INTERIM REPORT 2017

恒生銀行
HANG SENG BANK

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

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

RESULTS IN BRIEF

	30 June 2017	*30 June 2016*
For the half-year ended	**HK$m**	HK$m
Operating profit excluding loan impairment charges	**12,402**	10,237
Operating profit	**11,732**	9,516
Profit before tax	**11,646**	9,499
Profit attributable to shareholders	**9,838**	8,005
	%	%
Return on average ordinary shareholders' equity	**14.6**	12.4
Cost efficiency ratio	**29.8**	32.7
Average liquidity coverage ratio (quarter ended 30 Jun)	**256.7**	257.1
Average liquidity coverage ratio (quarter ended 31 Mar)	**267.7**	257.1
	HK$	HK$
Earnings per share	**5.15**	4.19
Dividends per share	**2.40**	2.20

	At 30 June 2017	*At 31 December 2016*
At period-end	**HK$m**	HK$m
Shareholders' equity	**144,840**	140,626
Total assets	**1,401,341**	1,377,242
	%	%
Capital ratios under Basel III		
- Common Equity Tier 1 ("CET1") Capital Ratio	**16.2**	16.6
- Tier 1 Capital Ratio	**17.4**	17.9
- Total Capital Ratio	**20.2**	20.8

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.

Raymond K.F. Ch'ien

Raymond Ch'ien
Chairman
Hong Kong, 31 July 2017

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 $16,987 million. 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.

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.

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.

Louisa Cheang
Vice-Chairman and Chief Executive
Hong Kong, 31 July 2017

FINANCIAL PERFORMANCE

Income Analysis

Summary of financial performance

Figures in HK$m	Half-year ended 30 June 2017	Half-year ended 30 June 2016
Total operating income	**25,685**	21,851
Operating expenses	**5,255**	4,980
Operating profit	**11,732**	9,516
Profit before tax	**11,646**	9,499
Profit attributable to shareholders	**9,838**	8,005
Earnings per share (in HK$)	**5.15**	4.19

First half of 2017 compared with first half of 2016

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, driven mainly by the 3% increase in average interest-earning assets and improvement in net interest margin.

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%

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.

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 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").

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.

Insurance business income 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 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.

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 allowances	**343**	382
Total	**670**	721

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.

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

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%.

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

Operating profit increased by HK$2,216m, or 23%, to HK$11,732m when compared with first half of 2016.

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.

Segmental Analysis

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

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%

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.

Balance Sheet Analysis

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 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.

Customer deposits

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.

Equity

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.

(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

Risk Management

All the Group's activities involve the analysis, evaluation, measurement, acceptance and management of some degree of risk or combination of risks. There have been no material changes to our policies and practices regarding risk management and governance and a summary is set out in 'Risk Management' section on pages 38 to 43 of the Group's Annual Report 2016.

(a) Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance, and treasury businesses. The Group has dedicated standards, policies and procedures in place to control and monitor risk from all such activities.

There is no material change to the policies and practices for the management of credit risk in the first half of 2017.

A summary of the Group's current policies and practices for the management of credit risk is set out in 'Credit Risk' section on page 44 to 45 of the Group's Annual Report 2016.

Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors. Analysis of geographical concentration of the Group's assets is disclosed in note 17 of the Group's condensed consolidated financial statements.

(i) Maximum exposure to credit risk before collateral held or other credit enhancements

	At 30 June 2017	*At 31 December 2016*
Cash and sight balances at central banks	**15,872**	23,299
Placings with and advances to banks	**101,685**	103,460
Trading assets	**45,079**	44,411
Financial assets designated at fair value	**393**	369
Derivative financial instruments	**7,834**	16,695
Loans and advances to customers	**743,179**	698,992
Financial investments	**389,671**	393,836
Other assets	**15,839**	17,865
Financial guarantees and other credit related contingent liabilities	**7,558**	7,934
Loan commitments and other credit related commitments	**487,749**	493,726
	1,814,859	1,800,587

(ii) Credit quality

A summary of the five classifications and risk rating scales describing the credit quality of the Group's lending and debt securities portfolios are provided on pages 51 to 52 of the Group's Annual Report 2016.

Impaired loans and advances

Special attention is paid to problem loans and appropriate action is initiated to protect the Group's position on a timely basis and to ensure that loan impairment methodologies result in losses being recognised when they are incurred.

(a) Credit risk (continued)

The Group's policy for recognising and measuring impairment allowances on both individually assessed advances and those which are collectively assessed on a portfolio basis is described in note 3(d) on the consolidated financial statements for the year ended 31 December 2016. Further information is also set out on pages 57 to 58 of the Group's annual report 2016.

Analysis of impairment allowances at 30 June 2017 and the movement of such allowances during the periods are disclosed in note 23 of the Group's condensed consolidated financial statements.

(b) Liquidity and funding risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.

The Group has an internal liquidity and funding risk management framework which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

There is no material change to the policies and practices for the management of liquidity and funding risk in the first half of 2017.

A summary of the Group's current policies and practices for the management of liquidity and funding risk is set out in 'Liquidity and funding risk' section on page 58 to 61 of the Group's Annual Report 2016.

Liquidity information

The Banking (Liquidity) Rules were introduced by the HKMA in 2014 and became effective from 1 January 2015. Under rule 11(1), the Group is required to calculate its Liquidity Coverage Ratio ("LCR") on a consolidated basis. During 2017, the Group is required to maintain a LCR of not less than 80%, increasing in steps of 10% each year to not less than 100% by January 2019. The Net Stable Funding Ratio is expected to be implemented in Hong Kong from 1 January 2018.

The average LCR for the reportable periods are as follows:

	Quarter ended 30 June 2017	***Quarter ended 31 March 2017***	*Quarter ended 30 June 2016*	*Quarter ended 31 March 2016*
Average Liquidity Coverage Ratio	**256.7%**	**267.7%**	257.1%	257.1%

The liquidity position of the Group remained strong for the first half of 2017. The average LCR were 256.7% and 267.7% for the quarters ended 30 June and 31 March 2017 respectively, compared with 257.1% for both the quarters ended 30 June and 31 March 2016.

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

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

(b) Liquidity and funding risk *(continued)*

	Weighted amount (Average value) at quarter ended			
	30 June 2017	***31 March 2017***	*30 June 2016*	*31 March 2016*
Level 1 assets	**283,481**	**295,635**	290,202	249,886
Level 2A assets	**14,980**	**13,669**	16,139	14,492
Level 2B assets	**528**	**766**	599	589
Total weighted amount of HQLA	**298,989**	**310,070**	306,940	264,967

(c) Market risk

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios.

There is no material change to the Group's policies and practices for the management of market risk for the first half of 2017.

A summary of the Group's current policies and practices for the management of market risk is set out in 'Market Risk' section on pages 63 to 66 of the Group's Annual Report 2016.

Value at risk ("VAR")

VAR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VAR is integrated into market risk management and is calculated for all trading positions regardless of how the Group capitalises those exposures. Where there is no approved internal model, the Group uses the appropriate local rules to capitalise exposures.

In addition, the Group calculates VAR for non-trading portfolios in order to have a complete picture of market risk. Where VAR is not calculated explicitly, alternative tools are used.

Standard VAR is calculated at a 99% confidence level for a one-day holding period while stressed VAR uses a 10-day holding period and a 99% confidence interval based on a continuous one-year historical significant stress period. The VAR models used by the Group are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VAR are calculated with reference to those historical data; and
- Standard VAR is calculated to a 99% confidence level and use a one-day holding period scaled to 10 days.

Risk not in VAR ("RNIV") framework

The Group's VAR model is designed to capture significant basis risks such as asset swap spreads and cross-currency basis. Other basis risks which are not completely covered in VAR, such as the LIBOR tenor basis, are complemented by RNIV calculations and are integrated into the capital framework.

(c) Market risk *(continued)*

The RNIV framework aims to manage and capitalise material market risks that are not adequately covered in the VAR model. In such instances the RNIV framework uses stress tests to quantify the capital requirement. For the average of the first half of 2017, the capital requirement derived from these stress tests represented 3.7% of the total internal model-based market risk requirement.

RNIV is not viewed as being a material component of the Group's market risk capital requirement. Risks covered by RNIV represent 3.7% of market risk RWAs for models with regulatory approval.

Risk factors are reviewed on a regular basis and either incorporated directly in the VAR models, where possible, or quantified through the VAR-based RNIV approach or a stress test approach within the RNIV framework. The severity of the scenarios is calibrated to be in line with the capital adequacy requirements.

Trading portfolios

VAR of the trading portfolios

Trading VAR predominantly resides within Global Markets. The VAR for trading activity at 30 June 2017 was slightly lower while comparing with 30 June 2016, mainly led by interest rate and foreign exchange trading activities.

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

Trading, 99% 1 day

	At 30 June 2017	Minimum during the period	Maximum during the period	Average for the period
VAR				
Trading	**27**	**17**	**41**	**27**
Foreign exchange trading	**14**	**11**	**23**	**18**
Interest rate trading	**21**	**12**	**25**	**18**
Portfolio diversification	**(8)**	**–**	**–**	**(9)**
Stressed VAR				
Trading	**82**	**68**	**105**	**85**
Foreign exchange trading	**27**	**24**	**38**	**31**
Interest rate trading	**63**	**55**	**92**	**74**

	At 30 June 2016	Minimum during the period	Maximum during the period	Average for the period
VAR				
Trading	29	17	45	33
Foreign exchange trading	19	6	21	13
Interest rate trading	29	17	48	32
Portfolio diversification	(19)	–	–	(12)
Stressed VAR				
Trading	129	103	220	151
Foreign exchange trading	33	3	42	23
Interest rate trading	138	115	226	159

(c) ***Market risk*** *(continued)*

Trading, 99% 1 day *(continued)*

	At 31 December 2016	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Trading	24	17	45	30
Foreign exchange trading	16	6	22	14
Interest rate trading	21	16	48	28
Portfolio diversification	(13)	–	–	(12)
Stressed VAR				
Trading	108	52	220	129
Foreign exchange trading	28	3	42	24
Interest rate trading	94	58	226	144

Backtesting

While comparing the daily VAR measures to the actual and hypothetical profit and loss for the backtesting, no loss side exception was observed in the first half of 2017. Some profit side exceptions were identified for actual profit and loss and those were mainly driven by intraday profit arising from trading activities.

Non-trading portfolios

VAR of the non-trading portfolios

Non-trading VAR of the Group predominantly relates to Balance Sheet Management ("BSM"). Contributions to non-trading VAR are driven by interest rates and credit spread risks. There is no commodity risk in the non-trading portfolios.

The table below shows the Group's non-trading VAR for the following periods.

Non-trading VAR, 99% 1 day

	At 30 June 2017	***Minimum during the period***	***Maximum during the period***	***Average for the period***
VAR				
Non-trading	**52**	**46**	**78**	**60**
Interest rate non-trading	**42**	**40**	**71**	**50**
Credit spread non-trading	**23**	**14**	**46**	**28**
Portfolio diversification	**(13)**	**–**	**–**	**(18)**

	At 30 June 2016	*Minimum during the period*	*Maximum during the period*	*Average for the period*
VAR				
Non-trading	46	33	68	52
Interest rate non-trading	38	28	52	40
Credit spread non-trading	27	19	38	29
Portfolio diversification	(19)	–	–	(17)

(c) Market risk *(continued)*

Non-trading VAR, 99% 1 day *(continued)*

	At 31 December 2016	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Non-trading	64	33	69	52
Interest rate non-trading	45	28	52	43
Credit spread non-trading	27	11	38	25
Portfolio diversification	(8)	–	–	(16)

In measuring, monitoring and managing risk in our non-trading portfolios, VAR is just one of the tools used. The management of interest rate risk in the banking book is described further in "Non-trading interest rate risk" as mentioned on page 70 of the Group's Annual Report 2016.

Non-trading VAR excludes equity risk on available-for-sale securities and structural foreign exchange risk, the management of which is described in the relevant sections below.

The Group's control of market risk in the non-trading portfolios is based on transferring the assessed market risk of non-trading assets and liabilities created outside BSM or Global Markets, to the books managed by BSM, provided the market risk can be neutralised. The net exposure is typically managed by BSM through the use of fixed rate government bonds (liquid asset held in available-for-sale books) and interest rate swaps. The interest rate risk arising from fixed rate government bonds held within available-for-sale portfolios is reflected within the Group's non-trading VAR. Interest rate swaps used by BSM are typically classified as either a fair value hedge or a cash flow hedge and included within the Group's non-trading VAR. Any market risk that cannot be neutralised in the market is managed by local Asset and Liability Management Committee ("ALCO") in segregated ALCO books.

Credit spread risk for available-for-sale debt securities

The risk associated with movements in credit spreads is primarily managed through sensitivity limits, stress testing and VAR. The credit spread VAR is derived from a one-day movement in credit spreads over a two-year period, calculated to a 99% confidence interval.

The credit spreads VAR on our available-for-sale debt securities was HK$23 million (At 31 December 2016: HK$27 million; at 30 June 2016: HK$27 million) at 30 June 2017.

Interest rate exposure

Interest rate risks comprise those originating from Global Markets activities, both trading and non-trading portfolios which include structural interest rate exposures. Global Markets manages interest rate risks within the limits approved by the Risk Management Meeting ("RMM") and under the monitoring of both ALCO and RMM.

The Group's policies regarding the management of interest rate risk is set out on pages 70 to 72 of the Group's Annual Report 2016.

(c) Market risk *(continued)*

Foreign exchange exposure

The Group's foreign exchange exposures mainly comprise foreign exchange dealing by Global Markets and currency exposures originated by its banking business. The latter are transferred to Global Markets where they are centrally managed within foreign exchange position limits approved by the Group's Chief Risk Officer, noting the support of RMM. The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts.

The Group's gross structural foreign exchange exposure is represented by the net asset value of the Group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the Group's long-term foreign currency equity investments. The Group's structural foreign currency exposures are managed by the Group's ALCO with the primary objective of ensuring, where practical, that the Group's and the Bank's capital ratios are protected from the effect of changes in exchange rates.

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

Equities exposure

The Group's equities exposures in the first half of 2017 and for the year 2016 are mainly long-term equity investments which are reported as "Financial investments" set out in note 24 on the Group's condensed consolidated financial statements. Equities held for trading purpose are included under "Trading assets" set out in note 20 on the condensed consolidated financial statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Insurance risk

The majority of the risk in the Group's insurance business derives from manufacturing activities and can be categorised as financial risk and insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer.

There is no material change to the Group's policies and practices for the management of risk arising in our insurance operations. A summary of the Group's policies and practices regarding the risk management of our insurance operations, insurance model and the main insurance contracts we manufacture are provided on pages 74 to 81 of the Group's Annual Report 2016.

(e) Operational risk

Operational risk is the risk to achieving the Group's strategy or objectives as a result of inadequate or failed internal processes, people or systems, or external events.

During the first half of 2017, the Group implemented a new Operational Risk Management Framework ("ORMF") and system of record. The new ORMF helps to provide an end to end view of non-financial risks for the first time, focusing on the risks that matter the most, and associated controls. The delivery of the new framework provides us with a platform to further improve our operational risk management capability across the Group.

Responsibility for minimising operational risk lies with the Group's management and staff. All staff are required to manage the operational risks of the business and operational activities for which they are responsible.

A summary of the Group's current policies and practices for the management of operational risk is set out in 'Operational Risk' section on pages 81 to 82 of the Group's Annual Report 2016.

Capital Management

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

The Group uses the advanced internal ratings-based approach 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.

Capital Base

The following table sets out the key composition of the Group's capital base under Basel III at 30 June 2017 and 31 December 2016. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

Capital Base *(continued)*

	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*	**(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*	**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

* *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.*

Risk-weighted assets by risk type

	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

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%
Tier 1 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. 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%
Tier 1 capital ratio	**17.0%**	16.9%
Total capital ratio	**19.8%**	19.8%

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

Condensed Consolidated Income Statement

	note	*Half-year ended 30 June 2017*	*Half-year ended 30 June 2016*
Interest income	4	**13,989**	13,303
Interest expense	5	**(2,175)**	(2,300)
Net interest income		**11,814**	11,003
Fee income		**4,418**	3,776
Fee expense		**(1,124)**	(923)
Net fee income	6	**3,294**	2,853
Net trading income	7	**1,388**	455
Net income/(loss) from financial instruments designated at fair value	8	**988**	(30)
Gains less losses from financial investments	9	**48**	75
Dividend income	10	**7**	174
Net insurance premium income		**7,107**	5,608
Other operating income	11	**1,039**	1,713
Total operating income		**25,685**	21,851
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(8,028)**	(6,634)
Net operating income before loan impairment charges and other credit risk provisions		**17,657**	15,217
Loan impairment charges and other credit risk provisions	12	**(670)**	(721)
Net operating income		**16,987**	14,496
Employee compensation and benefits		**(2,540)**	(2,441)
General and administrative expenses		**(2,059)**	(1,937)
Depreciation of premises, plant and equipment		**(603)**	(551)
Amortisation of intangible assets		**(53)**	(51)
Operating expenses	13	**(5,255)**	(4,980)
Operating profit		**11,732**	9,516
Net surplus/(deficit) on property revaluation		**50**	(77)
Share of profits/(losses) of associates		**(136)**	60
Profit before tax		**11,646**	9,499
Tax expense	14	**(1,812)**	(1,494)
Profit for the period		**9,834**	8,005
Attributable to:			
Shareholders of the company		**9,838**	8,005
Non-controlling interests		**(4)**	–
(Figures in HK$)			
Earnings per share – basic and diluted	15	**5.15**	4.19

Details of dividends payable to shareholders of the Bank attributable to the profit for the half year are set out in note 16.

The notes on pages 30 to 66 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

	Half-year ended 30 June 2017	*Half-year ended 30 June 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 others	**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

The notes on pages 30 to 66 form part of these condensed consolidated financial statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Balance Sheet

	note	*At 30 June 2017*	*At 31 December 2016*
ASSETS			
Cash and sight balances at central banks	18	**15,872**	23,299
Placings with and advances to banks	19	**101,685**	103,460
Trading assets	20	**45,100**	44,427
Financial assets designated at fair value	21	**9,914**	8,523
Derivative financial instruments	22	**7,834**	16,695
Loans and advances to customers	23	**743,179**	698,992
Financial investments	24	**394,671**	398,137
Interest in associates	25	**2,094**	2,274
Investment properties	26	**10,034**	9,960
Premises, plant and equipment	27	**27,543**	26,772
Intangible assets	28	**15,176**	14,443
Other assets	29	**28,239**	30,260
Total assets		**1,401,341**	1,377,242
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	30	**1,012,827**	989,539
Repurchase agreements – non-trading		**6,770**	1,805
Deposits from banks		**4,127**	14,075
Trading liabilities	31	**78,380**	68,124
Financial liabilities designated at fair value	32	**4,039**	3,991
Derivative financial instruments	22	**8,641**	13,303
Certificates of deposit and other debt securities in issue	33	**1,151**	5,116
Other liabilities	34	**18,606**	24,765
Liabilities under insurance contracts		**112,472**	108,326
Current tax liabilities		**1,392**	25
Deferred tax liabilities		**5,697**	5,160
Subordinated liabilities	35	**2,342**	2,327
Total liabilities		**1,256,444**	1,236,556
Equity			
Share capital		**9,658**	9,658
Retained profits		**107,787**	105,204
Other equity instruments	37	**6,981**	6,981
Other reserves		**20,414**	18,783
Total shareholders' equity	36	**144,840**	140,626
Non-controlling interests		**57**	60
Total equity		**144,897**	140,686
Total equity and liabilities		**1,401,341**	1,377,242

The notes on pages 30 to 66 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

				Other reserves							
	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 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**
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
Transfers	–	–	243	(243)	–	–	–	–	–	–	–
At 30 June 2016	9,658	6,981	100,615	16,760	1,708	(26)	343	674	136,713	–	136,713

The notes on pages 30 to 66 form part of these condensed consolidated financial statements.

(Expressed in millions of Hong Kong dollars)

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

				Other reserves							
	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

The notes on pages 30 to 66 form part of these condensed consolidated financial statements.

Condensed Consolidated Cash Flow Statement

	note	*Half-year ended 30 June 2017*	*Half-year ended 30 June 2016 (restated)*
Cash flows from operating activities			
Cash generated from operating activities	38(a)	**16,976**	14,802
Interest received from available-for-sale investments		**1,611**	1,325
Dividends received from available-for-sale investments		**8**	175
Taxation paid		**(5)**	(28)
Net cash inflow from operating activities	44	**18,590**	16,274
Cash flows from investing activities			
Purchase of available-for-sale investments		**(21,162)**	(50,857)
Purchase of held-to-maturity debt securities		**(814)**	(383)
Proceeds from sale or redemption of available-for-sale investments		**27,530**	49,802
Proceeds from redemption of held-to-maturity debt securities		**404**	709
Net cash inflow from sale of loan portfolio		**54**	–
Purchase of properties, plant and equipment and intangible assets		**(371)**	(550)
Proceeds from sale of properties, plant and equipment and assets held for sale		**–**	1
Net cash inflow/(outflow) from investing activities	44	**5,641**	(1,278)
Cash flows from financing activities			
Dividends paid		**(7,647)**	(12,427)
Interest paid for subordinated liabilities		**(60)**	(55)
Net cash outflow from financing activities		**(7,707)**	(12,482)
Increase in cash and cash equivalents		**16,524**	2,514
Cash and cash equivalents at 1 January		**87,401**	104,335
Effect of foreign exchange rate changes		**2,207**	(2,703)
Cash and cash equivalents at 30 June	38(b)	**106,132**	104,146

The notes on pages 30 to 66 form part of these condensed consolidated financial statements.

NOTES ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)
(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS")34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial statements was reviewed by the Audit Committee. The Board of Directors of the Bank has approved the condensed consolidated financial statements on 31 July 2017.

The preparation of the condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the condensed consolidated financial statements, the significant judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The condensed consolidated financial statements are unaudited, but has been reviewed by PricewaterhouseCoopers ("PwC") in accordance with Hong Kong Standards on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by HKICPA. PwC's independent review report to the Board of Directors is included on page 67.

2 Accounting policies

Except as described below, the accounting policies applied in preparing this condensed consolidated financial statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2016, as disclosed in the Annual Report for 2016.

<u>Transition of HKFRS 9 "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 HKFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Annual Report and Accounts for 2017.

<u>HKFRS 16 "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.

In addition, the Group has adopted the following amendments to standards which have insignificant or no effect on the condensed consolidated financial statements:
- Amendments to HKAS 7 "Statement of Cash Flows"
- Amendments to HKAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"

3 Basis of consolidation

These condensed consolidated financial statements cover the consolidated positions of Hang Seng Bank Limited ("the Bank") and all its subsidiaries ("the Group"), unless otherwise stated, and include the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation is different from the basis of consolidation for accounting purposes. They are disclosed under the "Risk and Capital Management" section.

4 Interest income

	Half-year ended 30 June 2017	*Half-year ended 30 June 2016*
Interest income arising from:		
– financial assets that are not at fair value through profit and loss	**13,791**	13,161
– trading assets	**193**	140
– financial assets designated at fair value	**5**	2
	13,989	13,303
of which:		
– interest income from impaired financial assets	**31**	30

5 Interest expense

	Half-year ended 30 June 2017	*Half-year ended 30 June 2016*
Interest expense arising from:		
– financial liabilities that are not at fair value through profit and loss	**1,422**	1,673
– trading liabilities	**726**	607
– financial liabilities designated at fair value	**27**	20
	2,175	2,300
of which:		
– interest expense from debt securities in issue maturing after five years	**–**	–
– interest expense from customer accounts maturing after five years	**–**	–
– interest expense from subordinated liabilities	**60**	55

6 Net fee income

	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
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	**1,044**	1,084
– fee income	**2,006**	1,846
– fee expense	**(962)**	(762)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**472**	391
– fee income	**563**	473
– fee expense	**(91)**	(82)

7 Net trading income

	Half-year ended 30 June 2017	*Half-year ended 30 June 2016*
Dealing profits	**1,389**	428
– foreign exchange	**1,169**	541
– interest rate derivatives	**78**	(64)
– debt securities	**39**	49
– equities and other trading	**103**	(98)
Net gain/(loss) from hedging activities	**(1)**	27
– fair value hedges		
– net gain on hedged items attributable to the hedged risk	**51**	564
– net loss on hedging instruments	**(53)**	(556)
– cash flow hedges		
– net hedging gain	**1**	19
	1,388	455

8 Net income/(loss) from financial instruments designated at fair value

	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)
of which dividend income from:		
– listed investments	**127**	73
– unlisted investments	**–**	–
	127	73

9 Gains less losses from financial investments

	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

There were no impairment losses or gains less losses on disposal of held-to-maturity debt securities and financial liabilities measured at amortised cost for the periods indicated.

10 Dividend income

	Half-year ended 30 June 2017	*Half-year ended 30 June 2016*
Dividend income:		
– listed investments	**–**	120
– unlisted investments	**7**	54
	7	174

11 Other operating income

	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

12 Loan impairment charges and other credit risk provisions

	Half-year ended 30 June 2017	Half-year ended 30 June 2016
Net charge for impairment of loans and advances to customers (note 23(b)):		
Individually assessed impairment charges:		
– new charges	**380**	379
– releases	**(44)**	(35)
– recoveries	**(9)**	(5)
	327	339
Collectively assessed impairment charges	**343**	382
	670	721

There were no impairment charges for the first half of 2017 (nil for the first half of 2016) provided for available-for-sale debt securities, held-to-maturity debt securities and placings with and advances to banks by the Group.

13 Operating expenses

	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		
– defined benefit scheme	**97**	110
– defined contribution scheme	**100**	99
	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 (note 27)	**603**	551
Amortisation of intangible assets	**53**	51
	5,255	4,980

14 Tax expense

Taxation in the consolidated income statement represents:

	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)
	14	37
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 the first half of 2017, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2016: 16.5 per cent). 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.

15 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).

16 Dividends per share

Dividend to ordinary shareholders

	Half-year ended 30 June 2017		Half-year ended 30 June 2016	
	per share HK$	HK$m	per share HK$	HK$m
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

17 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** offers 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** offers 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 with reference to market rates.

17 Segmental analysis *(continued)*

(a) ***Segmental result*** *(continued)*

	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%)**	**100.0%**
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**

17 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	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

17 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".

	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**

17 Segmental analysis *(continued)*

(b) Information by geographic region (continued)

	Hong Kong	Mainland China	Others	Inter-region elimination	Total
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.*

18 Cash and sight balances at central banks

	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

19 Placings with and advances to banks

	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
of which:		
Placings with and advances to central banks	**10,462**	10,785

There were no overdue advances, impaired advances and rescheduled advances to banks at 30 June 2017 and 31 December 2016.

20 Trading assets

	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.*

21 Financial assets designated at fair value

	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

22 Derivative financial instruments

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

	At 30 June 2017			At 31 December 2016		
	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities
Derivatives held for trading						
Exchange rate contracts:						
– spot and forward foreign exchange	788,345	3,960	4,667	696,015	8,392	6,238
– currency swaps	94,647	1,298	1,337	92,633	3,648	3,680
– currency options purchased	32,113	194	–	34,618	1,062	–
– currency options written	35,099	–	211	34,274	–	1,065
	950,204	5,452	6,215	857,540	13,102	10,983
Interest rate contracts:						
– interest rate swaps	318,623	1,091	1,082	239,713	1,383	1,478
– interest rate options written	8,849	–	–	6,713	–	–
– other interest rate contracts	4,499	9	6	858	4	1
	331,971	1,100	1,088	247,284	1,387	1,479
Equity and other contracts:						
– equity swaps	5,451	22	98	5,689	6	199
– equity options purchased	22,271	516	–	13,947	337	–
– equity options written	16,329	–	282	8,719	–	58
– credit derivatives	692	–	7	634	4	–
– other contracts	701	27	–	491	11	1
	45,444	565	387	29,480	358	258
Total derivatives held for trading	1,327,619	7,117	7,690	1,134,304	14,847	12,720
Derivatives managed in conjunction with financial assets designated at fair value						
Interest rate contracts:						
– interest rate swaps	3,500	7	–	3,500	1	8
Cash flow hedge derivatives						
Exchange rate contracts:						
– currency swaps	20,554	438	600	27,151	1,511	181
Interest rate contracts:						
– interest rate swaps	17,127	47	7	13,341	–	51
	37,681	485	607	40,492	1,511	232
Fair value hedge derivatives						
Interest rate contracts:						
– interest rate swaps	50,158	225	344	46,296	336	343
Total derivatives	1,418,958	7,834	8,641	1,224,592	16,695	13,303

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

23 Loans and advances to customers

(a) Loans and advances to customers

	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

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

23 Loans and advances to customers *(continued)*

(b) Loan impairment allowances against loans and advances to customers

	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 years	**9**	**43**	**52**
New impairment allowances charged to condensed consolidated income statement (note 12)	**380**	**386**	**766**
Impairment allowances released to condensed consolidated income statement (note 12)	**(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**
At 1 January 2016	807	808	1,615
Amounts written off	(222)	(371)	(593)
Recoveries of loans and advances written off in previous years	5	36	41
New impairment allowances charged to condensed consolidated income statement (note 12)	379	418	797
Impairment allowances released to condensed consolidated income statement (note 12)	(40)	(36)	(76)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(27)	(3)	(30)
Exchange difference	(6)	(6)	(12)
At 30 June 2016	896	846	1,742
At 1 July 2016	896	846	1,742
Amounts written off	(208)	(327)	(535)
Recoveries of loans and advances written off in previous years	75	38	113
New impairment allowances charged to condensed consolidated income statement	283	430	713
Impairment allowances released to condensed consolidated income statement	(83)	(38)	(121)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(28)	(2)	(30)
Exchange difference	(12)	(11)	(23)
At 31 December 2016	923	936	1,859

23 Loans and advances to customers *(continued)*

(c) Impaired loans and advances to customers and allowances

	At 30 June 2017	At 31 December 2016
Gross impaired loans and advances	**3,136**	3,235
Individually assessed allowances	**(1,129)**	(923)
Net impaired loans and advances	**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.

	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.

23 Loans and advances to customers *(continued)*

(d) 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	
		%		%
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
of which:				
– individually impaired allowances	**(465)**		(726)	
– covered portion of overdue loans and advances	**1,200**		1,419	
– uncovered portion of overdue loans and advances	**698**		935	
– current market value of collateral held against the covered portion of overdue loans and advances	**1,880**		2,653	

Collateral held with respect to overdue loans and advances is mainly residential properties, industrial properties, commercial properties and customer deposits. The current market value of residential properties, industrial properties, commercial properties and customer deposits were HK$1,448m, HK$29m, HK$295m and HK$53m respectively.

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

(e) 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	
		%		%
Rescheduled loans and advances to customers	**789**	**0.11**	458	0.07

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status.

Rescheduled loans and advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in "Overdue loans and advances to customers" (note 23d).

23 Loans and advances to customers *(continued)*

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

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

	At 30 June 2017		At 31 December 2016	
		% of gross advances covered by collateral		*% of gross advances covered by collateral*
Gross loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial sectors				
– property development	**57,788**	**41.5**	51,935	44.4
– property investment	**128,985**	**84.1**	119,553	86.4
– financial concerns	**6,574**	**56.8**	5,049	55.0
– stockbrokers	**50**	**60.0**	141	92.9
– wholesale and retail trade	**27,363**	**46.7**	26,880	48.5
– manufacturing	**24,359**	**40.4**	23,079	41.6
– transport and transport equipment	**13,255**	**56.0**	9,302	67.7
– recreational activities	**76**	**68.4**	48	77.8
– information technology	**5,211**	**7.8**	6,624	13.3
– other	**55,674**	**69.5**	46,523	66.0
	319,335	**64.3**	289,134	65.7
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**	**100.0**	17,808	100.0
– loans and advances for the purchase of other residential properties	**165,778**	**100.0**	161,165	100.0
– credit card loans and advances	**25,458**	**–**	27,019	–
– other	**24,222**	**51.7**	20,385	43.0
	235,819	**84.2**	226,377	82.9
Total gross loans and advances for use in Hong Kong	**555,154**	**72.8**	515,511	73.2
Trade finance	**43,230**	**22.9**	43,235	22.7
Gross loans and advances for use outside Hong Kong	**146,915**	**35.4**	142,105	33.0
Gross loans and advances to customers	**745,299**	**62.5**	700,851	62.0

24 Financial investments

	At 30 June 2017	At 31 December 2016
Available-for-sale at fair value:		
– treasury bills	**172,348**	180,951
– debt securities[1]	**124,557**	125,985
– equity securities (including investment funds)	**5,000**	4,301
	301,905	311,237
Held-to-maturity at amortised cost:		
– debt securities[2&3]	**92,766**	86,900
	394,671	398,137

1 *Including certificates of deposit of HK$7,174m (31 December 2016: HK$5,320m)*

2 *Including certificates of deposit of HK$3,583m (31 December 2016: HK$3,890m)*

3 *Fair value is HK$96,406m (31 December 2016: HK$87,375m)*

There were no overdue debt securities at 30 June 2017 and 31 December 2016 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

There were no financial investments determined to be impaired at 30 June 2017 and 31 December 2016.

(a) The following table presents an analysis of debt securities by rating agency designation at the balance sheet dates, based on Standard and Poor's ratings or their equivalent to the respective issues of the financial securities. If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	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

25 Interest in associates

	At 30 June 2017	At 31 December 2016
Share of net assets	**2,094**	2,274

26 Investment properties

	Half-year ended 30 June 2017	Half-year ended 30 June 2016	Half-year ended 31 December 2016
Beginning of the period	**9,960**	10,075	10,329
Revaluation (charged)/credited to condensed consolidated income statement	**74**	(50)	55
Transfer from/(to) premises (note 27)	**–**	304	(424)
End of the period	**10,034**	10,329	9,960
Representing:			
– measure at valuation	**10,034**	10,329	9,960

27 Premises, plant and equipment

Movement of premises, plant and equipment

	Premises	Plant and equipment	Total
Cost or valuation:			
At 1 January 2017	**25,409**	**4,934**	**30,343**
Additions	**139**	**189**	**328**
Disposals	**–**	**(93)**	**(93)**
Elimination of accumulated depreciation on revalued premises	**(407)**	**–**	**(407)**
Surplus on revaluation:			
– credited to premises revaluation reserve	**1,043**	**–**	**1,043**
Transfer to investment properties (note 26)	**–**	**–**	**–**
Transfer to assets held for sale	**(12)**	**–**	**(12)**
Exchange difference	**28**	**15**	**43**
At 30 June 2017	**26,200**	**5,045**	**31,245**
Accumulated depreciation:			
At 1 January 2017	**–**	**(3,571)**	**(3,571)**
Charge for the period (note 13)	**(407)**	**(196)**	**(603)**
Written off on disposal	**–**	**77**	**77**
Elimination of accumulated depreciation on revalued premises	**407**	**–**	**407**
Exchange difference	**–**	**(12)**	**(12)**
At 30 June 2017	**–**	**(3,702)**	**(3,702)**
Net book value at 30 June 2017	**26,200**	**1,343**	**27,543**
Representing:			
– measure at cost	**–**	**1,343**	**1,343**
– measure at valuation	**26,200**	**–**	**26,200**
	26,200	**1,343**	**27,543**

27 Premises, plant and equipment *(continued)*

Movement of premises, plant and equipment *(continued)*

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 January 2016	25,108	4,505	29,613
Additions	147	351	498
Disposals	–	(135)	(135)
Elimination of accumulated depreciation on revalued premises	(378)	–	(378)
Surplus on revaluation:			
– credited to premises revaluation reserve	277	–	277
Transfer to investment properties (note 26)	(304)	–	(304)
Exchange difference	(19)	(12)	(31)
At 30 June 2016	24,831	4,709	29,540
Accumulated depreciation:			
At 1 January 2016	–	(3,427)	(3,427)
Charge for the period (note 13)	(378)	(173)	(551)
Written off on disposal	–	124	124
Elimination of accumulated depreciation on revalued premises	378	–	378
Exchange difference	–	10	10
At 30 June 2016	–	(3,466)	(3,466)
Net book value at 30 June 2016	24,831	1,243	26,074
Representing:			
- measure at cost	–	1,243	1,243
- measure at valuation	24,831	–	24,831
	24,831	1,243	26,074

27 Premises, plant and equipment *(continued)*

Movement of premises, plant and equipment *(continued)*

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 July 2016	24,831	4,709	29,540
Additions	–	304	304
Disposals	–	(57)	(57)
Elimination of accumulated depreciation on revalued premises	(386)	–	(386)
Surplus on revaluation:			
– credited to premises revaluation reserve	576	–	576
Transfer from investment properties (note 26)	424	–	424
Exchange difference	(36)	(22)	(58)
At 31 December 2016	25,409	4,934	30,343
Accumulated depreciation:			
At 1 July 2016	–	(3,466)	(3,466)
Charge for the period	(386)	(177)	(563)
Written off on disposal	–	55	55
Elimination of accumulated depreciation on revalued premises	386	–	386
Exchange difference	–	17	17
At 31 December 2016	–	(3,571)	(3,571)
Net book value at 31 December 2016	25,409	1,363	26,772
Representing:			
- measure at cost	–	1,363	1,363
- measure at valuation	25,409	–	25,409
	25,409	1,363	26,772

28 Intangible assets

	At 30 June 2017	At 31 December 2016
Present value of in-force long-term insurance business	**14,406**	13,664
Internally developed software	**379**	394
Acquired software	**62**	56
Goodwill	**329**	329
	15,176	14,443

29 Other assets

	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

Other accounts included "Assets held for sale" of HK$43m (31 December 2016: HK$24m). It also included "Retirement benefit assets" of HK$47m (31 December 2016: HK$45m).

There were no significant impaired, overdue or rescheduled other assets at 30 June 2017 and 31 December 2016.

30 Current, savings and other deposit accounts

	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 (note 31)	**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

31 Trading liabilities

	At 30 June 2017	At 31 December 2016
Other structured debt securities in issue (note 33)	**4,683**	5,026
Structured deposits (note 30)	**34,828**	26,090
Short positions in securities and others	**38,869**	37,008
	78,380	68,124

32 Financial liabilities designated at fair value

	At 30 June 2017	At 31 December 2016
Certificates of deposit in issue (note 33)	**3,504**	3,484
Liabilities to customers under investment contracts	**535**	507
	4,039	3,991

At 30 June 2017, the accumulated gain in fair value attributable to changes in credit risk for certificates of deposit in issue was HK$1m (31 December 2016: HK$7m).

33 Certificates of deposit and other debt securities in issue

	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 (note 32)	**3,504**	3,484
– other structured debt securities in issue reported as trading liabilities (note 31)	**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

34 Other liabilities

	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

35 Subordinated liabilities

Nominal value	Description	**At 30 June 2017**	At 31 December 2016
Amounts owed to HSBC Group undertakings			
US$300 million	Floating rate subordinated loan due July 2022[1]	**2,342**	2,327
Representing:			
– measured at amortised cost		**2,342**	2,327

[1] *Interest rate at three-month US dollar LIBOR plus 4.06 per cent per annum, payable quarterly, to the maturity date.*

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

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities at 30 June 2017 and 31 December 2016.

36 Shareholders' equity

	At 30 June 2017	*At 31 December 2016*
Share capital	**9,658**	9,658
Retained profits	**107,787**	105,204
Other equity instruments (note 37)	**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
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.

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a "regulatory reserve" directly from retained profits. As at 30 June 2017, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$5,479m (31 December 2016: HK$5,945m).

37 Other equity instruments

Nominal value	Description	*At 30 June 2017*	*At 31 December 2016*
US$900 million	Floating rate perpetual capital instrument callable from December 2019[1]	**6,981**	6,981

[1] *Coupon rate at one-year US dollar LIBOR plus 3.84 per cent.*

The additional tier 1 capital instruments are perpetual and subordinated, and the coupon payments may be cancelled at the sole discretion of the Bank. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

38 Reconciliation of cash flow statement

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

	Half-year ended 30 June 2017	Half-year ended 30 June 2016 (restated)
Operating profit	**11,732**	9,516
Net interest income	**(11,814)**	(11,003)
Dividend income	**(7)**	(174)
Loan impairment charges and other credit risk provisions	**670**	721
Depreciation	**603**	551
Amortisation of intangible assets	**53**	51
Gains less losses from financial investments	**(48)**	(75)
Loans and advances written off net of recoveries	**(400)**	(552)
Movement in present value of in-force long-term insurance business	**(742)**	(1,420)
Interest received	**12,476**	11,799
Interest paid	**(2,286)**	(1,964)
Operating profit before changes in working capital	**10,237**	7,450
Change in treasury bills and certificates of deposit with original maturity more than three months	**16,306**	(965)
Change in placings with and advances to banks maturing after one month	**21,862**	19,702
Change in trading assets	**(7,131)**	(9,861)
Change in financial assets designated at fair value	**–**	62
Change in derivative financial instruments	**4,199**	3,972
Change in loans and advances to customers	**(44,145)**	10,347
Change in other assets	**(1,015)**	254
Change in financial liabilities designated at fair value	**19**	18
Change in current, savings and other deposit accounts	**23,288**	(7,683)
Change in repurchase agreements – non-trading	**4,965**	(554)
Change in deposits from banks	**(9,948)**	(4,068)
Change in trading liabilities	**10,256**	(4,761)
Change in certificates of deposit and other debt securities in issue	**(3,965)**	1,225
Change in other liabilities	**(1,581)**	187
Elimination of exchange differences and other non-cash items	**(6,371)**	(523)
Cash generated from operating activities	**16,976**	14,802

38 Reconciliation of cash flow statement *(continued)*

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

	At 30 June 2017	At 30 June 2016
Cash and sight balances at central banks	**15,872**	18,938
Balances with banks	**5,898**	13,689
Items in the course of collection from other banks	**4,958**	8,433
Placings with and advances to banks maturing within one month	**57,176**	48,233
Treasury bills	**29,115**	24,777
Certificates of deposit	**344**	664
Less: items in the course of transmission to other banks	**(7,231)**	(10,588)
	106,132	104,146

The balances of cash and cash equivalents included cash and sight balances at central banks, balances with banks and placings with and advances to banks maturing within one month that are subject to exchange control and regulatory restrictions, amounting to HK$20,108m at 30 June 2017 (HK$17,199m at 30 June 2016).

39 Contingent liabilities and commitments

(a) Off-balance sheet contingent liabilities and commitments

	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 deposits placed	**2,048**	788
Undrawn formal standby facilities, credit lines and other commitments to lend	**393,071**	379,246
	397,439	382,144

The above "Commitments" table discloses the nominal principal amounts of commitments excluding capital commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Contractual amounts represent the amounts at risk should contracts be fully drawn upon and clients default. The amount of the loan commitments shown above reflects, where relevant, the expected level of take-up of pre-approved facilities. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not representative of future liquidity requirements.

(b) Contingencies

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

40 Material related-party transactions

There were no changes in the related party transactions described in the 2016 Annual Report that have had a material effect on the financial position or performance of the Group in the half-year to 30 June 2017. All related party transactions that took place in the half-year to 30 June 2017 were similar in nature to those disclosed in the 2016 Annual Report.

41 Fair value of financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table provides an analysis of the fair value hierarchy of the financial instruments carried at fair value.

	Fair value hierarchy					
	Quoted market price Level 1	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities **	*Total*
Recurring fair value measurements						
At 30 June 2017						
Assets						
Trading assets	**40,407**	**4,693**	**–**	**45,100**	**–**	**45,100**
Financial assets designated at fair value	**7,491**	**1,210**	**1,213**	**9,914**	**–**	**9,914**
Derivative financial instruments	**468**	**5,537**	**16**	**6,021**	**1,813**	**7,834**
Available-for-sale financial investments	**195,825**	**104,783**	**1,297**	**301,905**	**–**	**301,905**
Liabilities						
Trading liabilities	**38,635**	**39,368**	**367**	**78,370**	**10**	**78,380**
Financial liabilities designated at fair value	**–**	**4,039**	**–**	**4,039**	**–**	**4,039**
Derivative financial instruments	**35**	**6,734**	**16**	**6,785**	**1,856**	**8,641**
At 31 December 2016						
Assets						
Trading assets	37,407	7,020	–	44,427	–	44,427
Financial assets designated at fair value	5,655	2,141	727	8,523	–	8,523
Derivative financial instruments	453	13,636	32	14,121	2,574	16,695
Available-for-sale financial investments	212,522	97,493	1,222	311,237	–	311,237
Liabilities						
Trading liabilities	36,856	31,189	79	68,124	–	68,124
Financial liabilities designated at fair value	–	3,991	–	3,991	–	3,991
Derivative financial instruments	48	10,042	46	10,136	3,167	13,303

* *Included structured instruments and derivative contracts transacted with HSBC entities which were mainly classified within Level 2 of the valuation hierarchy.*

41 Fair value of financial instruments *(continued)*

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

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

During the six months ended 30 June 2017, there were no material transfers between Level 1 and Level 2.

Details of the control framework, valuation techniques used to determine fair value, fair value adjustments, and the approach used to calculate the fair value of each type of financial instrument are included in note 57(a) of the Group's Annual Report 2016.

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

	Assets				Liabilities		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 30 June 2017							
Private equity	**1,297**	**–**	**1,213**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**367**	**–**	**–**
Derivatives	**–**	**–**	**–**	**16**	**–**	**–**	**16**
	1,297	**–**	**1,213**	**16**	**367**	**–**	**16**
At 31 December 2016							
Private equity	1,222	–	727	–	–	–	–
Structured notes	–	–	–	–	79	–	–
Derivatives	–	–	–	32	–	–	46
	1,222	–	727	32	79	–	46

41 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2017	1,222	–	727	32	79	–	46
Total gains or losses recognised in profit or loss							
- trading income	–	–	–	(15)	1	–	(29)
- net income from financial instruments designated at fair value	–	–	121	–	–	–	–
- gains less losses from financial investments	–	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income							
- fair value gains	75	–	–	–	–	–	–
- exchange differences	–	–	–	–	–	–	–
Purchases	–	–	408	–	–	–	–
Issues/deposit taking	–	–	–	–	369	–	–
Sales	–	–	–	–	–	–	–
Settlements	–	–	(43)	–	(32)	–	–
Transfers out	–	–	–	(1)	(50)	–	(1)
Transfers in	–	–	–	–	–	–	–
At 30 June 2017	1,297	–	1,213	16	367	–	16
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period							
- trading income	–	–	–	(13)	(1)	–	23
- net income from financial instruments designated at fair value	–	–	121	–	–	–	–

41 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2016	1,161	–	547	13	27	–	3
Total gains or losses recognised in profit or loss							
- trading income	–	–	–	(6)	(2)	–	(1)
- net income from financial instruments designated at fair value	–	–	66	–	–	–	–
- gains less losses from financial investments	–	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income							
- fair value gains	7	–	–	–	–	–	–
- exchange differences	–	–	–	–	–	–	–
Purchases	–	–	1	–	–	–	–
Issues/deposit taking	–	–	–	–	143	–	–
Sales	–	–	–	–	–	–	–
Settlements	–	–	(16)	–	(6)	–	–
Transfers out	–	–	–	–	(1)	–	–
Transfers in	–	–	–	–	–	–	–
At 30 June 2016	1,168	–	598	7	161	–	2
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period							
- trading income	–	–	–	1	2	–	–
- net income from financial instruments designated at fair value	–	–	66	–	–	–	–

41 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments (continued)

	Assets				*Liabilities*		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 July 2016	1,168	–	598	7	161	–	2
Total gains or losses recognised in profit or loss							
- trading income	–	–	–	26	(1)	–	44
- net income from other financial instruments designated at fair value	–	–	(32)	–	–	–	–
- gains less losses from financial investments	–	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income							
- fair value gains	54	–	–	–	–	–	–
- exchange differences	–	–	–	–	–	–	–
Purchases	–	–	457	–	–	–	–
Issues/deposit taking	–	–	–	–	82	–	–
Sales	–	–	–	–	–	–	–
Settlements	–	–	(296)	–	(163)	–	–
Transfers out	–	–	–	(1)	–	–	–
Transfers in	–	–	–	–	–	–	–
At 31 December 2016	1,222	–	727	32	79	–	46
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period							
- trading income	–	–	–	31	3	–	(46)
- net income from financial instruments designated at fair value	–	–	(32)	–	–	–	–

For the first half of 2017, the transfer out of Level 3 derivative assets and derivative liabilities were predominantly resulted from increase in observability in equity volatilities. In respect of the held for trading liabilities, the transfer out of level 3 reflected the change in observability of correlations between equity and equity index used for pricing the instrument.

41 Fair value of financial instruments *(continued)*

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions which are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions:

Sensitivity of fair values to reasonably possible alternative assumptions

	Reflected in profit or loss		*Reflected in other comprehensive income*	
	Favourable changes	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At 30 June 2017				
Private equity	**61**	**(61)**	**55**	**(55)**
Structured notes	**–**	**–**	**–**	**–**
Derivatives	**–**	**–**	**–**	**–**
	61	**(61)**	**55**	**(55)**
At 31 December 2016				
Private equity	36	(36)	49	(49)
Structured notes	–	–	–	–
Derivatives	–	–	–	–
	36	(36)	49	(49)

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

For private equity, favourable and unfavourable changes are determined on the basis of 5% changes (31 December 2016: 5%) in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amendable to statistical analysis, quantification of uncertainty is judgemental.

41 Fair value of financial instruments *(continued)*

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

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	*Unobservable input(s)*	*Range*
Assets			
Private equity	Net asset value	N/A	**N/A**
	Market-comparable approach	Earnings Multiple	**29 - 34** (31 Dec 2016: 22 - 28)
		P/B ratios	**0.71 - 3.48** (31 Dec 2016: 0.69 - 2.55)
		Liquidity Discount	**10% - 30%** (31 Dec 2016: 10% - 30%)
Derivatives	Option model	Equity Volatility	**20.01% - 35.55%** (31 Dec 2016: 24.35% - 34.83%)
		FX Volatility	3.46% - 16.76% (31 Dec 2016: 10.19% - 16.09%)
Liabilities			
Structured notes	Option model	FX Volatility	**7.94% - 12.21%** (31 Dec 2016: 10.24% - 14.76%)
		Equity and Equity Index Correlation	**0.11 - 0.14** (31 Dec 2016: 0.178 - 0.178)
Derivatives	Option model	Equity Volatility	**20.01% - 35.55%** (31 Dec 2016: 24.35% - 34.83%)
		FX Volatility	**3.46% - 16.76%** (31 Dec 2016: 8.56% - 16.09%)

Key unobservable inputs to Level 3 financial instruments

The table above lists the key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2017. Detailed description of the categories of key unobservable inputs are set out in note 57(a) of the Group's Annual Report 2016.

41 Fair value of financial instruments *(continued)*

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

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the condensed consolidated balance sheet. For all other instruments, the fair value is equal to the carrying value.

	At 30 June 2017		At 31 December 2016	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets				
Placings with and advances to banks	**101,685**	**101,737**	103,460	103,441
Loans and advances to customers	**743,179**	**744,382**	698,992	697,403
Held-to-maturity debt securities	**92,766**	**96,406**	86,900	87,375
Financial Liabilities				
Current, savings and other deposit accounts	**1,012,827**	**1,012,871**	989,539	989,629
Repurchase agreements - non-trading	**6,770**	**6,770**	1,805	1,805
Deposits from banks	**4,127**	**4,127**	14,075	14,075
Certificates of deposit and other debt securities in issue	**1,151**	**1,151**	5,116	5,130
Subordinated liabilities	**2,342**	**2,803**	2,327	2,828

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

Details of how the fair values of financial instruments that are not carried at fair value on the balance sheet are calculated are set out in note 57(b) of the Group's Annual Report 2016.

42 Condensed consolidated financial statements and statutory financial statements

The financial information relating to the year ended 31 December 2016 that is included in these condensed consolidated financial statements does not constitute the Bank's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the Hong Kong Monetary Authority.

The auditor has reported on those 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).

The Annual Report for the year ended 31 December 2016, which includes the statutory financial statements, can be obtained from the Bank's website (www.hangseng.com) and the website of HKEX (www.hkexnews.hk).

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

43 Immediate and ultimate holding companies

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

44 Comparative figures

Interest and dividends received from available-for-sale investments previously included under cash flows from investing activities are presented under cash flows from operating activities in the current period as management considered that such presentation would more appropriately reflect the way the business is managed. The comparatives of net cash flows from operating and investing activities have been restated accordingly. Other than the above, certain comparative figures in the condensed consolidated financial statements have also been reclassified to conform with current period's presentation.

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

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements set out on page 24 to 66, which comprises the condensed consolidated balance sheet of Hang Seng Bank Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 July 2017

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2017.

Changes in Directors' Details

Changes in Directors' details since the date of the Annual Report 2016 of the Bank or (as the case may be) the dates of announcements for the appointment of Directors issued by the Bank subsequent to the date of the Annual Report 2016, and up to the date of release of the interim results of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below.

Dr Raymond CH'IEN Kuo Fung GBS, CBE, JP

New appointment
- Hong Kong CPPCC (Provincial) Members Association Limited (Deputy Director of One Belt One Road and Guangdong-Hong Kong-Macau Greater Bay Area Construction Advisory Committee)

Ms Louisa CHEANG (2)

New appointments
- Hang Seng Bank Limited (1) (Chairman of Executive Committee; Member of Nomination Committee)
- Chairman of various subsidiaries in Hang Seng Group
- Hang Seng Indexes Company Limited (Chairman of Hang Seng Index Advisory Committee)
- Ho Leung Ho Lee Foundation (Member of Board of Trustees)

Cessation of appointment
- HSBC (Group Head of Retail Banking)

Dr John CHAN Cho Chak GBS, JP

Cessation of appointments
- Swire Properties Limited (1) (Independent Non-executive Director)
- The Community Chest of Hong Kong (Board Member; Member of Executive Committee)

Dr Henry CHENG Kar Shun GBM

Cessation of appointment
- International Entertainment Corporation (1) (Chairman and Executive Director)

Ms CHIANG Lai Yuen JP

Cessation of appointment
- Hospital Authority (Board Member)

Dr HU Zuliu, Fred

New appointment
- Hong Kong Exchanges and Clearing Limited [(1)] (Member of Remuneration Committee)

Cessation of appointment
- Hong Kong Exchanges and Clearing Limited [(1)] (Member of Nomination Committee)

Ms Margaret KWAN Wing Han [(3)]

New appointment
- Employers' Federation of Hong Kong (Elected Member of General Committee)

Ms Irene LEE Yun Lien

Cessation of appointment
- Noble Group Limited [(1)] (Independent Non-executive Director; Member of Audit Committee; Member of Investment and Capital Markets Committee; Member of Nominating Committee; Member of Risk Committee)

Dr Eric LI Ka Cheung GBS, OBE, JP

New appointment
- Home Affairs Bureau (Member of the Board of Trustees of the Sir Edward Youde Memorial Fund)

Mr Richard TANG Yat Sun SBS, JP

New appointment
- King Fook Holdings Limited [(1)] (Chairman)

Mr Michael WU Wei Kuo

New appointment
- The Community Chest of Hong Kong (Board Member; Member of Executive Committee)

Notes:

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

(2) Ms Louisa CHEANG was appointed as Vice-Chairman and Chief Executive of the Bank with effect from 1 July 2017.

(3) Ms Margaret KWAN Wing Han was appointed as Executive Director of the Bank with effect from 13 May 2017.

(4) Mr Andrew FUNG Hau Chung ceased to be Executive Director of the Bank with effect from 4 July 2017.

(5) Ms Rose LEE Wai Mun ceased to be Vice-Chairman and Chief Executive of the Bank with effect from 1 July 2017.

(6) Mr Patrick CHAN Kwok Wai resigned as Executive Director of the Bank with effect from 1 May 2017.

(7) Updated biographical details of the Bank's Directors are also available on the website of the Bank.

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

Directors' and Alternate Chief Executives' Interests

As at 30 June 2017, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/issued share capital
Number of ordinary shares in the Bank						
Directors:						
Dr John C C Chan	1,000[1]	–	–	–	1,000	0.00
Ms Margaret W H Kwan	65	–	–	–	65	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Dr Raymond K F Ch'ien	58,572	–	–	–	58,572	0.00
Ms Rose W M Lee	533,193	1,784	–	192,117[4]	727,094	0.00
Dr John C C Chan	24,605[1]	–	–	–	24,605	0.00
Mr Nixon L S Chan	129,504	–	–	39,993[4]	169,497	0.00
Mr Andrew H C Fung	131,603	–	–	30,124[4]	161,727	0.00
Ms Margaret W H Kwan	21,524	–	–	9,119[4]	30,643	0.00
Ms Irene Y L Lee	10,260	–	–	–	10,260	0.00
Ms Sarah C Legg	199,352	2,695	–	112,051[4]	314,098	0.00
Dr Eric K C Li	–	55,822	–	–	55,822	0.00
Mr Kenneth S Y Ng	422,395	–	–	18,972[4]	441,367	0.00
Mr Peter T S Wong	1,399,320	23,640	–	2,054,229[4]	3,477,189	0.02
Alternate Chief Executives:						
Mrs Eunice L C Y Chan	26,177	–	–	12,941[4]	39,118	0.00
Mr Donald Y S Lam	99,769	–	–	18,664[4]	118,433	0.00
Mr Andrew W L Leung	17,100	–	–	20,538[4]	37,638	0.00
Number of perpetual non-cumulative preference shares of US$0.01 each in HSBC Holdings plc						
Directors:						
Ms Rose W M Lee	–	131,000[2]	–	75,075[2]	206,075	0.14
Ms Margaret W H Kwan	–	15,000[3]	–	–	15,000	0.02

Interests in debentures of associated corporation of the Bank

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
8.00% perpetual subordinated capital securities, series 2 issued by HSBC Holdings plc					
Director:					
Ms Rose W M Lee	–	US$3,275,000[2]	–	US$1,876,875[2]	US$5,151,875
8.125% perpetual subordinated capital securities issued by HSBC Holdings plc					
Director:					
Ms Margaret W H Kwan	–	US$375,000[3]	–	–	US$375,000

Notes:

(1) 1,000 shares in the Bank and 4,371 shares in HSBC Holdings plc were jointly held by Dr John C C Chan and his wife.

(2) Ms Rose W M Lee was a beneficiary of a trust, which had interests in the total principal amount of US$1,876,875 of the 8.00% perpetual subordinated capital securities, series 2. Her spouse also had interests in the total principal amount of US$3,275,000 of the 8.00% perpetual subordinated capital securities, series 2. These perpetual subordinated capital securities were exchangeable at the option of HSBC Holdings plc to 75,075 and 131,000 perpetual non-cumulative preference shares respectively of US$0.01 each in HSBC Holdings plc. Ms Lee's interests set out in the table under "Interests in shares" and the table under "Interests in debentures of associated corporation of the Bank" represented the same interests.

(3) Ms Margaret W H Kwan's spouse had interests in the total principal amount of US$375,000 of the 8.125% perpetual subordinated capital securities. These perpetual subordinated capital securities were exchangeable at the option of HSBC Holdings plc to 15,000 perpetual non-cumulative preference shares of US$0.01 each in HSBC Holdings plc. Ms Kwan's interests set out in the table under "Interests in shares" and the table under "Interests in debentures of associated corporation of the Bank" represented the same interests.

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

Conditional Awards of Shares

As at 30 June 2017, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under various HSBC Share Plans were as follows:

	Awards held as at 1 January 2017	Awards made during the Director's/Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2017
Directors:				
Ms Rose W M Lee	192,320	81,538	86,750	192,117[(1)]
Mr Nixon L S Chan	33,495	15,795	10,169	39,993[(1)]
Mr Andrew H C Fung	34,186	32,382	37,333	30,124[(1)]
Ms Margaret W H Kwan	4,590	6,476	2,066	9,119[(1)]
Ms Sarah C Legg	105,007	49,670	45,359	112,051[(1)]
Mr Kenneth S Y Ng	39,219	–	21,269	18,972[(1)]
Mr Peter T S Wong	1,315,716	174,520	493,753	1,030,748[(1)]
Alternate Chief Executives:				
Mrs Eunice L C Y Chan	13,613	5,686	6,712	12,941[(1)]
Mr Donald Y S Lam	18,727	20,218	20,768	18,664[(1)]
Mr Andrew W L Leung	22,942	6,950	9,951	20,538[(1)]

Note:

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

During the first half of 2017, Ms Sarah C Legg, Mrs Eunice L C Y Chan and Mr Donald Y S Lam also acquired and were awarded ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan. Their interests in ordinary shares of HSBC Holdings plc under this plan have been included in their "Personal Interests" disclosed in the table under "Interests in shares".

All the interests stated above represented long positions. As at 30 June 2017, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2017.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2017, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings BV	1,188,057,371 (62.14%)
HSBC Asia Holdings (UK) Limited	1,188,057,371 (62.14%)
HSBC Holdings BV	1,188,057,371 (62.14%)
HSBC Finance (Netherlands)	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings BV, which is a wholly-owned subsidiary of HSBC Asia Holdings (UK) Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings BV. HSBC Holdings BV is a wholly-owned subsidiary of HSBC Finance (Netherlands), which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV, HSBC Finance (Netherlands) and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 30 June 2017, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

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

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.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2016 in respect of the remuneration of employees, remuneration policies and staff development.

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 Hong Kong Monetary Authority. 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 Listing Rules 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.

2017 Second Interim Dividend

Announcement date	31 July 2017
Ex-dividend date	11 August 2017
Book close and record date	15 August 2017
Payment date	31 August 2017

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. 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 not later than 4:30 pm on Monday, 14 August 2017.

Board and Committees

Board

Independent Non-executive Chairman
Raymond CH'IEN Kuo Fung

Executive Directors
Louisa CHEANG (Vice-Chairman and Chief Executive)
Margaret KWAN Wing Han

Non-executive Directors
Nixon CHAN Lik Sang
Sarah Catherine LEGG
Vincent LO Hong Sui
Kenneth NG Sing Yip
Peter WONG Tung Shun

Independent Non-executive Directors
John CHAN Cho Chak
Henry CHENG Kar Shun
CHIANG Lai Yuen
HU Zuliu, Fred
Irene LEE Yun Lien
Eric LI Ka Cheung
Richard TANG Yat Sun
Michael WU Wei Kuo

Committees

Executive Committee
Louisa CHEANG (Chairman)
Eunice CHAN
Ivy CHAN Shuk Pui
Walter CHEUNG Shu Wai
CHOW Tan Ling
Margaret KWAN Wing Han
Donald LAM Yin Shing
Gordon LAM Wai Chung
LEE Sai Kit
Andrew LEUNG Wing Lok
LI Chi Chung
Thomas TSUI Chun Man
Elaine WANG Yee Ning
Katie YIP Kay Chun

Audit Committee
Eric LI Ka Cheung (Chairman)
Irene LEE Yun Lien
Richard TANG Yat Sun
Michael WU Wei Kuo

Remuneration Committee
John CHAN Cho Chak (Chairman)
CHIANG Lai Yuen
Raymond CH'IEN Kuo Fung

Risk Committee
Irene LEE Yun Lien (Chairman)
HU Zuliu, Fred
Eric LI Ka Cheung

Nomination Committee
Raymond CH'IEN Kuo Fung (Chairman)
John CHAN Cho Chak
Louisa CHEANG
Peter WONG Tung Shun
Michael WU Wei Kuo

Notes:

(1) Terms of Reference of the Bank's Audit Committee, Remuneration Committee, Risk Committee and Nomination Committee are available on the websites of the Bank and Hong Kong Exchanges and Clearing Limited ("HKEx").

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

Registered Office

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

Stock Code

The Stock Exchange of Hong Kong Limited: 11

Registrar

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

Depositary*

BNY Mellon Shareowner Services
PO Box 505000
Louisville, KY 40233-5000
USA
Telephone: 1-888-BNY-ADRS
Website: www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

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

Interim Report 2017

This Interim Report 2017 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of HKEx (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2017 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2017 in either English or Chinese and wish to receive a printed copy in the other language version,

may send a request form, which can be obtained from the Bank's Registrar or downloaded from the Bank's website (www.hangseng.com) or HKEx's website (www.hkexnews.hk), to the Bank's Registrar:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Facsimile: (852) 2529 6087
Email: hangseng@computershare.com.hk

If shareholders who have chosen (or are deemed to have chosen) to read this Interim Report 2017 on the Bank's website, have difficulty in reading or gaining access to this Interim Report 2017 via the Bank's website for any reason, the Bank will promptly send this Interim Report 2017 in printed form free of charge upon the shareholders' request.

Shareholders may change their choice of means of receipt or language of the Bank's future corporate communications at any time, free of charge, by giving the Bank c/o the Bank's Registrar reasonable notice in writing or by email to hangseng@computershare.com.hk.

Photography: Josiah Leung

恒生銀行有限公司
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