5 August 2019

HANG SENG BANK LIMITED
2019 INTERIM RESULTS - HIGHLIGHTS

- Attributable profit up 8% to HK$13,656m (HK$12,647m for the first half of 2018).
- Profit before tax up 7% to HK$15,894m (HK$14,864m for the first half of 2018).
- Operating profit up 6% to HK$15,561m (HK$14,662m for the first half of 2018).
- Operating profit excluding change in expected credit losses and other credit impairment charges up 8% to HK$16,071m (HK$14,900m for the first half of 2018).
- Return on average ordinary shareholders' equity of 17.0% (17.4% for the first half of 2018).
- Earnings per share up 5% to HK$6.98 per share (HK$6.62 per share for the first half of 2018).
- Second interim dividend of HK$1.40 per share; total dividends of HK$2.80 per share for the first half of 2019 (HK$2.60 per share for the first half of 2018).
- Common equity tier 1 ('CET1') capital ratio of 16.4%, tier 1 ('T1') capital ratio of 18.2% and total capital ratio of 20.4% at 30 June 2019 (CET1 capital ratio of 16.6%, T1 capital ratio of 17.8% and total capital ratio of 20.2% at 31 December 2018).
- Cost efficiency ratio of 28.2% (27.7% for the first half of 2018).

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions of Hong Kong dollars respectively.

The financial information in this press release is based on the unaudited Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the six months ended 30 June 2019.

Comment by Raymond Ch'ien, Chairman

In a challenging operating environment, Hang Seng maintained good business momentum in the first half of 2019. We continued with transformative initiatives to enhance the customer experience. More investments in technology, operational infrastructure and our people supported the launch of new in-branch service models and the expanding functionality of our digital platforms, particularly our mobile banking app.

We continue to move closer to our vision for a fully integrated multi-channel service that allows customers to manage their banking in a way that best suits their lifestyle and needs. Our progress is enabling us to better leverage our existing competitive strengths, take advantage of new business opportunities and advance our market leadership for innovation in the banking industry, which is undergoing rapid change.

The Bank's solid first-half results affirm the soundness of our strategy.

Attributable profit increased by 8% to HK$13,656m. Earnings per share rose by 5% to HK$6.98 per share. Compared with the second half of 2018, attributable profit and earnings per share were up 18% and 19% respectively.

Return on average ordinary shareholders' equity was 17.0%, compared with 17.4% and 14.9% for the first and second halves of 2018. Return on average total assets was 1.7%, compared with 1.7% and 1.5% for the first and second halves of the previous year.

The Directors have declared a second interim dividend of HK$1.40 per share. This brings the total distribution for the first half of 2019 to HK$2.80 per share, compared with HK$2.60 per share for the same period in 2018.

Economic Outlook

Signs of a global slowdown have begun to emerge and the world's major central banks have adopted an increasingly dovish stance in the face of continuing uncertainties over international trade and other geopolitical factors.

With its highly open economy, Hong Kong is susceptible to these developments. After reaching a seven-year high of 4.6% in the first quarter of 2018, the city's economic growth has since slowed to just 0.6% in the first and second quarters this year. With unemployment continuing to hold steady at a multi-year low, the tightness of the labour market will help to support the domestic economy, but downshifts in retail sales and trade growth signal that the economic environment will remain challenging. We forecast full-year GDP growth of between 1% and 1.5% for 2019, down from the 3% recorded for 2018.

Mainland China's economic expansion averaged 6.3% in the first half of the year, compared with 6.6% for 2018. While trade and manufacturing activity have softened, reflecting the impact of developments in the external environment, retail sales growth has been relatively stable. As the Mainland's economy shifts towards a greater reliance on services, private spending will continue to play an important role in driving broader growth. At the same time, the government is likely to maintain its programme of economic stimulus policies. We anticipate full-year GDP growth of between 6.2% and 6.4% for 2019, compared with 6.6% for 2018.

Comment by Raymond Ch'ien, Chairman *(continued)*

Economic Outlook *(continued)*

In a fluid operating environment, we will continue to face new challenges. Our strategy for sustainable growth is simple: we will deliver customer-centric service excellence through investment and innovation to further leverage and amplify the competitive strengths that make us a market leader. These strengths include our large customer base, extensive network of service touchpoints, Greater Bay Area expertise and the trusted Hang Seng brand. By being innovative and steadfast in equal measure, we will expand and deepen relationships with new and existing customers and create long-term value for shareholders.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

Hang Seng put in a robust performance in challenging operating conditions during the first six months of 2019. Central to the story of our solid first-half results is a sharp focus on the customer experience, our ability to respond quickly to the changing needs of our clients and the continuing investments we are making in technology and our people.

We are rolling out new service concepts at our branches and making major changes to our workplace environment that go beyond design and aesthetics. They are part of a broader and deeper transformation in how we provide banking services. We are steadily moving towards an integrated and interactive online-offline offering that enables customers to conduct banking through a wide choice of channels – anytime, anywhere. Customers enjoy easier, faster and more convenient banking, while continuing to benefit from the strong wealth management capabilities, security and excellent service that have long been hallmarks of the Hang Seng brand.

Our initiatives to transform our business are delivering positive results. Year on year, we increased net operating income before change in expected credit losses and other credit impairment charges by 9% and profit before tax by 7%, despite the more favourable market environment that prevailed in the first half of 2018. Compared with the second half of last year, which was weakened by the US-China trade dispute, profit before tax was up by an even stronger 17%.

Technology is enabling us to serve customers better. It is also helping us to amplify the advantages of our existing competitive strengths, capitalise more effectively on new business opportunities and enhance our leading market position as our industry evolves.

Supported by improved data analytics, we leveraged our large customer base and deep understanding of local businesses to acquire new deposits and prudently expand lending, resulting in an 11% increase in net interest income on the back of good balance sheet growth.

Benefitting from our in-house investment expertise, time-to-market capability and agile business infrastructure, we responded swiftly to shifts in customer focus, providing more fixed-income products and tailored insurance solutions to maintain solid growth momentum in non-interest income as investors grew more cautious.

We supported commercial clients by rolling out new and enhanced services that enable them to capture more business opportunities in fast-moving market conditions and improve the efficiency of their operations with faster transaction and processing times. For example, we extended One Collect – our all-in-one digital payment collection solution – to online as well as offline merchants and introduced greater support for FPS payments. We are proud that both One Collect and BERI, our AI chatbot for commercial customers, have been recognised with service innovation awards.

The close connectivity of our Hong Kong and mainland China operations and our in-depth understanding of local industry sectors underpin our attractive cross-border proposition, which delivers seamless solutions for a wide array of cross-border banking needs. This competitive strength has us well positioned to win more business on the Mainland, particularly in the economically dynamic Greater Bay Area.

Our proposition is reflected in a strong first half for Hang Seng China, which achieved a 50% increase in operating profit that was driven by balanced double-digit growth in both net interest income and non-interest income. Compared with the second half of last year, operating profit was up 174%.

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

Our ongoing initiatives to put the customer experience at the centre of what we do will ensure our business continues to thrive in a wide variety of market conditions. The strength of this strategy is reflected in our key financials for the first half.

Financial Performance

Attributable profit rose by 8% to HK$13,656m and earnings per share were up 5% at HK$6.98 per share. Profit before tax increased by 7% to HK$15,894m. Compared with the second half of 2018, attributable profit and earnings per share rose by 18% and 19% respectively, and profit before tax grew by 17%.

Operating profit increased by 6% to HK$15,561m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 8% to HK$16,071m. Compared with the second half of 2018, operating profit rose by 17% and operating profit excluding change in expected credit losses was up 14%.

Net operating income increased by 7% to HK$21,899m. Compared with the second half of 2018, net operating income rose by 11%.

Net interest income grew by 11% to HK$15,853m, due mainly to the 6% increase in average interest-earning assets, improved deposit spreads and increased contribution from net-free funds. Compared with the second half of 2018, net interest income was broadly unchanged. The net interest margin increased by 11 basis points to 2.21% compared with a year earlier.

Non-interest income rose by 2% to HK$6,556m. Insurance income increased, reflecting successful efforts to leverage our diverse range of products and improved investment returns from the life insurance portfolio. Growing investor caution in response to financial markets volatility led to declines in income from stockbroking and related services and retail investment fund sales. Overall, wealth management income grew by 7%. Compared with the second half of 2018, non-interest income grew by 38% and wealth management income was up 54%.

We continued to actively manage our lending portfolio to maintain a high level of overall asset quality. Change in expected credit losses and other credit impairment charges was HK$510m, compared with HK$238m and HK$758m for the first and second halves of 2018. The year-on-year increase in expected credit losses reflects portfolio growth as well as increased provisions in light of the increasingly complex economic outlook.

Operating expenses rose by 11% year on year to HK$6,328m, reflecting higher investments in people, technology and services enhancement. Compared with the second half of 2018, operating expenses were down 2%.

Our cost efficiency ratio was 28.2%, compared with 27.7% and 31.3% for the first and second halves of last year.

At 30 June 2019, our common equity tier 1 capital ratio was 16.4% and our tier 1 capital ratio was 18.2%, compared with 16.6% and 17.8% respectively at 31 December 2018. Our total capital ratio was 20.4%, compared with 20.2% at the end of last year.

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

Transforming the Future of Banking for Customers

Turning to the outlook for the rest of the year, the operating environment will remain challenging. There are growing signs of a slowdown in the global economy, with continuing uncertainty over international trade policies and geopolitical developments. Financial market and interest rate volatility have the potential to cause companies to reassess their business investment plans and affect consumer spending activity.

At the same time, the banking and financial services industry is undergoing significant change. An exciting future lies ahead with innovative new product and service propositions in the pipeline.

Technology is enabling us to integrate the best of online and offline banking to meet the varying needs of our customers. We will continue to transform in this direction, drawing on our partnerships with fintech innovators to strengthen our digital capabilities, create new business opportunities, benefit from early exposure to new technological advances, and support our efforts to spearhead the development of customer-centred banking services. For example, our collaboration with Hong Kong Science and Technology Parks Corporation includes developing an experimental 'branch of the future' to explore how banking could evolve as a way to drive innovation in our industry.

Service excellence for customers remains the keystone of our business. Our goal is to continue making it easier for people to manage their day-to-day banking needs, plan for major life milestones and achieve their long-term aspirations.

Backed by the expertise and experience of our employees and the reassurance of the Hang Seng brand, we will focus on initiatives that give customers greater control and choice over when and where they manage their financial needs, with customised services that are efficient, convenient and easy to use.

Underlining all of this, our professional and qualified team will provide the personal touch and in-depth market expertise needed to build deep relationships with customers and deliver wealth management propositions that are closely tailored to their priorities and objectives. To unlock the full potential of our people, we are investing in their personal development as well as providing a more comfortable and agile workplace to support them in performing at their best. We are delighted that Hong Kong's working population has recognised our efforts by naming Hang Seng the Most Attractive Employer in the Banking and Financial sector this year.

I wish to thank my colleagues for their valuable contributions to our business in the first half of 2019, and for demonstrating creativity, commitment and a willingness to embrace the change that will be key to remaining competitive in the new era of banking. We will step up our efforts to ensure they continue to thrive in a working environment where they feel valued, involved and inspired.

With our dynamic team and forward-thinking strategy, we will drive sustainable growth and bright futures for the markets and people we serve, to the sustained benefit of our customers, shareholders and the wider community.

Results Summary

Under challenging operating conditions, Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') reported **profit attributable to shareholders** of HK$13,656m for first half of 2019, a rise of 8% over the same period last year. **Profit before tax** was up 7% at HK$15,894m. **Operating profit excluding change in expected credit losses and other credit impairment charges** increased by 8% to HK$16,071m and **operating profit** rose by 6% to HK$15,561m, driven by higher net interest income and stable growth in non-interest income. Wealth management business income increased by 7% when compared with same period last year with the increase in insurance business-related income partly offset by decreases in income from securities broking-related services and retail investment funds.

Net interest income increased by HK$1,625m, or 11%, to HK$15,853m, benefiting from the 6% rise in average interest-earning assets, improved deposit spreads and higher contribution from net free funds as market interest rates rose in the first half of 2019. The Bank's effective balance sheet management, including steps to proactively defend the interest margin and achieve yield enhancement, helped partly offset the adverse effects of the flattening yield curve and tighter credit spreads, which limited opportunities for growing revenue by deploying the new and maturing balance sheet management portfolios.

Net interest margin increased by 11 basis points to 2.21%, reflecting improved customer deposit spreads and an enhanced asset portfolio mix due to growth in customer loans, partly offset by narrower loan spreads. There was an increase in contribution from net free fund, attributable to the rise in market interest rates.

Net fee income fell by HK$504m, or 13%, to HK$3,485m. Net fee income excluding income from securities broking-related services and retail investment funds maintained growth momentum, rising by 4% with notable increases in fee income from credit facilities and insurance business. In challenging market conditions for investment services, income from retail investment funds fell by 24% from the high level achieved in the same period last year. With greater investor caution on the back of the less favourable equities markets, income from securities broking-related services fell by 32%, in line with the market-wide fall in securities turnover for Hong Kong during the first half of the year.

Net income from financial instruments measured at fair value increased by HK$1,040m, or 105%, to HK$2,035m.

Net trading income and net income from financial instruments designated at fair value together decreased by HK$168m, or 15%, to HK$972m[♦]. Foreign exchange income was lower, affected by subdued customer activity levels as market volatility was low. There was also a decrease in funding swaps income and an unfavourable revaluation of foreign currency swaps. Income from debt securities, equities and other trading activities was up when compared with same period last year.

[♦] *In 2018, the Bank considered market practices for the presentation of certain financial liabilities that contain both deposit and derivative components and determined a change in accounting policy and presentation with respect to 'trading liabilities - structured deposits and structured debt securities in issue' to better align with the presentation of similar financial instruments by the industry. Accordingly, rather than classifying 'trading liabilities - structured deposits and structured debt securities in issue' as held for trading, such financial liabilities are now designated as at fair value through profit or loss since they are managed and their performance is evaluated on a fair-value basis.*

Net income from assets and liabilities of insurance business measured at fair value recorded a gain of HK$1,064m compared with a loss of HK$145m for the same period last year. Investment returns on financial assets supporting insurance liabilities contracts improved when compared with first half of 2018 as a result of positive movements in the equities and upward commercial property markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement reported under 'net insurance claims and benefits paid and movement in liabilities to policyholders' or 'movement in present value of in-force long-term insurance business ('PVIF')' under other operating income.

Income from insurance business (included under 'net interest income', 'net fee income', 'net income from financial instruments measured at fair value', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and **'other'** within **'other operating income', 'share of profits from associates'** and after deducting **'net insurance claims and benefits paid and movement in liabilities to policyholders')** increased by HK$1,047m, or 37%, to HK$3,883m. Net interest income and fee income from life insurance business rose by 3%. Investment returns on the life insurance portfolio recorded a gain of HK$1,250m compared with a loss of HK$326m for the same period last year mainly reflecting favourable movements in equities markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in 'net insurance claims and benefits paid and movement in liabilities to policyholders' or 'movement in PVIF' under other operating income.

Net insurance premium income increased by 6%, reflecting higher new premiums attributable to the success of the Bank's total-solution retirement planning propositions as well as an increase in renewal premiums.

Riding on the Hong Kong Government's initiatives to increase voluntary retirement saving by individuals, the Bank's new deferred annuity plan – which qualifies as a tax-deductible deferred annuity policy under new regulations – was well received by customers.

Net insurance claims and benefits paid and movement in liabilities to policyholders increased by 27%. The increase was mainly due to regular review of discount rate reflecting the lower prevalent interest rate. This would have an offsetting impact of increasing PVIF and overall profit or loss impact was insignificant.

The movement in PVIF increased by 99%, attributable mainly to the lower discount rate on insurance contract liabilities described above, which was partly offset by the adjustment to PVIF accounting for sharing of investment returns attributable to policyholders.

General insurance income was broadly in line with the same period last year.

Change in expected credit losses and other credit impairment charges increased by HK$272m, or 114%, to HK$510m.

Hong Kong Financial Reporting Standard ('HKFRS') 9 'Financial Instruments' requires the recognition of impairment earlier in the lifecycle of a financial asset, taking forward-looking information into consideration. As a result, measurement involves more complex judgement with impairment likely to be more volatile as the economic outlook changes.

Change in expected credit losses ('ECL') and other credit impairment charges for unimpaired credit exposures (stage 1 & 2) recorded a net charge of HK$232m, compared with a net release of HK$112m in the first half of 2018, attributable mainly to change in the size of the loans portfolio and a less favourable forward-looking macroeconomic forecast for Hong Kong during the updating of key macroeconomic variables in the ECL assessment model. Increase in ECL charges for stage 1 & 2 amounted to HK$344m. Retail Banking and Wealth Management ('RBWM') accounted for HK$79m and the remaining HK$265m was related to Commercial Banking ('CMB') and Global Banking and Markets ('GBM').

ECL charges for impaired credit exposures (stage 3 & purchased or originated credit-impaired) decreased by HK$72m. The downgrading of several CMB customers in first half of 2018 did not reoccur in the first half of 2019, although the positive impact of this was partly offset by higher charges on credit card and personal loan portfolios under RBWM.

Gross impaired loans and advances were down by HK$137m, or 6%, to HK$2,023m against 2018 year-end. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.22% at the end of June 2019, compared with 0.25% at the end of December 2018 and 0.31% at the end of June 2018. Overall credit quality remained robust.

The Bank's senior management will continue to closely monitor market developments and shifts in the economic environment in its management and assessment of the credit performance of financial assets.

Operating expenses increased by HK$606m, or 11%, to HK$6,328m, due mainly to the Bank's continued investment in people, technology and operational infrastructure to drive service enhancement and business development in Hong Kong and the Mainland in support of long-term sustainable growth. Staff costs were up 9%, due primarily to the salary increment and higher performance-related pay expenses.

Depreciation charges increased by 45%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation at last year-end. Depreciation charges for the first half of 2019 also include depreciation of right-of-use assets amounting to HK$251m following the adoption of HKFRS 16 'Leases', which came into effect on 1 January 2019. Correspondingly, there was a similar decrease in rental expenses under general and administrative expenses.

General and administrative expenses increased by 2%. Further investment in systems and the development of distribution channels to advance the Group's growth initiatives and an increase in processing fee led to higher technology costs. These were partly offset by lower marketing and advertising expense and rental expenses as stated in the previous paragraph.

The Group continued to focus on enhancing operational efficiency while maintaining growth momentum. The cost efficiency ratio was 28.2%, one of the lowest among banks in Hong Kong.

Net surplus on property revaluation increased by HK$109m, or 140%, to HK$187m.

Share of profits of associates increased by HK$22m, or 18%, to HK$146m, mainly reflecting higher revaluation surplus of a property investment company.

First half of 2019 compared with second half of 2018

The Group recorded a strong performance against the second half of 2018. Attributable profit grew by HK$2,092m, or 18%. Operating profit rose by HK$2,276m, or 17%, reflecting the combined effect of higher non-interest income, lower ECL charges and reduced operating expenses. Operating profit excluding changes in expected credit losses and other credit impairment charges rose by HK$2,028m, or 14%.

Net interest income was broadly in line with the second half of 2018. The favourable impact of the increase in average interest-earning assets and increased contribution from net free funds was mostly offset by the change in liability mix as rising market interest rates prompted customers to shift from current and savings accounts to time deposits, the narrowing of the net interest margin as a result of lower market interest rate level in the first quarter of 2019 and more calendar days in the second half of 2018.

Non-interest income grew by HK$1,809m or 38%. With the Bank's diverse portfolio of products and well-established reputation for service excellence, wealth management business remained a core income driver. In challenging operating conditions for investment business, the Bank leveraged its strong life insurance proposition to achieve a 54% increase in wealth management income. Credit facilities fee income grew by 90%, due mainly to higher fees from corporate lending.

Operating expenses decreased by HK$118m, or 2%, with savings in general and administrative expenses and premises and equipment outweighing the increase in staff costs. ECL charges decreased by HK$248m, or 33%, due mainly to additional ECL charges on impaired customer loans and the downgrading of several CMB customers in the second half of 2018.

Condensed Consolidated Balance Sheet and key ratios

Assets

Total assets increased by HK$85bn, or 5%, to HK$1,657bn compared with last year-end, with the Group maintaining good business momentum and advancing its strategy of enhancing profitability through sustainable growth.

Cash and sight balances at central banks decreased by HK$6bn, or 39%, to HK$10bn, reflecting the redeployment of the commercial surplus. Placing with banks increased by HK$20bn, or 25%, to HK$99bn and trading assets rose by HK$3bn, or 5%, to HK$50bn.

Customer loans and advances (net of ECL allowances) grew by HK$45bn, or 5%, to HK$920bn against 2018 year-end. Loans for use in Hong Kong increased by 5%, mainly reflecting growth in lending to the property development and investment sector, manufacturers and working capital financing for certain large corporate customers. Lending to individuals increased by 5%. The Group continued to maintain its market share for mortgage business, with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending growing by 6% and 9% respectively. Trade finance lending grew by 8%. Loans and advances for use outside Hong Kong increased by 7%, due mainly to the combined effect of the increase in lending granted by the Hong Kong office and the Group's Mainland banking subsidiary.

Financial investments increased by HK$21bn, or 5%, to HK$450bn, mainly reflecting funds redeployment of the issued Additional Tier 1 ('AT1') capital instruments and the non-capital loss-absorbing capacity debt instruments to meet regulatory requirements and further optimise the Bank's capital and funding structure. There was also an increase in the insurance financial instruments portfolio.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$49bn, or 4%, to HK$1,241bn against last year-end. Rising market interest rates resulted in higher growth in time deposits. At 30 June 2019, the advances-to-deposits ratio was 74.1%, compared with 73.4% at 31 December 2018.

The Bank issued subordinated liabilities amounting to HK$19.5bn during the first half of 2019 to meet loss-absorbing capacity requirements and further strengthen the Bank's financial resilience.

At 30 June 2019, shareholders' equity was up HK$11bn, or 7%, at HK$173bn against last year-end. Retained profits grew by HK$4bn, or 3%, reflecting profit accumulation partly offset by the payment of the 2018 fourth interim dividend and the 2019 first interim dividend. Other equity instruments, specifically AT1 capital instruments, increased by HK$5bn, or 68% as the Bank has cancelled and repaid the AT1 capital instrument of US$900m and issued new AT1 capital instruments of US$1,500m to further optimise its capital structure and comply with regulatory requirements. The premises revaluation reserve increased by HK$0.4bn, or 2%, reflecting the upward trend in the commercial property market. Financial assets at fair value through other comprehensive income reserve increased by HK$1.3bn, or 86%, mainly reflecting the fair value movement of the Group's investments in financial assets measured at fair value.

Key ratios

Return on average total assets was 1.7%, compared with 1.7% and 1.5% for the first and second halves of 2018. **Return on average ordinary shareholders' equity** was 17.0%, compared with 17.4% and 14.9% for the first and second halves of 2018.

At 30 June 2019, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.4%, 18.2% and 20.4% respectively, compared with 16.6%, 17.8% and 20.2% respectively at 2018 year-end. The decrease in CET1 capital ratio was mainly due to the 6% rise in risk-weighted assets resulting from growth in customer lending. The T1 capital ratio was higher, due to the net effect of the increase in the capital base following the refinancing and issuance of AT1 capital instruments in first half of 2019 and the increase in risk-weighted assets.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** was 198.5% and 210.8% for the quarters ended 30 June 2019 and 31 March 2019 respectively, compared with 209.6% and 207.0% for the quarters ended 30 June 2018 and 31 March 2018 respectively. The decrease in the LCR was due mainly to the redeployment of the commercial surplus to customer loans and advances. The average liquidity position of the Group remained strong for the first half of 2019. The **net stable funding ratio ('NSFR')** was 152.5% and 150.3% for the quarters ended 30 June 2019 and 31 March 2019 respectively, well in excess of the regulatory requirement of 100%.

Dividends

The Directors have declared a second interim dividend of HK$1.40 per share, which will be payable on 5 September 2019 to shareholders on the register as of 20 August 2019. Together with the first interim dividend, the total distribution for the first half of 2019 is HK$2.80 per share.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2019					
Net interest income/(expense)	**8,644**	**5,195**	**2,256**	**(242)**	**15,853**
Net fee income	**2,076**	**1,095**	**185**	**129**	**3,485**
Net income/(loss) from financial instruments measured at fair value	**1,272**	**216**	**580**	**(33)**	**2,035**
Gains less losses from financial investments	**1**	–	–	–	**1**
Dividend income	–	–	–	**136**	**136**
Net insurance premium income	**7,953**	**1,271**	–	–	**9,224**
Other operating income/(loss)	**2,869**	**57**	**(1)**	**141**	**3,066**
Total operating income	**22,815**	**7,834**	**3,020**	**131**	**33,800**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(10,304)**	**(1,087)**	–	–	**(11,391)**
Net operating income before change in expected credit losses and other credit impairment charges	**12,511**	**6,747**	**3,020**	**131**	**22,409**
Change in expected credit losses and other credit impairment charges	**(315)**	**(156)**	**(39)**	–	**(510)**
Net operating income	**12,196**	**6,591**	**2,981**	**131**	**21,899**
Operating expenses ⁜	**(3,947)**	**(1,627)**	**(555)**	**(199)**	**(6,328)**
Impairment loss on intangible assets	–	–	–	**(10)**	**(10)**
Operating profit/(loss)	**8,249**	**4,964**	**2,426**	**(78)**	**15,561**
Net surplus on property revaluation	–	–	–	**187**	**187**
Share of profits/(losses) of associates	**147**	–	–	**(1)**	**146**
Profit before tax	**8,396**	**4,964**	**2,426**	**108**	**15,894**
Share of profit before tax	**52.8%**	**31.2%**	**15.3%**	**0.7%**	**100.0%**
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	**8,564**	**5,120**	**2,465**	**(78)**	**16,071**
⁜ Depreciation/amortisation included in operating expenses	**(12)**	**(2)**	–	**(1,023)**	**(1,037)**
At 30 June 2019					
Total assets	**501,349**	**406,036**	**702,219**	**47,048**	**1,656,652**
Total liabilities	**956,713**	**312,712**	**188,355**	**26,034**	**1,483,814**
Interest in associates	**2,545**	–	–	**1**	**2,546**

Half-year ended 30 June 2019

Net fee income by segment					
- securities broking and related services	**616**	**87**	**15**	–	**718**
- retail investment funds	**804**	**12**	–	–	**816**
- insurance	**260**	**44**	**32**	–	**336**
- account services	**158**	**91**	**3**	–	**252**
- remittances	**34**	**208**	**20**	–	**262**
- cards	**701**	**801**	**18**	–	**1,520**
- credit facilities	**13**	**340**	**95**	–	**448**
- trade services	–	**212**	**20**	–	**232**
- other	**37**	**44**	**18**	**125**	**224**
Fee income	**2,623**	**1,839**	**221**	**125**	**4,808**
Fee expense	**(547)**	**(744)**	**(36)**	**4**	**(1,323)**
Net fee income	**2,076**	**1,095**	**185**	**129**	**3,485**

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2018					
Net interest income/(expense)	7,873	4,329	2,184	(158)	14,228
Net fee income	2,631	1,097	156	105	3,989
Net income/(loss) from financial instruments measured at fair value	(115)	274	830	6	995
Gains less losses from financial investments	–	–	24	–	24
Dividend income	–	–	–	6	6
Net insurance premium income	7,982	750	–	–	8,732
Other operating income	1,254	236	3	128	1,621
Total operating income	19,625	6,686	3,197	87	29,595
Net insurance claims and benefits paid and movement in liabilities to policyholders	(8,356)	(590)	–	–	(8,946)
Net operating income before change in expected credit losses and other credit impairment charges	11,269	6,096	3,197	87	20,649
Change in expected credit losses and other credit impairment charges	(169)	(80)	11	–	(238)
Net operating income	11,100	6,016	3,208	87	20,411
Operating expenses ✝	(3,539)	(1,577)	(474)	(132)	(5,722)
Impairment loss on intangible assets	–	–	–	(27)	(27)
Operating profit/(loss)	7,561	4,439	2,734	(72)	14,662
Net surplus on property revaluation	–	–	–	78	78
Share of profits of associates	122	–	–	2	124
Profit before tax	7,683	4,439	2,734	8	14,864
Share of profit before tax	51.7%	29.9%	18.4%	0.0%	100.0%
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	7,730	4,519	2,723	(72)	14,900
✝ Depreciation/amortisation included in operating expenses	(12)	(2)	(2)	(707)	(723)
At 31 December 2018					
Total assets	475,964	382,359	661,736	51,238	1,571,297
Total liabilities	931,201	307,798	163,123	7,068	1,409,190
Interest in associates	2,442	–	–	2	2,444

Half-year ended 30 June 2018					
Net fee income by segment					
- securities broking and related services	930	106	13	–	1,049
- retail investment funds	1,059	11	–	–	1,070
- insurance	229	48	33	–	310
- account services	153	99	3	–	255
- remittances	53	236	18	–	307
- cards	672	780	16	–	1,468
- credit facilities	11	278	75	–	364
- trade services	–	211	12	–	223
- other	38	35	18	110	201
Fee income	3,145	1,804	188	110	5,247
Fee expense	(514)	(707)	(32)	(5)	(1,258)
Net fee income	2,631	1,097	156	105	3,989

Retail Banking and Wealth Management ('RBWM') recorded an 11% year-on-year increase in operating profit excluding change in expected credit losses and other credit impairment charges to HK$8,564m. Operating profit increased by 9% to HK$8,249m and profit before tax rose by 9% to HK$8,396m.

Net interest income increased by 10% to HK$8,644m. Despite keen market competition, enhanced analytics supported our efforts to target key customer segments, enabling us to grow new funds. Deposit balances rose by 2% in Hong Kong compared with 2018 year-end.

Non-interest income grew by 14% to HK$3,867m. Wealth management business revenue increased by 12%.

The Hong Kong property market recorded a higher transaction volume in the first half of 2019 against last year. We maintained our leadership position in the government-subsidised housing market by uplifting our distribution capability in strategic segments, supporting a 6% increase in mortgage balances in Hong Kong compared with 2018 year-end. Our new mortgage business continued to rank among the top three in Hong Kong.

Effective marketing campaigns and deep understanding of our client base enabled us to achieve 6% year-on-year growth in card receivables.

The global investment market continued to be volatile. Our investment services income declined against the high base established in the more favourable investment conditions of the first half of 2018. Securities turnover and revenue declined by 43% and 34% respectively. Investment services revenue excluding securities-related income dropped by 24% compared with last year. As customers grew more risk adverse in the uncertain market environment, we launched more fixed-income products to meet their changing needs.

Insurance income grew by 51%. Our prudent investment strategy resulted in better investment return from the life insurance investment portfolio. We enriched our holistic retirement planning and life protection solutions with the launch of new insurance products, including the PrimeLife Deferred Annuity Life Insurance Plan, which enables customers to benefit from the Hong Kong Government's new tax concession measures. Our strong retirement planning and annuity propositions enabled us to increase our insurance distribution revenue.

Enhancements to our customer segmentation strategy and strengthened analytics, powered by machine learning, enabled us to deepen relationships with our clients and provides more timely needs-based financial products and services. In the Prestige Banking segment, we leveraged our high-value proposition and premium wealth management solutions to drive new business. We grew our Prestige Signature customer base by 14% year-on-year in Hong Kong. On the Mainland, we grew the number of Prestige customers by 5% year-on-year.

We are committed to investing in fintech and building a robust digital infrastructure to better engage our customers. We continued to uplift our mobile banking and e-Banking user experiences to provide our clients with smarter, easier and more relevant banking services. We upgraded the mobile banking user interface to allow greater personalisation. We expanded the capabilities and features of our AI chatbot, HARO, which now allows customers to conduct foreign exchange services and transfers and foreign exchange ATM location enquiries using the conversational interface. We continued to roll out new online products and services, including new insurance products, a credit card activation service and mobile e-statements. Year-on-year, the number of Personal e-Banking customers increased by 8% in Hong Kong and the number of active mobile users increased by 40%.

Commercial Banking ('CMB') achieved a 13% increase in operating profit excluding change in expected credit losses and other credit impairment charges to HK$5,120m. Operating profit and profit before tax rose by 12% to HK$4,964m.

Net interest income rose by 20% to HK$5,195m, reflecting good growth in loan and deposit balances, as well as the rise in market interest rates.

Non-interest income declined by 12% to HK$1,552m, due mainly to the downturn in investment sentiment and uncertainties arising from the US-China trade dispute. Amid the challenging external environment, we remained active in the syndicated loan market, resulting in a 22% increase in credit facilities fee income.

We launched further initiatives to improve customer experience in transactional banking. To support the launch of the Faster Payment System ('FPS'), we enhanced our bill payment services to accept FPS QR codes. We extended One Collect, our integrated point-of-sale terminal, from offline merchants to online merchants and introduced support for payments by FPS. In addition, we significantly enhanced the speed and accuracy of trade transactions with the adoption of new optical character recognition technology and the automation of the vessel-checking process.

Riding on the Bank's strategic alliance with Hong Kong Science and Technology Parks Corporation, we launched 'Inno Booster', a tailor-made banking and finance solution for eligible innovation and technology companies that allows them to enjoy pre-approved loans and other preferential banking service offers.

We continued to expand our digital capabilities to make services faster, easier and more convenient for customers. We upgraded the functionality of digital foreign exchange services to allow for orders to be executed automatically upon hitting the designated exchange rate. We took steps to cut waiting times with initiatives such as the launch of an online business loan application form. Our virtual customer service assistant, BERI, was enhanced to support more general enquiries.

To further improve the customer experience, we upgraded our Tsim Sha Tsui Business Banking Centre to provide a more spacious and comfortable service environment.

We continued to be proactive and vigilant in managing our credit risk and uphold good overall credit quality.

Our digital innovations have received positive recognition in the industry. We received rewards from *The Assets* for One Collect ('Most Innovative Corporate Payment Project') and our AI Chatbot ('Most Innovative Emerging Digital Technologies Project'). We were also named 'Best Payment Bank in Hong Kong' and received the 'Best Automated Advisory/ Chatbot Initiative, Application or Programme' award at *The Asian Banker* Transaction Banking Awards.

Global Banking and Markets ('GBM') reported 9% decline in operating profit excluding change in expected credit losses and other credit impairment charges to HK$2,465m and an 11% decrease in both operating profit and profit before tax to HK$2,426m.

Global Banking ('GB') reported a 14% growth in operating profit excluding change in expected credit losses and other credit impairment charges to HK$1,160m. Operating profit and profit before tax were both up 9% at HK$1,123m.

Net interest income increased by 12% to HK$1,219m. In a challenging market environment, we achieved an enhanced lending portfolio mix and better deposit returns, reflecting the strong trust we have established with large corporate clients as well as improvements to our cash management capabilities.

Key drivers included successful steps to grow the deposit base, which was increased by 18% compared with 2018 year-end, and good growth in non-interest income, which rose by 17% compared with a year earlier. Compared with the second half of 2018, non-interest income grew by 34%.

Global Markets ('GM') reported a 23% decrease in operating profit excluding change in expected credit losses and other credit impairment charges to HK$1,305m. Operating profit and profit before tax both decreased by 24% to HK$1,303m.

Net interest income decreased by 5% to HK$1,037m. The adverse effects of the yield curve flattening and tightening credit spreads limited the revenue gained from deploying new and maturing balance sheet management portfolios. The balance sheet management team continued to manage interest rate risk effectively, taking steps to proactively defend the interest margin and achieve yield enhancement while upholding prudent risk management standards.

Non-interest income decreased by 33% to HK$565m. Uncertainty related to the US-China trade dispute and low foreign exchange volatility decreased customer demand for foreign exchange products. Together with the unfavourable flattening yield curve environment, this resulted in a decline in non-fund income from sales and trading activities. We continued with initiatives to deepen GM product penetration among Bank customers through close collaboration with the RBWM, CMB and GB teams.

Figures in HK$m	***Half-year ended 30 June 2019***	*2018*	*Variance (%)*
Interest income	**21,373**	17,363	23
Interest expense	**(5,520)**	(3,135)	(76)
Net interest income	**15,853**	14,228	11
Fee income	**4,808**	5,247	(8)
Fee expense	**(1,323)**	(1,258)	(5)
Net fee income	**3,485**	3,989	(13)
Net income from financial instruments measured at fair value	**2,035**	995	105
Gains less losses from financial investments	**1**	24	(96)
Dividend income	**136**	6	2,167
Net insurance premium income	**9,224**	8,732	6
Other operating income	**3,066**	1,621	89
Total operating income	**33,800**	29,595	14
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(11,391)**	(8,946)	(27)
Net operating income before change in expected credit losses and other credit impairment charges	**22,409**	20,649	9
Change in expected credit losses and other credit impairment charges	**(510)**	(238)	(114)
Net operating income	**21,899**	20,411	7
Employee compensation and benefits	**(3,118)**	(2,866)	(9)
General and administrative expenses	**(2,173)**	(2,133)	(2)
Depreciation expenses	**(967)**	(668)	(45)
Amortisation of intangible assets	**(70)**	(55)	(27)
Operating expenses	**(6,328)**	(5,722)	(11)
Impairment loss on intangible assets	**(10)**	(27)	63
Operating profit	**15,561**	14,662	6
Net surplus on property revaluation	**187**	78	140
Share of profits of associates	**146**	124	18
Profit before tax	**15,894**	14,864	7
Tax expense	**(2,248)**	(2,227)	(1)
Profit for the period	**13,646**	12,637	8
Attributable to:			
Shareholders of the company	**13,656**	12,647	8
Non-controlling interests	**(10)**	(10)	–
Earnings per share – basic and diluted (in HK$)	**6.98**	6.62	5

Details of dividends payable to shareholders of the Bank attributable to the profit for the half year are set out on page 30.

Figures in HK$m	***Half-year ended 30 June*** ***2019***	*2018*
Profit for the period	**13,646**	12,637
Other comprehensive income		
Items that will be reclassified subsequently to the Condensed Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ("FVOCI") reserve:		
- fair value changes taken to equity	**855**	(103)
- fair value changes transferred to Condensed Consolidated Income Statement		
-- on hedged items	**(789)**	303
-- on disposal	–	(24)
- expected credit losses recognised in the Condensed Consolidated Income Statement	**2**	(1)
- deferred taxes	**(8)**	(51)
- exchange difference	**1**	13
Cash flow hedging reserve:		
- fair value changes taken to equity	**71**	22
- fair value changes transferred to Condensed Consolidated Income Statement	**10**	(96)
- deferred taxes	**(13)**	13
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(33)**	(176)
Items that will not be reclassified subsequently to the Condensed Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**3**	(11)
Equity instrument		
- fair value changes taken to equity	**1,298**	(456)
- exchange difference	**(15)**	(44)
Premises:		
- unrealised surplus on revaluation of premises	**926**	1,040
- deferred taxes	**(155)**	(174)
- exchange difference	–	(3)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**(81)**	(37)
- deferred taxes	**13**	6
Exchange difference and others[1]	**(76)**	–
Other comprehensive income for the period, net of tax	**2,009**	221
Total comprehensive income for the period	**15,655**	12,858
Total comprehensive income for the period attributable to:		
- shareholders of the company	**15,665**	12,868
- non-controlling interests	**(10)**	(10)
	15,655	12,858

[1] *Include mainly exchange difference arising from cancellation of AT1 capital instrument.*

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*	*Variance (%)*
ASSETS			
Cash and sight balances at central banks	**10,082**	16,421	(39)
Placings with and advances to banks	**99,066**	79,400	25
Trading assets	**49,737**	47,164	5
Financial assets designated and otherwise mandatorily measured at fair value	**15,976**	13,070	22
Derivative financial instruments	**6,310**	8,141	(22)
Loans and advances to customers	**919,845**	874,456	5
Financial investments	**449,507**	428,532	5
Interest in associates	**2,546**	2,444	4
Investment properties	**10,344**	10,108	2
Premises, plant and equipment	**31,054**	30,510	2
Intangible assets	**19,788**	16,751	18
Other assets	**42,397**	44,300	(4)
Total assets	**1,656,652**	1,571,297	5
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	**1,186,938**	1,154,415	3
Repurchase agreements – non-trading	**6,664**	410	1,525
Deposits from banks	**9,586**	2,712	253
Trading liabilities	**34,037**	33,649	1
Financial liabilities designated at fair value	**37,382**	33,454	12
Derivative financial instruments	**7,069**	8,270	(15)
Certificates of deposit and other debt securities in issue	**16,676**	3,748	345
Other liabilities	**29,546**	45,247	(35)
Liabilities under insurance contracts	**126,941**	120,195	6
Current tax liabilities	**2,550**	696	266
Deferred tax liabilities	**6,922**	6,394	8
Subordinated liabilities	**19,503**	–	N/A
Total liabilities	**1,483,814**	1,409,190	5
Equity			
Share capital	**9,658**	9,658	–
Retained profits	**127,395**	123,350	3
Other equity instruments	**11,744**	6,981	68
Other reserves	**23,924**	22,093	8
Total shareholders' equity	**172,721**	162,082	7
Non-controlling interests	**117**	25	368
Total equity	**172,838**	162,107	7
Total equity and liabilities	**1,656,652**	1,571,297	5

For the half-year ended 30 June 2019

Figures in HK$m	Share capital	Other equity Instrument[2]	Retained Profits[3]	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[1]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2019	9,658	6,981	123,350	19,822	1,570	(11)	42	670	162,082	25	162,107
Profit for the period	–	–	13,656	–	–	–	–	–	13,656	(10)	13,646
Other comprehensive income (net of tax)	–	–	(144)	771	1,344	68	(33)	3	2,009	–	2,009
Debt instruments at fair value through other comprehensive income	–	–	–	–	61	–	–	–	61	–	61
Equity instruments at fair value through other comprehensive income	–	–	–	–	1,283	–	–	–	1,283	–	1,283
Cash flow hedges	–	–	–	–	–	68	–	–	68	–	68
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	3	3	–	3
Property revaluation	–	–	–	771	–	–	–	–	771	–	771
Actuarial losses on defined benefit plans	–	–	(68)	–	–	–	–	–	(68)	–	(68)
Exchange differences and others[4]	–	–	(76)	–	–	–	(33)	–	(109)	–	(109)
Total comprehensive income for the period	–	–	13,512	771	1,344	68	(33)	3	15,665	(10)	15,655
Cancellation and repayment of AT1 capital instrument	–	(6,981)	–	–	–	–	–	–	(6,981)	–	(6,981)
Issue of new AT1 capital instruments	–	11,744	–	–	–	–	–	–	11,744	–	11,744
Dividends paid[5]	–	–	(9,560)	–	–	–	–	–	(9,560)	–	(9,560)
Coupon paid to holder of AT1 capital instrument	–	–	(232)	–	–	–	–	–	(232)	–	(232)
Movement in respect of share-based payment arrangements	–	–	–	–	–	–	–	3	3	–	3
Others	–	–	–	–	–	–	–	–	–	102	102
Transfers	–	–	325	(325)	–	–	–	–	–	–	–
At 30 June 2019	9,658	11,744	127,395	20,268	2,914	57	9	676	172,721	117	172,838

[1] *Other reserves comprise share-based payment reserve and own credit reserve. The share-based payment reserve is used to record the corresponding amount of share options granted by ultimate holding company to the Group's employees and other cost of share-based payment arrangement. The own credit reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*
[2] *In the first half of 2019, the Bank has cancelled and repaid the AT1 capital instrument of US$900m and issued new AT1 capital instruments of US$1,500m.*
[3] *To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a 'regulatory reserve' directly from retained profits. As at 30 June 2019, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$4,112m (31 December 2018: HK$4,982m).*
[4] *Include mainly exchange difference arising from cancellation of AT1 capital instrument.*
[5] *Dividend paid in the first half of 2019 represented the payment of fourth interim dividend of 2018 and the first interim dividend of 2019 amounted to HK$6,883m and HK$2,677m respectively.*

For the half-year ended 30 June 2018

Figures in HK$m	**Share capital**	**Other equity instruments**	**Retained profits**	**Other Reserves** Premises revaluation reserve	**Financial assets at FVOCI reserve**	**Cash flow hedge reserve**	**Foreign exchange reserve**	**Others[1]**	**Total shareholders' equity**	**Non-controlling interests**	**Total equity**
At 1 January 2018	9,658	6,981	112,870	18,379	2,038	(99)	706	643	151,176	49	151,225
Profit for the period	–	–	12,647	–	–	–	–	–	12,647	(10)	12,637
Other comprehensive income (net of tax)	–	–	(31)	863	(363)	(61)	(176)	(11)	221	–	221
Debt instruments at fair value through other comprehensive income	–	–	–	–	137	–	–	–	137	–	137
Equity instruments at fair value through other comprehensive income	–	–	–	–	(500)	–	–	–	(500)	–	(500)
Cash flow hedges	–	–	–	–	–	(61)	–	–	(61)	–	(61)
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	(11)	(11)	–	(11)
Property revaluation	–	–	–	863	–	–	–	–	863	–	863
Actuarial losses on defined benefit plans	–	–	(31)	–	–	–	–	–	(31)	–	(31)
Exchange differences and others	–	–	–	–	–	–	(176)	–	(176)	–	(176)
Total comprehensive income for the period	–	–	12,616	863	(363)	(61)	(176)	(11)	12,868	(10)	12,858
Dividends paid	–	–	(8,412)	–	–	–	–	–	(8,412)	–	(8,412)
Coupon paid to holder of AT1 capital instrument	–	–	–	–	–	–	–	–	–	–	–
Movement in respect of share-based payment arrangements	–	–	(3)	–	–	–	–	6	3	–	3
Others	–	–	–	–	–	–	–	–	–	–	–
Transfers	–	–	289	(289)	–	–	–	–	–	–	–
At 30 June 2018	9,658	6,981	117,360	18,953	1,675	(160)	530	638	155,635	39	155,674

For the half-year ended 31 December 2018

Figures in HK$m	**Share capital**	**Other equity instruments**	**Retained profits**	**Other Reserves** Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[1]	**Total shareholders' equity**	**Non-controlling interests**	**Total equity**
At 1 July 2018	9,658	6,981	117,360	18,953	1,675	(160)	530	638	155,635	39	155,674
Profit for the period	–	–	11,564	–	–	–	–	–	11,564	(13)	11,551
Other comprehensive income (net of tax)	–	–	(556)	1,172	(105)	149	(488)	7	179	–	179
Debt instruments at fair value through other comprehensive income	–	–	–	–	120	–	–	–	120	–	120
Equity instruments at fair value through other comprehensive income	–	–	–	–	(225)	–	–	–	(225)	–	(225)
Cash flow hedges	–	–	–	–	–	149	–	–	149	–	149
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	7	7	–	7
Property revaluation	–	–	–	1,172	–	–	–	–	1,172	–	1,172
Actuarial losses on defined benefit plans	–	–	(556)	–	–	–	–	–	(556)	–	(556)
Exchange differences and others	–	–	–	–	–	–	(488)	–	(488)	–	(488)
Total comprehensive income for the period	–	–	11,008	1,172	(105)	149	(488)	7	11,743	(13)	11,730
Dividends paid	–	–	(4,970)	–	–	–	–	–	(4,970)	–	(4,970)
Coupon paid to holder of AT1 capital instrument	–	–	(418)	–	–	–	–	–	(418)	–	(418)
Movement in respect of share-based payment arrangements	–	–	(2)	–	–	–	–	25	23	–	23
Others	–	–	69	–	–	–	–	–	69	(1)	68
Transfers	–	–	303	(303)	–	–	–	–	–	–	–
At 31 December 2018	9,658	6,981	123,350	19,822	1,570	(11)	42	670	162,082	25	162,107

Net interest income

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**16,442**	15,093
- trading assets and liabilities	**128**	90
- financial instruments designated and otherwise mandatorily measured at fair value	**(717)**	(955)
	15,853	14,228
Average interest-earning assets	**1,445,615**	1,367,995
Net interest spread	**2.02%**	1.97%
Net interest margin	**2.21%**	2.10%

Net interest income increased by HK$1,625m, or 11%, to HK$15,853m, benefitting from the increase in average interest-earning assets and improvement in net interest margin.

Average interest-earning assets rose by HK$78bn, or 6%, when compared with the first half of 2018. Average customer lending increased by 7%, with notable growth in corporate and commercial and mortgage lending. Average financial investments grew by 8% while average interbank placements decreased by 14%.

Net interest margin improved by 11 basis points to 2.21%, mainly from the widening of customer deposits spreads and higher contribution from net free funds as market interest rates rose in the first half of 2019. Average loan spread on customer lending reduced, notably in corporate and commercial term lending. The adverse effects of the yield curve flattening and credit spread tightening have limited opportunities for growing revenue from deploying the new and maturing balance sheet management portfolios. However, these adverse effects were partly offset by the Bank's effective balance sheet management, including steps to proactively defend the interest margin and achieve yield enhancement.

Compared with the second half of 2018, net interest income increased by HK$34m, or 0.2%, benefitting from the favourable impact of the increase in average interest-earning assets and the contribution from net free funds as a result of the rising market interest rates. However, these favourable factors were mostly offset by the change in liability mix as the rising market interest rates prompted higher growth in time deposits compared to current and savings account, narrowing of the net interest margin and more calendar days in the second half of 2018.

Net interest income *(continued)*

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

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

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**20,912**	16,967
- Interest expense	**(4,493)**	(1,882)
- Net interest income	**16,419**	15,085
Net interest income and expense reported as 'Net income from financial instruments measured at fair value'	**(566)**	(857)
Average interest-earning assets	**1,401,690**	1,318,550
Net interest spread	**2.17%**	2.21%
Net interest margin	**2.36%**	2.31%

Net fee income

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
- securities broking and related services	**718**	1,049
- retail investment funds	**816**	1,070
- insurance	**336**	310
- account services	**252**	255
- remittances	**262**	307
- cards	**1,520**	1,468
- credit facilities	**448**	364
- trade services	**232**	223
- other	**224**	201
Fee income	**4,808**	5,247
Fee expense	**(1,323)**	(1,258)
	3,485	3,989

Net income from financial instruments measured at fair value

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Net trading income		
- trading income	**935**	701
- other trading income - hedging ineffectiveness		
- on cash flow hedges	**–**	–
- on fair value hedges	**1**	8
	936	709
Net income from financial instruments designated at fair value	**36**	431
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value		
- financial assets held to meet liabilities under insurance and investment contracts	**1,082**	(138)
- liabilities to customers under investment contracts	**(18)**	(7)
	1,064	(145)
Changes in fair value of other financial instruments mandatorily measured at fair value	**(1)**	–
Net income from financial instruments measured at fair value	**2,035**	995

Other operating income

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Rental income from investment properties	**172**	166
Movement in present value of in-force long-term insurance business	**2,744**	1,379
Net losses from disposal of fixed assets	**(3)**	(3)
Net losses from the derecognition of loans and advances to customers measured at amortised cost	**(2)**	(2)
Others	**155**	81
	3,066	1,621

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
		(restated)
Investment services income[♦]:		
- retail investment funds	**810**	1,064
- structured investment products	**256**	348
- securities broking and related services	**701**	1,028
- margin trading and others	**42**	43
	1,809	2,483
Insurance income:		
- life insurance:		
- net interest income and fee income	**1,919**	1,856
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**1,250**	(326)
- net insurance premium income	**9,224**	8,732
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(11,391)**	(8,946)
- movement in present value of in-force long-term insurance business	**2,744**	1,379
	3,746	2,695
- general insurance and others	**137**	141
	3,883	2,836
Total	**5,692**	5,319

[♦] *Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net income from financial instruments measured at fair value.*

Change in expected credit losses and other credit impairment charges

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Loans and advances to banks and customers	**491**	251
- new allowances net of allowance releases	**543**	323
- recoveries of amounts previously written off	**(58)**	(72)
- other movements	**6**	–
Loan commitments and guarantees	**12**	(8)
Other financial assets	**7**	(5)
Change in expected credit losses and other credit impairment charges	**510**	238

Operating expenses

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Employee compensation and benefits:		
- salaries and other costs	**2,876**	2,656
- retirement benefit costs	**242**	210
	3,118	2,866
General and administrative expenses:		
- rental expenses	**59**	304
- other premises and equipment	**758**	536
- marketing and advertising expenses	**184**	241
- other operating expenses	**1,172**	1,052
	2,173	2,133
Depreciation of premises, plant and equipment⌖	**967**	668
Amortisation of intangible assets	**70**	55
	6,328	5,722
Cost efficiency ratio	**28.2%**	27.7%

Full-time equivalent staff numbers by region	***At 30 June 2019***	*At 30 June 2018*
Hong Kong and others	**8,614**	8,365
Mainland	**1,757**	1,727
Total	**10,371**	10,092

⌖ *Included depreciation of right-of-use assets of HK$251m in the first half of 2019 (first half of 2018: N/A).*

Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

Figures in HK$m	***Half-year ended 30 June 2019***	*Half-year ended 30 June 2018*
Current tax – provision for Hong Kong profits tax		
- Tax for the period	**1,856**	1,988
Current tax – taxation outside Hong Kong		
- Tax for the period	**29**	19
Deferred tax		
- Origination and reversal of temporary differences	**363**	220
Total tax expense	**2,248**	2,227

The current tax provision is based on the estimated assessable profit for the first half of 2019, 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 2018). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2019 is based on earnings of HK$13,347m (HK$12,647m for the first half of 2018), adjusted for the AT1 capital instrument related deductions and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first half of 2018).

Dividends/Distribution

	Half-year ended 30 June 2019		*Half-year ended 30 June 2018*	
(a) Dividends to ordinary shareholders	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.40**	**2,677**	1.30	2,485
Second interim	**1.40**	**2,677**	1.30	2,485
	2.80	**5,354**	2.60	4,970

	Half-year ended 30 June 2019 HK$m	*Half-year ended 30 June 2018 HK$m*
(b) Distribution to holder of AT1 capital instrument classified as equity		
Coupon paid on AT1 capital instrument	**232**	–

Segmental analysis

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

- **Retail Banking and Wealth Management** offers a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, time deposits, mortgages and personal loans, credit cards, insurance and wealth management;
- **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and small and medium-sized enterprises ('SME') customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;
- **Global Banking and Markets** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking, corporate lending, interest rates, foreign exchange, money markets, structured products and derivatives, etc. Global Banking and Markets also manages the funding and liquidity positions of the Bank and other market risk positions arising from banking activities;
- **Other** mainly represents the Bank's holdings of premises, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost of central support services and functions are allocated to business segments based on cost drivers which reflect or correlate with the use of services. Bank-owned premises are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 14.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2019					
Profit before tax	**8,396**	**4,964**	**2,426**	**108**	**15,894**
Share of profit before tax	**52.8%**	**31.2%**	**15.3%**	**0.7%**	**100.0%**
Half-year ended 30 June 2018					
Profit before tax	7,683	4,439	2,734	8	14,864
Share of profit before tax	51.7%	29.9%	18.4%	0.0%	100.0%

Segmental analysis *(continued)*

(b) Information by geographical region

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

Figures in HK$m	*Hong Kong*	*Mainland China*	*Others*	*Inter-region elimination*	*Total*
Half-year ended 30 June 2019					
Total operating income	**32,441**	**1,242**	**137**	**(20)**	**33,800**
Profit before tax	**15,350**	**458**	**86**	**–**	**15,894**
At 30 June 2019					
Total assets	**1,558,040**	**113,889**	**24,804**	**(40,081)**	**1,656,652**
Total liabilities	**1,389,798**	**100,610**	**23,717**	**(30,311)**	**1,483,814**
Equity	**168,242**	**13,279**	**1,087**	**(9,770)**	**172,838**
Share capital	**9,658**	**10,183**	**–**	**(10,183)**	**9,658**
Interest in associates	**2,545**	**1**	**–**	**–**	**2,546**
Non-current assets⌖	**61,288**	**1,317**	**7**	**–**	**62,612**
Half-year ended 30 June 2018					
Total operating income	28,437	1,037	144	(23)	29,595
Profit before tax	14,472	297	95	–	14,864
At 31 December 2018					
Total assets	1,482,980	106,124	22,103	(39,910)	1,571,297
Total liabilities	1,324,871	93,611	21,093	(30,385)	1,409,190
Equity	158,109	12,513	1,010	(9,525)	162,107
Share capital	9,658	9,857	–	(9,857)	9,658
Interest in associates	2,442	2	–	–	2,444
Non-current assets⌖	56,235	1,125	9	–	57,369

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

Trading assets

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Treasury bills	**26,936**	26,700
Other debt securities	**22,784**	20,448
Debt securities	**49,720**	47,148
Investment funds	**17**	16
Total trading assets	**49,737**	47,164

Financial assets designated and otherwise mandatorily measured at fair value

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Debt securities	**2**	6
Equity shares	**6,688**	5,472
Investment funds	**7,891**	6,267
Other	**1,395**	1,325
	15,976	13,070

Loans and advances to customers

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Gross loans and advances to customers	**922,753**	877,134
Less: Expected credit losses	**(2,908)**	(2,678)
	919,845	874,456
Expected credit losses as a percentage of gross loans and advances to customers	**0.32%**	0.31%
Gross impaired loans and advances	**2,023**	2,160
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.22%**	0.25%

Reconciliation of gross exposure and allowances/provision for loans and advances to banks and customers including loan commitments and financial guarantees

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
Figures in HK$m	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL[3]
At 1 January 2019	1,210,584	(777)	53,786	(1,000)	2,154	(959)	6	–	1,266,530	(2,736)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(17,487)	44	17,487	(44)	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	22,410	(218)	(22,410)	218	–	–	–	–	–	–
- transfers to Stage 3	(106)	–	(111)	10	217	(10)	–	–	–	–
- transfers from Stage 3	–	–	17	(1)	(17)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	128	–	(141)	–	(2)	–	–	–	(15)
Changes due to modifications not derecognised	–	–	–	–	–	–	–	–	–	–
Net new and further lending/(repayments)	71,156	(55)	(2,467)	117	(22)	113	–	–	68,667	175
Changes to risk parameters (model inputs)	–	(67)	–	(213)	–	(435)	–	–	–	(715)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(314)	314	–	–	(314)	314
Foreign exchange and others	(191)	–	(22)	–	(1)	–	–	–	(214)	–
At 30 June 2019	1,286,366	(945)	46,280	(1,054)	2,017	(978)	6	–	1,334,669	(2,977)

	Total
Change in ECL in income statement (charge)/release for the period	(555)
Add: Recoveries	58
Add/(less): Others	(6)
Total ECL (charge)/release for the period[2]	(503)

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *The provision for ECL balance at 30 June 2019 and total ECL charges for the period does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL charges amount to HK$56m and HK$7m respectively.*
[3] *The above table does not include balances due from HSBC Group companies.*

Overdue loans and advances to customers

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

	At 30 June 2019		*At 31 December 2018*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**249**	**0.03**	533	0.06
- more than six months but not more than one year	**403**	**0.04**	395	0.05
- more than one year	**966**	**0.10**	657	0.07
	1,618	**0.17**	1,585	0.18

Rescheduled loans and advances to customers

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

	At 30 June 2019		*At 31 December 2018*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**106**	**0.01**	102	0.01

Gross loans and advances to customers by industry sector

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

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**70,539**	67,295
Property investment	**154,545**	145,791
Financial concerns	**8,280**	8,737
Stockbrokers	**39**	20
Wholesale and retail trade	**31,045**	31,044
Manufacturing	**23,578**	22,653
Transport and transport equipment	**13,475**	13,077
Recreational activities	**667**	177
Information technology	**8,676**	8,736
Other	**87,179**	84,705
	398,023	382,235
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**28,014**	25,664
Loans and advances for the purchase of other residential properties	**206,698**	194,839
Credit card loans and advances	**28,434**	29,793
Other	**32,161**	30,275
	295,307	280,571
Total gross loans and advances for use in Hong Kong	**693,330**	662,806
Trade finance	**38,957**	36,127
Gross loans and advances for use outside Hong Kong	**190,466**	178,201
Gross loans and advances to customers	**922,753**	877,134

Financial investments

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**202,226**	217,636
- debt securities	**126,699**	107,400
- equity shares	**5,428**	4,144
Debt instruments measured at amortised cost		
- treasury bills	**500**	1,842
- debt securities	**114,694**	97,547
Less: Expected credit losses	**(40)**	(37)
	449,507	428,532
Fair value of debt securities at amortised cost	**119,172**	99,260
Treasury bills	**202,726**	219,478
Certificates of deposit	**11,899**	12,379
Other debt securities	**229,454**	192,531
Debt securities	**444,079**	424,388
Equity shares	**5,428**	4,144
	449,507	428,532

Intangible assets

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Present value of in-force long-term insurance business	**18,654**	15,910
Internally developed/acquired software	**805**	512
Goodwill	**329**	329
	19,788	16,751

Other assets

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Items in the course of collection from other banks	**7,662**	7,236
Bullion	**3,591**	5,257
Prepayments and accrued income	**4,372**	4,276
Acceptances and endorsements	**7,509**	6,868
Less: Expected credit losses	**(7)**	(5)
Reinsurers' share of liabilities under insurance contracts	**8,432**	8,788
Settlement accounts	**3,887**	4,796
Cash collateral	**2,007**	1,838
Right-of-use assets	**1,426**	N/A
Other accounts	**3,518**	5,246
	42,397	44,300

Other accounts included 'Assets held for sale' of HK$12m (31 December 2018: HK$18m). It also included 'Retirement benefit assets' of HK$18m (31 December 2018: HK$13m).

Current, savings and other deposit accounts

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Current, savings and other deposit accounts:		
- as stated in Condensed Consolidated Balance Sheet	**1,186,938**	1,154,415
- structured deposits reported as financial liabilities designated as fair value	**29,962**	28,594
	1,216,900	1,183,009
By type:		
- demand and current accounts	**106,638**	106,096
- savings accounts	**693,201**	707,158
- time and other deposits	**417,061**	369,755
	1,216,900	1,183,009

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Certificates of deposit and other debt securities in issue:		
- as stated in Condensed Consolidated Balance Sheet	**16,676**	3,748
- certificates of deposit in issue designated at fair value	**2,022**	2,008
- other structured debt securities in issue reported as financial liabilities designated at fair value	**4,956**	2,404
	23,654	8,160
By type:		
- certificates of deposit in issue	**18,698**	5,756
- other debt securities in issue	**4,956**	2,404
	23,654	8,160

Trading liabilities

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Short positions in securities	**34,037**	33,649
	34,037	33,649

Financial liabilities designated at fair value

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Certificates of deposit in issue	**2,022**	2,008
Structured deposits	**29,962**	28,594
Other structured debt securities in issue	**4,956**	2,404
Liabilities to customers under investment contracts	**442**	448
	37,382	33,454

Other liabilities

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Items in the course of transmission to other banks	**8,541**	10,053
Accruals	**4,096**	4,190
Acceptances and endorsements	**7,509**	6,868
Retirement benefit liabilities	**958**	834
Settlement accounts	**2,723**	17,213
Cash collateral	**255**	995
Lease liabilities	**1,387**	N/A
Other	**4,077**	5,094
	29,546	45,247

Shareholders' equity

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Share capital	**9,658**	9,658
Retained profits	**127,395**	123,350
Other equity instruments	**11,744**	6,981
Premises revaluation reserve	**20,268**	19,822
Cash flow hedging reserve	**57**	(11)
Financial assets at fair value through other comprehensive income reserve	**2,914**	1,570
Other reserves	**685**	712
Total reserves	**163,063**	152,424
Total shareholders' equity	**172,721**	162,082
Annualised return on average ordinary shareholders' equity for the half-year ended	**17.0%**	14.9%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the first half of 2019.

Capital management

The following tables show the capital base, risk-weighted assets and capital ratios on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

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

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base subject to certain thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

During the period, the HKMA has classified the Bank as a material subsidiary of HSBC's Asian resolution group and required the Bank to comply with internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules, with phased implementation periods starting from 1 July 2019. To meet the requirements, the Bank has cancelled and repaid the perpetual capital instrument of US$900m, issued new perpetual capital instruments of US$1,500m and non-capital loss-absorbing capacity debt instruments totalling HK$19,503m to its immediate holding company in the first half of 2019.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**138,263**	133,990
- Shareholders' equity per Condensed Consolidated Balance Sheet	**172,721**	162,082
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(6,981)
- Unconsolidated subsidiaries	**(22,714)**	(21,111)
Non-controlling interests	–	–
- Non-controlling interests per condensed consolidated balance sheet	**117**	25
- Non-controlling interests in unconsolidated subsidiaries	**(117)**	(25)
Regulatory deductions to CET1 capital	**(32,318)**	(32,266)
- Cash flow hedging reserve	**(34)**	4
- Changes in own credit risk on fair valued liabilities	**(12)**	(12)
- Property revaluation reserves[1]	**(27,160)**	(26,543)
- Regulatory reserve	**(4,112)**	(4,982)
- Intangible assets	**(725)**	(463)
- Defined benefit pension fund assets	**(15)**	(11)
- Deferred tax assets net of deferred tax liabilities	**(113)**	(111)
- Valuation adjustments	**(147)**	(148)
Total CET1 Capital	**105,945**	101,724
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	6,981
- Perpetual capital instruments	**11,744**	6,981
Total AT1 Capital	**11,744**	6,981
Total Tier 1 ('T1') Capital	**117,689**	108,705
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**14,973**	15,517
- Property revaluation reserves[1]	**12,222**	11,944
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**2,751**	3,573
Regulatory deductions to T2 capital	**(915)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(915)
Total T2 Capital	**14,058**	14,602
Total Capital	**131,747**	123,307

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

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Credit risk	**574,999**	541,542
Market risk	**8,522**	11,020
Operational risk	**63,546**	59,323
Total	**647,067**	611,885

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

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

	At 30 June 2019	*At 31 December 2018*
CET1 capital ratio	**16.4 %**	16.6 %
T1 capital ratio	**18.2 %**	17.8 %
Total capital ratio	**20.4 %**	20.2 %

In addition, the capital ratios of all tiers as of 30 June 2019 would be reduced by approximately 0.4 percentage point after the prospective second interim dividend payment for 2019. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2019	*Pro-forma At 31 December 2018*
CET1 capital ratio	**16.0 %**	15.5 %
T1 capital ratio	**17.8 %**	16.6 %
Total capital ratio	**20.0 %**	19.0 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and net stable funding ratio ('NSFR') on a consolidated basis. From 1 January 2019, the Group is required to maintain an LCR of not less than 100%. The LCR for the reportable periods are as follows:

	Average LCR for	
	Quarter ended 30 June	*Quarter ended 31 March*
- 2019	**198.5%**	**210.8%**
- 2018	209.6%	207.0%

The LCR as at 30 June 2019 and 31 December 2018 were 224.5% and 214.7% respectively.

The Group is required to maintain the NSFR of not less than 100% and the NSFR at the reportable quarter-end are as follows:

	Quarter ended 30 June	*Quarter ended 31 March*
- 2019	**152.5%**	**150.3%**
- 2018	153.6%	152.9%

Contingent liabilities and commitments

Figures in HK$m	***At 30 June 2019***	*At 31 December 2018*
Contingent liabilities and financial guarantee contracts		
- Guarantee and irrevocable letters of credit pledged as collateral security	**21,247**	16,216
- Other contingent liabilities	**180**	172
	21,427	16,388
Commitments		
- Documentary credits and short-term trade-related transactions	**2,131**	3,310
- Forward asset purchases and forward forward deposits placed	**3,992**	2,895
- Undrawn formal standby facilities, credit lines and other commitments to lend	**476,659**	461,480
	482,782	467,685

1. Statutory financial statements and accounting policies

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

Certain financial information in this press release is extracted from the interim report prepared under Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The interim report was reviewed by the Audit Committee. The Board of Directors of the Bank has approved the interim report on 5 August 2019.

The financial information relating to the year ended 31 December 2018 that is included in this press release does not constitute the Group's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the HKMA.

The auditor has reported on those statutory financial statements for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 157 to 176 of the 2018 statutory financial statements.

<u>Standards applied during the half-year to 30 June 2019</u>

On 1 January 2019, the Group has adopted the requirements of HKFRS 16 and recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' in accordance with HKAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. The associated right-of-use ('ROU') assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised on balance sheet at 31 December 2018.

The Group adopted the requirements of HKFRS 16 retrospectively, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. In relation to the operating lease that were under HKAS 17 'Leases', the adoption of the standard increased assets by HK$1.4bn and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

An amendment to HKAS 12 was issued in February 2018 as part of the Annual Improvement Cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment was applied on 1 January 2019 to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period. As a consequence, income tax related to distributions on perpetual subordinated loans will be presented in profit or loss rather than equity. As a result of its application, the impact on profit after tax in the six months to 30 June 2019 was immaterial (six months to 30 June 2018: nil) with no effect on equity.

2. Future accounting standard development

The Hong Kong Institute of Certified Public Accountants ('HKICPA') has issued a number of amendments and new standards which are not yet effective for the half-year ended 30 June 2019 and which have not been adopted in the financial statements. Key change is on insurance contracts and summarised as follows:

<u>HKFRS 17 'Insurance Contracts'</u>
HKFRS 17 'Insurance Contracts' was issued in January 2018 which sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. HKFRS 17 is effective from 1 January 2021. However, HKICPA is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

3. Comparative figures

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

4. Ultimate holding company

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

5. Register of shareholders

The register of shareholders of the Bank will be closed on Tuesday, 20 August 2019, during which no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Monday, 19 August 2019. The second interim dividend will be payable on Thursday, 5 September 2019, to shareholders whose names appear on the register of shareholders of the Bank on Tuesday, 20 August 2019. Shares of the Bank will be traded ex-dividend as from Friday, 16 August 2019.

6. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2019. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices. The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2019.

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7. Board of Directors

At 5 August 2019, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan#, Ms L Y Chiang*, Ms Kathleen C H Gan#, Ms Margaret W H Kwan, Ms Irene Y L Lee*, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent non-executive Directors
\# Non-executive Directors

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8. Press release and Interim Report

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

The 2019 Interim Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank and printed copies of the 2019 Interim Report will be sent to shareholders before the end of August 2019.

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9. Other financial information

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

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