

News Release

31 July 2017

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2017 INTERIM CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax up 7% to HK\$57,378m (HK\$53,409m in the first half of 2016)
- Attributable profit up 8% to HK\$43,443m (HK\$40,200m in the first half of 2016)
- Return on average ordinary shareholders' equity of 14.0% (13.8% in the first half of 2016)
- Total assets up 2% to HK\$7,675bn (HK\$7,549bn at 31 December 2016)
- Common equity tier 1 ratio of 15.2%, total capital ratio of 18.4% (16.0% and 19.0% at 31 December 2016)
- Cost efficiency ratio of 41.9% (42.8% for the first half of 2016)

This document is issued by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

Comments by Stuart Gulliver, Chairman

Economic conditions in Asia strengthened during the first half of 2017, boosted by increasing export volumes driven by demand from mainland China, higher commodity prices and an upturn in trade across the region. Mainland China's economy benefited from increased investment in infrastructure and property and an upturn in manufacturing, led by the private sector. Hong Kong experienced a strong pickup in growth, led by improved domestic demand. ASEAN economies continued to expand, while growth moderated in India and Australia.

The Hongkong and Shanghai Banking Corporation Limited recorded profit before tax in the first half of 2017 of HK\$57,378m, compared with HK\$53,409m in the first half of 2016. Net operating income before loan impairment charges increased by 8%, driven by a strong performance in Retail Banking and Wealth Management ('RBWM') and also by balance sheet growth in Commercial Banking ('CMB'). Costs were 6% higher, including continued investment in regulatory programmes and compliance, while the cost efficiency ratio improved to 41.9%. Loan impairment charges of HK\$3,483m remained low in relation to average customer advances.

Loans and advances to customers grew by 8% during the first half of 2017, excluding the impact of foreign exchange movements, with growth in all businesses. Customer deposits were broadly unchanged, and at the end of June 2017 the advances-to-deposits ratio stood at 63.0%. The net interest margin increased by nine basis points from 1.76% for the first half of 2016 to 1.85% for the first half of 2017, primarily from wider customer deposit spreads and a change in asset portfolio mix due to growth in customer lending. Our capital position remained strong, with a common equity tier 1 ratio of 15.2% at the end of the period.

We were very pleased to win a number of awards from *FinanceAsia* including 'Best Bank' in Hong Kong, and 'Best Foreign Bank' in mainland China, Sri Lanka and Vietnam. In July 2017, we were proud to also receive several awards including 'Asia's Best Bank', 'Hong Kong's Best Bank', and 'Hong Kong's Best Investment Bank', alongside 'World's Best Bank' for the HSBC Group in the *Euromoney Awards for Excellence*.

In RBWM, we maintained our market shares in mortgages, personal loans, cards, deposits and mutual fund sales in Hong Kong. We continued to expand our presence in mainland China and invest in the Pearl River Delta following the successful launch of credit cards in the region in late 2016. We are focusing on using digital channels to improve customer experience and, during the period, we launched PayMe in Hong Kong, a new social payment application, and introduced Voice ID for phone banking. In mainland China, customers can now use a Virtual Teller Machine to open accounts and register for digital banking services.

In CMB, we grew loans in a number of markets, notably Hong Kong, mainland China, Singapore, India and Bangladesh, and increased market share for trade finance in Hong Kong. Improved deposit spreads contributed to a strong performance in Global Liquidity and Cash Management. In the Pearl River Delta, CMB assets grew by a third and our customer experience improved significantly when opening new accounts. We invested in technology to enhance customer experience. In Hong Kong, we provided customers with a smart digital assistant and HSBC was the first commercial bank in Hong Kong to launch a WeChat transaction notification service. We also created our own social network for customers with HSBC Connections Hub, a digital platform enabling customers to leverage our global network, and we rolled out a unified payment interface in India, allowing customers to transfer money using a mobile based application.

In Global Banking and Markets ('GB&M'), we continued to build on our long-term relationships through our extensive global network and local knowledge and provide a full range of services to corporate and institutional customers across Asia. In line with our aim to be a leader in sustainable financing, we continued to increase our involvement in supporting the issuance of green bonds, participating in issues for DBS, Asian Development Bank and Korea Development Bank. We were delighted to receive approval from the China Securities Regulatory Commission to establish a majority-owned joint venture securities company in mainland China, HSBC Qianhai Securities Limited, which will engage in a number of products and services and is expected to begin operations by the end of this year.

As Asia's economies develop and grow, along with further liberalisation of mainland China's markets, the Belt and Road initiative and continuation of renminbi internationalisation, this will continue to provide us with opportunities to support our customers around the region and connect Asia with the rest of the world through our global network.

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Corporate Centre ¹ HK\$m	Total HK\$m
Half-year to 30 Jun 2017						
Net interest income	24,280	14,616	9,169	831	3,680	52,576
Net fee income	10,026	5,387	5,093	780	94	21,380
Net trading income	1,486	1,608	8,226	542	539	12,401
Net income/(expense) from financial instruments designated at fair value	8,481	(259)	14	–	(51)	8,185
Gains less losses from financial investments	75	46	–	–	480	601
Dividend income	9	1	–	–	23	33
Net insurance premium income/(expense)	25,284	2,115	–	–	(16)	27,383
Other operating income	1,417	336	412	16	1,408	3,589
Total operating income	71,058	23,850	22,914	2,169	6,157	126,148
Net insurance claims and benefits paid and movement in liabilities to policyholders	(31,860)	(2,068)	–	–	–	(33,928)
Net operating income before loan impairment charges and other credit risk provisions	39,198	21,782	22,914	2,169	6,157	92,220
Loan impairment charges and other credit risk provisions	(1,109)	(1,742)	(598)	–	(34)	(3,483)
Net operating income	38,089	20,040	22,316	2,169	6,123	88,737
Operating expenses	(16,752)	(7,722)	(9,696)	(1,168)	(3,266)	(38,604)
Operating profit	21,337	12,318	12,620	1,001	2,857	50,133
Share of profit/(loss) in associates and joint ventures	(88)	–	–	–	7,333	7,245
Profit before tax	21,249	12,318	12,620	1,001	10,190	57,378
Balance at 30 Jun 2017						
- Loans and advances to customers (net)	990,883	1,094,647	913,930	107,947	19,111	3,126,518
- Customer accounts	2,640,254	1,251,010	852,312	186,751	33,737	4,964,064

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Corporate Centre ¹ HK\$m	Total HK\$m
Half-year to 30 Jun 2016 (Re-presented)						
Net interest income	21,376	13,370	8,530	739	3,661	47,676
Net fee income	8,686	5,355	4,664	585	139	19,429
Net trading income	315	1,314	10,090	534	732	12,985
Net income/(expense) from financial instruments designated at fair value	223	(238)	82	–	285	352
Gains less losses from financial investments	139	117	32	–	577	865
Dividend income	7	1	–	–	193	201
Net insurance premium income/(expense)	26,385	1,843	–	–	(24)	28,204
Other operating income	3,656	433	541	11	1,177	5,818
Total operating income	60,787	22,195	23,939	1,869	6,740	115,530
Net insurance claims and benefits paid and movement in liabilities to policyholders	(28,527)	(1,893)	–	–	–	(30,420)
Net operating income before loan impairment charges and other credit risk provisions	32,260	20,302	23,939	1,869	6,740	85,110
Loan impairment (charges)/ releases and other credit risk provisions	(1,184)	(1,194)	(613)	4	18	(2,969)
Net operating income	31,076	19,108	23,326	1,873	6,758	82,141
Operating expenses	(15,795)	(7,357)	(9,437)	(1,184)	(2,663)	(36,436)
Operating profit	15,281	11,751	13,889	689	4,095	45,705
Share of profit in associates and joint ventures	102	–	–	–	7,602	7,704
Profit before tax	15,383	11,751	13,889	689	11,697	53,409
Balance at 30 Jun 2016						
- Loans and advances to customers (net)	921,244	949,678	737,052	101,996	24,264	2,734,234
- Customer accounts	2,447,167	1,207,110	832,181	212,841	35,797	4,735,096

¹ Includes inter-segment elimination

In the second half of 2016, we changed our reportable segments, the details of which are set out in note 37 'Segmental analysis' of the *Annual Report and Accounts 2016*. Comparative figures have been re-presented to conform to the current year presentation.

Results Commentary

The group reported profit before tax of HK\$57,378m, an increase of 7% compared with the first half of 2016, driven by higher net interest income and higher insurance income (net of claims).

Net interest income increased by HK\$4,900m, or 10%, compared with the first half of 2016, mainly in Hong Kong driven by balance sheet growth, primarily in loans and advances to customers, coupled with improved deposit spreads which benefited from interest rate rises since late 2016.

Net fee income increased by HK\$1,951m, or 10%, compared with the first half of 2016, mainly in Hong Kong from higher unit trust, securities brokerage and funds under management fees due to strong equity market performance in the first half of 2017, and to a lesser extent from higher underwriting and mandatory provident fund fees.

Net trading income decreased by HK\$584m, or 4%, compared with the first half of 2016, driven by an unfavourable valuation adjustment on derivative contracts from the narrowing of own credit spreads.

Net income from financial instruments designated at fair value increased by HK\$7,833m compared with the first half of 2016, driven by revaluation gains on the equity portfolio held by the insurance business in Hong Kong from strong equity market performance in the first half of 2017. To the extent that revaluation is attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Other operating income decreased by HK\$2,229m, or 38%, compared with the first half of 2016, driven by the movement in the present value of in-force insurance business, mainly in Singapore and Hong Kong. This was largely offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Loan impairment charges and other credit risk provisions increased by HK\$514m, or 17%, compared with the first half of 2016, driven by Hong Kong mainly in CMB, partly offset by lower impairment charges in Australia, mainly in GB&M and impairment releases in Singapore, mainly in CMB.

Total operating expenses increased by HK\$2,168m, or 6%, compared with the first half of 2016, mainly in Corporate Centre and RBWM. The increase was largely driven by higher professional and consultancy expenses and IT-related costs, mainly to support regulatory and compliance programmes, transformation initiatives, and to support business growth initiatives.

Share of profit in associates and joint ventures decreased by HK\$459m, or 6%, compared with the first half of 2016, mainly from the impact of foreign exchange translation.

The Hongkong and Shanghai Banking Corporation Limited Consolidated Income Statement

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Interest income	65,794	60,954
Interest expense	<u>(13,218)</u>	<u>(13,278)</u>
Net interest income	52,576	47,676
Fee income	25,451	23,102
Fee expense	<u>(4,071)</u>	<u>(3,673)</u>
Net fee income	21,380	19,429
Net trading income	12,401	12,985
Net income from financial instruments designated at fair value	8,185	352
Gains less losses from financial investments	601	865
Dividend income	33	201
Net insurance premium income	27,383	28,204
Other operating income	<u>3,589</u>	<u>5,818</u>
Total operating income	126,148	115,530
Net insurance claims and benefits paid and movement in liabilities to policyholders	<u>(33,928)</u>	<u>(30,420)</u>
Net operating income before loan impairment charges and other credit risk provisions	92,220	85,110
Loan impairment charges and other credit risk provisions	<u>(3,483)</u>	<u>(2,969)</u>
Net operating income	88,737	82,141
Employee compensation and benefits	(20,065)	(19,424)
General and administrative expenses	(15,542)	(14,050)
Depreciation of property, plant and equipment	(2,295)	(2,294)
Amortisation and impairment of intangible assets	<u>(702)</u>	<u>(668)</u>
Total operating expenses	(38,604)	(36,436)
Operating profit	50,133	45,705
Share of profit in associates and joint ventures	<u>7,245</u>	<u>7,704</u>
Profit before tax	57,378	53,409
Tax expense	<u>(10,203)</u>	<u>(10,164)</u>
Profit for the period	47,175	43,245
Profit attributable to shareholders of the parent company	43,443	40,200
Profit attributable to non-controlling interests	3,732	3,045

	At 30 Jun 2017 HK\$m	At 31 Dec 2016 HK\$m
ASSETS		
Cash and sight balances at central banks	190,947	213,783
Items in the course of collection from other banks	33,324	21,401
Hong Kong Government certificates of indebtedness	249,364	242,194
Trading assets	496,921	371,634
Derivatives	312,617	479,807
Financial assets designated at fair value	116,188	106,016
Reverse repurchase agreements – non-trading	331,807	271,567
Placings with and advances to banks	433,610	463,211
Loans and advances to customers	3,126,518	2,834,114
Financial investments	1,640,003	1,835,351
Amounts due from Group companies	254,269	242,773
Interests in associates and joint ventures	132,261	125,792
Goodwill and intangible assets	58,656	56,936
Property, plant and equipment	115,827	111,640
Deferred tax assets	1,743	1,503
Prepayments, accrued income and other assets	180,460	171,230
Total assets	7,674,515	7,548,952
LIABILITIES		
Hong Kong currency notes in circulation	249,364	242,194
Items in the course of transmission to other banks	44,375	37,753
Repurchase agreements – non-trading	58,149	27,810
Deposits by banks	181,425	192,479
Customer accounts	4,964,064	4,900,004
Trading liabilities	258,381	188,470
Derivatives	310,489	462,458
Financial liabilities designated at fair value	52,979	51,116
Debt securities in issue	28,349	25,235
Retirement benefit liabilities	3,450	3,867
Amounts due to Group companies	249,046	198,038
Accruals and deferred income, other liabilities and provisions	97,329	99,487
Liabilities under insurance contracts	415,236	386,170
Current tax liabilities	5,150	1,619
Deferred tax liabilities	23,198	21,401
Subordinated liabilities	4,034	4,836
Preference shares	21,009	26,879
Total liabilities	6,966,027	6,869,816
EQUITY		
Share capital	149,616	114,359
Other equity instruments	14,737	14,737
Other reserves	106,822	85,886
Retained profits	384,500	413,024
Total shareholders' equity	655,675	628,006
Non-controlling interests	52,813	51,130
Total equity	708,488	679,136
Total equity and liabilities	7,674,515	7,548,952

	Other reserves								Total share- holders' equity HK\$m	Non- controlling interests HK\$m	Total equity HK\$m
	Share capital HK\$m	Other equity instruments HK\$m	Retained profits HK\$m	Property revaluation reserve HK\$m	Available- for-sale investment reserve HK\$m	Cash flow hedge reserve HK\$m	Foreign exchange reserve HK\$m	Other ¹ HK\$m			
At 1 Jan 2017	114,359	14,737	413,024	53,763	6,189	(793)	(31,861)	58,588	628,006	51,130	679,136
Profit for the period	-	-	43,443	-	-	-	-	-	43,443	3,732	47,175
Other comprehensive income (net of tax)	-	-	96	4,077	1,795	975	12,571	175	19,689	800	20,489
Available-for-sale investments	-	-	-	-	2,187	-	-	-	2,187	168	2,355
Cash flow hedges	-	-	-	-	-	975	-	-	975	64	1,039
Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk ²	-	-	(281)	-	-	-	-	-	(281)	(2)	(283)
Property revaluation	-	-	-	4,077	-	-	-	-	4,077	328	4,405
Actuarial gains on defined benefit asset/liability	-	-	371	-	-	-	-	-	371	57	428
Share of other comprehensive income/(expense) of associates and joint ventures	-	-	6	-	(392)	-	-	175	(211)	-	(211)
Exchange differences	-	-	-	-	-	-	12,571	-	12,571	185	12,756
Total comprehensive income for the period	-	-	43,539	4,077	1,795	975	12,571	175	63,132	4,532	67,664
Dividends paid	-	-	(35,438)	-	-	-	-	-	(35,438)	(2,895)	(38,333)
Movement in respect of share-based payment arrangements	-	-	(23)	-	-	-	-	(25)	(48)	(3)	(51)
Transfers and other movements ^{4,5}	35,257	-	(36,602)	(702)	-	-	-	2,070	23	49	72
At 30 Jun 2017	149,616	14,737	384,500	57,138	7,984	182	(19,290)	60,808	655,675	52,813	708,488

	Share capital HK\$	Other equity instruments HK\$	Retained profits HK\$	Other reserves					Total shareholders' equity HK\$	Non-controlling interests HK\$	Total equity HK\$
				Property revaluation reserve HK\$	Available-for-sale investment reserve HK\$	Cash flow hedge reserve HK\$	Foreign exchange reserve HK\$	Other ¹ HK\$			
At 1 Jan 2016	96,052	14,737	380,381	52,099	4,880	(35)	(16,991)	53,078	584,201	51,685	635,886
Profit for the period	–	–	40,200	–	–	–	–	–	40,200	3,045	43,245
Other comprehensive income/ (expense) (net of tax)	–	–	(657)	1,340	3,965	(199)	(920)	40	3,569	(307)	3,262
Available-for-sale investments	–	–	–	–	3,750	–	–	–	3,750	(61)	3,689
Cash flow hedges	–	–	–	–	–	(199)	–	–	(199)	(6)	(205)
Property revaluation	–	–	(123)	1,340	–	–	–	–	1,217	87	1,304
Actuarial losses on defined benefit asset/liability	–	–	(528)	–	–	–	–	–	(528)	(218)	(746)
Share of other comprehensive income/(expense) of associates and joint ventures	–	–	(6)	–	215	–	–	40	249	–	249
Exchange differences	–	–	–	–	–	–	(920)	–	(920)	(109)	(1,029)
Total comprehensive income/ (expense) for the period	–	–	39,543	1,340	3,965	(199)	(920)	40	43,769	2,738	46,507
Shares issued	18,307	–	–	–	–	–	–	–	18,307	–	18,307
Dividends paid	–	–	(25,565)	–	–	–	–	–	(25,565)	(4,705)	(30,270)
Movement in respect of share-based payment arrangements	–	–	166	–	–	–	–	187	353	2	355
Transfers and other movements ⁵	–	–	(1,756)	(718)	–	(10)	–	2,601	117	(117)	–
At 30 Jun 2016	114,359	14,737	392,769	52,721	8,845	(244)	(17,911)	55,906	621,182	49,603	670,785

	Share capital HK\$m	Other equity instruments HK\$m	Retained profits HK\$m	Other reserves					Total shareholders' equity HK\$m	Non-controlling interests HK\$m	Total equity HK\$m
				Property revaluation reserve HK\$m	Available-for-sale investment reserve HK\$m	Cash flow hedge reserve HK\$m	Foreign exchange reserve HK\$m	Other ¹ HK\$m			
At 1 Jul 2016	114,359	14,737	392,769	52,721	8,845	(244)	(17,911)	55,906	621,182	49,603	670,785
Profit for the period	–	–	38,446	–	–	–	–	–	38,446	3,104	41,550
Other comprehensive income/ (expense) (net of tax)	–	–	1,199	1,783	(2,656)	(559)	(13,950)	545	(13,638)	78	(13,560)
Available-for-sale investments	–	–	–	–	(3,128)	–	–	–	(3,128)	(62)	(3,190)
Cash flow hedges	–	–	–	–	–	(559)	–	–	(559)	(38)	(597)
Property revaluation	–	–	(122)	1,783	–	–	–	–	1,661	182	1,843
Actuarial gains on defined benefit asset/liability	–	–	1,321	–	–	–	–	–	1,321	258	1,579
Share of other comprehensive income of associates and joint ventures	–	–	–	–	472	–	–	545	1,017	–	1,017
Exchange differences	–	–	–	–	–	–	(13,950)	–	(13,950)	(262)	(14,212)
Total comprehensive income/ (expense) for the period	–	–	39,645	1,783	(2,656)	(559)	(13,950)	545	24,808	3,182	27,990
Dividends paid ³	–	–	(17,731)	–	–	–	–	–	(17,731)	(1,592)	(19,323)
Movement in respect of share-based payment arrangements	–	–	69	–	–	–	–	(445)	(376)	(5)	(381)
Transfers and other movements ⁵	–	–	(1,728)	(741)	–	10	–	2,582	123	(58)	65
At 31 Dec 2016	114,359	14,737	413,024	53,763	6,189	(793)	(31,861)	58,588	628,006	51,130	679,136

1 The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business within the HSBC Group and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.

2 On 1 January 2017, the group adopted the requirements of Hong Kong Financial Reporting Standard ('HKFRS') 9 relating to the presentation of gains and losses on financial liabilities designated at fair value. As a result, the effect of changes in fair value of those liabilities arising from changes in own credit risk are presented in retained profits. As permitted by the transitional requirements of HKFRS 9, comparatives have not been restated.

3 Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.

4 In the first half of 2017, the Bank redeemed US\$775m (HK\$6,022m) of preference shares which were classified as a financial liability in the consolidated balance sheet. The redemption was made by a payment out of distributable profits. The amount of preference shares has been credited to share capital with a corresponding adjustment to retained profits in accordance with the capital maintenance requirements of the Companies Ordinance. In 2013, the Bank redeemed US\$3,745m (HK\$29,235m) of preference shares in the same manner. This amount was also credited to share capital with a corresponding adjustment to retained profits in accordance with the capital maintenance requirements of the Companies Ordinance. The total amount credited to share capital with a corresponding adjustment to retained profits in the first half of 2017 in respect of these transactions was HK\$35,257m. This amount is non-distributable.

5 The movement from retained profits to other reserves includes the relevant transfers in associates according to local regulatory requirements.

1. Net interest income

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Net interest income	52,576	47,676
Average interest-earning assets	5,735,095	5,451,257
Net interest spread	1.76%	1.67%
Net interest margin	1.85%	1.76%

Net interest income ('NII') increased by HK\$4,900m compared with the first half of 2016. Excluding the impact from foreign exchange translation, NII rose by HK\$5,177m, or 11%, driven by Hong Kong from balance sheet growth, mainly in loans and advances to customers, coupled with improved deposit spreads which benefited from interest rate increases since late 2016. NII also increased in India from lower cost of funds and balance sheet growth, in mainland China mainly from balance sheet growth, and in Australia from lower cost of funds.

Average interest-earning assets increased by HK\$284bn, or 5%, compared with the first half of 2016, driven by Hong Kong from an increase in loans and advances to customers, notably in corporate term lending and residential mortgages.

Net interest margin increased by nine basis points compared with the first half of 2016. The increase in net interest margin was driven by Hong Kong, although increases were also noted in India, mainland China, Australia, Indonesia, Singapore and Malaysia.

In **Hong Kong**, the net interest margin for the Bank increased by nine basis points, primarily from wider customer deposit spreads and a change in asset portfolio mix due to growth in customer lending. Re-investment yields on financial investments also improved following interest rate increases and as funds were redeployed into financial investments with better yield. These increases were partly offset by debt issued to meet the 'Total Loss Absorbing Capacity' requirement at relatively high cost, coupled with compressed lending spreads.

At **Hang Seng Bank**, the net interest margin increased by nine basis points, mainly from improved deposit spreads and higher re-investment yields on financial investments following interest rate increases and portfolio mix changes, partly offset by compressed lending spreads.

In India and mainland China, the increase in net interest margin was driven by lower cost of funds, benefiting from increases in savings and current account deposits, and in Australia from lower cost of funds following successive interest rate cuts by the Reserve Bank of Australia in 2016.

2. Net fee income

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Account services	1,447	1,570
Funds under management ¹	3,375	2,781
Cards	3,607	3,410
Credit facilities	1,606	1,480
Broking income	1,831	1,479
Imports/exports	1,830	1,931
Unit trusts	3,579	2,764
Underwriting	760	518
Remittances	1,625	1,662
Global custody	1,674	1,710
Insurance agency commission	964	805
Other	3,153	2,992
	<u>25,451</u>	<u>23,102</u>
Fee income	25,451	23,102
Fee expense	(4,071)	(3,673)
	<u>21,380</u>	<u>19,429</u>

¹ Includes Mandatory Provident Fund

With effect from April 2016, certain expenditure in respect of credit card loyalty programmes previously presented in 'General and administrative expenses' is presented in 'Fee expense' to more appropriately reflect the nature of the expenditure. This accounted for the majority of the increase in fee expense against the first half of 2016.

3. Net trading income

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Dealing profits	9,544	9,646
Net interest income on trading activities	1,318	1,990
Dividend income from trading securities	1,497	1,276
Net gain from hedging activities	42	73
	<u>12,401</u>	<u>12,985</u>

4. Other operating income

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Movement in present value of in-force insurance business	1,045	3,624
Gains/(losses) on investment properties	206	(25)
Gains/(losses) on disposal of property, plant and equipment, and assets held for sale	24	(19)
Other	2,314	2,238
	<u>3,589</u>	<u>5,818</u>

5. Insurance income

Included in net operating income are the following revenues earned by the insurance business:

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Net interest income	6,058	5,614
Net fee income	1,390	902
Net trading income/(loss)	613	(698)
Net income/(expense) from financial instruments designated at fair value	8,222	(15)
Net insurance premium income	27,383	28,204
Movement in present value of in-force business	1,045	3,624
Other operating income	234	361
	44,945	37,992
Net insurance claims and benefits paid and movement in liabilities to policyholders	(33,928)	(30,420)
Net operating income from insurance business	11,017	7,572

Net operating income from the insurance business increased by HK\$3,445m, or 45%, driven by favourable market conditions in the first half of 2017.

Net interest income increased by 8% from growth in insurance fund size, reflecting net inflows from new and renewal of life insurance premiums.

Net trading income increased due to higher revaluation gains on cross currency swaps and equity derivatives supporting insurance business in Hong Kong. Net income from financial instruments designated at fair value increased significantly in Hong Kong, driven by revaluation gains on the equity portfolio from strong equity market performance in the first half of 2017. To the extent that these gains are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance premium income decreased mainly due to a re-insurance arrangement entered into in the first half of 2017, partly offset by an increase in Hong Kong from new business sales and higher renewals. The decrease in net insurance premium was largely offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

The movement in present value of in-force business, which was largely offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders', was driven by changes in actuarial assumptions as a result of regulatory driven changes and market interest rate movements in Singapore, and in Hong Kong from higher investment returns.

6. Loan impairment charges and other credit risk provisions

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Individually assessed impairment charges:		
– new charges	2,916	2,411
– releases	(935)	(765)
– recoveries	(71)	(57)
	1,910	1,589
Collectively assessed impairment charges	1,558	1,313
Other credit risk provisions	15	67
	3,483	2,969

Loan impairment charges as a percentage of average gross customer advances were 0.24% for the first half of 2017 (first half of 2016: 0.22%).

7. Operating expenses

	Half-year to 30 Jun 2017 HK\$m	Half-year to 30 Jun 2016 HK\$m
Employee compensation and benefits	20,065	19,424
General and administrative expenses	15,542	14,050
Depreciation of property, plant and equipment	2,295	2,294
Amortisation and impairment of intangible assets	702	668
	38,604	36,436

General and administrative expenses increased by HK\$1,492m, mainly in Corporate Centre and RBWM, from higher professional and consultancy expenses and higher IT-related costs to support regulatory and compliance programmes, transformation initiatives and business initiatives, including the launch of credit cards in mainland China in late 2016, and in digital and insurance initiatives. These increases were partly offset by the reclassification of expenditure in respect of credit card loyalty programmes to fee expenses.

8. Associates and joint ventures

Share of profit in associates and joint ventures is mainly the group's share of post-tax profits from Bank of Communications Co., Ltd ('BoCom'). At 30 June 2017, an impairment review of the group's investment in BoCom was carried out and it was concluded that the investment was not impaired at the period end, based on our value in use calculation. Further details on 'Associates and Joint Ventures' is set out in the *Interim Report 2017*, which will be published on the Bank's website at www.hsbc.com.hk.

9. Dividends

	Half-year to 30 Jun 2017		Half-year to 30 Jun 2016	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Ordinary dividends paid				
– fourth interim dividend in respect of the previous financial year approved and paid during the half-year	0.56	25,438	0.44	17,065
– first interim dividend paid	0.22	10,000	0.20	8,500
	0.78	35,438	0.64	25,565

The Directors have declared a second interim dividend in respect of the half-year ended 30 June 2017 of HK\$0.22 per ordinary share (HK\$10,000m) (half-year ended 30 June 2016 of HK\$0.19 per ordinary share (HK\$8,500m)).

10. Loans and advances to customers

The following analysis of loans and advances to customers is based on categories used by the HSBC Group.

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Total HK\$m
At 30 Jun 2017			
Residential mortgages	521,126	291,641	812,767
Credit card advances	53,674	24,785	78,459
Other personal	147,410	74,293	221,703
Total personal	722,210	390,719	1,112,929
Commercial, industrial and international trade	467,444	411,160	878,604
Commercial real estate	207,974	64,076	272,050
Other property-related lending	251,995	74,352	326,347
Government	36,857	2,155	39,012
Other commercial	163,872	147,589	311,461
Total corporate and commercial	1,128,142	699,332	1,827,474
Non-bank financial institutions	128,228	67,178	195,406
Settlement accounts	3,226	2,042	5,268
Total financial	131,454	69,220	200,674
Gross loans and advances to customers	1,981,806	1,159,271	3,141,077
Individually assessed impairment allowances	(4,276)	(5,121)	(9,397)
Collectively assessed impairment allowances	(2,548)	(2,614)	(5,162)
Net loans and advances to customers	1,974,982	1,151,536	3,126,518
At 31 Dec 2016			
Residential mortgages	492,989	267,619	760,608
Credit card advances	58,289	22,665	80,954
Other personal	132,171	70,947	203,118
Total personal	683,449	361,231	1,044,680
Commercial, industrial and international trade	428,035	384,227	812,262
Commercial real estate	198,579	55,786	254,365
Other property-related lending	221,919	69,911	291,830
Government	20,230	2,405	22,635
Other commercial	136,729	132,944	269,673
Total corporate and commercial	1,005,492	645,273	1,650,765
Non-bank financial institutions	103,311	45,611	148,922
Settlement accounts	1,337	1,102	2,439
Total financial	104,648	46,713	151,361
Gross loans and advances to customers	1,793,589	1,053,217	2,846,806
Individually assessed impairment allowances	(2,960)	(5,099)	(8,059)
Collectively assessed impairment allowances	(1,959)	(2,674)	(4,633)
Net loans and advances to customers	1,788,670	1,045,444	2,834,114

Gross loans and advances to customers in Hong Kong increased by HK\$188bn, or 10%, during the first half of 2017, largely from increases in corporate and commercial lending of HK\$123bn and lending to non-bank financial institutions of HK\$25bn due to higher demand, coupled with growth in residential mortgage lending of HK\$28bn.

In the Rest of Asia-Pacific, gross loans and advances to customers increased by HK\$106bn, or 10%, including favourable foreign exchange translation effects of HK\$49bn. Excluding this impact, the underlying increase of HK\$57bn was mainly from increases in corporate and commercial lending of HK\$26bn, mainly in mainland China, Singapore and Australia, and lending to non-bank financial institutions of HK\$20bn, mainly in Australia.

11. Contingent liabilities, contractual commitments and guarantees

	At 30 Jun 2017 HK\$m	At 31 Dec 2016 HK\$m
Guarantees and contingent liabilities	273,996	259,559
Commitments	<u>2,359,068</u>	<u>2,287,617</u>
	<u>2,633,064</u>	<u>2,547,176</u>

12. Capital overview

The following tables show the capital ratios, risk-weighted assets ('RWAs') and capital base on a consolidated basis, in accordance with the Banking (Capital) Rules.

	At 30 Jun 2017 %	At 31 Dec 2016 %
Capital ratios (transitional basis)		
Common equity tier 1 ratio	15.2	16.0
Tier 1 ratio	16.3	17.2
Total capital ratio	18.4	19.0
	HK\$m	HK\$m
Total regulatory capital and RWAs		
Common equity tier 1 capital	411,584	414,308
Additional tier 1 capital	29,933	30,564
Tier 2 capital	56,317	46,430
Total regulatory capital	<u>497,834</u>	<u>491,302</u>
RWAs	<u>2,709,315</u>	<u>2,588,589</u>

13. Accounting policies

The group has adopted the requirements of HKFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017. As a result, the effect of changes in the fair value of those liabilities arising from changes in own credit risk is presented in other comprehensive income with the remaining effect presented, when required, in profit or loss. As permitted by the transitional requirements of HKFRS 9, comparatives have not been restated. Except as described above, the accounting policies applied by the group for this document are consistent with those described in note 1 of the *Annual Report and Accounts 2016*, as are the methods of computation.

14. Interim Report 2017 and statutory accounts

The information in this document does not constitute the Bank's statutory accounts. The statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies and the HKMA. The group's auditor has reported on those accounts. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

The information in this document does not constitute the unaudited interim condensed consolidated financial statements, which are contained in the *Interim Report 2017*. The *Interim Report 2017* was approved by the Board of Directors on 31 July 2017 and will be delivered to the Registrar of Companies and the HKMA. The unaudited interim condensed consolidated financial statements have been reviewed by the auditor. The full report of its review, which was unmodified, is included in the *Interim Report 2017*, which will be published on the Bank's website at www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

15. Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc, which is incorporated in England.

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