

4 August 2014

## **HANG SENG BANK LIMITED**

### **2014 INTERIM RESULTS - HIGHLIGHTS**

- Operating profit up 6% to HK\$9,496m (HK\$8,934m for the first half of 2013).
- Operating profit excluding loan impairment charges and other credit risk provisions up 8% to HK\$9,833m (HK\$9,132m for the first half of 2013).
- Attributable profit down 54% to HK\$8,468m (HK\$18,468m for the first half of 2013). Excluding the Industrial Bank reclassification in the first half of 2013, attributable profit down 5%.
- Profit before tax down 47% to HK\$9,877m (HK\$18,773m for the first half of 2013). Excluding the Industrial Bank reclassification in the first half of 2013, profit before tax down 4%.
- Return on average shareholders' funds of 15.9% (35.9% for the first half of 2013). Excluding the Industrial Bank reclassification in the first half of 2013, return on average shareholders' funds of 16.6% (19.0% for the first half of 2013).
- Earnings per share down 54% to HK\$4.43 per share (HK\$9.66 per share for the first half of 2013). Excluding the Industrial Bank reclassification in the first half of 2013, earnings per share down 5%.
- Second interim dividend of HK\$1.10 per share; total dividends of HK\$2.20 per share for the first half of 2014 (HK\$2.20 per share for the first half of 2013).
- Total capital ratio of 14.2%, both common equity tier 1 ('CET1') and tier 1 ('T1') capital ratios of 11.8% at 30 June 2014; (total capital ratio of 15.8%, both CET1 and T1 capital ratios of 13.8% at 31 December 2013).
- Cost efficiency ratio of 32.1% (32.2% for the first half of 2013).

#### **Industrial Bank Co., Ltd. ('Industrial Bank') reclassification in 2013**

Reported results for the first half of 2013 include a non-distributable accounting gain on the reclassification of Industrial Bank from an associate to a financial investment of HK\$8,454m before tax (HK\$9,517m attributable profit). Figures quoted as 'excluding the Industrial Bank reclassification' have been adjusted for the above items.

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

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

The financial information in this news release is based on the unaudited consolidated financial statements of Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') for the six months ended 30 June 2014.

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### Comment by Raymond Ch'ien, Chairman

With developments in the global and regional economies continuing to create uncertain market conditions – particularly in the early part of the year – Hang Seng Bank maintained good growth momentum in the first half of 2014. We reinforced our reputation for service excellence and further strengthened customer relationships by enhancing our portfolio of products and services, leveraging the close cross-border connectivity of our network and improving service channels and operational efficiency.

Operating profit increased by 6% to HK\$9,496m. However, the impact of our reclassification of Industrial Bank in 2013 saw profit attributable to shareholders and earnings per share both fall by 54% to HK\$8,468m and HK\$4.43 respectively. Excluding the Industrial Bank reclassification, profit attributable to shareholders and earnings per share were both down 5%, reflecting a HK\$769m decrease in the net surplus on property revaluation.

Return on average shareholders' funds was 15.9%, compared with 35.9% in the first half of 2013. Excluding the Industrial Bank reclassification, return on average shareholders' funds was 16.6%, compared with 19.0% in the first half of last year.

The Directors have declared a second interim dividend of HK\$1.10 per share, bringing the total distribution for the first half of 2014 to HK\$2.20 per share, the same as in the first half of 2013.

### Economic environment

The global economy recorded a slow start in 2014, with emerging market equities and currencies falling sharply in January and harsh winter conditions in the US contributing to a first-quarter contraction in its economy. Looking ahead, improved economic conditions in the second quarter and ongoing recovery in the eurozone region are providing cause for cautious optimism, although the European Central Bank continues to take action to prevent inflation from falling further below its target.

Hong Kong's economy expanded by 2.5% in the first quarter, compared with a 2.9% increase for 2013. Domestic demand continued to be a major growth driver, although household spending appears to have slowed after years of outpacing overall economic expansion. With the recent improvement in the global economy, trade activity is likely to rebound in the second half of the year and we expect Hong Kong's real GDP to grow by 3.3% for the year.

After first-quarter GDP growth of 7.4%, mainland China's economy achieved growth of 7.5% in the second quarter, suggesting that targeted measures by the government are succeeding in stimulating growth. While property investment may remain weak for some time, a recovery in developed economies should see demand for exports increase in the second half and we expect the mainland economy to expand by 7.4% for 2014.

Challenges such as the rolling back of quantitative easing measures in the US will continue to create downside risks, but closer economic integration in the Greater China region and Hong Kong's position as a primary centre for offshore renminbi financial services will create new business opportunities.

We will continue with initiatives to leverage our competitive strengths and to improve efficiency across our business to generate increasing value for our customers and shareholders.

### Review by Rose Lee, Vice-Chairman and Chief Executive

Under challenging operating conditions, Hang Seng Bank achieved good growth, with increases in income and profit across all business groups, in the first half of 2014.

Operating profit excluding loan impairment charges rose by 8% to HK\$9,833m compared with the first half of 2013. Operating profit increased by 6% to HK\$9,496m. Compared with the second half of last year, which benefited from HK\$995m in dividend income from Industrial Bank, operating profit excluding loan impairment charges and operating profit were both broadly unchanged. Excluding the dividend impact from Industrial Bank, operating profit grew by 12%.

The accounting gain on Industrial Bank's reclassification in 2013 and lower gains from property disposal and revaluation resulted in a 54% drop in profit attributable to shareholders to HK\$8,468m and a 47% decline in profit before tax to HK\$9,877m. Compared with the second half of 2013, profit attributable to shareholders and profit before tax increased by 3% and 2% respectively.

Leveraging our trusted brand and strong market position, we strategically deployed resources and implemented customer-focused initiatives to support sustainable growth in our core business lines and enhance our cross-border and renminbi-related propositions.

In April, we further enriched our wealth management proposition with the signing of an exclusive 10-year distribution agreement with international healthcare company Bupa, under which a range of bespoke medical insurance products and services will be offered to Hang Seng customers.

We upgraded our branch network and increased our number of Prestige and Preferred Banking Centres to better serve the needs of targeted commercial and wealth clients.

The new Hang Seng Bank (China) Ltd outlets in Chengdu and the Shanghai Free Trade Zone extended our cross-border network, strengthening our ability to capture new business opportunities in mainland China. In June, Hang Seng China successfully raised RMB1bn in Hong Kong through its debut offshore renminbi bond issue with a positive response from a diverse group of investors.

Net interest income increased by 8% to HK\$9,671m, underpinned by a 4% increase in average interest-earning assets and an 8-basis-point improvement in net interest margin to 1.92%. In competitive market conditions, we continued to focus on quality assets and good balance sheet management, recording a 5% increase in average customer deposits and an 8% rise in average customer loans and advances.

Non-interest income grew by 7% to HK\$4,802m, benefiting from the 4% increase in net fee income. Our diverse range of products and swift response to the changing market generated a 4% rise in wealth management income amidst uncertain market conditions.

Our cost efficiency ratio improved to 32.1% – down 10 basis points and 50 basis points compared with the first and second halves of 2013 respectively.

On 30 June 2014, our total capital ratio under Basel III was 14.2% and our common equity tier 1 and tier 1 capital ratios were both 11.8%, compared with 15.8% and 13.8% respectively at 2013 year end.

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

**Aligned for sustainable growth**

We are committed to driving long-term business growth by upholding service excellence. We will continue to provide a premium customer experience and remain well positioned to respond effectively to new business opportunities, proactively manage emerging risks and maintain high standards of corporate governance.

We will build on our strong brand and market leadership to generate balanced growth with further investments in technology, staff development and our cross-border network and capabilities.

Our long-term success is closely aligned with the economic growth and well-being of our communities. We will continue to emphasise long-term relationships and our commitment to corporate responsibility.

I would like to take this opportunity to thank our staff for their dedication and contribution to our business success. Their commitment and drive will ensure that we will continue to sustain quality growth in our core businesses to the benefit of our customers and shareholders.

### Results summary

**Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported an unaudited profit attributable to shareholders of HK\$8,468m for the first half of 2014, down 54.1% compared with the first half of 2013 which benefited from the HK\$9,517m accounting gain on the reclassification of Industrial Bank Co., Ltd ('Industrial Bank'). Earnings per share were down 54.1% at HK\$4.43. Excluding the Industrial Bank reclassification, attributable profit fell by 5.4% mainly due to lower property revaluation gains. Attributable profit rose by 3.1% when compared with the second half of 2013.**

**Operating profit excluding loan impairment charges and other credit risk provisions** grew by HK\$701m, or 7.7%, to HK\$9,833m. This reflected growth in net interest income, driven by balance sheet growth and increased non-interest income from wealth management businesses. Under challenging operating conditions, the bank achieved good growth, with increases in income and profit across all business groups in the first half of 2014. Compared with the second half of 2013, operating profit excluding loan impairment charges and other credit risk provisions remained broadly unchanged. Excluding the dividend received from Industrial Bank, operating profit excluding loan impairment charges and other credit risk provisions grew by 11.5%, driven by the growth in both net interest income and non-interest income together with lower operating expenses.

**Net interest income** rose by HK\$702m, or 7.8%, to HK\$9,671m compared with the first half of 2013, driven by growth in average interest-earning assets and a widening of the net interest margin. The 3.6% increase in average interest-earning assets was supported by the 8.0% growth in average customer lending. Net interest margin improved by eight basis points to 1.92% while net interest spread and contribution from net free funds rose by six basis points and two basis points to 1.79% and 0.13% respectively. Average loan spreads in Hong Kong improved, notably in term lending, though the benefit of this growth was partly offset by spread compression in mortgages and trade-related lending. Average customer deposits grew by 5.1%, reflecting our flexible deposit acquisition strategy to support growth, the benefit of which was broadly offset by narrower deposit spreads. There was encouraging growth in Balance Sheet Management income as Treasury enhanced the portfolio yield with a larger commercial surplus for investment. In mainland China, higher average interest-earning assets coupled with a less volatile interbank market and improved deposit spreads outweighed the narrowing of loan spreads.

**Net fee income** grew by HK\$126m, or 4.3%, to HK\$3,062m, reflecting the group's continuous efforts in expanding its service capabilities. Retail investment fund sales income grew by 5.4%, notwithstanding the weakening of market sentiment. Credit card fee income rose by 3.4%, benefiting from increased cardholder spending and merchant acquiring business in Hong Kong. Fee income from remittances grew by 22.2% as business volumes increased. Insurance-related fee income rose by 11.7%, reflecting growth in life re-insurance income as well as distribution commission from non-life insurance business. Income from stockbroking and related services dropped by 4.5%, as a result of the reduced stock market trading activity.

**Net trading income** decreased by HK\$143m, or 11.9%, to HK\$1,061m. Foreign exchange income decreased by HK\$195m compared with the first half of 2013. Decreased revenue from lower customer activity and demand for foreign exchange-linked structured treasury products was partly offset by the increase in net interest income from funding swap activities.

### Results summary (continued)

**Dividend income** was broadly in line with first half of 2013 but decreased significantly from HK\$1,010m to HK\$5m when compared with the second half of 2013, due mainly to the dividend received from Industrial Bank.

**Income from insurance business (included under ‘net interest income’, ‘net fee income’, ‘net trading income’, ‘net income/(loss) from financial instruments designated at fair value’, ‘net earned insurance premiums’, ‘movement in present value of in-force long-term insurance business’ and ‘other’ within ‘other operating income’, ‘share of profits from associates’ and after deducting ‘net insurance claims incurred and movement in policyholders’ liabilities’)** increased by HK\$332m, or 18.2%, to HK\$2,159m. Net interest income and fee income from the life insurance business grew marginally when compared with the same period last year. Under the low interest rate environment, the life insurance investment portfolios have been re-balanced with a modest shift from debt securities to equities and other assets. The investment return on life insurance benefited from the favourable movement in equity markets, though this was partly offset by lower property revaluation gains. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims incurred and movement in policyholders’ liabilities. Net earned insurance premiums rose by 3.5% as a result of increased renewals of existing policies, partly offset by lower new business premiums written. The growth in insurance premiums resulted in a corresponding increase in ‘net insurance claims incurred and movement in policyholders’ liabilities’. The increase in the movement in present value of in-force long-term insurance business was driven by new sales with higher profit margins and a favourable change in market conditions. General insurance income increased by 10.5%, reflecting higher distribution commission income.

**Operating expenses** rose by HK\$295m, or 6.8%, to HK\$4,640m, compared with the first half of 2013, reflecting the bank’s continued investment in new business platforms and mainland operations to support long-term business growth. Staff costs increased by 5.8%, due mainly to the annual salary increment and performance-related remuneration. General and administrative expenses rose by 8.2% as a result of an increase in rental expenses, marketing expenditure and processing charges. Mainland-related operating expenses increased by 6.9%, reflecting the network expansion of Hang Seng China.

With the increase in net operating income before loan impairment charges and other credit risk provisions outpacing the growth in operating expenses, the cost efficiency ratio improved to 32.1% when compared with 32.2% and 32.6% for the first and second halves of 2013.

**Operating profit** grew by HK\$562m, or 6.3%, to HK\$9,496m, after accounting for the increase of HK\$139m in **loan impairment charges and other credit risk provisions**, reflecting a broad-based increase in core banking business income.

**Profit before tax** decreased by 47.4% to HK\$9,877m after taking the following major items into account:

- the non-recurrence of the gain of HK\$8,454m on **the reclassification of Industrial Bank** in January 2013;
- a HK\$178m decrease in **gains less losses from financial investments and fixed assets**, due mainly to property disposals in the first half of 2013;
- a 77.0% (or HK\$769m) decrease in **net surplus on property revaluation**; and
- a 26.8% (or HK\$57m) decrease in **share of profits from associates**, mainly due to the reclassification of Yantai Bank in December 2013.



### Results summary *(continued)*

#### Consolidated balance sheet and key ratios

**Total assets** grew by HK\$52.2bn, or 4.6%, to HK\$1,196.0bn when compared with the year end, reflecting the group's balanced growth strategy to enhance profitability. Customer loans and advances increased by HK\$46.7bn, or 8.0%, to HK\$632.9bn, largely through growth in corporate and commercial lending. Amidst lower property market turnover, we maintained our market share in underwriting new mortgage business. Residential mortgage lending increased by 2.4% when compared with the year end. Hang Seng China lending portfolios increased by 1.9%, mainly to corporate customers. Overall loan quality remained sound with total loan impairment allowances as a percentage of gross loans and advances to customers improving to 0.23% at 30 June 2014. Customer deposits, including certificates of deposit and other debt securities in issue, rose by HK\$51.1bn, or 5.9%, to HK\$920.8bn. In June, Hang Seng China successfully raised RMB1bn in Hong Kong through its debut offshore renminbi bond issue with a positive response from a diverse group of investors. At 30 June 2014, the advances-to-deposits ratio was 68.7%, compared with 67.4% at 31 December 2013.

At 30 June 2014, shareholders' funds (excluding proposed dividends) were HK\$107.4bn, an increase of HK\$3.8bn, or 3.7%, against last year end. Retained profits grew by HK\$4.5bn, resulting from the growth in attributable profit after the appropriation of interim dividends. The premises revaluation reserve increased by HK\$296m, or 2.0%, reflecting an increase in the fair value of the bank's premises. The available-for-sale investment reserve recorded a revaluation deficit of HK\$2,460m, compared with a deficit of HK\$1,618m at the end of 2013, primarily reflecting the unrealised revaluation deficit on the bank's investment in Industrial Bank. Available-for-sale financial investments are tested for impairment when there is an indication that the investment may be impaired. The group's policy is to recognise an impairment loss where there is a 'significant' or 'prolonged' decline in the fair value of an equity investment.

The **return on average total assets** was 1.5%, compared with 3.4% and 1.4% for the first and second halves of 2013. The **return on average shareholders' funds** was 15.9%, compared with 35.9% in the first half of 2013 and 15.3% in the second half. Excluding the Industrial Bank reclassification in 2013, return on average total assets was 1.5%, compared with 1.7% and 1.4% for the first and second halves of 2013. On the same basis, return on average shareholders' funds was 16.6%, compared with 19.0% and 16.3% for the first and second halves of last year. The decrease in return on average shareholders' funds when compared with the first half of 2013 was mainly the combined effect of lower property revaluation gains and the increase in average shareholders' funds which outpaced the growth in annualised profit. Higher average shareholders' funds mainly reflected the increase in attributable profit and business premises revaluation reserve during the first half of 2014.

### Results summary *(continued)*

At 30 June 2014, the **total capital ratio** was 14.2%, down from 15.8% at the end of last year, mainly from an increase in risk-weighted assets. The overall capital base remained broadly the same as last year end as the benefit of profit growth after accounting for dividends declared in the first half of the year was offset by the discounting of non-Basel III compliant subordinated debts. The increase of 11.3% in risk-weighted assets was driven by loan growth and regulatory model changes.

The **CET1** and **T1** capital ratios stood at 11.8%, down from 13.8% as a result of the combined effect of the reduction in CET1 and T1 capital and the increase in risk-weighted assets. The effect of the phasing-in of Basel III requirements on significant capital investments in unconsolidated financial sector entities has also affected the CET1 and T1 capital but has no impact on the total capital base.

The bank has been maintaining liquidity at a comfortable level. The **average liquidity ratio** for the first half of 2014 was 34.5% (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance) compared with 35.8% for the first half of 2013.

### Dividends

The Directors have declared a second interim dividend of HK\$1.10 per share, which will be payable on 4 September 2014 to shareholders on the register of shareholders as of 20 August 2014. Together with the first interim dividend, the total distribution for the first half of 2014 will amount to HK\$2.20 per share, the same as in the first half of 2013.

# Hang Seng Bank Limited

## Segmental analysis

<i>Figures in HK\$m</i>	<i>Hong Kong and other businesses</i>							<i>Total</i>
	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>	<i>Mainland China business</i>	<i>Inter-segment elimination</i>	
<b>Half-year ended</b>								
<b>30 June 2014</b>								
Net interest income/(expense)	4,888	2,228	1,764	(75)	8,805	866	—	9,671
Net fee income/(expense)	2,030	787	120	72	3,009	53	—	3,062
Net trading income/(loss)	140	266	579	—	985	76	—	1,061
Net income/(loss) from financial instruments designated at fair value	429	(1)	—	—	428	—	—	428
Dividend income	1	—	—	4	5	—	—	5
Net earned insurance premiums	5,950	54	—	—	6,004	—	—	6,004
Other operating income	903	45	—	223	1,171	1	(41)	1,131
<b>Total operating income</b>	<b>14,341</b>	<b>3,379</b>	<b>2,463</b>	<b>224</b>	<b>20,407</b>	<b>996</b>	<b>(41)</b>	<b>21,362</b>
Net insurance claims incurred and movement in policyholders' liabilities	(6,847)	(42)	—	—	(6,889)	—	—	(6,889)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>7,494</b>	<b>3,337</b>	<b>2,463</b>	<b>224</b>	<b>13,518</b>	<b>996</b>	<b>(41)</b>	<b>14,473</b>
Loan impairment (charges)/releases and other credit risk provisions	(247)	12	—	—	(235)	(102)	—	(337)
<b>Net operating income</b>	<b>7,247</b>	<b>3,349</b>	<b>2,463</b>	<b>224</b>	<b>13,283</b>	<b>894</b>	<b>(41)</b>	<b>14,136</b>
Operating expenses <sup>‡</sup>	(2,750)	(861)	(287)	(52)	(3,950)	(731)	41	(4,640)
<b>Operating profit</b>	<b>4,497</b>	<b>2,488</b>	<b>2,176</b>	<b>172</b>	<b>9,333</b>	<b>163</b>	<b>—</b>	<b>9,496</b>
Gains less losses from financial investments and fixed assets	—	—	3	(7)	(4)	(1)	—	(5)
Net surplus on property revaluation	—	—	—	230	230	—	—	230
Share of profits from associates	155	1	—	—	156	—	—	156
<b>Profit before tax</b>	<b>4,652</b>	<b>2,489</b>	<b>2,179</b>	<b>395</b>	<b>9,715</b>	<b>162</b>	<b>—</b>	<b>9,877</b>
Share of profit before tax	47.1%	25.2%	22.1%	4.0%	98.4%	1.6%	—	100.0%
Share of profit before tax as a % of Hong Kong and other businesses	47.9%	25.6%	22.4%	4.1%	100.0%			
Operating profit excluding loan impairment charges and other credit risk provisions	4,744	2,476	2,176	172	9,568	265	—	9,833
<sup>‡</sup> Depreciation/amortisation included in operating expenses	(23)	(14)	(2)	(373)	(412)	(49)	—	(461)
<b>At 30 June 2014</b>								
Total assets	324,699	239,280	443,493	87,449	1,094,921	125,434	(24,391)	1,195,964
Total liabilities	663,013	189,121	115,121	20,563	987,818	115,308	(16,663)	1,086,463
Interest in associates	2,137	12	—	—	2,149	29	—	2,178

# Hang Seng Bank Limited

## Segmental analysis (continued)

Figures in HK\$m	Hong Kong and other businesses							Total
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total	Mainland China business	Inter-segment elimination	
<b>Half-year ended</b>								
<b>30 June 2013 (restated)</b>								
Net interest income/(expense)	4,917	2,008	1,508	(113)	8,320	649	—	8,969
Net fee income/(expense)	1,955	793	83	66	2,897	39	—	2,936
Net trading income/(loss)	89	327	689	(9)	1,096	108	—	1,204
Net income/(loss) from financial instruments designated at fair value	(108)	(3)	—	—	(111)	—	—	(111)
Dividend income	—	—	—	4	4	—	—	4
Net earned insurance premiums	5,761	39	—	—	5,800	—	—	5,800
Other operating income	956	25	—	140	1,121	—	(26)	1,095
<b>Total operating income</b>	<b>13,570</b>	<b>3,189</b>	<b>2,280</b>	<b>88</b>	<b>19,127</b>	<b>796</b>	<b>(26)</b>	<b>19,897</b>
Net insurance claims incurred and movement in policyholders' liabilities	(6,381)	(39)	—	—	(6,420)	—	—	(6,420)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>7,189</b>	<b>3,150</b>	<b>2,280</b>	<b>88</b>	<b>12,707</b>	<b>796</b>	<b>(26)</b>	<b>13,477</b>
Loan impairment (charges)/releases and other credit risk provisions	(280)	59	6	—	(215)	17	—	(198)
<b>Net operating income</b>	<b>6,909</b>	<b>3,209</b>	<b>2,286</b>	<b>88</b>	<b>12,492</b>	<b>813</b>	<b>(26)</b>	<b>13,279</b>
Operating expenses <sup>‡</sup>	(2,615)	(787)	(250)	(35)	(3,687)	(684)	26	(4,345)
<b>Operating profit</b>	<b>4,294</b>	<b>2,422</b>	<b>2,036</b>	<b>53</b>	<b>8,805</b>	<b>129</b>	<b>—</b>	<b>8,934</b>
Gains less losses from financial investments and fixed assets	(1)	—	1	173	173	—	—	173
Gain on reclassification of Industrial Bank	—	—	—	—	—	8,454	—	8,454
Net surplus on property revaluation	—	—	—	999	999	—	—	999
Share of profits from associates	162	1	—	—	163	50	—	213
<b>Profit before tax</b>	<b>4,455</b>	<b>2,423</b>	<b>2,037</b>	<b>1,225</b>	<b>10,140</b>	<b>8,633</b>	<b>—</b>	<b>18,773</b>
Share of profit before tax	23.8%	12.9%	10.8%	6.5%	54.0%	46.0%	—	100.0%
Share of profit before tax as a % of Hong Kong and other businesses	43.9%	23.9%	20.1%	12.1%	100.0%			
Operating profit excluding loan impairment charges and other credit risk provisions	4,574	2,363	2,030	53	9,020	112	—	9,132
<sup>‡</sup> Depreciation/amortisation included in operating expenses	(24)	(12)	(2)	(345)	(383)	(50)	—	(433)
<b>At 30 June 2013</b>								
Total assets	307,081	215,914	392,251	98,429	1,013,675	118,176	(25,194)	1,106,657
Total liabilities	621,704	162,820	83,686	46,569	914,779	109,913	(20,116)	1,004,576
Interest in associates	1,769	9	—	—	1,778	975	—	2,753

# Hang Seng Bank Limited

## Segmental analysis (continued)

Figures in HK\$m	<i>Hong Kong and other businesses</i>							
	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>	<i>Mainland China business</i>	<i>Inter-segment elimination</i>	<i>Total</i>
<b>Half-year ended</b>								
<b>31 December 2013 (restated)</b>								
Net interest income/(expense)	5,042	2,163	1,728	(108)	8,825	810	—	9,635
Net fee income/(expense)	1,894	772	148	78	2,892	59	—	2,951
Net trading income/(loss)	211	179	433	(5)	818	23	—	841
Net income/(loss) from financial instruments designated at fair value	458	(1)	(1)	—	456	—	—	456
Dividend income	—	7	—	1,003	1,010	—	—	1,010
Net earned insurance premiums	4,164	41	—	—	4,205	—	—	4,205
Other operating income	656	14	1	194	865	7	(31)	841
<b>Total operating income</b>	<b>12,425</b>	<b>3,175</b>	<b>2,309</b>	<b>1,162</b>	<b>19,071</b>	<b>899</b>	<b>(31)</b>	<b>19,939</b>
Net insurance claims incurred and movement in policyholders' liabilities	(5,321)	(33)	—	—	(5,354)	—	—	(5,354)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>7,104</b>	<b>3,142</b>	<b>2,309</b>	<b>1,162</b>	<b>13,717</b>	<b>899</b>	<b>(31)</b>	<b>14,585</b>
Loan impairment (charges)/releases and other credit risk provisions	(202)	(97)	(14)	—	(313)	(25)	—	(338)
<b>Net operating income</b>	<b>6,902</b>	<b>3,045</b>	<b>2,295</b>	<b>1,162</b>	<b>13,404</b>	<b>874</b>	<b>(31)</b>	<b>14,247</b>
Operating expenses <sup>‡</sup>	(2,700)	(834)	(265)	(195)	(3,994)	(795)	31	(4,758)
Impairment loss on intangible assets	(11)	(2)	—	—	(13)	—	—	(13)
<b>Operating profit</b>	<b>4,191</b>	<b>2,209</b>	<b>2,030</b>	<b>967</b>	<b>9,397</b>	<b>79</b>	<b>—</b>	<b>9,476</b>
Gains less losses from financial investments and fixed assets	—	1	3	3	7	(1)	—	6
Loss on reclassification of Yantai Bank	—	—	—	—	—	(297)	—	(297)
Net surplus on property revaluation	—	—	—	189	189	—	—	189
Share of profits from associates	293	1	—	—	294	55	—	349
<b>Profit before tax</b>	<b>4,484</b>	<b>2,211</b>	<b>2,033</b>	<b>1,159</b>	<b>9,887</b>	<b>(164)</b>	<b>—</b>	<b>9,723</b>
Share of profit before tax	46.1%	22.7%	20.9%	12.0%	101.7%	(1.7%)	—	100.0%
Share of profit before tax as a % of Hong Kong and other businesses	45.4%	22.4%	20.6%	11.6%	100.0%			
Operating profit excluding loan impairment charges and other credit risk provisions	4,393	2,306	2,044	967	9,710	104	—	9,814
<sup>‡</sup> Depreciation/amortisation included in operating expenses	(25)	(16)	(3)	(350)	(394)	(48)	—	(442)
<b>At 31 December 2013</b>								
Total assets	309,758	211,747	426,288	104,027	1,051,820	118,476	(26,566)	1,143,730
Total liabilities	650,309	173,675	105,484	16,924	946,392	108,495	(18,935)	1,035,952
Interest in associates	2,022	10	—	—	2,032	30	—	2,062

### Segmental analysis *(continued)*

#### **Hong Kong and other businesses segment**

**Retail Banking and Wealth Management ('RBWM')** in Hong Kong reported profit before tax of HK\$4,652m in the first half of 2014, a 4.4% increase compared with the first half of 2013. Operating profit excluding loan impairment charges reached HK\$4,744m, an increase of 3.7%. Operating profit grew by 4.7% to HK\$4,497m.

Net interest income was maintained at HK\$4,888m, in line with the first half of 2013, despite downward pressure on deposit margin as a result of increased competition and moderate growth in mortgage lending.

Non-interest income grew strongly by 14.7% to HK\$2,606m, reflecting a growth in net fee income and trading income as well as an improvement in net income from financial instruments at fair value whereas a loss was recorded in the first half of 2013. We sustained our momentum in wealth management business, with income growing by 10.7% to HK\$3,495m.

Unsecured lending business continued to be a key growth driver. Supported by effective marketing campaigns and a good quality credit card customer base, card spending achieved year-on-year growth of 9.4%. Total cards in circulation rose by 3.2% to 2.48 million year-on-year and we were the third largest card issuer of VISA and MasterCard in the first half of 2014. We were able to reach more targeted customers from our existing customer base to grow our personal loan portfolios. Compared to last year end, the personal loan portfolio rose by 11.7%.

Our mortgage business maintained third position in the market, with a market share of 16.2% in terms of new mortgage registrations. Mortgage balances grew by 2.1% compared to 2013 year end.

Investment funds income rose year-on-year by 6.2% with turnover increasing by 9.4% compared with last year. However, reduced transaction turnover in the stock market impacted our securities business. Securities turnover and income recorded reductions of 6.4% and 4.0% respectively.

Total operating income for insurance business achieved growth of 19.0%, reflecting an improvement in investment portfolio return and our effective distribution effort. Supported by the initiative to broaden our protection plans offerings, we diversified the life insurance product mix to create higher business value. In addition, we have entered into an exclusive 10 year distribution agreement with international healthcare company Bupa in providing medical insurance products and services.

With multiple efforts in strengthening Prestige and Preferred propositions and China connectivity, Prestige and Preferred Banking customers grew 7.0% year-on-year. We launched an awareness campaign to communicate our enhanced customer propositions and product features based on customer's wealth management needs. We accelerated our pace in the development of Prestige and Preferred Banking Centres to enhance customer experience. During the first half of 2014, five more Prestige and Preferred Banking Centres were established in strategic locations, bringing a total of 17 centres in our portfolio.

### Segmental analysis *(continued)*

We continued to drive sustainable business growth with environmentally friendly initiatives. We deployed the e-signature pads at our branches to facilitate an efficient and paperless transactions environment. Efforts were also made to encourage customers to adopt the e-statement / e-advice services, with over half of our e-Banking customers utilising the services in the first half of 2014. Furthermore, we enhanced our capabilities to support paperless billing process through the Electronic Bill Presentment and Payment (EBPP) platform.

**Commercial Banking ('CMB')** in Hong Kong reported a 2.7% increase in profit before tax to HK\$2,489m. Operating profit excluding loan impairment charges grew by 4.8% to HK\$2,476m. Operating profit grew by 2.7% to HK\$2,488m.

Net interest income increased by 11.0% to HK\$2,228m, supported by balanced growth in both customer advances and deposits compared with last year end. Customer advances increased by 13.2% with targeted marketing and cross-border collaborations leading to diversified growth in different industry sectors. Deposits increased by 9.2%, driven by continuing acquisition of quality mainland customers and propositions targeting professional firms, listed companies, property developers and retailers.

Non-interest income decreased by 2.9% to HK\$1,109m, primarily because customers have reduced renminbi hedging activities with the depreciation of renminbi and our strategic repositioning of trade finance business to support the needs of core corporate customers.

Remittance income grew by 21.9% year-on-year, underpinned by cross-border business collaboration and initiatives.

Insurance income rose by 12.9% comparing with the first half of 2013, reflecting balanced growth in key-person and general insurance businesses. We strengthened our collaboration with QBE Insurance, resulting in good growth in general insurance income. Increased penetration of the SME sector led to a 16.1% increase in life insurance income.

We maintained good asset quality and recorded a net release in loan impairment charges as a result of proactive credit risk management and improved post-approval monitoring of loan assets. We continued to enhance our portfolio management to improve overall returns on risk assets.

We maintained our strong position for syndicated lending. According to Thomson Reuters LPC data, we ranked second and third in the Mandated Arranger and Bookrunner League Tables respectively for Hong Kong and Macau Syndicated Loans in terms of number of transactions in the first half of 2014.

We continued to tap cross-border business opportunities. We successfully completed the first renminbi cross-border loan to a customer in the Shanghai Free Trade Zone in the first half of 2014.

We have enriched our service propositions and enhanced our Business Banking Centres network to attract and retain quality SME customers. Mainland companies continued to be one of our targeted segments, representing 44.9% of newly acquired SME customers in the first half. New customers were the primary drivers of growth in SME customer deposits and the 9.5% increase in non-interest income from SME business.

### Segmental analysis *(continued)*

Our SME banking services continued to receive independent recognition. For the ninth consecutive year, Hang Seng Bank has received the SME's Best Partner Award from the Hong Kong General Chamber of Small and Medium Business.

**Global Banking and Markets ('GBM')** in Hong Kong recorded a 7.0% increase in profit before tax to HK\$2,179m. Operating profit excluding loan impairment charges grew by 7.2% to HK\$2,176m. Operating profit rose 6.9% to HK\$2,176m.

**Global Banking ('GB')** in Hong Kong achieved a 14.5% increase in profit before tax to HK\$821m. Operating profit excluding loan impairment charges grew by 15.4% to HK\$819m. Operating profit grew 14.4% to HK\$819m.

Net interest income rose by 13.9% to HK\$813m, driven primarily by good loan growth, whilst maintaining strong credit quality. At the same time, we maintained robust credit risk management. Customer deposits increased by 41.6% compared with last year end as we stepped up our marketing efforts to acquire more new deposits and offer payment and cash management solutions to grow account balances.

Non-interest income recorded strong growth of 25.3% mainly due to increased transactional banking business.

To drive business opportunities in mainland China and Hong Kong, GB will continue to work closely with Hang Seng China in promoting renminbi-related services including deposit, loan and trade finance to take advantage of the liberalisation of renminbi business and opportunities arising from the development of new economic zones in Qianhai and Hengqin as well as the Shanghai Free Trade Zone.

**Global Markets ('GM')** in Hong Kong recorded a 2.9% increase in profit before tax to HK\$1,358m. Operating profit excluding loan impairment charges grew by 2.8% to HK\$1,357m. Operating profit increased by 2.8% to HK\$1,357m.

Net interest income increased by 19.8% to HK\$951m. The balance sheet management team has been actively managing the interest rate risk and assessing different market opportunities for better yield enhancement of the commercial surplus.

Non-interest income decreased by HK\$97m to HK\$580m. Total trading income decreased by HK\$111m, or 16.1%, to HK\$579m. Foreign exchange trading income decreased due to lower market volatility. Income from structured products was also impacted by reduced customer demand for renminbi products due to the depreciation of the renminbi.

Front-line channels (including e-Banking) and trading systems were enhanced to facilitate straight-through processing, enabling better position management. To support client clearing directly and strengthen market standing as a leading local bank, the bank will join OTC Clearing Hong Kong Limited as a direct member for central clearing of its over-the-counter derivatives in 2014.



### Segmental analysis *(continued)*

To diversify revenue sources, GM has increased cross-selling of Global Markets products to RBWM and CMB customers. Strategic actions were set for identifying RBWM and CMB customer needs and cross-selling opportunities through collaboration schemes.

Going forward, GM will continue to position itself to capture yield enhancement opportunities by investing in Hong Kong and mainland bonds and capturing yield curves of selected currencies. As the renminbi market in Hong Kong evolves, GM will continue to develop renminbi-denominated hedging and investment products to meet customer needs as well as explore new business opportunities for cross-selling treasury products with other customer groups.

### Mainland China business

The operating results of Hang Seng China improved in the first half of 2014. Operating profit excluding loan impairment charges and other credit risk provisions grew by 136.6%, mainly from the 33.4% increase in net interest income. Solid progress with expanding trade-related business and treasury product sales drove 35.9% growth in net fee and commission income. Trading income declined, reflecting the impact of market interest rate changes on the fair value of structured deposits. Overall, non-interest income fell by 11.6%. Operating profit increased by 26.4%, reflecting higher impairment charges in the first half of 2014 compared with a net release in same period last year. Asset quality remains stable with impaired loan ratios at 0.42% at the end of 30 June 2014. Profit before tax decreased by 98.1% when compared with the first half of 2013, which benefited from the HK\$8,454m accounting gain on the reclassification of Industrial Bank and a HK\$52m share of profit from Yantai Bank. Excluding these items, profit before tax rose by 27.6%.

Backed by enhanced cross-border collaboration, Hang Seng China achieved a 5.8% rise in customer deposits compared to 2013 year end. In June, Hang Seng China successfully raised RMB1bn in Hong Kong through its debut offshore renminbi bond issue with a positive response from a diverse group of investors. Lending grew by 1.9% with continuing emphasis on sound credit risk management.

## Hang Seng Bank Limited

### Segmental analysis (continued)

	<i>As reported</i>	<i>Constant currency<sup>‡</sup></i>
<i>Half-year ended 30 June 2014 compared with 30 June 2013</i>		
Total operating income	<b>25.1 %</b>	<b>23.1 %</b>
Operating profit excluding loan impairment charges and other credit risk provisions	<b>136.6 %</b>	<b>134.5 %</b>
Operating profit	<b>26.4 %</b>	<b>24.4 %</b>
Profit before tax	<b>-98.1 %</b>	<b>n.a</b>
<i>At 30 June 2014 compared with 31 December 2013</i>		
Gross loans and advances to customers	<b>1.9 %</b>	<b>3.7 %</b>
Customer deposits and debt securities in issue	<b>5.8 %</b>	<b>7.7 %</b>

Given the growing economic ties between Hong Kong and the Mainland, Hang Seng China has enhanced the cooperation and connectivity with Hang Seng Hong Kong, aiming to create more synergy and to seize new opportunities. In this regard, the Shanghai Free Trade Zone Sub-branch was opened in February 2014 to provide the latest available solutions to our clients. In April, the Greater China Prestige programme was launched to serve clients with banking needs in both mainland China and Hong Kong. Hang Seng China will continue to capture opportunities generated by increasing cross-border economic integration and renminbi internationalisation.

The Chengdu Branch was also opened in February to serve and develop our clients in the fast growing central and western region to supplement our coverage in the Pearl River Delta, Yangtze River Delta and Bohai Rim. Meanwhile, Hang Seng China continues to invest in direct channels including call centres, e-Banking and SMS services to enhance our customers' experience.

<sup>‡</sup> Constant currency comparatives for 2013 referred to in the tables above are computed by translating into Hong Kong dollars the functional currency (renminbi) of Hang Seng's mainland China business:  
- the income statement for the half year to 30 June 2013 at the average rates of exchange for the half year to 30 June 2014; and  
- the balance sheet at 31 December 2013 at the prevailing rates of exchange on 30 June 2014.

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Interest income	12,774	11,459	12,366
Interest expense	(3,103)	(2,490)	(2,731)
<b>Net interest income</b>	<b>9,671</b>	<b>8,969</b>	<b>9,635</b>
Fee income	3,757	3,637	3,692
Fee expense	(695)	(701)	(741)
<b>Net fee income</b>	<b>3,062</b>	<b>2,936</b>	<b>2,951</b>
Net trading income	1,061	1,204	841
Net income/(loss) from financial instruments designated at fair value	428	(111)	456
Dividend income	5	4	1,010
Net earned insurance premiums	6,004	5,800	4,205
Other operating income	1,131	1,095	841
<b>Total operating income</b>	<b>21,362</b>	<b>19,897</b>	<b>19,939</b>
Net insurance claims incurred and movement in policyholders' liabilities	(6,889)	(6,420)	(5,354)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>14,473</b>	<b>13,477</b>	<b>14,585</b>
Loan impairment charges and other credit risk provisions	(337)	(198)	(338)
<b>Net operating income</b>	<b>14,136</b>	<b>13,279</b>	<b>14,247</b>
Employee compensation and benefits	(2,295)	(2,170)	(2,262)
General and administrative expenses	(1,884)	(1,742)	(2,054)
Depreciation of premises, plant and equipment	(406)	(376)	(386)
Amortisation of intangible assets	(55)	(57)	(56)
<b>Operating expenses</b>	<b>(4,640)</b>	<b>(4,345)</b>	<b>(4,758)</b>
Impairment loss on intangible assets	—	—	(13)
<b>Operating profit</b>	<b>9,496</b>	<b>8,934</b>	<b>9,476</b>
Gains less losses from financial investments and fixed assets	(5)	173	6
Gain on reclassification of Industrial Bank	—	8,454	—
Loss on reclassification of Yantai Bank	—	—	(297)
Net surplus on property revaluation	230	999	189
Share of profits from associates	156	213	349
<b>Profit before tax</b>	<b>9,877</b>	<b>18,773</b>	<b>9,723</b>
Tax expense	(1,409)	(305)	(1,513)
<b>Profit for the period</b>	<b>8,468</b>	<b>18,468</b>	<b>8,210</b>
Profit attributable to shareholders	<b>8,468</b>	<b>18,468</b>	<b>8,210</b>
Earnings per share (in HK\$)	4.43	9.66	4.29

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

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
<b>Profit for the period</b>	<b>8,468</b>	18,468	8,210
<b>Other comprehensive income</b>			
<b>Items that will be reclassified subsequently to the income statement when specific conditions are met:</b>			
Available-for-sale investment reserve:			
- fair value changes taken to equity:			
-- on debt securities	350	(685)	(228)
-- on equity shares	(417)	(3,458)	820
- fair value changes transferred to income statement:			
-- on hedged items	29	461	228
-- on disposal	2	—	(1)
- share of changes in equity of associates:			
-- fair value changes	—	4	(5)
-- fair value changes transferred to income statement on reclassification of Industrial Bank and Yantai Bank	—	94	17
- deferred taxes	(76)	42	15
- exchange difference and other	(730)	431	420
Cash flow hedging reserve:			
- fair value changes taken to equity	(74)	498	(66)
- fair value changes transferred to income statement	70	(516)	71
- deferred taxes	1	3	(1)
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	(170)	338	100
- cumulative foreign exchange reserve transferred to income statement on reclassification of Industrial Bank and Yantai Bank	—	(2,039)	(111)
- other	—	(3)	5
Others	—	30	—
<b>Items that will not be reclassified subsequently to the income statement:</b>			
Premises:			
- unrealised surplus on revaluation of premises	612	1,526	577
- deferred taxes	(103)	(241)	(96)
- exchange difference	(1)	2	1
Defined benefit plans:			
- actuarial gains/(losses) on defined benefit plans	75	855	(77)
- deferred taxes	(12)	(141)	13
Share-based payments	(1)	(1)	(2)
Other comprehensive income for the period, net of tax	<b>(445)</b>	<b>(2,800)</b>	<b>1,680</b>
<b>Total comprehensive income for the period</b>	<b>8,023</b>	<b>15,668</b>	<b>9,890</b>
Total comprehensive income for the period attributable to shareholders	<b>8,023</b>	<b>15,668</b>	<b>9,890</b>

**Hang Seng Bank Limited**
**Consolidated Balance Sheet**  
*(unaudited)*

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013 (restated)</i>	<i>At 31 December 2013</i>
<b>ASSETS</b>			
Cash and balances at central banks	7,721	9,798	22,717
Placings with and advances to banks	142,975	141,012	141,940
Trading assets	26,213	34,509	31,996
Financial assets designated at fair value	10,331	10,150	6,987
Derivative financial instruments	6,296	4,752	6,646
Reverse repurchase agreements – non trading	2,309	–	–
Loans and advances to customers	632,947	579,705	586,240
Financial investments	297,303	263,369	282,845
Interest in associates	2,178	2,753	2,062
Investment properties	11,108	10,547	10,918
Premises, plant and equipment	21,594	20,690	21,000
Intangible assets	8,779	7,403	7,974
Other assets	26,210	21,969	22,405
<b>Total assets</b>	<b>1,195,964</b>	<b>1,106,657</b>	<b>1,143,730</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Current, savings and other deposit accounts	860,092	779,884	824,996
Repurchase agreements – non trading	1,837	1,625	–
Deposits from banks	11,335	14,165	11,826
Trading liabilities	65,713	67,749	62,117
Financial liabilities designated at fair value	493	466	489
Derivative financial instruments	5,825	4,817	5,246
Certificates of deposit and other debt securities in issue	9,904	11,022	8,601
Other liabilities	24,451	20,874	20,467
Liabilities to customers under insurance contracts	89,049	86,584	85,844
Current tax liabilities	1,830	1,928	692
Deferred tax liabilities	4,114	3,633	3,850
Subordinated liabilities	11,820	11,829	11,824
<b>Total liabilities</b>	<b>1,086,463</b>	<b>1,004,576</b>	<b>1,035,952</b>
<b>Equity</b>			
Share capital	9,658	9,559	9,559
Retained profits	83,215	76,633	78,679
Other reserves	14,525	13,786	15,334
Proposed dividends	2,103	2,103	4,206
Shareholders' funds	109,501	102,081	107,778
<b>Total equity and liabilities</b>	<b>1,195,964</b>	<b>1,106,657</b>	<b>1,143,730</b>

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
<b>Share capital</b>			
At beginning and end of period	9,559	9,559	9,559
Transfer from capital redemption reserve	99	—	—
	<u>9,658</u>	<u>9,559</u>	<u>9,559</u>
<b>Retained profits (including proposed dividends)</b>			
At beginning of period	82,885	63,507	78,736
Dividends to shareholders			
- dividends approved in respect of the previous year	(4,206)	(3,824)	—
- dividends declared in respect of the current period	(2,103)	(2,103)	(4,206)
Transfer	212	1,978	206
Total comprehensive income for the period	8,530	19,178	8,149
	<u>85,318</u>	<u>78,736</u>	<u>82,885</u>
<b>Other reserves</b>			
Premises revaluation reserve			
At beginning of period	14,904	13,790	14,628
Transfer	(212)	(449)	(206)
Total comprehensive income for the period	508	1,287	482
	<u>15,200</u>	<u>14,628</u>	<u>14,904</u>
Available-for-sale investment reserve			
At beginning of period	(1,618)	227	(2,884)
Total comprehensive income for the period	(842)	(3,111)	1,266
	<u>(2,460)</u>	<u>(2,884)</u>	<u>(1,618)</u>
Cash flow hedging reserve			
At beginning of period	6	17	2
Total comprehensive income for the period	(3)	(15)	4
	<u>3</u>	<u>2</u>	<u>6</u>
Foreign exchange reserve			
At beginning of period	1,295	3,071	1,306
Transfer	—	(64)	—
Total comprehensive income for the period	(170)	(1,701)	(11)
	<u>1,125</u>	<u>1,306</u>	<u>1,295</u>

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Other reserves			
At beginning of period	747	2,152	734
Cost of share-based payment arrangements	9	17	13
Transfer	—	(1,465)	—
Transfer of capital redemption reserve	(99)	—	—
Total comprehensive income for the period	—	30	—
	<u>657</u>	<u>734</u>	<u>747</u>
<b>Total equity</b>			
At beginning of period	107,778	92,323	102,081
Dividends to shareholders	(6,309)	(5,927)	(4,206)
Cost of share-based payment arrangements	9	17	13
Total comprehensive income for the period	8,023	15,668	9,890
	<u>109,501</u>	<u>102,081</u>	<u>107,778</u>

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013 (restated)</i>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(6,833)</b>	3,607
<b>Cash flows from investing activities</b>		
Dividends received from associates	—	—
Purchase of available-for-sale investments	<b>(27,896)</b>	(23,729)
Purchase of held-to-maturity debt securities	<b>(430)</b>	(953)
Proceeds from sale or redemption of available-for-sale investments	<b>27,001</b>	16,177
Proceeds from redemption of held-to-maturity debt securities	<b>315</b>	55
Net cash inflow from sale of loan portfolio	<b>368</b>	—
Purchase of premises, plant and equipment and intangible assets	<b>(397)</b>	(3,229)
Proceeds from sale of premises, plant and equipment and assets held for sale	<b>2</b>	910
Interest received from available-for-sale investments	<b>731</b>	826
Dividends received from available-for-sale investments	<b>6</b>	5
Net cash outflow from investing activities	<b>(300)</b>	(9,938)
<b>Cash flows from financing activities</b>		
Dividends paid	<b>(6,309)</b>	(5,927)
Interest paid for subordinated liabilities	<b>(152)</b>	(155)
Net cash outflow from financing activities	<b>(6,461)</b>	(6,082)
<b>Decrease in cash and cash equivalents</b>	<b>(13,594)</b>	(12,413)
<b>Cash and cash equivalents at 1 January</b>	<b>115,779</b>	115,947
Effect of foreign exchange rate changes	<b>42</b>	(2,557)
<b>Cash and cash equivalents at 30 June</b>	<b>102,227</b>	100,977



## Net interest income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Net interest income/(expense) arising from:			
- financial assets and liabilities that are not at fair value through profit and loss	10,754	9,705	10,537
- trading assets and liabilities	(1,085)	(770)	(927)
- financial instruments designated at fair value	<u>2</u>	<u>34</u>	<u>25</u>
	<u><u>9,671</u></u>	<u><u>8,969</u></u>	<u><u>9,635</u></u>
Average interest-earning assets	1,016,759	981,814	991,320
Net interest spread	1.79%	1.73%	1.81%
Net interest margin	1.92%	1.84%	1.93%

**Net interest income** rose by HK\$702m, or 7.8%, to HK\$9,671m, driven mainly by the 3.6% increase in average interest-earning assets and an improvement in the net interest margin.

**Average interest-earning assets** increased by HK\$34.9bn, or 3.6%, compared with the same period last year. The increase was underpinned by the 8.0% growth in average customer lending, with notable growth in corporate and commercial and mortgage lending. The rise in net interest income also included higher contributions from offshore RMB business as Treasury has been actively managing the interest rate risk and assessing different market opportunities for better yield enhancement of the commercial surplus. Partially offsetting this increase was a lower contribution from the insurance debt securities portfolios as the bank re-balanced assets under the low interest rate environment.

**Net interest margin** widened by eight basis points to 1.92% whilst the net interest spread improved by six basis points to 1.79%. In Hong Kong, the spread on customer lending improved, notably on corporate and commercial term lending, though this was offset in part by the spread compression in trade-related and mortgage lending. On the back of the group's flexible deposit acquisition strategy to support balanced growth, average customer deposit balances increased, though the benefit of this growth was more than offset by narrower deposit spreads. On the Mainland, the net interest margin and net interest spread widened, reflecting the improved deposit spread, coupled with a less volatile interbank market, outweighing the compression of loan spreads.

The contribution from net free funds grew by two basis points to 0.13%, benefiting from the modest increase in the average interest rate.

Compared with the second half of 2013, net interest income was broadly unchanged, reflecting the combined effect of an increase in average interest earning assets, widening loan spreads, improved returns from offshore RMB business and less volatility in the mainland interbank market but offset by lower deposit spreads and more calendar days in the second half. The net interest margin has stabilised but remains at a compressed level.

Net interest income (continued)

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

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

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Net interest income and expense reported as ‘Net interest income’			
- Interest income	<b>12,687</b>	11,334	12,279
- Interest expense	<b>(1,933)</b>	(1,629)	(1,742)
- Net interest income	<b>10,754</b>	9,705	10,537
Net interest income and expense reported as ‘Net trading income’	<b>(1,085)</b>	(770)	(927)
Net interest income and expense reported as ‘Net income from financial instruments designated at fair value’	<b>2</b>	34	25
Average interest-earning assets	<b>986,694</b>	944,273	957,970
Net interest spread	<b>2.09 %</b>	1.98 %	2.09 %
Net interest margin	<b>2.20 %</b>	2.07 %	2.18 %

## Net fee income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
- Stockbroking and related services	511	535	538
- Retail investment funds	891	845	703
- Insurance	249	223	218
- Account services	184	179	175
- Private banking service fee	54	53	51
- Remittances	193	158	190
- Cards	1,051	1,016	1,126
- Credit facilities	185	163	207
- Trade services	260	284	301
- Other	179	181	183
Fee income	3,757	3,637	3,692
Fee expense	(695)	(701)	(741)
	<u>3,062</u>	<u>2,936</u>	<u>2,951</u>

Net fee income increased by HK\$126m, or 4.3%, to HK\$3,062m when compared with the first half of 2013.

Retail investment funds income increased by 5.4%, benefiting from increased funds sale volumes.

Insurance-related fee income rose by 11.7%, reflecting growth in life re-insurance commission income as a result of the successful sale of the life insurance product – Prosper Dragon Life Insurance Plan – as well as the distribution commission from non-life insurance products during the period.

Card services income was 3.4% higher than the first half of 2013, in line with the growth in average card balances. The bank's effective customer loyalty scheme and card utilisation promotions helped drive up the bank's card spending. The growth in card income was also supported by the increase of 9.3% in cardholder spending and a 3.3% increase in the number of cards in circulation as well as a 7.7% increase in merchant acquiring business.

Credit facilities fee income rose by 13.5%, due mainly to higher fees from increased corporate lending.

Fees from remittances recorded encouraging growth of 22.2%, underpinned by increased business volumes as a result of the expansion of renminbi cross-border trade settlement volumes.

Stockbroking and related services income fell by 4.5%, as a result of subdued stock market trading activity. Trade-related service income was down by 8.5%.

Compared with the second half of 2013, net fee income increased by 3.8%, primarily from higher retail investment funds income.

## Net trading income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
- Foreign exchange	995	1,190	774
- Interest rate derivatives	(1)	35	29
- Debt securities	43	(6)	(29)
- Equities and other trading	30	(4)	63
Dealing profits	1,067	1,215	837
Net income/(loss) from hedging activities	(6)	(11)	4
	<u>1,061</u>	<u>1,204</u>	<u>841</u>

Net trading income decreased by HK\$143m, or 11.9%, to HK\$1,061m when compared with first half of 2013.

Dealing profits fell by HK\$148m, or 12.2%, to HK\$1,067m. Foreign exchange income was lower, affected by subdued customer activity levels as market volatility was low. Income from foreign exchange option-linked structured products dropped, with reduced arbitrage opportunities during the second quarter reducing customer appetite for renminbi-denominated products. However, these unfavourable factors were offset by higher net interest income from funding swaps<sup>‡</sup> activities.

Income from securities, derivatives and other trading activities recorded a net gain of HK\$72m, up HK\$47m, when compared with the same period last year, reflecting the combined effect of higher income on equity derivatives and the revaluation loss on equity options backing a life endowment product in first half of 2013. Debt securities recorded a revaluation gain compared with a revaluation loss for the same period last year, mainly reflecting the movement in market interest rates. These increases were offset in part by the revaluation loss on interest rate derivatives products.

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

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

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Net income/(loss) on assets designated at fair value which back insurance and investment contracts	<u>428</u>	<u>(111)</u>	<u>456</u>

Net income from financial instruments designated at fair value recorded a net gain of HK\$428m compared with a net loss of HK\$111m for the first half of 2013, due mainly to favourable equity market movements during the first half of 2014. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims incurred and movement in policyholders' liabilities' or 'movement in present value of in-force long-term insurance business ('PVIF').

## Other operating income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Rental income from investment properties	195	106	187
Movement in present value of in-force long-term insurance business	807	622	573
Others	<u>129</u>	<u>367</u>	<u>81</u>
	<u>1,131</u>	<u>1,095</u>	<u>841</u>

Other operating income rose by HK\$36m, or 3.3% compared with the first half of 2013, driven by the increase in rental income and growth in the movement in present value of in-force long-term insurance business, partly offset by a lower revaluation gain on a property held by the insurance business. The increase in the movement in present value of in-force long-term insurance business was mainly due to new sales with a higher profit margin and a favourable change in market conditions.

## Analysis of income from wealth management business

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013 (restated)</i>	<i>Half-year ended 31 December 2013</i>
Investment income:			
- retail investment funds	891	845	703
- structured investment products <sup>†</sup>	523	675	290
- stockbroking and related services	495	519	522
- margin trading and others	146	173	146
	<b>2,055</b>	2,212	1,661
Insurance income:			
- life insurance	2,043	1,722	1,757
- general insurance and others	116	105	102
	<b>2,159</b>	1,827	1,859
Total	<b>4,214</b>	4,039	3,520

<sup>†</sup> *Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net trading income.*

Wealth management business income maintained good growth momentum in the first half of 2014, achieving a 4.3% increase when compared with the same period last year. Investment income declined by 7.1%, mainly affected by weaker investor sentiment in the second quarter of 2014, as reflected by slower fund sales and securities broking activities. Insurance business income grew by 18.2%, due mainly to our proactive management of the life insurance investment portfolio which resulted in an increase of HK\$390m in investment gains when compared with the same period last year. Compared with the second half of 2013, wealth management business income grew by 19.7%, driven by the increase of 23.7% in investment income and 16.1% in insurance income.

## Analysis of insurance business income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Life insurance:			
- net interest income and fee income	1,517	1,506	1,527
- returns on life insurance investment portfolios (including share of associate's profit and surplus on property revaluation backing insurance contracts)	604	214	806
- net earned insurance premiums	6,004	5,800	4,205
- net insurance claims incurred and movement in policyholders' liabilities	(6,889)	(6,420)	(5,354)
- movement in present value of in-force long-term insurance business	807	622	573
	<b>2,043</b>	1,722	1,757
General insurance and others	116	105	102
Total	<b>2,159</b>	1,827	1,859

Against a backdrop of weakening investment sentiment, our comprehensive range of life insurance products underpinned the wealth management income stream. Life insurance income achieved growth of HK\$321m, or 18.6%, to HK\$2,043m, reflecting the improvement in the life insurance investment portfolios return and the growth of business.

Supported by our diversified range of life insurance products, the bank achieved a 4.4% increase in new annualised life insurance premiums when compared with the first half of 2013. To better meet the needs of customers at different life stages, the bank has entered into an exclusive 10-year distribution agreement with international healthcare company Bupa in providing medical insurance products and services.

Net interest income and fee income from the life insurance investment portfolio grew by 0.7% as the bank has re-balanced assets under the low interest rate environment. Investment returns on life insurance grew strongly by 182.2%, benefiting from the favourable movement in equity markets, though partly offset by lower property revaluation gains. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims incurred and movement in policyholders' liabilities' or 'movement in present value of in-force long-term insurance business ('PVIF')'. Net earned insurance premiums rose by 3.5% as a result of increased renewals of existing policies, partly offset by lower new business premiums written. The growth in insurance premiums earned resulted in a corresponding increase in 'net insurance claims incurred and movement in policyholders' liabilities'. The increase in the movement in present value of in-force long-term insurance business was driven by new sales with a higher profit margin and a favourable change in market conditions.

General insurance income increased by 10.5%, reflecting higher distribution commission income.

## Loan impairment charges and other credit risk provisions

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Net charge for impairment of loans and advances to customers:			
Individually assessed impairment allowances:			
- new allowances	(179)	(61)	(130)
- releases	91	57	34
- recoveries	31	7	9
	<u>(57)</u>	<u>3</u>	<u>(87)</u>
Net charge for collectively assessed impairment allowances	(252)	(201)	(251)
Other credit risk provisions	(28)	—	—
Loan impairment charges and other credit risk provisions	<u>(337)</u>	<u>(198)</u>	<u>(338)</u>

Loan impairment charges and other credit risk provisions increased by HK\$139m, or 70.2%, when compared with first half of last year, but were at the same level compared with the second half.

Individually assessed impairment charges increased from a low base of a HK\$3m net release to a HK\$57m net charge, due to the downgrade of a few corporate and commercial customers of Hang Seng China, partly offset by higher releases and recoveries from corporate and commercial customers in the first half of 2014.

Collectively assessed charges increased by HK\$51m, or 25.4%, when compared with the first half of 2013. Impairment allowances for loans not individually identified as impaired recorded a lower release compared with the first half of 2013 as a result of the increase in customer loan balances and updated assumptions in the assessment model. Impairment charges for credit card and personal loan portfolios decreased, reflecting the revision to the collective impairment models in the first half of 2013.

Overall credit quality was relatively stable with total loan impairment allowances as a percentage of gross advances lowered to 0.23% when compared with 0.25% at last year end. The group remains cautious on the credit outlook.



## Operating expenses

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Employee compensation and benefits:			
- salaries and other costs	2,071	1,953	2,038
- retirement benefit costs	224	217	224
	<b>2,295</b>	2,170	2,262
General and administrative expenses:			
- rental expenses	336	315	330
- other premises and equipment	507	519	579
- marketing and advertising expenses	381	322	391
- other operating expenses	660	586	754
	<b>1,884</b>	1,742	2,054
Depreciation of premises, plant and equipment	406	376	386
Amortisation of intangible assets	55	57	56
	<b>4,640</b>	4,345	4,758
Cost efficiency ratio	32.1 %	32.2 %	32.6 %
<b>Full-time equivalent staff numbers by region</b>	<b>At 30 June 2014</b>	<b>At 30 June 2013</b>	<b>At 31 December 2013</b>
Hong Kong and others	7,894	8,014	8,001
Mainland	1,769	1,820	1,855
Total	<b>9,663</b>	<b>9,834</b>	<b>9,856</b>

Operating expenses increased by HK\$295m, or 6.8%, compared with the first half of 2013, reflecting the bank's continued investment in new business platforms and mainland operations to support long-term business growth and capture business opportunities while continuing carefully to manage costs. Mainland-related operating expenses increased by 6.9% due to ongoing investment in enhancing Hang Seng China's infrastructure and service capabilities. Compared with the second half of 2013, operating expenses fell by HK\$118m, or 2.5%.

Employee compensation and benefits increased by HK\$125m, or 5.8%. Salaries and other costs increased by 6.0%, reflecting the annual salary increment and performance related remuneration. General and administrative expenses were up 8.2%, due mainly to the rise in marketing expenditure to support business growth. Rental expenses rose as a result of increased rents for branches in Hong Kong and on the Mainland. Other operating expenses also increased as a result of higher processing charges. Depreciation charges were up 8.0%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation in Hong Kong.

At 30 June 2014, the group's number of full-time equivalent staff was down by 193 compared with the end of 2013.

The bank continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio lowered by 0.1 percentage points to 32.1%.

**Gains less losses from financial investments and fixed assets**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Net losses from disposal of available-for-sale equity securities	(3)	—	—
Net gains from disposal of available-for-sale debt securities	1	—	1
Gains less losses on disposal of assets held for sale	—	175	2
Gains less losses on disposal of loans and advances	2	1	4
Gains less losses on disposal of fixed assets	(5)	(3)	(1)
	<u>(5)</u>	<u>173</u>	<u>6</u>

Gains less losses from financial investments and fixed assets recorded a loss of HK\$5m in the first half of 2014 compared with a gain of HK\$173m in the first half of 2013. The HK\$175m net gain on disposal of assets held for sale in the same period last year was from the disposal of certain properties in Hong Kong.

**Net gain on reclassification of Industrial Bank Co., Ltd. ('Industrial Bank') and Yantai Bank Co., Ltd. ('Yantai Bank')**

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
Gain on reclassification of Industrial Bank	—	8,454	—
Loss on reclassification of Yantai Bank	—	—	(297)
	<u>—</u>	<u>8,454</u>	<u>(297)</u>

The group recorded an accounting gain of HK\$8,454m on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties in the first half of 2013.

The group recorded an accounting loss of HK\$297m on the reclassification of Yantai Bank as a financial investment following an increase in its registered share capital to enable a private placement of additional share capital to a third party in the second half 2013.

**Tax expense**

Taxation in the consolidated income statement represents:

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2014</i>	<i>Half-year ended 30 June 2013</i>	<i>Half-year ended 31 December 2013</i>
<b>Current tax – provision for</b>			
<b>Hong Kong profits tax</b>			
Tax for the period	1,396	1,298	1,236
Adjustment in respect of prior periods	(96)	–	(14)
<b>Current tax – taxation outside</b>			
<b>Hong Kong</b>			
Tax for the period	13	52	161
Adjustment in respect of prior periods	12	7	–
<b>Deferred tax</b>			
Origination and reversal of temporary differences	84	(1,052)	130
<b>Total tax expense</b>	<b>1,409</b>	<b>305</b>	<b>1,513</b>

The current tax provision is based on the estimated assessable profit for the first half of 2014, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2013). 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. The release in deferred tax in the first half of 2013 was mainly related to the reclassification of Industrial Bank as a financial investment.

**Earnings per share**

The calculation of earnings per share for the first half of 2014 is based on earnings of HK\$8,468m (HK\$18,468m and HK\$8,210m for the first and second halves of 2013 respectively) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first and second halves of 2013).

**Dividends per share**

	<i>Half-year ended 30 June 2014</i>		<i>Half-year ended 30 June 2013</i>		<i>Half-year ended 31 December 2013</i>	
	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>
First interim	1.10	2,103	1.10	2,103	—	—
Second interim	1.10	2,103	1.10	2,103	—	—
Third interim	—	—	—	—	1.10	2,103
Fourth interim	—	—	—	—	2.20	4,206
	<b>2.20</b>	<b>4,206</b>	<b>2.20</b>	<b>4,206</b>	<b>3.30</b>	<b>6,309</b>

**Segmental analysis**

Hong Kong Financial Reporting Standard 8 ('HKFRS 8') requires segmental disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. In 2014, there was a change in the reportable segments information reported internally to the group's most senior executive management for the purposes of resources allocation and performance assessment. To align with the internal reporting information, the group has presented the following five reportable segments. Corresponding amounts have been restated to ensure information is provided on a basis consistent with the revised segment information. Consolidation adjustments made in preparing the group's financial statements and inter-segment elimination of income or expenses upon consolidation are included in the 'Inter-segment elimination'.

*Hong Kong and other businesses segment*

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

Segmental analysis (continued)

Mainland China business segment

- **Mainland China** business segment comprises the business of Hang Seng Bank (China) Limited and our share of profits from mainland associates.

(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 ‘Other’ segment. When these premises are utilised by Global Businesses, notional rent will be charged to the relevant business segments based on market rates.

Profit before tax contributed by the business segments for the periods stated is set out in the table below. More business segment analysis and discussion is set out in the ‘Segmental analysis’ section on page 11.

	<i>Hong Kong and other businesses</i>						<i>Total</i>
	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>	<i>Mainland China business</i>	
<i>Figures in HK\$m</i>							
<i>Half-year ended</i> <i>30 June 2014</i>							
Profit before tax	<u>4,652</u>	<u>2,489</u>	<u>2,179</u>	<u>395</u>	<u>9,715</u>	<u>162</u>	<u>9,877</u>
Share of profit before tax	<u>47.1 %</u>	<u>25.2 %</u>	<u>22.1 %</u>	<u>4.0 %</u>	<u>98.4 %</u>	<u>1.6 %</u>	<u>100.0 %</u>
Share of profit before tax as a % of Hong Kong and other businesses	<u>47.9 %</u>	<u>25.6 %</u>	<u>22.4 %</u>	<u>4.1 %</u>	<u>100.0 %</u>		
<i>Half-year ended</i> <i>30 June 2013 (restated)</i>							
Profit before tax	<u>4,455</u>	<u>2,423</u>	<u>2,037</u>	<u>1,225</u>	<u>10,140</u>	<u>8,633</u>	<u>18,773</u>
Share of profit before tax	<u>23.8 %</u>	<u>12.9 %</u>	<u>10.8 %</u>	<u>6.5 %</u>	<u>54.0 %</u>	<u>46.0 %</u>	<u>100.0 %</u>
Share of profit before tax as a % of Hong Kong and other businesses	<u>43.9 %</u>	<u>23.9 %</u>	<u>20.1 %</u>	<u>12.1 %</u>	<u>100.0 %</u>		
<i>Half-year ended</i> <i>31 December 2013 (restated)</i>							
Profit before tax	<u>4,484</u>	<u>2,211</u>	<u>2,033</u>	<u>1,159</u>	<u>9,887</u>	<u>(164)</u>	<u>9,723</u>
Share of profit before tax	<u>46.1 %</u>	<u>22.7 %</u>	<u>20.9 %</u>	<u>12.0 %</u>	<u>101.7 %</u>	<u>(1.7 %)</u>	<u>100.0 %</u>
Share of profit before tax as a % of Hong Kong and other businesses	<u>45.4 %</u>	<u>22.4 %</u>	<u>20.6 %</u>	<u>11.6 %</u>	<u>100.0 %</u>		

Segmental analysis (continued)

(b) Geographic information

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the bank itself, by the location of the branches responsible for reporting the results or advancing the funds.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Mainland</i>	<i>Americas</i>	<i>Others</i>	<i>Inter-segment elimination</i>	<i>Total</i>
<b>Half-year ended 30 June 2014</b>						
<b>Income and expense</b>						
Total operating income	20,307	996	–	100	(41)	21,362
Profit before tax	9,654	162	(8)	69	–	9,877
<b>At 30 June 2014</b>						
Total assets	1,090,718	125,434	34	14,879	(35,101)	1,195,964
Total liabilities	984,146	115,308	5	14,482	(27,478)	1,086,463
Equity	106,572	10,126	29	397	(7,623)	109,501
Share capital	9,658	8,691	18	12	(8,721)	9,658
Interest in associates	2,149	29	–	–	–	2,178
Non-current assets <sup>‡</sup>	40,384	1,096	–	1	–	41,481
<b>Half-year ended 30 June 2013</b>						
<b>Income and expense</b>						
Total operating income	18,640	796	421	81	(41)	19,897
Profit before tax	9,683	8,633	404	53	–	18,773
<b>At 30 June 2013</b>						
Total assets	1,008,809	118,176	57,583	10,996	(88,907)	1,106,657
Total liabilities	911,782	109,913	56,008	10,703	(83,830)	1,004,576
Equity	97,027	8,263	1,575	293	(5,077)	102,081
Share capital	9,559	6,224	18	12	(6,254)	9,559
Interest in associates	1,778	975	–	–	–	2,753
Non-current assets <sup>‡</sup>	37,556	1,083	–	1	–	38,640
<b>Half-year ended 31 December 2013</b>						
<b>Income and expense</b>						
Total operating income	18,818	899	179	90	(47)	19,939
Profit before tax	9,660	(164)	169	58	–	9,723
<b>At 31 December 2013</b>						
Total assets	1,048,106	118,476	185	12,702	(35,739)	1,143,730
Total liabilities	943,141	108,495	48	12,356	(28,088)	1,035,952
Equity	104,965	9,981	137	346	(7,651)	107,778
Share capital	9,559	8,847	18	12	(8,877)	9,559
Interest in associates	2,032	30	–	–	–	2,062
Non-current assets <sup>‡</sup>	38,786	1,105	–	1	–	39,892

<sup>‡</sup> Non-current assets consist of properties, plant and equipment, goodwill and other intangible assets.

**Cash and balances at central banks**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013 (restated)</i>	<i>At 31 December 2013</i>
Cash in hand	5,496	5,782	6,005
Balances at central banks	<u>2,225</u>	<u>4,016</u>	<u>16,712</u>
	<u>7,721</u>	<u>9,798</u>	<u>22,717</u>

**Placings with and advances to banks**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Balances with banks	7,828	5,013	10,577
Placings with and advances to banks maturing within one month	73,515	80,620	64,749
Placings with and advances to banks maturing after one month but less than one year	59,563	53,392	64,586
Placings with and advances to banks maturing after one year	<u>2,069</u>	<u>1,987</u>	<u>2,028</u>
	<u>142,975</u>	<u>141,012</u>	<u>141,940</u>

## Trading assets

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Treasury bills	16,108	28,206	18,336
Certificates of deposit	—	—	—
Other debt securities	8,778	5,935	5,471
Debt securities	24,886	34,141	23,807
Investment funds	35	25	28
<b>Total trading securities</b>	<b>24,921</b>	<b>34,166</b>	<b>23,835</b>
Other <sup>‡</sup>	1,292	343	8,161
<b>Total trading assets</b>	<b>26,213</b>	<b>34,509</b>	<b>31,996</b>
<b>Debt securities:</b>			
- listed in Hong Kong	5,013	4,322	3,783
- listed outside Hong Kong	647	780	700
	5,660	5,102	4,483
- unlisted	19,226	29,039	19,324
	24,886	34,141	23,807
<b>Investment funds:</b>			
- listed in Hong Kong	35	25	28
<b>Total trading securities</b>	<b>24,921</b>	<b>34,166</b>	<b>23,835</b>
<b>Debt securities:</b>			
Issued by public bodies:			
- central governments and central banks	21,770	33,077	22,650
- other public sector entities	—	69	—
	21,770	33,146	22,650
Issued by other bodies:			
- banks	627	581	853
- corporate entities	2,489	414	304
	3,116	995	1,157
	24,886	34,141	23,807
<b>Investment funds:</b>			
Issued by corporate entities	35	25	28
<b>Total trading securities</b>	<b>24,921</b>	<b>34,166</b>	<b>23,835</b>

<sup>‡</sup> This represents the amount receivable from counterparties on trading transactions not yet settled.

Trading assets decreased by HK\$5.8bn, or 18.1%, compared with the end of 2013. Trading securities rose by HK\$1.1bn mainly due to increased holdings of corporate bonds. This was, however, offset by the HK\$6.9bn decrease in amounts receivable from counterparties on trading transactions not yet settled.



Financial assets designated at fair value

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Debt securities	60	4,228	812
Equity shares	7,015	2,990	3,639
Investment funds	3,256	2,932	2,536
	<u>10,331</u>	<u>10,150</u>	<u>6,987</u>
<b>Debt securities:</b>			
- listed in Hong Kong	11	87	103
- listed outside Hong Kong	49	468	489
	<u>60</u>	<u>555</u>	<u>592</u>
- unlisted	—	3,673	220
	<u>60</u>	<u>4,228</u>	<u>812</u>
<b>Equity shares:</b>			
- listed in Hong Kong	2,299	1,554	2,072
- listed outside Hong Kong	4,634	1,408	1,539
	<u>6,933</u>	<u>2,962</u>	<u>3,611</u>
- unlisted	82	28	28
	<u>7,015</u>	<u>2,990</u>	<u>3,639</u>
<b>Investment funds:</b>			
- listed in Hong Kong	509	27	32
- listed outside Hong Kong	341	741	314
	<u>850</u>	<u>768</u>	<u>346</u>
- unlisted	2,406	2,164	2,190
	<u>3,256</u>	<u>2,932</u>	<u>2,536</u>
	<u>10,331</u>	<u>10,150</u>	<u>6,987</u>
<b>Debt securities:</b>			
Issued by public bodies:			
- central governments and central banks	—	313	358
- other public sector entities	1	46	44
	<u>1</u>	<u>359</u>	<u>402</u>
Issued by other bodies:			
- banks	10	3,664	208
- corporate entities	49	205	202
	<u>59</u>	<u>3,869</u>	<u>410</u>
	<u>60</u>	<u>4,228</u>	<u>812</u>
<b>Equity shares:</b>			
Issued by banks	903	499	634
Issued by public sector entities	13	12	12
Issued by corporate entities	6,099	2,479	2,993
	<u>7,015</u>	<u>2,990</u>	<u>3,639</u>
<b>Investment funds:</b>			
Issued by banks	82	—	—
Issued by corporate entities	3,174	2,932	2,536
	<u>3,256</u>	<u>2,932</u>	<u>2,536</u>
	<u>10,331</u>	<u>10,150</u>	<u>6,987</u>

**Loans and advances to customers**

<i>Figures in HK\$m</i>	<u><i>At 30 June 2014</i></u>	<u><i>At 30 June 2013</i></u>	<u><i>At 31 December 2013</i></u>
Gross loans and advances to customers	634,413	581,080	587,688
Less:			
Loan impairment allowances:			
- individually assessed	(721)	(666)	(709)
- collectively assessed	(745)	(709)	(739)
	<u>632,947</u>	<u>579,705</u>	<u>586,240</u>

**Loan impairment allowances against loans and advances to customers**

<i>Figures in HK\$m</i>	<u><i>Individually assessed</i></u>	<u><i>Collectively assessed</i></u>	<u><i>Total</i></u>
At 1 January 2014	709	739	1,448
Amounts written off	(70)	(269)	(339)
Recoveries of loans and advances written off in previous years	31	27	58
New impairment allowances charged to income statement	179	284	463
Impairment allowances released to income statement	(122)	(32)	(154)
Unwinding of discount of loan impairment allowances recognised as 'interest income'	(3)	(2)	(5)
Exchange	(3)	(2)	(5)
At 30 June 2014	<u>721</u>	<u>745</u>	<u>1,466</u>

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

	<u><i>At 30 June 2014</i></u>	<u><i>At 30 June 2013</i></u>	<u><i>At 31 December 2013</i></u>
	%	%	%
Loan impairment allowances:			
- individually assessed	0.11	0.11	0.12
- collectively assessed	0.12	0.12	0.13
Total loan impairment allowances	<u>0.23</u>	<u>0.23</u>	<u>0.25</u>

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.23% at 30 June 2014 compared with 0.25% at the end of 2013. Individually assessed allowances as a percentage of gross loans and advances improved by one basis point to 0.11% as overall asset quality remained sound. Collectively assessed allowances as a percentage of gross loans and advances fell by one basis point to 0.12%.

**Impaired loans and advances to customers and allowances**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Gross impaired loans and advances	<b>1,292</b>	1,289	1,311
Individually assessed allowances	<b>(721)</b>	(666)	(709)
	<b><u>571</u></b>	<u>623</u>	<u>602</u>
Individually assessed allowances as a percentage of gross impaired loans and advances	<b><u>55.8 %</u></b>	<u>51.7 %</u>	<u>54.1 %</u>
Gross impaired loans and advances as a percentage of gross loans and advances to customers	<b><u>0.20 %</u></b>	<u>0.22 %</u>	<u>0.22 %</u>

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

Gross impaired loans and advances decreased by HK\$19m, or 1.4%, to HK\$1,292m compared with the year end of 2013, due to repayments by corporate and commercial banking customers. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.20% compared with 0.22% at the year end of 2013.

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Gross individually assessed impaired loans and advances	<b>1,124</b>	1,131	1,157
Individually assessed allowances	<b>(721)</b>	(666)	(709)
	<b><u>403</u></b>	<u>465</u>	<u>448</u>
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	<b><u>0.18 %</u></b>	<u>0.19 %</u>	<u>0.20 %</u>
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	<b><u>299</u></b>	<u>407</u>	<u>516</u>

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

**Overdue loans and advances to customers**

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

	<i>At 30 June 2014</i>		<i>At 30 June 2013</i>		<i>At 31 December 2013</i>	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:						
- more than three months but not more than six months	<b>168</b>	—	140	—	121	—
- more than six months but not more than one year	<b>100</b>	—	50	—	73	—
- more than one year	<b>640</b>	<b>0.1</b>	681	0.1	637	0.1
	<b>908</b>	<b>0.1</b>	871	0.1	831	0.1

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

Overdue loans and advances increased by HK\$77m, or 9.3%, to HK\$908m compared with last year end. Overdue loans and advances as a percentage of gross loans and advances to customers stood at 0.1%.

**Rescheduled loans and advances to customers**

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

	<i>At 30 June 2014</i>		<i>At 30 June 2013</i>		<i>At 31 December 2013</i>	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
Rescheduled loans and advances to customers	<b>139</b>	—	167	—	123	—

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

**Rescheduled loans and advances to customers (continued)**

Rescheduled loans and advances stood at HK\$139m at 30 June 2014, an increase of HK\$16m, or 13.0% compared with last year end, representing 0.02% of gross loans and advances to customers.

**Segmental analysis of loans and advances to customers by geographical area**

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

*Figures in HK\$m**At 30 June 2014*

	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	527,996	869	828	530	615
Rest of Asia-Pacific	99,370	253	78	191	121
Others	7,047	2	2	—	9
	<u>634,413</u>	<u>1,124</u>	<u>908</u>	<u>721</u>	<u>745</u>

*Figures in HK\$m**At 30 June 2013*

	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	467,327	886	715	498	545
Rest of Asia-Pacific	106,461	212	150	163	153
Others	7,292	33	6	5	11
	<u>581,080</u>	<u>1,131</u>	<u>871</u>	<u>666</u>	<u>709</u>

*Figures in HK\$m**At 31 December 2013*

	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	480,545	924	642	527	589
Rest of Asia-Pacific	99,987	233	189	182	140
Others	7,156	—	—	—	10
	<u>587,688</u>	<u>1,157</u>	<u>831</u>	<u>709</u>	<u>739</u>

**Gross loans and advances to customers by industry sector**

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

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
<b>Gross loans and advances to customers for use in Hong Kong</b>			
<b>Industrial, commercial and financial sectors</b>			
Property development	42,019	28,551	30,529
Property investment	111,550	99,722	100,912
Financial concerns	3,709	4,566	2,773
Stockbrokers	2,937	402	304
Wholesale and retail trade	24,979	19,850	21,912
Manufacturing	20,811	17,252	17,372
Transport and transport equipment	7,306	6,072	6,289
Recreational activities	137	224	160
Information technology	1,581	1,968	1,870
Other	35,958	32,751	35,664
	<u>250,987</u>	<u>211,358</u>	<u>217,785</u>
<b>Individuals</b>			
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	14,972	13,619	14,452
Loans and advances for the purchase of other residential properties	134,413	129,733	131,305
Credit card loans and advances	21,554	20,081	21,419
Other	17,265	14,333	14,431
	<u>188,204</u>	<u>177,766</u>	<u>181,607</u>
<b>Total gross loans and advances for use in Hong Kong</b>	<b>439,191</b>	<b>389,124</b>	<b>399,392</b>
<b>Trade finance</b>	<b>51,737</b>	<b>62,892</b>	<b>52,117</b>
<b>Gross loans and advances for use outside Hong Kong</b>	<b>143,485</b>	<b>129,064</b>	<b>136,179</b>
<b>Gross loans and advances to customers</b>	<b>634,413</b>	<b>581,080</b>	<b>587,688</b>

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

Gross loans and advances to customers grew by HK\$46.7bn, or 8.0%, to HK\$634.4bn compared with the end of 2013.

Loans and advances for use in Hong Kong increased by HK\$39.8bn, or 10.0%. Lending to the industrial, commercial and financial sectors grew by 15.2%. Lending to property development and property investment increased by 37.6% and 10.5% respectively. Lending to stockbrokers grew by HK\$2.6bn mainly from financing granted to stockbroking companies relating to several initial public offerings at the end of June 2014. The bank's continued efforts to support local business saw lending to wholesale and retail trade and manufacturing sectors grow by 14.0% and 19.8% respectively.

Lending to individuals increased by 3.6% compared with the last year end. The bank was able to maintain its market share for the mortgage business based on comprehensive product suite and thus residential mortgage lending to individuals rose by 2.4% compared with the end of 2013. Credit card advances were broadly at the same level as last year end. Other loans to individuals grew by 19.6%, reflecting the success of the bank in expanding its consumer finance business.

Loans and advances for use outside Hong Kong rose by 5.4%, compared with the end of 2013, driven largely by lending on the Mainland. Lending by Hang Seng China increased by 1.9% to HK\$62.3bn, underpinned by the expansion of renminbi lending to corporate and commercial customers as well as residential mortgages. The group employed a cautious approach to lending on the Mainland and will continue to strengthen its prudent credit policies in light of the more difficult operating conditions for mainland businesses.

Financial investments

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Available-for-sale at fair value:			
- debt securities	200,179	166,288	183,344
- equity shares	26,851	26,103	27,948
- investment funds	45	43	48
Held-to-maturity debt securities at amortised cost	<u>70,228</u>	<u>70,935</u>	<u>71,505</u>
	<u>297,303</u>	<u>263,369</u>	<u>282,845</u>
Fair value of held-to-maturity debt securities	<u>71,753</u>	<u>72,386</u>	<u>72,014</u>
Treasury bills	105,192	75,014	91,811
Certificates of deposit	10,550	10,980	9,729
Other debt securities	<u>154,665</u>	<u>151,229</u>	<u>153,309</u>
Debt securities	<u>270,407</u>	<u>237,223</u>	<u>254,849</u>
Equity shares	26,851	26,103	27,948
Investment funds	45	43	48
	<u>297,303</u>	<u>263,369</u>	<u>282,845</u>
<b>Debt securities:</b>			
- listed in Hong Kong	14,045	12,676	11,709
- listed outside Hong Kong	<u>65,153</u>	<u>58,976</u>	<u>67,778</u>
	79,198	71,652	79,487
- unlisted	<u>191,209</u>	<u>165,571</u>	<u>175,362</u>
	<u>270,407</u>	<u>237,223</u>	<u>254,849</u>
<b>Equity shares:</b>			
- listed in Hong Kong	69	65	67
- listed outside Hong Kong	<u>25,946</u>	<u>25,753</u>	<u>26,897</u>
	26,015	25,818	26,964
- unlisted	<u>836</u>	<u>285</u>	<u>984</u>
	<u>26,851</u>	<u>26,103</u>	<u>27,948</u>
<b>Investment funds:</b>			
- unlisted	<u>45</u>	<u>43</u>	<u>48</u>
	<u>297,303</u>	<u>263,369</u>	<u>282,845</u>
Fair value of listed financial investments	<u>105,873</u>	<u>97,781</u>	<u>106,674</u>
<b>Debt securities:</b>			
Issued by public bodies:			
- central governments and central banks	<u>148,193</u>	<u>110,094</u>	<u>127,599</u>
- other public sector entities	<u>26,681</u>	<u>27,655</u>	<u>27,680</u>
	174,874	137,749	155,279
Issued by other bodies:			
- banks	<u>64,892</u>	<u>70,860</u>	<u>69,189</u>
- corporate entities	<u>30,641</u>	<u>28,614</u>	<u>30,381</u>
	95,533	99,474	99,570
	<u>270,407</u>	<u>237,223</u>	<u>254,849</u>
<b>Equity shares:</b>			
Issued by banks	26,441	25,753	27,510
Issued by corporate entities	<u>410</u>	<u>350</u>	<u>438</u>
	<u>26,851</u>	<u>26,103</u>	<u>27,948</u>
<b>Investment funds:</b>			
Issued by corporate entities	<u>45</u>	<u>43</u>	<u>48</u>
	<u>297,303</u>	<u>263,369</u>	<u>282,845</u>



## Financial investments (continued)

## Debt securities by rating agency designation

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
AA- to AAA	<b>201,920</b>	184,183	187,387
A- to A+	<b>59,592</b>	43,799	59,463
B+ to BBB+	<b>6,765</b>	6,872	5,714
Unrated	<b>2,130</b>	2,369	2,285
	<b><u>270,407</u></b>	<u>237,223</u>	<u>254,849</u>

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

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

Financial investments rose by HK\$14.5bn, or 5.1%, compared with the last year end. Debt securities investments increased by HK\$15.6bn. Equity shares declined by HK\$1.1bn, reflecting the fair value change of the bank's investment in Industrial Bank. Available-for-sale financial investments are tested for impairment when there is an indication that the investment may be impaired. The group's policy is to recognise an impairment loss where there is a 'significant' or 'prolonged' decline in the fair value of an equity investment. At 30 June 2014, the fair value of the bank's investment in Industrial Bank, an 'available-for-sale' financial investment, was HK\$25.9bn, 10% below the deemed cost of HK\$28.8bn. In accordance with the group's policy, no impairment loss has been recognised at 30 June 2014. If the fair value remains below the deemed cost in the second half of 2014, an impairment loss may be recognised in the income statement. In subsequent periods, any further decline in fair value below the level at which the initial impairment loss was recognised, may be reflected in the income statement for the relevant period as additional impairment losses.

At 30 June 2014, about 99.0% of the group's holdings of debt securities were assigned investment grade ratings by rating agencies. The unrated debt securities were issued by subsidiaries of investment-grade banks and are guaranteed by their corresponding holding companies. These notes rank equally with all of the respective guarantors' other senior debt obligations. The group did not hold any investments in structured investment vehicles or any sub-prime related assets such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

**Interest in associates**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Share of net assets	2,178	2,597	2,062
Intangible assets	–	15	–
Goodwill	–	141	–
	<u>2,178</u>	<u>2,753</u>	<u>2,062</u>

**Intangible assets**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Present value of in-force long-term insurance business	8,005	6,625	7,198
Internally developed software	369	390	378
Acquired software	76	59	69
Goodwill	329	329	329
	<u>8,779</u>	<u>7,403</u>	<u>7,974</u>

**Other assets**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013 (restated)</i>	<i>At 31 December 2013</i>
Items in the course of collection from other banks	6,912	5,540	4,743
Bullion	3,392	4,379	4,184
Prepayments and accrued income	3,972	3,245	3,519
Assets held for sale	5	4	9
Acceptances and endorsements	6,928	6,057	6,351
Retirement benefit assets	38	42	40
Other accounts	4,963	2,702	3,559
	<u>26,210</u>	<u>21,969</u>	<u>22,405</u>

Gold bullion balances were reclassified from 'Cash and balances at central banks' to 'Other assets' in the second half of 2013 to reflect better the substance of the gold lending business. 30 June 2013 comparatives have been restated accordingly.

**Current, savings and other deposit accounts**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Current, savings and other deposit accounts:			
- as stated in consolidated balance sheet	<b>860,092</b>	779,884	824,996
- structured deposits reported as trading liabilities	<b>47,042</b>	39,990	34,489
	<b>907,134</b>	819,874	859,485
By type:			
- demand and current accounts	<b>73,367</b>	68,142	74,664
- savings accounts	<b>525,172</b>	483,341	526,403
- time and other deposits	<b>308,595</b>	268,391	258,418
	<b>907,134</b>	819,874	859,485

**Certificates of deposit and other debt securities in issue**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Certificates of deposit and other debt securities in issue:			
- as stated in consolidated balance sheet	<b>9,904</b>	11,022	8,601
- structured certificates of deposit and other debt securities in issue reported as trading liabilities	<b>3,743</b>	1,312	1,615
	<b>13,647</b>	12,334	10,216
By type:			
- certificates of deposit in issue	<b>8,660</b>	11,022	8,601
- other debt securities in issue	<b>4,987</b>	1,312	1,615
	<b>13,647</b>	12,334	10,216

Customer deposits, including current, savings and other deposits accounts, certificates of deposit and other debt securities in issue recorded growth of 5.9% to HK\$920.8bn at 30 June 2014 from last year end. Structured deposits, certificates of deposit and other debt securities in issue increased as instruments with yield enhancement features gained popularity. Deposits with Hang Seng China also rose by 5.8%, driven mainly by renminbi deposits. In June, Hang Seng China successfully raised RMB1bn in Hong Kong through its debut offshore renminbi bond issue with a positive response from a diverse group of investors.

At 30 June 2014, the advances-to-deposits ratio was 68.7%, compared with 67.4% at 31 December 2013.

**Trading liabilities**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Structured certificates of deposit and other debt securities in issue	3,743	1,312	1,615
Structured deposits	47,042	39,990	34,489
Short positions in securities and others	14,928	26,447	26,013
	<u>65,713</u>	<u>67,749</u>	<u>62,117</u>

**Other liabilities**

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Items in the course of transmission to other banks	8,759	8,034	6,987
Accruals	3,247	3,052	3,330
Acceptances and endorsements	6,956	6,057	6,351
Retirement benefit liabilities	1,768	1,682	1,772
Other	3,721	2,049	2,027
	<u>24,451</u>	<u>20,874</u>	<u>20,467</u>

**Subordinated liabilities**

<i>Figures in HK\$m</i>		<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Nominal value	Description			
<b>Amount owed to HSBC Group undertakings</b>				
US\$775m	Floating rate subordinated loan debt due December 2020	<b>6,007</b>	6,011	6,009
US\$450m	Floating rate subordinated loan debt due July 2021	<b>3,488</b>	3,491	3,489
US\$300m	Floating rate subordinated loan debt due July 2022	<b>2,325</b>	2,327	2,326
		<b>11,820</b>	11,829	11,824
Representing:				
- measured at amortised cost		<b>11,820</b>	11,829	11,824

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

## Shareholders' funds

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Share capital	<b>9,658</b>	9,559	9,559
Retained profits	<b>83,215</b>	76,633	78,679
Premises revaluation reserve	<b>15,200</b>	14,628	14,904
Cash flow hedging reserve	<b>3</b>	2	6
Available-for-sale investment reserve			
- on debt securities	<b>136</b>	(141)	(113)
- on equity securities	<b>(2,596)</b>	(2,743)	(1,505)
Capital redemption reserve	—	99	99
Other reserves	<b>1,782</b>	1,941	1,943
Total reserves	<b>97,740</b>	90,419	94,013
	<b>107,398</b>	99,978	103,572
Proposed dividends	<b>2,103</b>	2,103	4,206
Shareholders' funds	<b>109,501</b>	102,081	107,778
Return on average shareholders' funds <sup>‡</sup>	<b>15.9 %</b>	35.9 %	15.3 %

<sup>‡</sup> For the half-year ended

Shareholders' funds (excluding proposed dividends) grew by HK\$3,826m, or 3.7%, to HK\$107,398m at 30 June 2014. Retained profits rose by HK\$4,536m, mainly reflecting the growth in attributable profit after the appropriation of interim dividends during the period. The premises revaluation reserve increased by HK\$296m, reflecting the commercial property market movement during the first half of 2014.

The available-for-sale investment reserve for equity securities recorded a deficit of HK\$2,596m compared with a deficit of HK\$1,505m at 2013 year end, reflecting mainly the fair value change of the bank's investment in Industrial Bank during the period.

The capital redemption reserve of HK\$99m has been included in share capital under the Hong Kong New Companies Ordinance (Cap. 622) which became effective on 3 March 2014. Please refer to the section 'The New Hong Kong Companies Ordinance (Cap. 622)' on page 66 for details.

The return on average shareholders' funds was 15.9%, compared with 35.9% for the first half of 2013. Excluding the Industrial Bank reclassification, the return on average shareholders' funds was 16.6%, compared with 19.0% for the first half of 2013.

There was no purchase, sale or redemption by the bank, or any of its subsidiaries, of the bank's securities during the first half of 2014.

**Capital management**

The following tables show the capital ratios, risk-weighted assets and capital base as contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority ('HKMA') by the bank on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold bullion) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the group uses the standardised (operational risk) approach to calculate its operational risk.

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

The bank and its subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 30 June 2014, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$6,063m (31 December 2013: HK\$5,440m).

There are no relevant capital shortfalls in any of the group's subsidiaries at 30 June 2014 (31 December 2013: nil) which are not included in its consolidation group for regulatory purposes.

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

Capital management (continued)

(a) Capital base

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
<b>Common equity tier 1 ('CET1') capital</b>			
Shareholders' equity	<b>98,313</b>	93,464	98,068
- Shareholders' equity per balance sheet	<b>109,501</b>	102,081	107,778
- Unconsolidated subsidiaries	<b>(11,188)</b>	(8,617)	(9,710)
Regulatory deductions to CET1 capital	<b>(44,560)</b>	(40,027)	(41,329)
- Cash flow hedging reserve	<b>(1)</b>	(3)	(6)
- Changes in own credit risk on fair valued liabilities	<b>(5)</b>	(109)	(4)
- Property revaluation reserves <sup>1</sup>	<b>(21,006)</b>	(20,019)	(20,481)
- Regulatory reserve	<b>(6,063)</b>	(5,213)	(5,440)
- Intangible assets	<b>(400)</b>	(565)	(401)
- Defined benefit pension fund assets	<b>(31)</b>	—	(33)
- Deferred tax assets net of deferred tax liabilities	<b>(41)</b>	—	(43)
- Valuation adjustments	<b>(156)</b>	(219)	(180)
- Significant capital investments in unconsolidated financial sector entities	<b>(6,019)</b>	—	(500)
- Excess AT1 deductions	<b>(10,838)</b>	(13,899)	(14,241)
<b>Total CET1 capital</b>	<b>53,753</b>	53,437	56,739
<b>Additional tier 1 ('AT1') capital</b>			
Total AT1 capital before regulatory deductions	—	—	—
Regulatory deductions to AT1 capital	—	—	—
- Significant capital investments in unconsolidated financial sector entities	<b>(10,838)</b>	(13,899)	(14,241)
- Excess AT1 deductions	<b>10,838</b>	13,899	14,241
<b>Total AT1 capital</b>	<b>—</b>	—	—
<b>Total tier 1 ('T1') capital</b>	<b>53,753</b>	53,437	56,739
<b>Tier 2 ('T2') capital</b>			
Total T2 capital before regulatory deductions	<b>22,113</b>	22,344	22,518
- Term subordinated debt	<b>9,921</b>	10,880	10,872
- Property revaluation reserves <sup>1</sup>	<b>9,453</b>	9,009	9,216
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	<b>2,739</b>	2,455	2,430
Regulatory deductions to T2 capital	<b>(10,838)</b>	(13,899)	(14,241)
- Significant capital investments in unconsolidated financial sector entities	<b>(10,838)</b>	(13,899)	(14,241)
<b>Total T2 capital</b>	<b>11,275</b>	8,445	8,277
<b>Total capital</b>	<b>65,028</b>	61,882	65,016

<sup>1</sup> Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.



## Capital management (continued)

## (a) Capital base (continued)

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the balance sheet at 30 June 2014; it is not a projection. On this pro-forma basis, the group's CET1 capital ratio is 9.4%, which is above the Basel III minimum requirement, including the capital conservation buffer.

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

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
<b>CET1 capital on a transitional basis</b>	<b>53,753</b>	53,437	56,739
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	<b>(21,676)</b>	(27,798)	(28,482)
Excess AT1 deductions	<b>10,838</b>	13,899	14,241
<b>CET1 capital end point basis</b>	<b>42,915</b>	39,538	42,498
<b>AT1 capital on a transitional basis</b>	—	—	—
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	<b>10,838</b>	13,899	14,241
Excess AT1 deductions	<b>(10,838)</b>	(13,899)	(14,241)
<b>AT1 capital end point basis</b>	—	—	—
<b>T2 capital on a transitional basis</b>	<b>11,275</b>	8,445	8,277
Grandfathered instruments			
- Term subordinated debt	<b>(7,596)</b>	(8,553)	(8,546)
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	<b>10,838</b>	13,899	14,241
<b>T2 capital end point basis</b>	<b>14,517</b>	13,791	13,972

## Capital management (continued)

## (b) Risk-weighted assets by risk type

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Credit risk	410,284	350,616	365,077
Market risk	3,918	2,534	4,293
Operational risk	42,628	39,361	41,100
Total	<u>456,830</u>	<u>392,511</u>	<u>410,470</u>

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

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

	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
CET1 capital ratio	11.8 %	13.6 %	13.8 %
Tier 1 capital ratio	11.8 %	13.6 %	13.8 %
Total capital ratio	14.2 %	15.8 %	15.8 %

## (d) Capital instruments

The following is a summary of the group's CET1 and tier 2 capital instruments:

<i>Figures in HK\$m</i>	<i>Amount recognised in regulatory capital</i>		
	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
<b>CET1 capital instruments issued by the bank</b>			
Ordinary shares:			
1,911,842,736 issued and fully paid ordinary shares	9,658	9,559	9,559
<b>Tier 2 capital instruments</b>			
<u>Issued by the bank:</u>			
Subordinated loan due 2020 (nominal value: US\$775m)	4,806	5,410	5,407
Subordinated loan due 2021 (nominal value: US\$450m)	2,790	3,143	3,139
Subordinated loan due 2022 (nominal value: US\$300m)	2,325	2,327	2,326

**Capital management** (continued)**(e) Additional information**

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

- A description of the main features and the full terms and conditions of the group's capital instruments.
- A detailed breakdown of the group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

**Liquidity ratio**

The average liquidity ratio for the periods indicated, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, is as follows:

	<i>Half-year ended</i> <i>30 June</i> <i>2014</i>	<i>Half-year ended</i> <i>30 June</i> <i>2013</i>	<i>Half-year ended</i> <i>31 December</i> <i>2013</i>
The bank and its subsidiaries designated by the HKMA	<u>34.5 %</u>	<u>35.8 %</u>	<u>33.9 %</u>

**Reconciliation of cash flow statement**

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

<i>Figures in HK\$m</i>	<i>Half-year ended</i> <i>30 June</i> <i>2014</i>	<i>Half-year ended</i> <i>30 June</i> <i>2013</i> <i>(restated)</i>
Operating profit	9,496	8,934
Net interest income	(9,671)	(8,969)
Dividend income	(5)	(4)
Loan impairment charges and other credit risk provisions	337	198
Depreciation	406	376
Amortisation of intangible assets	55	57
Amortisation of available-for-sale investments	20	49
Loans and advances written off net of recoveries	(281)	(233)
Movement in present value of in-force long-term insurance business	(807)	(622)
Interest received	12,439	10,794
Interest paid	(3,088)	(2,306)
<b>Operating profit before changes in working capital</b>	<b>8,901</b>	<b>8,274</b>
Change in treasury bills and certificates of deposit with original maturity more than three months	(18,983)	7,728
Change in placings with and advances to banks maturing after one month	5,023	7,923
Change in trading assets	6,541	2,537
Change in derivative financial instruments	929	1,126
Change in reverse repurchase agreements – non trading	(2,309)	–
Change in loans and advances to customers	(46,464)	(43,428)
Change in other assets	(4,376)	(3,925)
Change in current, savings and other deposit accounts	35,094	10,737
Change in repurchase agreements – non trading	1,837	1,625
Change in deposits from banks	(491)	(5,726)
Change in trading liabilities	3,596	7,896
Change in certificates of deposit and other debt securities in issue	1,303	(269)
Change in other liabilities	4,485	3,660
Elimination of exchange differences and other non-cash items	(1,774)	5,444
<b>Cash (used in)/generated from operating activities</b>	<b>(6,688)</b>	<b>3,602</b>
Taxation (paid)/recovered	(145)	5
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(6,833)</b>	<b>3,607</b>

Reconciliation of cash flow statement (continued)

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

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013 (restated)</i>
Cash and balances at central banks	7,721	9,798
Balances with banks	7,828	5,013
Items in the course of collection from other banks	6,912	5,540
Placings with and advances to banks		
maturing within one month	69,933	78,729
Treasury bills	18,592	9,931
Less: Items in the course of transmission to other banks	<u>(8,759)</u>	<u>(8,034)</u>
	<u><b>102,227</b></u>	<u><b>100,977</b></u>

Contingent liabilities, commitments and derivatives

<i>Figures in HK\$m</i>	<i>At 30 June 2014</i>	<i>At 30 June 2013</i>	<i>At 31 December 2013</i>
Direct credit substitutes	11,905	6,973	8,977
Transaction-related contingencies	2,097	1,546	1,821
Trade-related contingencies	16,063	14,443	14,922
Forward asset purchases	34	32	43
Commitments that are unconditionally cancellable without prior notice	256,666	247,537	243,895
Commitments which have an original maturity of not more than one year	4,283	6,652	3,723
Commitments which have an original maturity of more than one year	<u>23,000</u>	<u>27,469</u>	<u>24,620</u>
<b>Contract amounts</b>	<u><b>314,048</b></u>	<u><b>304,652</b></u>	<u><b>298,001</b></u>
<b>Risk-weighted amounts</b>	<u><b>32,290</b></u>	<u><b>33,336</b></u>	<u><b>30,818</b></u>

Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amounts</i>	<i>Credit equivalent amounts</i>	<i>Risk- weighted amounts</i>
<i>At 30 June 2014</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	547,644	3,589	1,207
Other exchange rate contracts	<u>146,415</u>	<u>7,709</u>	<u>6,805</u>
	<u>694,059</u>	<u>11,298</u>	<u>8,012</u>
Interest rate contracts:			
Interest rate swaps	230,015	1,370	447
Other interest rate contracts	<u>981</u>	<u>—</u>	<u>—</u>
	<u>230,996</u>	<u>1,370</u>	<u>447</u>
Other derivative contracts	<u>5,529</u>	<u>399</u>	<u>212</u>
		<i>Credit</i>	<i>Risk-</i>
	<i>Contract</i>	<i>equivalent</i>	<i>weighted</i>
	<i>amounts</i>	<i>amounts</i>	<i>amounts</i>
<i>Figures in HK\$m</i>			
<i>At 30 June 2013</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	449,358	2,740	777
Other exchange rate contracts	<u>177,483</u>	<u>6,718</u>	<u>5,654</u>
	<u>626,841</u>	<u>9,458</u>	<u>6,431</u>
Interest rate contracts:			
Interest rate swaps	251,150	1,802	555
Other interest rate contracts	<u>194</u>	<u>—</u>	<u>—</u>
	<u>251,344</u>	<u>1,802</u>	<u>555</u>
Other derivative contracts	<u>5,198</u>	<u>391</u>	<u>182</u>

## Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amounts</i>	<i>Credit equivalent amounts</i>	<i>Risk- weighted amounts</i>
<i>At 31 December 2013</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	537,659	4,414	1,133
Other exchange rate contracts	108,223	3,651	2,570
	<u>645,882</u>	<u>8,065</u>	<u>3,703</u>
Interest rate contracts:			
Interest rate swaps	225,524	2,021	626
Other interest rate contracts	78	—	—
	<u>225,602</u>	<u>2,021</u>	<u>626</u>
Other derivative contracts	<u>6,044</u>	<u>423</u>	<u>188</u>

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

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

**Contingent liabilities, commitments and derivatives (continued)**

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

<i>Figures in HK\$m</i>	<u>At 30 June 2014</u>		<u>At 30 June 2013</u>		<u>At 31 December 2013</u>	
	<u>Trading</u>	<u>Hedging</u>	<u>Trading</u>	<u>Hedging</u>	<u>Trading</u>	<u>Hedging</u>
Contract amounts:						
Interest rate contracts	192,187	39,367	215,933	35,799	193,353	32,249
Exchange rate contracts	907,196	2,659	888,359	4,992	802,099	3,463
Other derivative contracts	13,273	—	15,617	—	9,988	—
	<u>1,112,656</u>	<u>42,026</u>	<u>1,119,909</u>	<u>40,791</u>	<u>1,005,440</u>	<u>35,712</u>
Derivative assets:						
Interest rate contracts	880	72	1,257	94	1,553	109
Exchange rate contracts	4,771	417	2,505	793	4,253	667
Other derivative contracts	156	—	103	—	64	—
	<u>5,807</u>	<u>489</u>	<u>3,865</u>	<u>887</u>	<u>5,870</u>	<u>776</u>
Derivative liabilities:						
Interest rate contracts	764	692	1,061	956	1,348	715
Exchange rate contracts	4,270	9	2,451	38	3,019	6
Other derivative contracts	90	—	311	—	158	—
	<u>5,124</u>	<u>701</u>	<u>3,823</u>	<u>994</u>	<u>4,525</u>	<u>721</u>

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



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

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

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2013 ('2013 accounts') which have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 24 February 2014.

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

Except as described below, the accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 144 to 164 of the 2013 accounts.

During the period, the group has adopted the following amendments to standards and standard interpretations which had insignificant or no effect on the group's consolidated financial statements.

- Amendments to Hong Kong Accounting Standard ('HKAS') 32 'Offsetting Financial Assets and Financial Liabilities'
- Amendments to HKAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'
- Amendments to Hong Kong Financial Reporting Standard ('HKFRS') 10, HKFRS 12 and HKAS 27 'Investment Entities'
- Amendments to HKAS 36 'Impairment of Assets: Recoverable Amounts Disclosures for Non-Financial Assets'
- Hong Kong (International Financial Reporting Standards Interpretations Committee) 'HK(IFRIC)' Interpretation 21 'Levies'

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**Additional information (continued)****2. The New Hong Kong Companies Ordinance (Cap. 622)**

The New Hong Kong Companies Ordinance ('NCO') (Cap. 622) came into effect on 3 March 2014. On this effective date, the concept of par (nominal) value no longer exist. Consequently, the concepts of 'share premium', 'capital redemption reserve' and 'authorised share capital' are also abolished. Any amount received for issuing equity shares of a company should be recorded as part of 'share capital'. The effect of the transition is to subsume share premium account and capital redemption reserve balances into share capital as set out in section 37 of Schedule 11 to the NCO (Cap. 622). Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32).

As at 31 December 2013, 1,911,842,736 ordinary shares of the bank, with par value of \$5 each, were authorised for issue. Under the NCO (Cap. 622), as part of the transition to the no-par value regime, the amount of HK\$99m standing to the credit of the capital redemption reserve on 3 March 2014 have become part of the bank's share capital, under the NCO (Cap. 622).

These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

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**3. Changes in presentation**

From 1 January 2014, non-trading reverse repurchase agreements and repurchase agreements are presented as separate lines in the balance sheet to align disclosure with market practice and provide more meaningful information in relation to loans and advances. Previously, non-trading reverse repurchase agreements were included within 'Placings with and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits from banks' and 'Current, savings and other deposit accounts'.

The group has also changed the balance sheet line item, 'Cash and balances with banks' to 'Cash and balances at central banks'. 'Balances with banks', is now included within 'Placings with and advances to banks'.

Comparative figures have been presented accordingly and the affected lines are shown below. There are no other effects of this change in presentation.

## Additional information (continued)

## 3. Changes in presentation (continued)

Figures in HK\$m

	<i>As disclosed</i>	<i>Adjustments</i>	<i>As restated</i>
<b>31 December 2013 consolidated balance sheet items</b>			
<b>Assets</b>			
Cash and balances with banks/ Cash and balances at central banks	33,294	(10,577)	22,717
Placings with and advances to banks	131,363	10,577	141,940
<b>30 June 2013 consolidated balance sheet items</b>			
<b>Assets</b>			
Cash and balances with banks <sup>‡</sup> / Cash and balances at central banks	14,811	(5,013)	9,798
Placings with and advances to banks	135,999	5,013	141,012
<b>Liabilities</b>			
Repurchase agreements – non trading	–	1,625	1,625
Deposits from banks	15,790	(1,625)	14,165

<sup>‡</sup> The balance as disclosed under 'Cash and balances with banks' at 30 June 2013 was HK\$19,190m. After adjusting the gold bullion balances of HK\$4,379m as set out under 'Other assets', the revised 'Cash and balances with banks' was HK\$14,811m.

## 4. Comparative figures

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

## 5. The appointment of PricewaterhouseCoopers LLP ('PwC') as the group's auditor

The Board of the bank announces its intention to ask its shareholders to approve the appointment of PricewaterhouseCoopers LLP ('PwC') as its auditor for the year ending 31 December 2015, upon the expiry of the term of appointment of its incumbent auditor, KPMG, at the bank's Annual General Meeting in 2015.

The proposed appointment has been reviewed and is recommended by the bank's Audit Committee and the Board after taking into account the totality of relevant factors.

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**Additional information** (continued)**5. The appointment of PricewaterhouseCoopers LLP ('PwC') as the group's auditor**  
(continued)

KPMG (previously known as Peat, Marwick, Mitchell & Co.) has been the auditor of the group since 1955. Nevertheless, the bank considers that the appointment of PwC, being an equally professional and qualified audit firm with extensive expertise and experience in the audit of financial institutions, will align the audit arrangements between the bank and the parent company with a view to enhancing the efficiency and effectiveness of the audit in terms of both cost and audit process. Such appointment will not lead to any adverse cost implication as PwC has offered a competitive fee quotation for undertaking the audit work.

KPMG, the bank's current auditor, will continue in the role and will undertake the audit of the group's consolidated accounts for the year ending 31 December 2014, having been reappointed at the 2014 Annual General Meeting, in order to facilitate a smooth transition. Following finalisation of the terms of the engagement of PwC, the appointment of PwC will be recommended to shareholders for approval at the 2015 Annual General Meeting.

The Board looks forward to a constructive and professional relationship with PwC in support of the Audit Committee's responsibility for oversight over the integrity of financial reporting.

There are no matters in connection with KPMG's prospective retirement as auditors which, in the view of the Board, need to be brought to the attention of shareholders.

In accordance with the statutory and regulatory requirements in Hong Kong, the Board will receive from KPMG, upon their retirement as auditor, notification of any circumstances which need to be brought to the attention of either the creditors or shareholders of the bank.

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**6. Accounting treatment for Industrial Bank and Yantai Bank****Industrial Bank**

The group recorded an accounting gain of HK\$9,517m (The accounting gain included the deemed disposal profit on the reclassification of HK\$8,454m and the release of deferred tax of HK\$1,063m) on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties in the first half of 2013.

Since there are significant financial implications as a result of the change in accounting treatment for Industrial Bank, the key financial results and performance metrics are not directly comparable when comparing the first half 2014 with the same period last year. For the sake of comparison, we have prepared the following key financial results and performance metrics by excluding the accounting gain in the first half of 2013.

## Additional information (continued)

## 6. Accounting treatment for Industrial Bank and Yantai Bank (continued)

## Industrial Bank (continued)

	As reported			Excluding Industrial Bank reclassification		
	Half-year ended 30 June 2014	Half-year ended 30 June 2013	Change <sup>‡</sup>	Half-year ended 30 June 2014	Half-year ended 30 June 2013	Change <sup>‡</sup>
Attributable profit	<b>8,468</b>	18,468	-54.1%	<b>8,468</b>	8,951	-5.4%
Profit before tax	<b>9,877</b>	18,773	-47.4%	<b>9,877</b>	10,319	-4.3%
Return on average shareholders' funds (%)	<b>15.9</b>	35.9	-20.0pp	<b>16.6</b>	19.0	-2.4pp
Return on average total assets (%)	<b>1.5</b>	3.4	-1.9pp	<b>1.5</b>	1.7	-0.2pp
Earnings per share (HK\$)	<b>4.43</b>	9.66	-54.1%	<b>4.43</b>	4.68	-5.3%

<sup>‡</sup> Change in 'pp' represents change in percentage points.

## Yantai Bank

The group recorded an accounting loss of HK\$297m on the reclassification of Yantai Bank as a financial investment following an increase in its registered share capital to enable a private placement of additional share capital to a third party in the second half of 2013. Since then, the fair value of the Bank's investment in Yantai Bank had been below the carrying amount at 30 June 2014. The group will continue to perform an impairment review of its investment in Yantai Bank at each balance sheet date in accordance with the group's accounting policy on impairment of available-for-sale financial assets and, if appropriate, would recognise an impairment charge.

## 7. Property revaluation

The group's premises and investment properties were revalued at 30 June 2014 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 'Fair Value Measurement' and takes into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for Group premises amounted to HK\$612m was credited to the premises revaluation reserve. The related deferred tax provision for Group premises was HK\$103m. Revaluation gains of HK\$230m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

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

## Additional information (continued)

## 8. Foreign currency positions

At 30 June 2014, the US dollar ('US\$') was the currency in which the group had non-structural foreign currency positions that were not less than 10% of the total net position in all foreign currencies. The group also had a Chinese renminbi ('RMB') structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

<i>Figures in HK\$m</i>	<i>US\$</i>	<i>RMB</i>	<i>AUD</i>	<i>EUR</i>	<i>JPY</i>	<i>Other foreign currencies</i>	<i>Total foreign currencies</i>
<i>At 30 June 2014</i>							
<b>Non-structural position</b>							
Spot assets	185,629	152,815	17,195	4,576	31,715	18,360	410,290
Spot liabilities	(162,374)	(146,419)	(23,554)	(8,107)	(6,006)	(29,681)	(376,141)
Forward purchases	310,445	148,522	10,793	9,173	8,943	22,598	510,474
Forward sales	(328,858)	(154,612)	(4,420)	(6,092)	(34,527)	(11,027)	(539,536)
Net options position	60	(225)	54	82	—	13	(16)
Net long/(short) non-structural position	<u>4,902</u>	<u>81</u>	<u>68</u>	<u>(368)</u>	<u>125</u>	<u>263</u>	<u>5,071</u>
<b>Structural position</b>	<u>205</u>	<u>36,392</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>601</u>	<u>37,198</u>

<i>Figures in HK\$m</i>	<i>US\$</i>	<i>RMB</i>	<i>AUD</i>	<i>EUR</i>	<i>JPY</i>	<i>Other foreign currencies</i>	<i>Total foreign currencies</i>
<i>At 30 June 2013</i>							
<b>Non-structural position</b>							
Spot assets	173,526	147,750	44,328	12,303	6,417	39,256	423,580
Spot liabilities	(154,308)	(128,555)	(49,486)	(10,226)	(3,194)	(45,435)	(391,204)
Forward purchases	271,887	113,794	10,107	7,496	11,096	13,150	427,530
Forward sales	(292,423)	(129,830)	(5,115)	(9,675)	(13,937)	(6,807)	(457,787)
Net options position	753	(156)	(209)	(76)	(48)	(299)	(35)
Net long/(short) non-structural position	<u>(565)</u>	<u>3,003</u>	<u>(375)</u>	<u>(178)</u>	<u>334</u>	<u>(135)</u>	<u>2,084</u>
<b>Structural position</b>	<u>205</u>	<u>34,011</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>478</u>	<u>34,694</u>

## Additional information (continued)

## 8. Foreign currency positions (continued)

<i>Figures in HK\$</i>	<i>US\$</i>	<i>RMB</i>	<i>AUD</i>	<i>EUR</i>	<i>JPY</i>	<i>Other foreign currencies</i>	<i>Total foreign currencies</i>
<i>At 31 December 2013</i>							
Non-structural position							
Spot assets	176,324	157,293	20,569	4,807	24,445	19,772	403,210
Spot liabilities	(154,695)	(137,449)	(26,347)	(7,621)	(3,046)	(29,731)	(358,889)
Forward purchases	287,769	132,637	13,358	7,320	10,063	18,754	469,901
Forward sales	(310,493)	(150,555)	(7,658)	(4,610)	(31,453)	(8,619)	(513,388)
Net options position	<u>404</u>	<u>(146)</u>	<u>(15)</u>	<u>—</u>	<u>(38)</u>	<u>(177)</u>	<u>28</u>
Net long/(short) non-structural position	<u>(691)</u>	<u>1,780</u>	<u>(93)</u>	<u>(104)</u>	<u>(29)</u>	<u>(1)</u>	<u>862</u>
Structural position	<u>205</u>	<u>37,530</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>535</u>	<u>38,270</u>

## 9. Ultimate holding company

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

## 10. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 20 August 2014, during which time no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 19 August 2014. The second interim dividend will be payable on Thursday, 4 September 2014, to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 20 August 2014. Shares of the bank will be traded ex-dividend as from Monday, 18 August 2014.

**Additional information** (continued)**11. Proposed timetable for the remaining 2014 quarterly dividends**

	<i>Third interim dividend</i>	<i>Fourth interim dividend</i>
Announcement	6 October 2014	23 February 2015
Book close and record date	22 October 2014	11 March 2015
Payment date	6 November 2014	26 March 2015

**12. Code on corporate governance practices**

The bank is committed to high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, staff and other stakeholders. The bank has followed the module on ‘Corporate Governance of Locally Incorporated Authorised Institutions’ under the Supervisory Policy Manual (‘SPM’) issued by the HKMA and has fully complied with all the code provisions and most of the recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2014, save that the Risk Committee (all the members of which are Independent Non-executive Directors), which was established pursuant to HKMA’s SPM on corporate governance, is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems. If there were no Risk Committee, these matters would be the responsibility of the Audit Committee, as provided under the aforesaid Corporate Governance Code.

The Audit Committee of the bank has reviewed the results of the bank for the six months ended 30 June 2014.

**13. Board of Directors**

At 4 August 2014, the Board of Directors of the bank comprises Dr Raymond K F Ch’ien\* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan\*, Mr Nixon L S Chan, Dr Henry K S Cheng\*, Ms L Y Chiang\*, Mr Andrew H C Fung, Dr Fred Zulu Hu\*, Ms Irene Y L Lee\*, Ms Sarah C Legg<sup>#</sup>, Dr Eric K C Li\*, Dr Vincent H S Lo<sup>#</sup>, Mr Kenneth S Y Ng<sup>#</sup>, Mr Richard Y S Tang\*, Mr Peter T S Wong<sup>#</sup> and Mr Michael W K Wu\*.

\* Independent non-executive Directors

<sup>#</sup> Non-executive Directors



**Additional information** (continued)

**14. News release**

This news release is available on the bank's website [www.hangseng.com](http://www.hangseng.com).

The Interim Report 2014, which contains all disclosures required by the Banking (Disclosure) Rules issued by the HKMA, will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release. Printed copies of the Interim Report 2014 will be sent to shareholders in late-August 2014.

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