances maintained at the same level of 0.13% at 30 June 2017. Overall credit quality remained stable.

Impaired loans and advances to customers and allowances

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Gross impaired loans and advances	**3,136**	3,235
Individually assessed allowances	**(1,129)**	(923)
	2,007	2,312
Individually assessed allowances as a percentage of gross impaired loans and advances	**36.0%**	28.5%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.42%**	0.46%

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 decreased by HK$99m, or 3%, to HK$3,136m against last year end. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.42% at 30 June 2017, compared with 0.55% at the end of June 2016 and 0.46% at the year-end of 2016. 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 2017***	*At 31 December 2016*
Gross individually assessed impaired loans and advances	**2,864**	2,968
Individually assessed allowances	**(1,129)**	(923)
	1,735	2,045
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	**0.38%**	0.42%
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	**1,317**	1,701

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 to customers 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 2017		*At 31 December 2016*	
	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	**126**	**0.02**	438	0.06
- more than six months but not more than one year	**114**	**0.01**	580	0.08
- more than one year	**1,658**	**0.22**	1,336	0.19
	1,898	**0.25**	2,354	0.33

Overdue loans and advances decreased by HK$456m, or 19%, to HK$1,898m compared with last year-end, due mainly to the combined effect of the downgrade of certain corporate and commercial customers, loan written off and rescheduled during the period. Overdue loans and advances as a percentage of gross loans and advances to customers was down by 8 basis points to 0.25% at 30 June 2017.

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 2017		*At 31 December 2016*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**789**	**0.11**	458	0.07

Rescheduled loans and advances stood at HK$789m at 30 June 2017, an increase of HK$331m or 72% compared with last year-end mainly related to certain mainland corporate customers rescheduled during the period.

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 HKMA is as follows:

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**57,788**	51,935
Property investment	**128,985**	119,553
Financial concerns	**6,574**	5,049
Stockbrokers	**50**	141
Wholesale and retail trade	**27,363**	26,880
Manufacturing	**24,359**	23,079
Transport and transport equipment	**13,255**	9,302
Recreational activities	**76**	48
Information technology	**5,211**	6,624
Other	**55,674**	46,523
	319,335	289,134
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**20,361**	17,808
Loans and advances for the purchase of other residential properties	**165,778**	161,165
Credit card loans and advances	**25,458**	27,019
Other	**24,222**	20,385
	235,819	226,377
Total gross loans and advances for use in Hong Kong	**555,154**	515,511
Trade finance	**43,230**	43,235
Gross loans and advances for use outside Hong Kong	**146,915**	142,105
Gross loans and advances to customers	**745,299**	700,851

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

At 30 June 2017, gross loans and advances to customers were up HK$44.4bn, or 6%, at HK$745.3bn compared with the end of 2016.

Loans and advances for use in Hong Kong increased by HK$39.6bn, or 8%, to HK$555.2bn at 30 June 2017. Lending to industrial, commercial and financial sectors grew by 10%. Lending to property development and property investment sectors remained active, increasing by 11% and 8% respectively whilst lending to financial concerns grew by 30%. The Bank's continued efforts to support local business saw lending to wholesale and retail trade and manufacturing sectors grew by 2% and 6% respectively. Lending to transport and transport equipment sector increased by 42% while information technology sector decreased by 21%. Lending to 'Other' sector grew by 20%, due mainly to the granting of certain new working capital financing facilities to large corporate customers.

Lending to individuals increased by 4%. We strengthened our mortgage sales capabilities in strategic areas to capture new business opportunities and grew our residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme mortgages lending by 3% and 14% respectively. Credit card advances fell by 6%, due mainly to seasonal factors. Other loans to individuals grew by 19%.

Trade finance lending maintained broadly the same level as last year-end.

Loans and advances for use outside Hong Kong rose by 3%, driven largely by lending on the Mainland. The mainland loan portfolio grew by 10%, underpinned by the expansion of corporate and commercial lending, trade finance and mortgages. The overall credit quality remained stable.

Financial investments

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Available-for-sale at fair value:		
- debt securities	**296,905**	306,936
- equity shares	**4,610**	4,301
- investment funds	**390**	–
Held-to-maturity debt securities at amortised cost	**92,766**	86,900
	394,671	398,137
Fair value of held-to-maturity debt securities	**96,406**	87,375
Treasury bills	**172,348**	180,951
Certificates of deposit	**10,757**	9,210
Other debt securities	**206,566**	203,675
Debt securities	**389,671**	393,836
Equity shares	**4,610**	4,301
Investment funds	**390**	–
	394,671	398,137

Debt securities by rating agency designation

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
AA- to AAA	**278,188**	301,293
A- to A+	**99,894**	83,023
B+ to BBB+	**7,801**	7,449
Unrated	**3,788**	2,071
	389,671	393,836

Intangible assets

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Present value of in-force long-term insurance business	**14,406**	13,664
Internally developed/acquired software	**441**	450
Goodwill	**329**	329
	15,176	14,443

Other assets

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Items in the course of collection from other banks	**4,958**	6,354
Bullion	**4,011**	4,440
Prepayments and accrued income	**3,557**	3,378
Acceptances and endorsements	**4,681**	5,292
Reinsurers' share of liabilities under insurance contracts	**7,935**	7,395
Other accounts	**3,097**	3,401
	28,239	30,260

Current, savings and other deposit accounts

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Current, savings and other deposit accounts:		
- as stated in condensed consolidated balance sheet	**1,012,827**	989,539
- structured deposits reported as trading liabilities	**34,828**	26,090
	1,047,655	1,015,629
By type:		
- demand and current accounts	**105,628**	99,051
- savings accounts	**713,849**	686,371
- time and other deposits	**228,178**	230,207
	1,047,655	1,015,629

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Certificates of deposit and other debt securities in issue:		
- as stated in condensed consolidated balance sheet	**1,151**	5,116
- certificates of deposit in issue designated at fair value	**3,504**	3,484
- other structured debt securities in issue reported as trading liabilities	**4,683**	5,026
	9,338	13,626
By type:		
- certificates of deposit in issue	**3,504**	7,484
- other debt securities in issue	**5,834**	6,142
	9,338	13,626

Trading liabilities

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Other structured debt securities in issue	**4,683**	5,026
Structured deposits	**34,828**	26,090
Short positions in securities and others	**38,869**	37,008
	78,380	68,124

Other liabilities

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Items in the course of transmission to other banks	**7,231**	11,276
Accruals	**3,105**	3,201
Acceptances and endorsements	**4,681**	5,292
Retirement benefit liabilities	**482**	626
Other	**3,107**	4,370
	18,606	24,765

Subordinated liabilities

Figures in HK$m		***At 30 June 2017***	*At 31 December 2016*
Nominal value	Description		
Amounts owed to HSBC Group undertakings			
US$300m	Floating rate subordinated loan due July 2022	**2,342**	2,327
		2,342	2,327
Representing:			
- measured at amortised cost		**2,342**	2,327

The outstanding subordinated loans serve to help the Bank maintain a balanced capital structure and support business growth.

Shareholders' equity

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Share capital	**9,658**	9,658
Retained profits	**107,787**	105,204
Other equity instruments	**6,981**	6,981
Premises revaluation reserve	**17,611**	16,982
Cash flow hedging reserve	**41**	(128)
Available-for-sale investment reserve		
- on debt securities	**48**	(144)
- on equity securities	**1,886**	1,578
Other reserves	**828**	495
Total reserves	**135,182**	130,968
Total shareholders' equity	**144,840**	140,626
Annualised return on average ordinary shareholders' equity for the half-year ended	**14.6%**	11.9%

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 2017.

The Bank has issued perpetual capital instrument of HK$6,981m that was included in the Group's capital base as Basel III compliant additional tier 1 capital ('AT1') under the Banking (Capital) Rules to its immediate holding company reported under 'other equity instruments'.

Capital management

The following tables show the capital base, risk-weighted assets and capital ratios 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) 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 subject to certain thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**120,166**	117,870
- Shareholders' equity per condensed consolidated balance sheet	**144,840**	140,626
- Additional Tier 1 ('AT1') perpetual capital instrument	**(6,981)**	(6,981)
- Unconsolidated subsidiaries	**(17,693)**	(15,775)
Non-controlling interests	–	–
- Non-controlling interests per condensed consolidated balance sheet	**57**	60
- Non-controlling interests in unconsolidated subsidiaries	**(57)**	(60)
Regulatory deductions to CET1 capital	**(30,368)**	(30,103)
- Cash flow hedging reserve	**2**	48
- Changes in own credit risk on fair valued liabilities	**(2)**	(14)
- Property revaluation reserves[1]	**(23,984)**	(23,304)
- Regulatory reserve	**(5,479)**	(5,945)
- Intangible assets	**(398)**	(407)
- Defined benefit pension fund assets	**(40)**	(37)
- Deferred tax assets net of deferred tax liabilities	**(192)**	(158)
- Valuation adjustments	**(275)**	(286)
Total CET1 Capital	**89,798**	87,767
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**6,981**	6,981
- Perpetual capital instrument	**6,981**	6,981
Total AT1 Capital	**6,981**	6,981
Total Tier 1 ('T1') Capital	**96,779**	94,748
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**16,498**	16,009
- Term subordinated debt	**2,342**	2,327
- Property revaluation reserves[1]	**10,793**	10,487
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**3,363**	3,195
Regulatory deductions to T2 capital	**(915)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(915)
Total T2 Capital	**15,583**	15,094
Total Capital	**112,362**	109,842

[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 2017***	*At 31 December 2016*
Credit risk	**495,887**	470,043
Market risk	**7,588**	7,354
Operational risk	**52,284**	50,871
Total	**555,759**	528,268

(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 2017	*At 31 December 2016*
CET1 capital ratio	**16.2 %**	16.6 %
T1 capital ratio	**17.4 %**	17.9 %
Total capital ratio	**20.2 %**	20.8 %

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 2017. Given 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 2017, it is not a projection.

In addition, the capital ratios of all tiers as of 30 June 2017 would be reduced by approximately 0.4% after the prospective second interim dividend payment for 2017. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2017	*Pro-forma At 31 December 2016*
CET1 capital ratio	**15.8 %**	15.6 %
T1 capital ratio	**17.0 %**	16.9 %
Total capital ratio	**19.8 %**	19.8 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR on a consolidated basis. During the year of 2017, the Group is required to maintain an LCR of not less than 80%, increasing to not less than 100% by January 2019. The average LCR for the reportable periods are as follows:

	Quarter ended 30 June	*Quarter ended 31 March*
- 2017	**256.7%**	**267.7%**
- 2016	257.1%	257.1%

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 30 June 2017***	*At 31 December 2016*
Contingent liabilities and financial guarantee contracts		
- Guarantee and irrevocable letters of credit pledged as collateral security	**18,014**	17,925
- Other contingent liabilities	**61**	91
	18,075	18,016
Commitments		
- Documentary credits and short-term trade-related transactions	**2,320**	2,110
- Forward asset purchases and forward forward deposits placed	**2,048**	788
- Undrawn formal standby facilities, credit lines and other commitments to lend	**393,071**	379,246
	397,439	382,144

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 which is prepared on the Group's basis of consolidation for accounting purposes. Therefore, the contract amounts are different from those calculated under the Banking (Capital) Rules.

	At 30 June 2017			*At 31 December 2016*		
Figures in HK$m	***Trading***	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:						
Interest rate contracts	**331,971**	**3,500**	**67,285**	247,284	3,500	59,637
Exchange rate contracts	**950,204**	–	**20,554**	857,540	–	27,151
Other derivative contracts	**45,444**	–	–	29,480	–	–
	1,327,619	**3,500**	**87,839**	1,134,304	3,500	86,788
Derivative assets:						
Interest rate contracts	**1,100**	**7**	**272**	1,387	1	336
Exchange rate contracts	**5,452**	–	**438**	13,102	–	1,511
Other derivative contracts	**565**	–	–	358	–	–
	7,117	**7**	**710**	14,847	1	1,847
Derivative liabilities:						
Interest rate contracts	**1,088**	–	**351**	1,479	8	394
Exchange rate contracts	**6,215**	–	**600**	10,983	–	181
Other derivative contracts	**387**	–	–	258	–	–
	7,690	–	**951**	12,720	8	575

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 information in this press release is unaudited and does not constitute statutory financial statement.

Certain financial information in this press release is extracted from the interim report prepared under HKAS34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certificate Public Accountants ('HKICPA'). The interim report was reviewed by the Audit Committee. The Board of Directors of the Bank has approved the interim report on 31 July 2017.

The financial information relating to the year ended 31 December 2016 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 HKMA.

The auditor has reported on those statutory financial statements for the year ended 31 December 2016. 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).

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 156 of the 2016 statutory financial statements.

<u>Transition of HKFRS9 'Financial Instruments'</u>

During the period, the Group has adopted the requirements of HKFRS9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017, with no restatement of comparatives as permitted by the transitional requirements of HKFRS9. As a result, the effect of changes in those liabilities' credit risk led to an insignificant increase in profit before tax by HK$6m with the opposite effect on other comprehensive income, with no effect on net assets.

The Group is assessing the impact that the impairment requirements will have on the financial statements. The joint Risk and Finance implementation programme continues to progress with the documentation of Group accounting policy, the development of operating and system target operating models and the development, build and testing of risk modelling methodologies for the calculation of impairment nearing completion. The Group will perform a parallel run during the second half of 2017 to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Group intends to quantify the potential impact of HKFRS9 once it is practicable to provide reliable estimates, which will be no later than in the Annual Report for 2017.

<u>HKFRS16 'Leases'</u>

The Group is still assessing the impact of the new standard but it is not practicable to quantity the effect as at the date of the publication of these condensed consolidated financial statements.

1. Statutory financial statements and accounting policies *(continued)*

In addition, during the period, the Group has adopted the following amendments to standards which had insignificant or no effect on the Group's condensed consolidated financial statements.

- Amendments to Hong Kong Accounting Standard ('HKAS') 7 'Statement of Cash Flow'
- Amendments to HKAS12 'Recognition of Deferred Tax Assets for Unrealised losses'

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2. Comparative figures

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

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3. Ultimate holding company

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

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4. Register of shareholders

The register of shareholders of the Bank will be closed on Tuesday, 15 August 2017, 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, 14 August 2017. The second interim dividend will be payable on Thursday, 31 August 2017, to shareholders whose names appear on the register of shareholders of the Bank on Tuesday, 15 August 2017. Shares of the Bank will be traded ex-dividend as from Friday, 11 August 2017.

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5. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of 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 throughout the six months ended 30 June 2017. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, 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 2017.

6. Board of Directors

At 31 July 2017, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan#, Dr Henry K S Cheng*, Ms L Y Chiang*, Dr Fred Zuliu Hu*, Ms Irene Y L Lee*, Ms Sarah C Legg#, Ms Margaret W H Kwan, 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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7. Press release and Interim Report

This press release is published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank (www.hangseng.com) on the date of issue of this press release. The 2017 Interim Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank in late August 2017. Printed copies of the 2017 Interim Report will be sent to shareholders before the end of August 2017.

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8. Other financial information

To comply with the Banking (Disclosure) Rules, the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document ' Banking Disclosure Statement' required by the Banking (Disclosure) Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The Banking Disclosure Statement together with the Interim Report will be available in late August 2017.

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