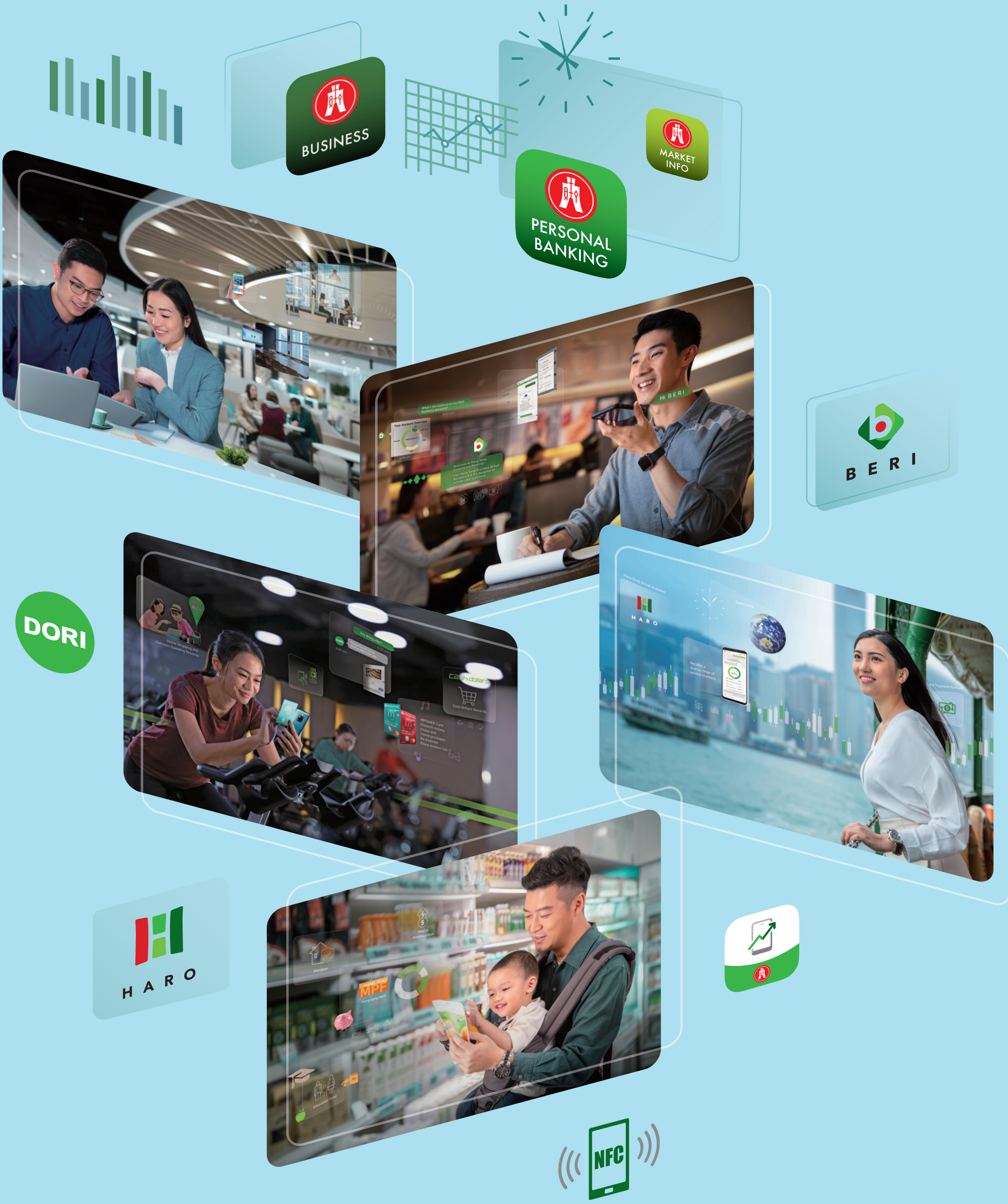
恒生銀行
HANG SENG BANK

INTERIM REPORT 2020



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

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

RESULTS IN BRIEF

	30 June 2020	*30 June 2019*
For the half-year ended	**HK$m**	HK$m
Net operating income before change in expected credit losses and other credit impairment charges	**19,187**	22,409
Operating profit	**11,134**	15,561
Operating profit excluding change in expected credit losses and other credit impairment charges	**12,894**	16,071
Profit before tax	**10,619**	15,894
Profit attributable to shareholders	**9,143**	13,656
	%	%
Return on average ordinary shareholders' equity	**10.7**	17.0
Cost efficiency ratio	**32.8**	28.2
	HK$	HK$
Earnings per share	**4.64**	6.98
Dividends per share	**1.90**	2.80

	At 30 June 2020	*At 31 December 2019*
At period-end	**HK$m**	HK$m
Shareholders' equity	**176,019**	178,810
Total assets	**1,732,021**	1,676,991
	%	%
Capital ratios		
– Common Equity Tier 1 ("CET1") Capital Ratio	**16.3**	16.9
– Tier 1 Capital Ratio	**18.0**	18.7
– Total Capital Ratio	**19.7**	20.8
Liquidity ratios		
– Liquidity coverage ratio	**193.8**	205.9
– Net stable funding ratio	**151.0**	149.1

The rapid global spread of COVID-19 during the first half of 2020 has severely disrupted economic activities and people's daily lives around the world. In Hong Kong, this has come on top of the challenges already created by ongoing geopolitical tensions and the social landscape.

The uncertainties of the external environment have caused businesses and individuals to refrain from making investment decisions, a deterioration in credit conditions, and considerable volatility in local and international markets. Inevitably, this has had an unfavourable impact on our financial performance for the first six months of the year.

Reduced customer activity affected both net interest income and non-interest income, exacerbated, in the case of the former, by the low interest rate environment. Prudent steps to ensure we remain well positioned to handle any further decline in the credit environment contributed to the increase in expected credit losses. The downturn in the property market resulted in a net deficit on property revaluation for the first half compared with a net surplus a year earlier.

However, building a sustainable, customer-centric business means we should also look beyond these market-driven factors to take a broader, long-term view. In very difficult conditions, our operations have shown both resilience and adaptability. We have continued to deliver on making it simpler, easier and more convenient for customers to meet their banking needs, due in significant part to the investments we have made in technology, our business infrastructure and our people. Our value-added service innovations are enabling us to reach new customers. We maintain a firm financial foundation with a solid capital base and good liquidity position.

Profit attributable to shareholders was down by 33% at HK$9,143m. Earnings per share declined by 34% to HK$4.64. Compared with the second half of 2019, attributable profit and earnings per share fell by 18% and 20% respectively.

Return on average ordinary shareholders' equity was 10.7%, compared with 17.0% and 13.4% for the first and second halves of 2019. Return on average total assets was 1.1%, compared with 1.7% and 1.3% for the first and second halves of last year.

Considering the uncertainties and challenges brought by COVID-19, our regulator has advised that banks should consider conserving capital to meet future potential challenges and to support economic activities in Hong Kong. After careful consideration of the issues and the interests of different stakeholders, the Directors have declared a second interim dividend of HK$0.80 per share. This brings the total distribution for the first half of 2020 to HK$1.90 per share.

Economic Outlook

It remains too early to determine the long-term implications of the current market challenges. Global recovery and a return to more 'normal' levels of commercial activity depend on effective policy support, both in economic terms and in dealing with the ongoing realities of COVID-19. Given the prevailing market conditions, interest rates are likely to remain low around the world.

The trade, retail, and tourism sectors have all been hard hit in Hong Kong and overall unemployment is rising. While signs of economic stabilisation may start to emerge before the end of the year, issues such as further COVID-19 outbreaks and ongoing tensions between China and the US mean that the risks remain on the downside. We expect to see a full-year economic contraction of between -4% and -7% for 2020.

In mainland China, recent data indicate the beginnings of economic recovery, but the risk factors as outlined above, as well as structural issues such as debt, have the potential to slow down this trend. However, the Central Government is taking a proactive fiscal policy approach to promoting growth, supported by the central bank's actions to maintain adequate levels of liquidity and make policy adjustments as necessary. We expect to see full-year GDP growth for 2020 end up at somewhere between 1.5% and 2%.

We will continue to proactively manage our costs and carefully monitor our credit and other market risks.

At the same time, our investments in building a more agile and innovative business are demonstrating their long-term value in enhancing our ability to serve customers more effectively, broaden our appeal with young people and other key segments, and maintain good business momentum in a wide variety of market conditions.

The COVID-19 situation descended suddenly on Hong Kong, but with the infrastructure in place to support our flexible working policy, our staff were able to quickly switch to working remotely, ensuring the delivery of uninterrupted services and support for customers while also being able to take care of their own family or personal needs. I am grateful to the Hang Seng team for their efforts, and to the management team for their initiatives to look after staff well-being during such unprecedented times.

Together with our well-established strengths of a dedicated and dynamic team of professionals and solid financial fundamentals, we will continue to grow our competitive advantages, including through new investments. In highly fluid markets, we remain well placed to continue to improve service outcomes for customers, acquire new business in key segments, act swiftly on new opportunities as the economy recovers and contribute to the development of new markets to the long-term benefit of our shareholders.

Raymond Ch'ien
Chairman
3 August 2020

The first six months of 2020 were extremely challenging for all businesses. Despite what we might have hoped for earlier in the year, the economic and social impacts of the COVID-19 pandemic remain a reality both here and in economies around the world. In addition, Hong Kong is continuing to grapple with the adverse effects of longer-term issues such as international trade tensions and the social situation at home.

As would be expected, the difficult environment has had an adverse impact on our first-half results, particularly when compared with a strong first half in 2019.

While our fundamentals remain solid with a strong capital base, healthy liquidity position and stable market share, we recorded declines in our top-line and bottom-line figures. The financial performance was affected by four main factors: 1) a contraction in net interest income and net interest margin in the low interest rate environment; 2) a drop in insurance business income, reflecting significantly lower investment returns due to market volatility and a decline in new business sales; 3) an increase in expected credit losses (ECLs); and 4) a net deficit on property revaluation compared with a net surplus last year.

More details on our financials are provided below. However, our financial figures do not tell the whole story of Hang Seng in the first half. Our key priorities in the first six months of the year were to protect the health and safety of our customers and employees, provide uninterrupted banking and wealth management services, and offer fast and hassle-free support to clients facing hardships.

At the same time, we continued to invest in technology, build new segments and drive business expansion to ensure we are well positioned to capture opportunities when markets rebound.

Thanks to our continued investment in innovation and technology, we were able to respond swiftly and seamlessly to a sharp increase in customer demand for digital banking services amid social distancing and COVID-related health concerns. Personal e-Banking registrations and active Personal Banking mobile app users in Hong Kong both increased by one third, year-on-year.

In the first half alone, we rolled out around 210 new digital innovations and enhancements, significantly eclipsing the 150 we launched during the whole of 2019. A number of new digital services and products cater specifically to the needs of younger customers, helping them save and invest while enhancing financial inclusion. Digital innovations also cut transaction times and streamlined application processes for our commercial customers.

Our ability to continue improving service experiences and outcomes has resulted in demonstrable increases in our competitive and brand strengths. In a survey conducted in the second quarter of this year, Hang Seng was one of two major banks ranked first in customer service in Hong Kong. We also ranked first for inclusion. Among key target customer segments, young people under 30 years of age rated us the top bank for customer service. Mainland customers viewed Hang Seng as the number one bank in Hong Kong for creative financial management solutions.

As a bank with deep local roots, we are sensitive to the pressures that the pandemic has put on different parts of the community. We are an active participant in various government schemes to offer economic relief to customers in need. We also donated HK$10m to provide academic support to children from underprivileged families impacted by the extended suspension of classes.

While technology is an important part of our customer-centric approach, our staff remain our primary competitive advantage. Under difficult circumstances, our employees have demonstrated flexibility and professionalism to minimise any disruption in service for customers. Our initiatives to make it easier for our people to perform at a high level while maintaining a positive sense of well-being are being well received and appreciated. A recent survey indicated that a vast majority of staff feel positive about our efforts in supporting them during this period.

Financial Overview

As previously noted, volatile market conditions have had a significant impact on our financial performance.

Net operating income fell by 20% to HK$17,427m.

Operating profit fell by 28% to HK$11,134m. If we exclude change in ECLs and other credit impairment charges, operating profit declined by 20% to HK$12,894m. When compared with the second half of 2019, operating profit dropped by 15% and operating profit excluding change in ECLs was down 10%.

Looking at the key factors that most affected our bottom line, net interest income fell by 7% to HK$14,792m, a drop of HK$1,061m from HK$15,853m in the same period last year. Increased volumes from balance sheet growth and a 5% growth in average interest-earning assets were outweighed by the impact of declining interest rates, which contributed to the overall narrowing of the net interest margin.

Net interest margin fell by 25 basis points to 1.96%, reflecting the flow-through of declining HIBOR and compressed loan and deposit spreads.

Non-interest income dropped by 33% to HK$4,395m.

Net fee income fell by 9%. The launch of our standalone securities trading app facilitated positive growth in fee income from stockbroking and related services. However, this was more than offset by the fall in fee income from the severe disruptions to industrial and commercial activities, and the drop in card-based retail spending as people stayed at home due to the pandemic.

Net trading income and net income from financial instruments designated at fair value through profit or loss together grew by 27%, due mainly to increased income from foreign exchange and derivative trading activities in the volatile foreign exchange markets.

Net income from assets and liabilities of the insurance business measured at fair value recorded a loss of HK$1,284m, a reduction of HK$2,348m compared with the gain of HK$1,064m recorded for the same period last year, reflecting unfavourable movements in global equities markets, with investment risk partly shared by the policyholders.

There was also a drop in net insurance premiums income (with an offsetting movement in policyholders' liabilities) and movement in present value of in-force long-term insurance business, due mainly to the decline in new business sales that resulted from the challenges created by the COVID-19 situation.

Change in ECLs and other credit impairment charges was HK$1,760m, an increase of HK$1,250m compared with HK$510m recorded in the same period last year. The significant year-on-year increase results from updates to key variables in our credit risk assessment model to reflect the expected future impact of continuing uncertainties over COVID-19 and international trade policies.

Overall credit quality remained robust. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.32% at the end of June 2020. That figure was 0.22% at 2019 year-end and at the end of June last year.

Pragmatic cost containment measures and business efficiencies realised through improved operational processes and earlier investments in business infrastructure lowered operating expenses by 1%. Compared with the second half of 2019, operating expenses were cut by 6%.

At 32.8%, our cost efficiency ratio continues to compare favourably with the local industry average.

Following the downturn in the property market, the investment property revaluation recorded a deficit of HK$428m, down HK$615m compared with the gain of HK$187m recorded for the same period last year.

Attributable profit fell by 33% to HK$9,143m, mainly reflecting the impact of the four factors mentioned above: net interest income, non-interest income, ECLs and property revaluation. Profit before tax fell by 33% to HK$10,619m. Compared with the second half of 2019, attributable profit and profit before tax both declined by 18%.

At 30 June 2020, our common equity tier 1 capital ratio was 16.3% and our tier 1 capital ratio was 18.0%, compared with 16.9% and 18.7% respectively at 31 December 2019. Our total capital ratio was 19.7%, compared with 20.8% at 2019 year-end.

Continuing to Drive for Future Success

Looking ahead, COVID-19, trade tensions, geopolitical tensions and other uncertainties at home and abroad are expected to bring continued disruption to industrial and commercial activity, reduce consumer spending and suppress investment appetite. The persistence of low interest rates will put further pressure on the net interest margin and returns from interest-earning businesses. These market-driven factors will continue to challenge our top-line performance.

We will be vigilant in containing costs and proactively managing our credit risks, while remaining true to our central operating principle of providing high-quality banking and wealth management services to customers.

Despite the ongoing challenges, we remain confident in the strength of our customer-centric growth strategy for the long term. Our service innovations and proactive approach are helping us build our portfolio and capture business among new customer segments. There will always be a need for banking and financial services. It is important that we continue to invest wisely for the future – in technology, in new markets, new segments and new products – to rebound from our solid fundamentals when the external environment improves.

Our competitive edge is also sharpened by our high-performing culture that encourages greater collaboration and creativity. Our employees are innovating and making significant contributions in adding real value and delivering positive outcomes for our customers. To support the performance potential of our dynamic team, we will continue to invest in talent development and in our people's overall well-being.

To provide active support for the development of new markets, our subsidiary Hang Seng Indexes Company Limited recently launched the Hang Seng TECH Index to track the 30 largest innovative technology companies listed in Hong Kong. We aim for the Hang Seng TECH Index to become another flagship index for the Hong Kong market, alongside the Hang Seng Index and the Hang Seng China Enterprises Index.

In the difficult first half, every member of the Hang Seng team has stepped up: not only to ensure our customers continued to enjoy high levels of service but also to support each other. I wish to express heartfelt thanks to my colleagues for their exemplary efforts and invaluable contributions. Together with the management team we will continue to drive the Bank towards long-term sustainable success.

Louisa Cheang

Louisa Cheang
Vice-Chairman and Chief Executive
3 August 2020

FINANCIAL PERFORMANCE

Income Analysis

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2020***	*Half-year ended 30 June 2019*
Total operating income	**27,259**	33,800
Operating expenses	**6,293**	6,328
Operating profit	**11,134**	15,561
Profit before tax	**10,619**	15,894
Profit attributable to shareholders	**9,143**	13,656
Earnings per share (in HK$)	**4.64**	6.98

The COVID-19 pandemic has created unprecedented economic and social challenges that have had a significant impact on businesses and people around the world. The economic effects of the pandemic on the Bank's customers have been the main driver of the change in the Group's financial performance in the first half of 2020, which compares less favourably with that for the same period last year. The decline in the Group's income reflects lower lending and transaction volumes and lower investment services and insurance related income given the volatile nature of international capital markets in the first half. With the increasingly uncertain economic outlook, the Group updated key variables in its credit risk assessment model to provide for possible further deterioration in the external environment. This resulted in an increase in expected credit losses ('ECLs'). However, the Bank's strong capital base and healthy liquidity position continue to provide a firm foundation for moving forward with its long-term strategic priorities despite turbulent operating conditions. Throughout this period of uncertainty, we will continue to work closely with the Hong Kong government and regulators and use the strength of our balance sheet and business model to ensure that we play our part in supporting our customers, the community and the Hong Kong economy.

The Group's first half financial performance reflects the recent and expected future impact of the COVID-19 pandemic, which has resulted in significantly lower levels of customer activity as well as other external factors such as the recent reduction in global interest rates. **Net operating income before change in expected credit losses and other credit impairment charges** was HK$19,187m, down 14%, due to lower net interest income and non-interest income. Wealth management business income was down by 38%, due mainly to subdued levels of customer activity given the challenging external market conditions, the decrease in insurance business-related income due to lower investment returns and a decline in retail investment fund sales income, although this was partly offset by the growth in income from securities broking-related services. The Bank reduced operating expenses by 1% versus same period last year. This was achieved through pragmatic cost containment and the realisation of business efficiencies and other process improvements, despite continuing with investment in technology to enhance digital capability. ECLs remained sensitive to forward economic guidance with downside risks such as continuing uncertainties over the COVID-19 pandemic, international trade policies and the economic outlook for Hong Kong resulting in higher impairment charges in the first half of the year. This had an adverse impact on **operating profit**, which decreased by 28% to HK$11,134m. Property revaluation recorded a deficit compared with a surplus for the same period last year, resulting in a 33% drop in **profit attributable to shareholders** to HK$9,143m.

Net interest income decreased by HK$1,061m, or 7%, to HK$14,792m. Increased volumes from balance sheet growth was outweighed by the impact of declining interest rates and narrowing of net interest margin.

Figures in HK$m	***Half-year ended 30 June 2020***	*Half-year ended 30 June 2019*
Net interest income/(expense) arising from:		
– financial assets and liabilities that are not at fair value through profit and loss	**15,168**	16,442
– trading assets and liabilities	**119**	128
– financial instruments designated and otherwise mandatorily measured at fair value	**(495)**	(717)
	14,792	15,853
Average interest-earning assets	**1,515,614**	1,445,615
Net interest spread	**1.78%**	2.02%
Net interest margin	**1.96%**	2.21%

Average interest-earning assets rose by HK$70bn, or 5%, to HK$1,516bn when compared with the first half of 2019. Average customer lending increased by 7%, notably in corporate and commercial and mortgage lending. Average customer deposits grew by 4%.

Net interest margin narrowed by 25 basis points to 1.96%, with net interest spread declined by 24 basis points to 1.78%. Volume growth was noted in average balances of corporate and mortgage lending but offset by tighter loan spreads under the declining market interest rates environment. Deposit spreads also narrowed under the current interest rate environment which offered little room for the reduction of interest rates paid to customers. 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. The contribution from net free funds also dropped by 1 basis points to 0.18% as a result of the decline in average market interest rates.

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 through profit or loss' (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 2020**	*Half-year ended 30 June 2019*
Net interest income and expense reported as 'Net interest income'		
– Interest income	**20,020**	20,912
– Interest expense	**(4,874)**	(4,493)
– Net interest income	**15,146**	16,419
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	**(354)**	(566)
Average interest-earning assets	**1,476,660**	1,401,690
Net interest spread	**1.88%**	2.17%
Net interest margin	**2.06%**	2.36%

Net fee income fell by HK$310m, or 9%, to HK$3,175m. The Group achieved strong growth in stockbroking and related services fee income, which grew by 36%, driven partly by the launch of our standalone securities trading app. The COVID-19 pandemic had an adverse impact on a wide range of fee-generating business activities. Card services income decreased by 26% as a result of lower card spending and merchant sales. Income from retail investment funds was down by 20%. Account services fees dropped by 24%, due partly to the removal of service fees on certain banking products. Fee income from insurance, trade finance and remittances fell by 6%, 21% and 44% respectively. Credit facilities fees were down by 16%, due to lower corporate lending activity.

Net income from financial instruments measured at fair value through profit or loss recorded a loss of HK$52m compared with a gain of HK$2,035m for the same period last year.

Net trading income and net income from financial instruments designated at fair value through profit or loss together grew by HK$265m, or 27%, to HK$1,237m. The increase in volatility in the foreign exchange markets, together with the changes in the interest rate environment, resulted in an increase in income from foreign exchange and derivatives trading activities.

Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss recorded a loss of HK$1,284m, compared with a gain of HK$1,064m for the same period last year. Investment returns on financial assets supporting insurance liabilities contracts was substantially impacted, reflecting the unfavourable movement following the weakening of global equities prices compared with a favourable movement for the same period last year. 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.

Analysis of income from wealth management business

Figures in HK$m	**Half-year ended 30 June 2020**	Half-year ended 30 June 2019
Investment services income*:		
– retail investment funds	**650**	810
– structured investment products	**218**	256
– securities broking and related services	**960**	701
– margin trading and others	**42**	42
	1,870	1,809
Insurance income:		
– life insurance:		
– net interest income and fee income	**2,042**	1,919
– investment returns on life insurance funds (including share of associate's profits/(losses), net surplus/(deficit) on property revaluation backing insurance contracts and change in expected credit losses and other credit impairment charges)	**(1,705)**	1,250
– net insurance premium income	**7,171**	9,224
– net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,072)**	(11,391)
– movement in present value of in-force long-term insurance business	**2,106**	2,744
	1,542	3,746
– general insurance and others	**125**	137
	1,667	3,883
Total	**3,537**	5,692

* *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 through profit or loss.*

Wealth management business income decreased by 38% when compared with same period last year.

Net interest income and fee income from life insurance business rose by 6%. Investment returns on the life insurance portfolio recorded a loss of HK$1,705m, compared with a gain of HK$1,250m for the same period last year, mainly reflecting unfavourable movements in global 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 fell by 22%, reflecting lower new business sales due largely to the impact of the pandemic. In the challenging operating environment, we continued to enrich our comprehensive range of tax and retirement planning as well as healthcare solutions to suit different customer needs, including new savings and protection offerings, and annuity products which qualify as tax-deductible deferred annuity policies. We also supported customers through concessionary measures to provide additional COVID-19-related coverage.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by 29%. The decrease was mainly due to lower new business sales, coupled with the decrease in the discount rate for the same period last year. The latter had the effect of offsetting the decrease in PVIF, resulting in an insignificant overall impact on the income statement.

The movement in PVIF decreased by 23%, due mainly to lower new business sales and unfavourable investment returns, together with the effect of the lower discount rate for the same period last year. The unfavourable investment returns were partly offset by the adjustment to PVIF accounting for the share attributable to policyholders.

General insurance income down by 9% compared with the same period last year.

Change in expected credit losses and other credit impairment charges was HK$1,760m, up HK$1,250m, when compared with the same period last year, reflecting the deterioration in the macro-economic environment as a result of the impact of COVID-19.

The Bank regularly reviews its forward economic guidance to reflect changes in the economic outlook and other factors that may influence the credit environment. The estimated impact of COVID-19 was incorporated in the ECLs through additional scenario analysis, which considered different severity and duration assumptions. This included probability-weighted shocks to annual GDP and consequential impacts on unemployment and other economic variables, with different economic recovery assumptions.

Change in ECLs for stage 1 and 2 (unimpaired credit exposures) impairment charges increased by HK$672m. Wealth and Personal Banking ('WPB') accounted for HK$217m and the remaining HK$455m was related to Commercial Banking ('CMB') and Global Banking and Markets ('GBM').

Change in ECLs and impairment charges for stage 3 and purchased or originated credit-impaired (impaired credit exposures) increased by HK$578m. WPB accounted for HK$208m, due largely to higher charges on credit card and personal loan portfolios. CMB and GBM accounted for the remaining HK$370m, reflecting the downgrade of several CMB customers in first half of 2020.

Gross impaired loans and advances were up by HK$958m, or 46%, against 2019 year-end at HK$3,031m. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.32% at the end of 30 June 2020, compared with 0.22% at the end of December 2019. Overall credit quality remained robust.

The Group remains vigilant in light of the unprecedented COVID-19 pandemic and will continue to closely monitor the market situation. Reviews on credit portfolios are carried out regularly to help identify and mitigate any potential risks.

Operating expenses of HK$6,293m were 1% lower, despite continued investment in people, technology and operational infrastructure to drive service enhancement and further enhance the Bank's position for future growth. The reduction was driven by continued cost discipline, efficiencies gained and other process improvements.

Staff costs were down by 1%, reflecting lower performance-related pay and a reduction in headcount, partly offset by the salary increment.

Depreciation charges increased by 7%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation last year and increased depreciation of right-of-use assets following the adoption of HKFRS16 last year.

General and administrative expenses fell by 6%, due largely to lower marketing and advertising expenses.

The Group continued to focus on enhancing operational efficiency while maintaining good growth momentum. The cost efficiency ratio was 32.8%, one of the lowest among banks in Hong Kong.

Full-time equivalent staff numbers by region	***At 30 June 2020***	*At 30 June 2019*
Hong Kong and others	**8,429**	8,614
Mainland	**1,714**	1,757
Total	**10,143**	10,371

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Cost efficiency ratio	**32.8%**	28.2%

Reflecting the unfavourable property market when compared with same period last year, **net surplus/(deficit) on property revaluation** recorded a net deficit of HK$428m, compared with a net surplus of HK$187m for the same period last year. **Share of profits/(losses) of associates** recorded a loss of HK$87m, compared with a profit of HK$146m for the same period last year, largely reflecting the revaluation loss of a property investment company.

First half of 2020 compared with second half of 2019

The COVID-19 pandemic, the evolving US-China trade tensions, the drop in interest rates and social unrest in Hong Kong resulted in increased volatility in the financial markets and disruptions to business and economic activities during the first half of 2020 when compared with the second half of 2019. These developments have had an adverse impact on the Group's revenue income, ECL impairment charges and property revaluation. The impact was mitigated, to a certain extent, due to our actions to maintain solid business momentum.

Net operating income before change in expected credit losses and other credit impairment charges was HK$19,187m, down by HK$1,918m, or 9%, with both decreases in net interest income and non-interest income. Operating profit decreased by HK$1,915m, or 15%, due mainly to higher ECL charges, partly offset by lower operating expenses. The increase in net deficit on property revaluation and share of losses from associates resulted in a HK$2,041m, or 18%, decrease in profit attributable to shareholders.

Net interest income decreased by HK$1,610m, or 10%, with an increase in average balance sheet growth more than offset by the narrowed net interest margin in the declining interest rate environment as well as the lower day count. Average interest-earning assets grew by 2%, driven by the increase in average customer deposits. Net interest margin was under pressure and reduced by 23 basis points to 1.96%, reflecting the flow-through of declining interest rates and compressed deposit spreads in the first half of 2020. Contribution from net-free funds was also adversely affected by the interest rate cut and significant decline in HIBOR during the second quarter of the year.

Non-interest income was down by HK$308m, or 7%, due largely to a drop in wealth management business income. Investment services income increased by 22%, mainly in stockbroking and related services. Insurance businesses income was down by 30%, attributable to the unfavourable investment performance resulting from the adverse movements in financial markets in the first half of 2020. The Bank enriched its wealth management product portfolio to help mitigate the adverse impact of the market conditions.

Operating expenses decreased by HK$436m, or 6%, driven mainly by lower general and administrative expenses with decreases in marketing and advertising costs, professional fees and data processing fees.

ECL charges increased by HK$433m, or 33%, due largely to the downgrade of several commercial banking customers across multiple sectors during first half of 2020 and deteriorating asset quality on credit cards and personal lending. Impaired credit exposures (stage 3) accounted for the majority of the increase in ECLs.

Net surplus/(deficit) on property revaluation recorded a revaluation deficit of HK$428m, up by HK$276m when compared with the second half of 2019. Share of profits/(losses) of associates recorded a loss of HK$87m, compared with a profit of HK$22m for the second half of last year, largely reflecting the revaluation loss of a property investment company.

Segmental Analysis

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

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2020					
Profit/(loss) before tax	**5,468**	**3,227**	**2,646**	**(722)**	**10,619**
Share of profit/(loss) before tax	**51.5%**	**30.4%**	**24.9%**	**(6.8)%**	**100.0%**
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%

Wealth and Personal Banking ('WPB') recorded an 18% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$10,216m. Operating profit dropped by 33% to HK$5,557m and profit before tax was down by 35% at HK$5,468m.

We successfully deepened customer relationships to grow our balance sheet, recording a 3% rise in average customer deposits and a 7% increase in average customer advances. However, declining interest rates squeezed interest margins, resulting in a 6% year-on-year drop in net interest income to HK$8,138m.

Non-interest income fell by 46% year-on-year to HK$2,078m, reflecting the volatility in global investment markets, which had an adverse impact on investment returns from our life insurance portfolio and on customer investment activity. Wealth management business revenue fell by 40% year-on-year, due in part to many customers delaying longer-term investment decisions in the uncertain market conditions.

Insurance income fell by 60% year-on-year, reflecting the significant drop in investment returns from the life insurance portfolio and a decline in new business. We continued to enrich our diverse range of retirement planning and healthcare solutions with products to suit the different life stages of customers, including new savings and protection offerings as well as annuity products that enable customers to benefit from the Hong Kong government's tax concession measures. We also supported customers with special measures to provide additional coverage for COVID-19.

Total investment services income grew by 3%. Driven partly by the launch of our standalone securities trading app, year-on-year securities revenue and turnover grew 40% and 58% respectively.

Market challenges aside, our core performance remained solid. Our enhanced data analytics capabilities and more agile business structure enabled us to anticipate changing customer needs and act swiftly to offer suitable products and services. This brought us new business and we recorded a 13% year-on-year rise in the Prestige and Preferred Banking customer base during the first half of 2020.

Our comprehensive and convenient digital services proposition enabled customers to continue meeting their banking needs easily and safely amid the COVID-19 pandemic. Our earlier investments in our digital platforms enabled us to deal smoothly with the upsurge in active Personal Banking mobile app users by 47% year-on-year in Hong Kong. In May, we received the 'Best Mobile Banking App' award in *The Asian Banker*'s International Excellence in Retail Financial Services Awards 2020. A benchmark report published by a global consulting firm in June noted that our mobile banking app is a top performer in Hong Kong for features and user experience.

We continued to add service value with the launch of online and in-app financial tools such as 'Savings Planner', 'SmartInvest', and 'SimplyFund'. These tools are designed to make budgeting and investment simple, particularly for younger customers. Our digital investment customer base grew by 23% year-on-year.

Leveraging our extensive branch network to focus on customers in target segments, we achieved a 2% rise in mortgage balances in Hong Kong compared with the end of 2019, and remained among the market leaders. Our new mortgage business continued to rank among the top three in Hong Kong, with a market share of 13%.

Weaker demand for consumer lending during the first half of 2020 was partly offset by greater demand for tax loans. We maintained our leadership position for unsecured loans drawdowns.

Commercial Banking ('CMB') recorded a 16% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$5,677m. Operating profit and profit before tax dropped by 35% to HK$3,227m, reflecting the economic and operational impact of the COVID-19 pandemic on commercial activity during the first half of 2020 and on our credit risk assessment assumptions given the uncertain economic outlook.

Net interest income was down by 13% at HK$4,532m, reflecting the adverse impact of the historical low interest rate environment on deposit interest income, which more than offset the positive effects of the 5% growth in average loan balances. Non-interest income declined by 26% to HK$1,145m, due mainly to reduced business activity amid the challenges of the pandemic. In particular, declines in income from remittances and life insurance, more than offset a 13% increase in investment services income following our successful efforts to capture new business opportunities in the volatile markets.

We continued to stay active in the syndicated loans market. We ranked the first in the Mandated Arranger League Table for Hong Kong and Macau Syndicated Loans in terms of number of deals.

Our business remained resilient in the challenging external environment. We focused on providing liquidity support to customers, to help see them through this difficult period. In early February, we established a principal moratorium programme to extend the principal repayment period for many of our customers. Our proactive approach and fast response is reflected in our 21% market share of the total dollar amount of principal moratoriums approved based on Hong Kong Monetary Authority ('HKMA') statistics in April. We provided input for the development of the Hong Kong Mortgage Corporation's SME Financing Guarantee Scheme ('SFGS') and remain an active participant in the Scheme as part of our efforts to assist local businesses. In order to speed up the application process as well as to eliminate the need to submit physical applications amid social distancing controls, we launched a dedicated online application platform with document upload functionality on the same date as the 100% SFGS programme was launched. As at 30 June 2020, 33% of the applications we had received came through this online platform. We also support the Pre-approved Principal Payment Holiday Scheme offered by the HKMA, which provides payment holidays to be offered to over 80% of defined customers. The percentage of opt-in customers is lower than we projected, indicating that most of our customers had already received sufficient and timely relief from the Bank in the previous months.

Through continued investment in enhancing our digital capabilities, we have been able to provide seamless services to customers during the pandemic. Available through our Digital Business Banking platform, our One-Click Time Deposit solution enables customers to place time deposits with us at a pre-approved preferential rate with a single click. A new user interface was introduced in Hang Seng HSBCnet that provides a 'cockpit view' of trade transactions through a new Trade Dashboard and allows customers to customise the type of information they want to see. Our commercial banking AI chatbot, BERI, can now also answer trade enquiries, including questions about the trade account opening application process and general import and export services, to provide customers with improved around-the-clock support.

To offer customers enhanced flexibility in managing their operational cash flow, our new 'Flexi-Fixed Deposit' product, allows customers to enjoy preferential deposit interest rates as long as pre-defined deposit balance thresholds are maintained.

While overall credit quality remains robust, we continue to provide support to commercial customers and remain vigilant on credit risk quality given the challenging external environment.

We have been recognised for our efforts in providing dedicated services and support to customers, including by receiving an 'SME Engagement Excellence Award' from *Bloomberg Businessweek*. Our strong business connectivity within the Greater China region was acknowledged in the 'Outstanding Corporate/Commercial Banking – Cross Border Commercial Banking Award' we received in the RMB Business Outstanding Awards organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group in 2019.

Global Banking and Markets ('GBM') recorded a 12% year-on-year increase in net operating income before change in expected credit losses and other credit impairment charges to HK$3,383m and a 9% increase in operating profit and profit before tax to HK$2,646m.

Global Banking ('GB')'s net operating income before change in expected credit losses and other credit impairment charges was HK$1,403m, broadly on par compared with the same period last year. During the first half of 2020, the change in expected credit losses and other credit impairment charges went up to HK$148m, due mainly to the update of key variables in our credit risk assessment model to reflect potential future impact of uncertainties over the COVID-19 pandemic. This resulted in a drop of 11% in both operating profit and profit before tax to HK$994m.

Net interest income was broadly on par with a year earlier at $1,224 million, due partly to our lending portfolio optimisation strategy. Our cash management services have become even more digital. Proactive initiatives to offer customers tailored banking solutions helped drive a 2% increase in the deposit base compared with December last year. We also assisted clients facing economic difficulties through participation in government financial relief schemes.

Our new Debt Capital Markets Origination team leveraged our strong customer relationships and effective cross-business collaboration to rapidly identify new needs in fast-moving markets, resulting in a pick-up in fee income.

Global Markets ('GM') recorded a 24% year-on-year increase in net operating income before change in expected credit losses and other credit impairment charges to HK$1,980m. Operating profit and profit before tax both increased by 27% to HK$1,652m.

Net interest income increased by 15% to HK$1,196m. The balance sheet management team managed 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 increased by 39% to HK$784m. The increase in volatility in foreign exchange markets, together with the changing interest rate environment, resulted in an increase 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 WPB, CMB and GB teams.

The Repo Trading department has been contributing revenue to the business since its implementation in the second half of last year, demonstrating our commitment to diversifying our sources of revenue for sustainable business growth.

Balance Sheet Analysis

Assets

Total assets increased by HK$55bn, or 3%, to HK$1,732bn compared with 2019 year-end, with the Group maintaining good business momentum and advancing its strategy of enhancing profitability through sustainable growth.

Cash and balances at central banks were down by HK$4bn, or 32%, to HK$9bn, due mainly to fund redeployment. Trading assets dropped by HK$11bn, or 24%, to HK$36bn, mainly in Hong Kong Exchange Fund Bills.

Customer loans and advances (net of ECL allowances) grew by HK$11bn, or 1%, to HK$953bn compared with the end of 2019. In response to the COVID-19 pandemic, the government introduced a number of measures to support businesses and the community, and the Group introduced additional measures to support retail and corporate customers. Across mortgages, personal and business loans and motor financing, we had approved and completed about 2,600 principal payment holidays and relief loans application and had provided about HK$82bn in financial relief to customers up to 30 June 2020. Loans for use in Hong Kong increased by 2%. Lending to industrial, commercial and financial sectors grew by 3%, mainly reflecting growth in lending to property development and investment sectors, wholesale and retail trade, and working capital financing for certain large corporate customers operating in industries that are classified under the 'Others' sector. Lending to individuals increased by 2%, due primarily to a rise in residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending, which outweighed the decrease in credit card lending due to lower card spending. Trade finance lending and loans for use outside Hong Kong decreased by 8% and 1% respectively.

Financial investments increased by HK$56bn, or 12%, to HK$518bn, reflecting the partial redeployment of the commercial surplus in debt securities for yield enhancement and liquidity management and the increase in insurance financial instrument portfolios.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$52bn, or 4%, to HK$1,302bn against the end of 2019. Current and savings deposits increased, but there was a drop in time deposits. At 30 June 2020, the advances-to-deposits ratio was 73.2%, compared with 75.4% at 31 December 2019.

At 30 June 2020, shareholders' equity decreased by HK$3bn, or 2%, to HK$176bn compared with 2019 year-end. Retained profits was down by HK$1bn, or 1%, reflecting profit accumulation offset by the payment of the 2019 fourth interim dividend and the 2020 first interim dividend. The premises revaluation reserve decreased by HK$1bn, or 6%, reflecting the unfavourable movement in the commercial property market during the first half of 2020. Financial assets at fair value through other comprehensive income reserve reduced by HK$0.6bn, or 19%, mainly reflecting the fair value movement of the Group's investments in financial assets measured at fair value.

Risk Management

Principal risks and uncertainties

The Group continuously monitors and identifies risks. Our principal risks are credit risk, liquidity and funding risk, market risk, resilience risk, regulatory compliance risk, financial crime and fraud risk, model risk, pension risk and insurance risk. The description of principal risks and a summary of our current policies and practices regarding the management of risk is set out in the 'Risk' section of the Annual Report 2019.

We have maintained a consistent approach to risk management throughout our history, helping to ensure we protect customers' funds, lend responsibly and support economies.

Key developments in the first half of 2020

There were no material changes to the policies and practices for the management of risk, as described in the Annual Report 2019. However, where required, appropriate exceptional handling approaches were exercised in response to Coronavirus Disease 2019 ('COVID-19') developments.

We have been actively managing the risks resulting from COVID-19 and its impact on our customers and operations during the first half of 2020 as well as other key risks described in this section.

We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. We continue to operate in a challenging environment in which cyber threats are prevalent and invest in business and technical controls to defend against these threats.

In the first half of 2020, we enhanced our risk management in the following areas:

- In January 2020, we simplified our approach and articulation of risk management, through the combination of the Enterprise Risk Management Framework and the Operational Risk Management Framework to adopt a single simplified HSBC Risk Management Framework.

- We adopted the new HSBC Group Model Risk Policy and Standard which have been effective from 1 May 2020. The new policy includes updated controls around model monitoring and model use.

- We continued to focus on simplifying our approach to non-financial risk management. We are driving more effective oversight and better end-to-end identification and management of non-financial risks.

- We continued to improve the effectiveness of our financial crime controls in accordance with our specific regulatory obligations. We continued to invest in both advanced analytics and artificial intelligence, which remains key components of our next generation of tools to fight financial crime.

Areas of Special Interest

During the first half of 2020, a number of areas were considered as part of our top and emerging risks because of the effect they have on the Group. We place particular focus in this section on geopolitical and macroeconomic risk, risks related to COVID-19, risks to our operations and portfolios and IBOR transition.

Geopolitical and macroeconomic risk

The COVID-19 outbreak has dominated the political and economic landscape for the first six months of 2020 and heightened existing US-China tensions. US executive branch and congressional action has put pressure on the initial 'Phase One' provisions under the trade agreement signed in January 2020. Frictions span an increasing range of issues including trade, technology and human rights. The COVID-19 outbreak has accelerated US's efforts to try to reduce reliance on China in strategic industries such as sensitive technology, pharmaceuticals and precursor chemicals.

Hong Kong has also emerged as an additional source of tension in US-China relations, with potential ramifications for the Group, including the impact of sanctions, as well as regulatory, reputational and market risks for the Group. While Hong Kong has experienced lower levels of social unrest in 2020, disagreements over the interpretation of the 'One Country, Two Systems' model may continue to drive protest activity leading up to Legislative Council elections.

While UK-China relations have historically been shaped by strong trade and investment, there are also emerging challenges. Following the passage of the Hong Kong National Security Law, the UK government has offered residency rights and a path to citizenship for British National (Overseas) passport holders in Hong Kong. In addition, both UK and Hong Kong have suspended their extradition treaties with each other. This may impact bilateral commercial relationships adversely.

Most developed markets (including Hong Kong) are expected to recover from the COVID-19 crisis, albeit after some permanent business closures and job losses, and not achieve pre-crisis growth rates or activity levels for the foreseeable future.

The contraction in the global economy has had varying effects on our customers, with some of them experiencing financial difficulties. This has resulted in an increase in expected credit losses ('ECL') as explained further in Credit Risk section.

Risks related to COVID-19

COVID-19 and its effect on the global economy have impacted our customers and our performance, and the future effects are uncertain.

Restrictions on mobility implemented by governments around the world to limit the spread of COVID-19 resulted in a sharp contraction in global economic activity in the first half of this year. Economic activity is expected to recover in the second half of the year but there is significant uncertainty associated with the pace and scale of recovery. The rapidly increasing trend of local confirmed COVID-19 cases in Hong Kong since early July 2020 would likely hit the pace of business recovery in Hong Kong as Government has further tightened the social distancing measures. Gradual recovery in economic activity is expected in 2021 but this is contingent on successful containment of the virus and the evolution of other top risks including social unrest in Hong Kong and tensions between the US and China. It also relies on the willingness and ability of households and businesses to return towards pre-crisis spending levels.

Hong Kong Government has deployed extensive measures to support households and corporates. Measures implemented by Government include Cash Payout Scheme of HKD10,000 to each Hong Kong permanent resident, Retail Sector Subsidy Scheme, Food License Holders Subsidy Scheme, Employment Support Scheme, Pre-approved Principal Payment Holiday Scheme, SME Financing Guarantee Scheme, etc. We have been working closely with Hong Kong Government to provide support on the parts of the economy most impacted by COVID-19.

Apart from Government relief measures, we have initiated market-specific measures to support our personal and business customers through these challenging times, including principal moratorium, payment holidays, the waiver of certain fees and charges, etc. for businesses facing market uncertainty and short-term cash flow issue and for individuals facing salary reduction. These measures have been well received and we remain responsive to our customers' changing needs.

The rapid introduction and varying nature of these government support schemes, as well as customer expectations, can lead to risks as the Group implements large-scale changes in a short period of time.

At 30 June 2020, our common equity tier 1 ('CET1') ratio was 16.3%, compared with 16.9% at 31 December 2019, and our liquidity coverage ratio ('LCR') was 193.8%. Our capital, funding and liquidity position will help us to continue supporting our customers throughout the COVID-19 outbreak.

Risks related to COVID-19 *(continued)*

The COVID-19 outbreak has led to a weakening in GDP in Hong Kong, a key variable used in our ECL models, and there remains the risk of more adverse economic scenarios given the ongoing impact of the COVID-19 outbreak. Furthermore, ECL will increase from other parts of our business impacted by the disruption to supply chains. The impact will vary by sectors of the economy, with heightened risk to the oil and gas, transport, retail and catering sectors being observed in the first stage of the outbreak. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured by ECL modelling techniques.

The significant changes in economic and market drivers, customer behaviours and government actions caused by COVID-19 have also impacted the performance of models. These include retail and wholesale credit models such as HKFRS loss models, capital models and traded risk models. This has required more ongoing monitoring and more frequent testing across the Bank particularly for credit models. It has also resulted in the use of compensating controls specifically overlays on top of model outputs to provide a more appropriate assessment. By their nature, such compensating controls require a significant degree of management judgement and assumptions to be applied, and there is a risk that future actual results or performance may differ from such judgements and assumptions. The models may need to be re-calibrated or replaced with the development of alternative models. The effectiveness of the existing models will depend, in large, on the depth and length of the economic downturn faced by the world's economies.

As a result of COVID-19, business continuity plans have been implemented. Despite high levels of working from home, the majority of Service Level Agreements are being maintained. No major impacts to supply chains have been experienced from our third party service providers. The risk of damage or theft of our physical assets or criminal injury to our employees remains unchanged, with no significant incidents impacting buildings or staff. Exceptional handling to ensure the continuity of critical customer services are being documented through governance.

There remains significant uncertainties in assessing the duration of the COVID-19 outbreak and its impact, and how this will evolve through 2020 and beyond. We continue to monitor the situation closely. Given the novel and prolonged nature of the outbreak, additional mitigating actions may be required.

Risks to our operations and portfolios

The economic outlook as a result of COVID-19 remains uncertain with a number of industries adversely impacted. Confirmed COVID-19 cases continue to increase in Hong Kong.

In the first half of 2020, US-China tensions have continued to escalate, including those in relation to Hong Kong. In June 2020, the National People's Congress of China enacted the Hong Kong National Security Law. In response, the US took steps to terminate the preferential treatment afforded to Hong Kong under the 1992 Hong Kong Policy Act. Additionally, the US President signed into law the Hong Kong Autonomy Act and issued an Executive Order, providing authority to impose primary sanctions against entities and individuals determined to have undermined Hong Kong's autonomy. The Hong Kong Autonomy Act also provides authority to impose secondary sanctions against non-US financial institutions determined to have conducted a significant transaction for any individual or entity subject to primary sanctions under the Act. There are other steps that have been taken by the US as well, as tensions with China rise.

Domestic social unrest in Hong Kong remains a risk, with investor and business sentiment in some sectors remaining dampened. There are concerns that ongoing tensions could result in an increasingly fragmented trade and regulatory environment with the retail and leisure sectors being particularly affected by the lack of tourists. However, the financial services sector in Hong Kong has remained strong and has benefited from stable liquidity conditions.

We continue to carefully manage our exposures and conduct regular stress tests to assess the resilience of our balance sheet and our capital adequacy. These are used to consider our risk appetite and provide insights into our financial stability. Our operational resilience has been strongly tested during the COVID-19 outbreak and we have continued to maintain a high level of service to clients during this period. Our operations have shown resilience in continuing to operate in times of domestic social unrest, the COVID-19 outbreak and heightened geopolitical risks. However, this will continue to be closely monitored.

IBOR transition

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups to identify alternative benchmark rates (near risk-free rates or 'RFRs') for these IBORs and, where appropriate, to facilitate an orderly transition to these rates.

Following the announcement by the UK's FCA in July 2017 that it will no longer persuade or require banks to submit rates for the LIBOR after 2021, the national working groups for the affected currencies were tasked with facilitating an orderly transition of the relevant LIBORs to their chosen alternative benchmark rates.

Regulators have reiterated that firms cannot rely on LIBOR being published after the end of 2021 but acknowledge that COVID-19 may impact on transition plans.

National working groups, regulators and governments have also recognised that certain LIBOR contracts genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended prior to LIBOR's cessation. In response, the US government and the European Commission intend to implement legislation that gives market participants the confidence to transition these 'tough legacy' contracts to the recommended benchmark replacement without the fear of legal repercussions. Similarly, in June 2020, the UK government announced that it would grant powers to the FCA to enable continued publication of a LIBOR number using a different and more robust methodology and inputs, and therefore reduce disruption to any holders of these tough legacy contracts. However, there is no certainty as to whether that the FCA will exercise these powers or in what form the revised methodology would take, and the FCA has consequently encouraged users of LIBOR to renegotiate or amend as many contracts as possible before LIBOR's cessation.

The Bank established the IBOR transition programme with the objective of facilitating an orderly transition from a number of LIBOR and other RFRs for the Bank and its clients. During the first half of 2020, the Group's IBOR transition has developed as follows:

We continue to develop our capabilities to offer RFR-based products and the supporting processes and systems. The COVID-19 outbreak has impacted the speed with which we are able to develop these capabilities and many of our customers' readiness to adopt RFR-based products. Consequently, the sale of LIBOR and other RFRs contracts with maturities beyond 2021, known as legacy contracts will continue for longer than initially anticipated. This is likely to increase the volume of legacy contracts that will need to be transitioned.

The programme is also continuing to develop the capability to transition legacy LIBOR and other RFRs contracts at scale. The COVID-19 outbreak has also affected the pace with which many of our customers will have been preparing to adopt RFR-based products. Therefore, it has likely affected the pace at which they will transition their legacy contracts to RFRs. Consequently, we expect legacy contract transition to occur over a shortened time period. In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, which could potentially increase the level of conduct and operational risks. Our plans have been adjusted to reflect both the greater effort required and associated risks in particular we have re-prioritised the delivery of our RFR product capability.

In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the Group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. Furthermore, the transition to alternative reference rates could have a range of adverse impacts.

(a) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products, such as guarantees and derivatives.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2020.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 49 to 52 of the Risk section in the Annual Report 2019.

Maximum exposure to credit risk before collateral held or other credit enhancements

Our credit exposure is spread across a broad range of asset classes, including those measured at amortised cost and fair value, and off-balance sheet financial instruments. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

	At 30 June 2020	*At 31 December 2019*
Cash and balances at central banks	**8,801**	13,038
Trading assets	**35,954**	47,346
Derivative financial instruments	**10,656**	7,338
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**1,311**	1,413
Reverse repurchase agreements – non-trading	**8,020**	6,659
Placings with and advances to banks	**63,961**	65,807
Loans and advances to customers	**953,451**	942,930
Financial investments	**512,917**	455,823
Other assets	**35,595**	26,707
Financial guarantees and other credit related contingent liabilities[1]	**18,561**	17,772
Loan commitments and other credit related commitments	**605,717**	571,437
	2,254,944	2,156,270

1 *Performance and other guarantees were included.*

(a) ***Credit Risk*** *(continued)*

Summary of credit risk

The following tables analyse the financial instruments to which the impairment requirements of HKFRS 9 are applied and the related allowance for expected credit losses ('ECL').

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied

	At 30 June 2020		At 31 December 2019	
	Gross carrying/ nominal amount	Allowance for ECL[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
Loans and advances to customers at amortised cost:	**958,002**	**(4,551)**	946,443	(3,513)
– personal	**346,546**	**(1,563)**	342,742	(1,391)
– corporate and commercial	**591,086**	**(2,868)**	582,123	(2,036)
– non-bank financial institutions	**20,370**	**(120)**	21,578	(86)
Placings with and advances to banks at amortised cost	**41,461**	**(2)**	30,919	(1)
Other financial assets measured at amortised costs:	**178,440**	**(293)**	158,422	(88)
– cash and balances at central banks	**8,801**	**–**	13,038	–
– reverse repurchase agreements – non-trading	**6,962**	**–**	1,912	–
– financial investments	**130,110**	**(274)**	117,935	(80)
– other assets[2]	**32,567**	**(19)**	25,537	(8)
Total gross carrying amount on balance sheet	**1,177,903**	**(4,846)**	1,135,784	(3,602)
Loans and other credit related commitments	**359,916**	**(189)**	347,121	(145)
Financial guarantee and similar contracts	**3,412**	**(9)**	3,675	(7)
Total nominal amount off balance sheet[3]	**363,328**	**(198)**	350,796	(152)
Total	**1,541,231**	**(5,044)**	1,486,580	(3,754)

	Fair value	Memorandum Allowance for ECL	Fair value	Memorandum Allowance for ECL
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')[4]	**383,081**	**(57)**	337,968	(11)

1 *For retail unsecured revolving facilities, e.g. overdrafts and credit cards, the total ECL is recognised against the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised against the loan commitments.*

2 *Includes only those financial instruments which are subject to the impairment requirements of HKFRS 9. 'Other assets' as presented within the Condensed Consolidated Balance Sheet includes both financial and non-financial assets.*

3 *The figure does not include some loans commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amount does not agree with the figure shown in note 35(a) of the Condensed Consolidated Financial Statements which represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in Condensed Consolidated Income Statement.*

(a) ***Credit Risk*** *(continued)*

The following table provides an overview of the Group's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector

	Gross carrying/nominal amount					*Allowance for ECL*					*ECL coverage %*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI* [1]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost:	755,265	199,706	3,029	2	958,002	(963)	(2,328)	(1,260)	–	(4,551)	0.13%	1.17%	41.60%	0.00%	0.48%
– personal	325,390	20,111	1,045	–	346,546	(409)	(928)	(226)	–	(1,563)	0.13%	4.61%	21.63%	N/A	0.45%
– corporate and commercial	418,862	170,238	1,984	2	591,086	(501)	(1,333)	(1,034)	–	(2,868)	0.12%	0.78%	52.12%	0.00%	0.49%
– non-bank financial institutions	11,013	9,357	–	–	20,370	(53)	(67)	–	–	(120)	0.48%	0.72%	N/A	N/A	0.59%
Placings with and advances to banks at amortised cost	41,387	74	–	–	41,461	(2)	–	–	–	(2)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	169,492	8,948	–	–	178,440	(147)	(146)	–	–	(293)	0.09%	1.63%	N/A	N/A	0.16%
Loans and other credit-related commitments	335,499	24,417	–	–	359,916	(66)	(123)	–	–	(189)	0.02%	0.50%	N/A	N/A	0.05%
– personal	240,219	–	–	–	240,219	-	-	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	86,201	21,838	–	–	108,039	(64)	(121)	–	–	(185)	0.07%	0.55%	N/A	N/A	0.17%
– non-bank financial institutions	9,079	2,579	–	–	11,658	(2)	(2)	–	–	(4)	0.02%	0.08%	N/A	N/A	0.03%
Financial guarantee and similar contracts:	2,439	973	–	–	3,412	(1)	(8)	–	–	(9)	0.04%	0.82%	N/A	N/A	0.26%
– personal	7	–	–	–	7	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	2,422	969	–	–	3,391	(1)	(8)	–	–	(9)	0.04%	0.83%	N/A	N/A	0.27%
– non-bank financial institutions	10	4	–	–	14	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
At 30 June 2020	**1,304,082**	**234,118**	**3,029**	**2**	**1,541,231**	**(1,179)**	**(2,605)**	**(1,260)**	**–**	**(5,044)**	**0.09%**	**1.11%**	**41.60%**	**0.00%**	**0.33%**

[1] *Purchased or originated credit-impaired ('POCI').*

(a) ***Credit Risk*** *(continued)*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector *(continued)*

	Gross carrying/nominal amount					Allowance for ECL					ECL coverage %				
	Stage 1	*Stage 2*	*Stage 3*	*POCI* [1]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost:	831,840	112,530	2,073	–	946,443	(942)	(1,757)	(814)	–	(3,513)	0.11%	1.56%	39.27%	N/A	0.37%
– personal	329,640	12,405	697	–	342,742	(359)	(884)	(148)	–	(1,391)	0.11%	7.13%	21.23%	N/A	0.41%
– corporate and commercial	486,565	94,182	1,376	–	582,123	(528)	(842)	(666)	–	(2,036)	0.11%	0.89%	48.40%	N/A	0.35%
– non-bank financial institutions	15,635	5,943	–	–	21,578	(55)	(31)	–	–	(86)	0.35%	0.52%	N/A	N/A	0.40%
Placings with and advances to banks at amortised cost	30,919	–	–	–	30,919	(1)	–	–	–	(1)	0.00%	N/A	N/A	N/A	0.00%
Other financial assets measured at amortised cost	155,509	2,913	–	–	158,422	(53)	(35)	–	–	(88)	0.03%	1.20%	N/A	N/A	0.06%
Loans and other credit-related commitments	341,893	5,228	–	–	347,121	(68)	(77)	–	–	(145)	0.02%	1.47%	N/A	N/A	0.04%
– personal	239,003	–	–	–	239,003	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	93,492	4,693	–	–	98,185	(67)	(77)	–	–	(144)	0.07%	1.64%	N/A	N/A	0.15%
– non-bank financial institutions	9,398	535	–	–	9,933	(1)	–	–	–	(1)	0.01%	0.00%	N/A	N/A	0.01%
Financial guarantee and similar contracts:	3,132	543	–	–	3,675	(3)	(4)	–	–	(7)	0.10%	0.74%	N/A	N/A	0.19%
– personal	7	–	–	–	7	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	3,115	539	–	–	3,654	(3)	(4)	–	–	(7)	0.10%	0.74%	N/A	N/A	0.19%
– non-bank financial institutions	10	4	–	–	14	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
At 31 December 2019	1,363,293	121,214	2,073	–	1,486,580	(1,067)	(1,873)	(814)	–	(3,754)	0.08%	1.55%	39.27%	N/A	0.25%

1 *Purchased or originated credit-impaired ('POCI').*

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on pages 57 to 58 of the Annual Report 2019. There have been no significant changes during the first half of 2020.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed by the Group with reference to external forecasts specifically for the purpose of calculating ECL. The emergent nature of the COVID-19 outbreak at the end of 2019 meant that our view of the distribution of risks, as disclosed in the Annual Report 2019, did not, on a forward-looking basis, consider the impact of the virus. Our consensus Central scenario at the 2019 year-end projected moderate growth over a five-year horizon, with strong prospects for employment and a gradual increase in policy interest rates by central banks. The onset of the virus has led to a fundamental reassessment of our central forecast and the distribution of risks.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes. The main factors that affect uncertainty across our key markets are:

– epidemiological concerns, including a possible resurgence of the virus later in 2020 and in 2021;

– the ability of new or continued restrictions in individual markets to affect global growth due to deep cross-border trade and financial linkages;

– the ability of governments and central banks to continue to limit the economic damage through support measures;

– site specific differences in the progression of COVID-19 and the associated responses by public authorities which imply differentiation in the degree of uncertainty across our key markets;

– the potential for other geopolitical and macroeconomic risks to affect growth and economic stability as the world recovers from COVID-19-related restrictions.

This volatility in data, and in forecasts is reflected in management's choice of scenarios, in probability weights and in their assessment of ECL outcomes.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The scenarios used to calculate ECL in the 2020 Condensed Consolidated Financial Statements are described below.

The consensus Central scenario

Restrictions on mobility implemented by governments over the world to limit the spread of COVID-19 resulted in a sharp contraction in global economic activity in the first half of this year. Economic activity is expected to recover in the second half of the year but there is significant uncertainty associated with the pace and scale of resumption. As a result, 2020 is expected to experience the most severe recession on record across all our key markets. Strong recovery in economic activity is expected in 2021, but this is contingent on successful containment of the virus and the evolution of other top risks.

Our Central scenario features a severe but temporary economic shock to the global economy in 2020 followed by a strong recovery in 2021 and steady growth thereafter. Global GDP is expected to contract by -3.9% in 2020 before recovering to 4.8% in 2021. The average rate of global GDP growth is expected to be 2.7%, over the forecast period 2020–2025, which is slightly lower than the average growth rate over the 2014–2018 period. Across the key markets, we note:

- Expectations of GDP growth are deeply negative in 2020, with the worst quarter expected either in Q1 or Q2 depending on the timing of the spread of COVID-19 and subsequent restrictions on mobility. GDP is forecast to recover strongly in 2021, characterised as a V-shaped recession.
- The unemployment rate is expected to rise sharply in most of our major markets, before reverting gradually back to pre-crisis levels over the forecast horizon.
- Inflation is expected to fall sharply in 2020 in line with the slowdown in economic activity, before increasing to gradually converge to central bank targets in our key markets over the forecast period.
- Governments have provided extensive support to households and corporates in our key markets. Fiscal deficits are expected to increase sharply in 2020 before reducing in later years of the projection period. Sovereign indebtedness is expected to increase sharply as a result.
- Major central banks have lowered their main policy interest rates, implemented emergency support measures for funding markets and either restarted or increased quantitative easing programmes in order to support the economy and the financial system. Interest rates are expected to remain close to the zero lower bound over the projection horizon.
- The West Texas Intermediate oil price is forecast to average US$37 per barrel over the projection period.

The Central scenario has been created with forecasts available in May. The weight the Group has chosen to give the Central scenario reflects management's view of the higher degree of uncertainty that currently prevails in key markets. The Central scenario has been assigned a 70% weight across most of our key markets.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Central scenario *(continued)*

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario.

Central scenario (2020 Q3 – 2025 Q2)

	Hong Kong	***Mainland China***
GDP growth (%)		
Annual average growth rate: 2020	(4.8)	1.4
Annual average growth rate: 2021	4.2	8.1
2022Q1-2025Q2: average growth	2.3	5.3
2020Q3-2025Q2: worst quarter	(2.6) (2020Q3)	3.3 (2021Q4)
Unemployment rate (%)		
Annual average growth rate: 2020	4.6	4.5
Annual average growth rate: 2021	4.1	4.2
2022Q1-2025Q2: average growth	3.7	3.9
2020Q3-2025Q2: worst quarter	4.8 (2020Q3)	4.6 (2020Q3)
House Price Index (%)		
Annual average growth rate: 2020	(7.9)	1.8
Annual average growth rate: 2021	0.4	2.6
2022Q1-2025Q2: average growth	3.4	5.4
2020Q3-2025Q2: worst quarter	(11.5) (2020Q3)	1.3 (2021Q1)
10-year bond yield (%)		
Annual average growth rate: 2020	1.2	N/A
Annual average growth rate: 2021	1.7	N/A
2022Q1-2025Q2: average growth	2.2	N/A
2020Q3-2025Q2: worst quarter	1.2 (2020Q3)	N/A
Probability (%)	70	70

Note: N/A – not required in credit models.

The consensus Upside scenario

Compared to the Central scenario, the consensus Upside features a faster recovery in economic activity over the first two years of the scenario before converging to long-run trends. Despite this feature, 2020 continues to be a year of contraction in GDP growth and several quarters elapse before global activity reaches the level attained at the end of 2019, just prior to the onset of the virus.

The scenario is consistent with a number of key upside risk themes. These include orderly global abatement of COVID-19 via successful containment and/or the development of a vaccine, de-escalation of tensions between the US and China, continued support from fiscal and monetary policy, stronger oil prices and de-escalation of geopolitical tensions in Hong Kong.

Probability weights assigned to the Upside scenario range from 5% to 10%. These weights reflect management's view of the potential for more positive outcomes relative to the Central scenario in our key markets.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Downside scenario

The real GDP growth contracts significantly in 2020 in the Downside scenario with sharp increase in unemployment and falls in asset prices and inflation before gradually recovering towards its long-run trend. Compared to the Central scenario, this recovery is considerably weaker.

The scenario is consistent with our key downside risks. These include renewed outbreaks of the COVID-19 and/or slower easing of restriction of travel and activity, an intensification of tensions between the US and China, further risks to economic growth in Hong Kong and weaker commodity prices.

A weight of either 15% or 20% has been assigned to the consensus Downside scenario to reflect management's view of the risks and severity across key markets.

Alternative Downside scenario

A global additional Downside scenario has been created to reflect management's view of extreme risks. This scenario assumes that a number of Group's top risks crystallise simultaneously and result in an extreme severe and long-lived recession. This scenario has been assigned a 5% probability across all markets.

The range of macroeconomic projections across the various scenarios are shown in the table below:

Outer scenario ranges (2020 Q3 – 2025 Q2)

	Hong Kong			***Mainland China***		
GDP growth (%)	(1.5) (2020Q3)	to	(15.8) (2020Q3)	3.9 (2021Q4)	to	(7.2) (2020Q3)
Unemployment rate (%)	4.5 (2020Q3)	to	8.0 (2021Q1)	4.5 (2020Q3)	to	6.1 (2022Q1)
House Price Index (%)	(10.3) (2020Q3)	to	(26.3) (2021Q1)	3.3 (2020Q3)	to	(25.8) (2021Q3)
10-year bond yield (%)	1.2 (2020Q3)	to	(0.8) (2021Q1)		N/A	
Probability consensus Upside (%)		5			10	
Probability consensus Downside (%)		20			15	
Probability Global Downside (%)		5			5	

Note: The figures provided represent the range of the worst point across all three outer scenarios.

N/A – not required in credit models.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Critical accounting estimates and judgements

The calculation of ECL under HKFRS 9 involves significant judgements, assumptions and estimates, as set out in the Annual Report 2019 under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a widening in the distribution of economic forecasts. The key judgement is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;

- estimating the economic effects of those scenarios on ECL, where modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and

- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in the wholesale calculation of ECL

We have developed a globally consistent methodology for the application of forward economic guidance ('FEG') into the calculation of ECL by incorporating FEG into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of FEG to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of FEG to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, ECL is individually assessed based on the likelihood of recovery of that case using discounted cash flow analysis taking into account of the situation of the borrower, the value/quality of the collateral pledged and other recovery actions with consideration of the forward economic guidance. The assessment result is an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes.

How economic scenarios are reflected in the retail calculation of ECL

We have developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into HKFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of the underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Post-model adjustments

In the context of HKFRS 9, post-model adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. We have internal governance in place to regularly monitor post-model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Depending on the path of the pandemic and the shape of the economic recovery, we anticipate the composition of modelled ECLs and post-model adjustments may be revised significantly over 2020, particularly when the economy resumes positive GDP growth and the uncertainty over long-term unemployment abates.

The following table quantifies the judgemental adjustments that have been made to modelled ECL at 30 June 2020.

	Retail	***Wholesale***	***Total***
Net post-model additons/(reductions) in ECL			
Low risk counterparities and economies	(819)	(27)	(846)
Other economic adjustments	421	(1,881)	(1,460)
Total	(398)	(1,908)	(2,306)

The low risk counterparties and economies adjustment (including exposures under WPB insurance business) HK$846m relates to low credit risk exposures to highly rated banks and sovereigns, where modelled credit factors do not fully reflect the effect of government support and economic programmes in the COVID-19 environment. For certain highly rated sovereign exposures, existing models do not produce plausible outputs under current conditions because there is little or no recessionary experience on which to base modelled outcomes. Adjustments to other exposures HK$1,460m principally reflect the outcome of the credit expert best estimates ('CEBE') review on wholesale corporate exposures. Post-model adjustments have been made where modelled rating migration and ECL outputs based on historical relationships produced results that were implausible, which is often the case when using economic inputs that are well outside the range of historical experience.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the LGD of a particular portfolio was sensitive to these changes.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Wholesale analysis

HKFRS 9 ECL sensitivity to future economic conditions

	Hong Kong	***Mainland China***
ECL coverage of financial instruments subject to significant measurement uncertainty at 30 June 2020		
Reported ECL	1,667	558
Consensus scenarios		
Central scenario	1,438	476
Upside scenario	1,079	281
Downside scenario	2,058	678
Alternative scenarios		
Global Downside scenario	4,813	4,389

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1]

	Hong Kong	***Mainland China***
ECL of loans and advances to customers subject to significant measurement uncertainty at 30 June 2020[2]		
Reported ECL	1,493	29
Consensus scenarios		
Central scenario	1,311	27
Upside scenario	1,215	26
Downside scenario	1,638	28
Alternative scenarios		
Global Downside scenario	3,125	62

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

2 *ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.*

(a) ***Credit Risk*** *(continued)*

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]			
	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
At 1 January 2020	1,207,784	(1,014)	118,301	(1,838)	2,073	(814)	–	–	1,328,158	(3,666)
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(153,995)	294	153,995	(294)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	15,453	(237)	(15,453)	237	–	–	–	–	–	–
– transfers to Stage 3	(193)	–	(840)	29	1,033	(29)	–	–	–	–
– transfers from Stage 3	–	–	11	–	(11)	–	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	100	–	(199)	–	(4)	–	–	–	(103)
New financial assets originated and purchased	106,370	(137)	14,772	(123)	62	(19)	2	–	121,206	(279)
Assets derecognised (including final repayments)	(50,088)	22	(9,224)	140	(221)	87	–	–	(59,533)	249
Changes to risk parameters – further lending/(repayments)	11,441	128	(36,163)	(451)	548	52	–	–	(24,174)	(271)
Changes in risk parameters – credit quality	–	(133)	–	(472)	–	(980)	–	–	–	(1,585)
Changes to model used for ECL calculation	–	(55)	–	512	–	–	–	–	–	457
Assets written off	–	–	–	–	(445)	445	–	–	(445)	445
Credit related modifications that resulted in derecognition	–	–	–	–	(4)	2	–	–	(4)	2
Foreign exchange and others	(2,182)	–	(229)	–	(6)	–	–	–	(2,417)	–
At 30 June 2020	**1,134,590**	**(1,032)**	**225,170**	**(2,459)**	**3,029**	**(1,260)**	**2**	**–**	**1,362,791**	**(4,751)**

	Total
Change in ECL in income statement (charge)/ release for the period	(1,530)
Add: Recoveries	42
Add/(less): Others	(21)
Total ECL (charge)/release for the period	**(1,509)**

(a) ***Credit Risk*** *(continued)*

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

	At 30 June 2020		For the half-year ended 30 June 2020
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,362,791	(4,751)	(1,509)
Other financial assets measured at amortised cost	178,440	(293)	(205)
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied/ Summary Condensed Consolidated Income Statement	1,541,231	(5,044)	(1,714)
Debt instruments measured at FVOCI [2]	381,163	(57)	(46)
Performance and other guarantees not considered for HKFRS9	15,160	(5)	–
Total allowance for ECL/total ECL charge for the period	1,937,554	(5,106)	(1,760)

1 *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

2 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.*

3 *The financial information included in this table forms part of the Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

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

	Non credit – impaired				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	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*
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	(83,702)	94	83,702	(94)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	18,965	(250)	(18,965)	250	–	–	–	–	–	–
– transfers to Stage 3	(300)	–	(130)	6	430	(6)	–	–	–	–
– transfers from Stage 3	5	–	10	(1)	(15)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	151	–	(276)	–	(3)	–	–	–	(128)
New financial assets originated and purchased	208,472	(273)	22,627	(235)	135	(74)	–	–	231,234	(582)
Assets derecognised (including final repayments)	(150,907)	71	(13,601)	172	(148)	70	(6)	–	(164,662)	313
Changes to risk parameters – further lending/(repayments)	6,635	78	(8,887)	(17)	467	15	–	–	(1,785)	76
Changes in risk parameters – credit quality	–	(131)	–	(457)	–	(797)	–	–	–	(1,385)
Changes to model used for ECL calculation	–	23	–	(186)	–	–	–	–	–	(163)
Assets written off	–	–	–	–	(939)	939	–	–	(939)	939
Foreign exchange and others	(1,968)	–	(241)	–	(11)	–	–	–	(2,220)	–
At 31 December 2019	1,207,784	(1,014)	118,301	(1,838)	2,073	(814)	–	–	1,328,158	(3,666)

	Total
Change in ECL in income statement (charge)/ release for the period	(1,869)
Add: Recoveries	106
Add/(less): Others	(17)
Total ECL (charge)/release for the period	(1,780)

	At 31 December 2019		*For the year ended 31 December 2019*
	Gross carrying/ nominal amount	*Allowance for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,328,158	(3,666)	(1,780)
Other financial assets measured at amortised cost	158,422	(88)	(48)
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied/ Summary Consolidated Income Statement	1,486,580	(3,754)	(1,828)
Debt instruments measured at FVOCI [2]	337,339	(11)	(6)
Performance and other guarantees not considered for HKFRS 9	13,956	(5)	(3)
Total allowance for ECL/total income statement ECL charge for the period	1,837,875	(3,770)	(1,837)

1 *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

2 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

***(a)* Credit Risk** *(continued)*

The five credit quality classifications defined in the table below each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. Under HKFRS 9 retail lending credit quality is based on a 12-month point-in-time ('PIT') probability-weighted PD. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

	Sovereign debt securities and bills	*Other debt securities and bills*	*Wholesale lending*		*Retail lending*	
Credit Quality classification[1,2]	*External credit rating*	*External credit rating*	*Internal credit rating*	*12-month Basel probability of default %*	*Internal credit rating*	*12-month probability-weighted PD %*
Strong	BBB and above	A- and above	CRR1 to CRR2	0–0.169	Band 1 and 2	0–0.500
Good	BBB- to BB	BBB+ to BBB-	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.999
Credit-impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

1 *Customer risk rating ('CRR').*

2 *12-month point-in-time ('PIT') probability-weighted probability of default ('PD').*

Quality classification definitions

- *Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.*
- *Good exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.*
- *Satisfactory exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.*
- *Sub-standard exposures require varying degrees of special attention and default risk is of greater concern.*
- *Credit-impaired exposures have been assessed as described on note 2(j) on the Consolidated Financial Statements in Annual Report 2019.*

(a) Credit Risk (continued)

Credit quality of financial instruments

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage allocation

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
Loans and advances to customers at amortised cost	447,645	247,734	254,277	5,315	3,031	958,002	(4,551)	953,451
– stage 1	436,765	192,618	125,159	723	–	755,265	(963)	754,302
– stage 2	10,880	55,116	129,118	4,592	–	199,706	(2,328)	197,378
– stage 3	–	–	–	–	3,029	3,029	(1,260)	1,769
– POCI	–	–	–	–	2	2	–	2
Placings with and advances to banks at amortised cost	40,949	511	1	–	–	41,461	(2)	41,459
– stage 1	40,947	439	1	–	–	41,387	(2)	41,385
– stage 2	2	72	–	–	–	74	–	74
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	141,749	26,024	10,663	4	–	178,440	(293)	178,147
– stage 1	139,805	21,819	7,868	–	–	169,492	(147)	169,345
– stage 2	1,944	4,205	2,795	4	–	8,948	(146)	8,802
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	276,611	58,538	24,563	204	–	359,916	(189)	359,727
– stage 1	275,839	44,203	15,442	15	–	335,499	(66)	335,433
– stage 2	772	14,335	9,121	189	–	24,417	(123)	24,294
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	90	2,505	812	5	–	3,412	(9)	3,403
– stage 1	72	2,249	118	–	–	2,439	(1)	2,438
– stage 2	18	256	694	5	–	973	(8)	965
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2020	907,044	335,312	290,316	5,528	3,031	1,541,231	(5,044)	1,536,187
Debt instruments at FVOCI[1]								
– stage 1	380,676	487	–	–	–	381,163	(57)	381,106
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2020	380,676	487	–	–	–	381,163	(57)	381,106

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Condensed Consolidated Financial Statements as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 35(a) of the Condensed Consolidated Financial Statements.*

3 *The financial information included in this table forms part of the Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage allocation *(continued)*

	Gross carrying/notional amount							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowance for ECL*	*Net*
Loans and advances to customers at amortised cost	455,860	245,260	237,925	5,325	2,073	946,443	(3,513)	942,930
– stage 1	454,420	208,914	168,025	481	–	831,840	(942)	830,898
– stage 2	1,440	36,346	69,900	4,844	–	112,530	(1,757)	110,773
– stage 3	–	–	–	–	2,073	2,073	(814)	1,259
– POCI	–	–	–	–	–	–	–	–
Placings with and advances to banks at amortised cost	30,481	438	–	–	–	30,919	(1)	30,918
– stage 1	30,481	438	–	–	–	30,919	(1)	30,918
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	124,863	23,835	9,718	6	–	158,422	(88)	158,334
– stage 1	123,773	22,618	9,118	–	–	155,509	(53)	155,456
– stage 2	1,090	1,217	600	6	–	2,913	(35)	2,878
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	276,021	53,205	17,701	194	–	347,121	(145)	346,976
– stage 1	276,021	50,438	15,408	26	–	341,893	(68)	341,825
– stage 2	–	2,767	2,293	168	–	5,228	(77)	5,151
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	87	2,590	990	8	–	3,675	(7)	3,668
– stage 1	87	2,492	553	–	–	3,132	(3)	3,129
– stage 2	–	98	437	8	–	543	(4)	539
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2019	887,312	325,328	266,334	5,533	2,073	1,486,580	(3,754)	1,482,826
Debt instruments at FVOCI[1]								
– stage 1	336,462	877	–	–	–	337,339	(11)	337,328
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2019	336,462	877	–	–	–	337,339	(11)	337,328

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Consolidated Financial Statements as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 45 of the Consolidated Financial Statements in Annual Report 2019.*

(a) Credit Risk *(continued)*

Customer relief programmes

In response to the COVID-19 pandemic, governments around the world have introduced a number of support measures for both personal and wholesale customers. The Group has also provided additional temporary relief measures to aid customers who were impacted by the coronavirus in Hong Kong, China and Macau. The following table presents the number of customers and drawn loan values of customers under these schemes and additional relief measures implemented by the Group at 30 June 2020.

		At 30 June 2020
Personal lending		
Number of customers granted mortgages payment holidays	Thousands	**0.7**
Drawn loan value of customers granted mortgage payment holidays	HK$m	**2,501**
Total mortgages	HK$m	**275,548**
Payment holidays as a proportion of total mortgages	%	**0.9**
Number of customers granted other personal lending payment holidays	Thousands	**0.3**
Drawn loan value of customers granted other personal lending payment holidays	HK$m	**668**
Total other personal lending	HK$m	**70,998**
Payment holidays as a proportion of total other personal lending	%	**0.9**
Wholesale lending		
Number of customers under customer relief schemes	Thousands	**1.6**
Drawn loan value of customers under customer relief schemes	HK$m	**78,777**
Total wholesale loans and advances to customers	HK$m	**611,456**
Customer relief as a proportion of total wholesale loans and advances to customers	%	**12.9**

Note: *Of the drawn loan value in the table above, around HK$2.9 billion was granted by Hang Seng Bank (China) Limited and Hang Seng Bank Macau Branch with majority of the amount in wholesale lending.*

Customer relief schemes in Hong Kong

Wholesale

Given the continued challenges encountered by the Hong Kong business community on the back of the COVID-19 outbreak, the Bank has rolled out certain temporary relief measures in 2020 to support our corporate clients during this period. The overarching premise of these initiatives was to support the immediate cash flow and liquidity of our customers, without increasing the overall quantum of exposure/risk appetite to these clients. Eligible customers were required to meet a set of credit criteria agreed with Risk.

The prescribed eligibility criteria (which include parameters for CRR, favorable past due history and no Worry-Watch-Monitor classification etc.) are to ensure that these measures are extended only to the 'good book', clients are not already showing any signs of stress and that these arrangements are more proactive and flexible approaches to commercial restructuring as opposed to forbearance/renegotiated loans/distressed restructuring.

(a) ***Credit Risk*** *(continued)*

Customer relief schemes in Hong Kong *(continued)*

Wholesale *(continued)*

The relief measures are as follows:

- Programmes implemented by the Bank in Hong Kong in February 2020 for 'eligible client' include:
  - Up to 60-day extension of import or export trade loans;
  - Taxi/public light bus hire purchase loans: Up to 6-month principal moratorium;
  - Secured loans: 6-month principal moratorium;
  - Loans under SME Financing Guarantee Scheme: Up to 6-month principal moratorium;
- A supplemental industry-wide relief programme initiated by the Hong Kong Monetary Authority ('HKMA') for eligible corporates with turnover not exceeding HK$800m and other prescibed criteria was launched in May 2020. The Pre-approved Principal Payment Holiday Scheme ('PPPHS') entailed essentially a up to 90-day tenor extension for trade facilities and up to 6-month principal payment holiday for other loans;
- A special 100% Loan Guarantee under the SME Financing Guarantee Scheme ('SFGS100') was launched in April 20. The guarantee covers a maximum tenor of 3 years and maximum loan size of HK$4m, and involved transfer of title of the loan to the Hong Kong Mortgage Corporation, a quasi-government agency.

Retail

The HKMA in early February 2020 encouraged Authorised Institutions to adopt a sympathetic stance in dealing with customers facing financial stress due to the COVID-19 and, to the extent prudent risk management principles permit, consider requests from these borrowers for temporary relief arrangements favorably. The Bank introduced a suite of comprehensive relief measures to ease the financial burden and short term cash flow pressures on personal customers created by the spread of COVID-19. This exemplifies the Bank's commitment to support the local community during these tough times.

The relief measures are as follows:

- Deferred Mortgage Principal Repayment Plan of up to 6 months with only repayment of interest for existing mortgage loan customers who have a good repayment record in the past 6 months and also covering Government Home Ownership Scheme ('GHOS')/Tenants Purchase Scheme ('TPS');
- Personal Instalment Relief Loan of up to HK$30,000 with a maximum tenor of 24 months for existing customers employed in the affected industries (e.g. tourism, entertainment, catering and retail industries). The choice of repayment period is from 6 months to 24 months.

(b) Liquidity and funding risk

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

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

There is no material change to the policies and practices for the management of liquidity and funding risk in the first half of 2020.

A summary of the Group's current policies and practices for the management of liquidity and funding risk is set out in 'Liquidity and funding risk' section on pages 78 to 83 of the Annual Report 2019.

Liquidity information

The management of liquidity risk was enhanced during 1H20 in response to the COVID-19 pandemic to ensure the bank anticipated, monitored and responded to the impacts in a more efficient manner.

The Group is required to calculate its Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR') on a consolidated basis in accordance with rule 11(1) of The Banking (Liquidity) Rules ('BLR') and to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the reportable periods are as follows:

	Quarter ended 30 June 2020	***Quarter ended 31 March 2020***	*Quarter ended 30 June 2019*	*Quarter ended 31 March 2019*
Average LCR	**198.0%**	**181.6%**	198.5%	210.8%

The liquidity position of the Group remained strong for the first half of 2020. The average LCR were 198.0% and 181.6% for the quarters ended 30 June and 31 March 2020 respectively, compared with 198.5% and 210.8% for the quarters ended 30 June and 31 March 2019 respectively.

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

	Weighted amount (average value) at quarter ended			
	30 June 2020	***31 March 2020***	*30 June 2019*	*31 March 2019*
Level 1 assets	**315,876**	**297,826**	305,849	309,073
Level 2A assets	**15,415**	**15,056**	12,539	11,577
Level 2B assets	**1,795**	**1,224**	550	548
Total weighted amount of HQLA	**333,086**	**314,106**	318,938	321,198

The NSFRs at the reportable quarter-end are as follows:

	Quarter ended 30 June 2020	***Quarter ended 31 March 2020***	*Quarter ended 30 June 2019*	*Quarter ended 31 March 2019*
NSFR	**151.0%**	**146.0%**	152.5%	150.3%

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

Liquidity information *(continued)*

The funding position of the Group remained strong and stable for the first half of 2020. The period end NSFR were 151.0% and 146.0% for the quarters ended 30 June and 31 March 2020 respectively, compared with 152.5% and 150.3% for the quarters ended 30 June and 31 March 2019 respectively.

Sources of funding

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

Additional contractual obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are ISDA compliant CSA contracts), in the event of one-notch and two-notch downgrade in credit ratings, the additional collateral required is nil.

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

(c) Market risk

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. Exposure to market risk is separated into two portfolios: trading portfolios and non-trading portfolios.

There is no material change to the Group's policies and practices for the management of market risk in the first half of 2020.

A summary of the Group's current policies and practices for the management of market risk is set out in 'Market Risk' section on pages 83 to 91 of the Annual Report 2019.

Market risk in the first half of 2020

Global financial conditions worsened rapidly with the onset of the COVID-19 pandemic from mid-February. Market volatility reached extreme levels across most asset classes and equity prices fell sharply from the previous historic peak levels. In credit markets, spread and yields reached multi-year highs. The gold market experienced COVID-19 related to disruption in refining and transportation affecting the relative pricing of gold futures contracts, and oil prices collapsed due to rising over-supply as demand reduced materially due to the economic slowdown. Financial markets tended to stabilise from April onwards, as governments in main developed countries announced economic recovery programmes and key central banks intervened to provide liquidity and support asset prices.

The Group managed market risk prudently in the first half of 2020, using a complementary set of exposure measures and limits, including stress and scenario analysis. The foreign exchange and interest rate asset classes are the major contributors to trading value at risk ('VaR').

(c) Market risk *(continued)*

Trading portfolios

VaR of the trading portfolios

Trading VaR predominantly resides within Global Markets. The VaR for trading activity at 30 June 2020 was higher than that at 30 June 2019, driven by both foreign exchange and interest rate trading portfolios.

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

Trading

	At 30 June 2020	Minimum during the first half of 2020	Maximum during the first half of 2020	Average for the first half of 2020
VaR				
Trading	**38**	**29**	**58**	**42**
Foreign exchange trading	**25**	**21**	**35**	**26**
Interest rate trading	**28**	**19**	**45**	**31**
Portfolio diversification	**(15)**	**–**	**–**	**(15)**
Stressed VaR				
Trading	**136**	**84**	**216**	**135**
Foreign exchange trading	**96**	**36**	**99**	**55**
Interest rate trading	**92**	**89**	**247**	**141**
Portfolio diversification	**(52)**	**–**	**–**	**(61)**

	At 30 June 2019	Minimum during the first half of 2019	Maximum during the first half of 2019	Average for the first half of 2019
VaR				
Trading	28	14	30	20
Foreign exchange trading	22	7	24	12
Interest rate trading	21	11	28	19
Portfolio diversification	(15)	–	–	(11)
Stressed VaR				
Trading	166	56	207	115
Foreign exchange trading	121	9	121	32
Interest rate trading	191	54	213	122
Portfolio diversification	(146)	–	–	(39)

Non-trading portfolios

Banking book interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. The risk arises from timing mismatches in the re-pricing of non-traded assets and liabilities and is the potential adverse impact of changes in interest rates on earnings and capital.

In its management of the risk, the Group aims to mitigate the impact of future interest rate movements which could reduce future net interest income, while balancing the cost of hedging activities to the current revenue stream. Monitoring the sensitivity of projected net interest income under varying interest rate scenarios is a key part of this.

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

Non-trading portfolios *(continued)*

In order to manage structural interest rate risk, non-traded assets and liabilities are transferred to Balance Sheet Management ('BSM') based on their re-pricing and maturity characteristics. For assets and liabilities with no defined maturity or re-pricing characteristics, behaviouralisation is used to assess the interest rate risk profile. BSM manages the banking book interest rate positions transferred to it within the approved limits. The Asset and Liability Management Committee ('ALCO') is responsible for monitoring and reviewing its overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group's behaviouralisation policies and approved at least annually by ALCO.

Foreign exchange exposures

The Group's structural foreign exchange exposure, monitored using sensitivity analysis, represents the Group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the Group's long-term foreign currency equity investments, the functional currencies of which are currencies other than the HK dollar. An entity's functional currency is normally that of the primary economic environment in which the entity operates. The Group's structural foreign exchange exposures are managed by the Group's ALCO with the primary objective of ensuring, where practical, that the Group's and the Bank's capital ratios are largely protected from the effect of changes in exchange rates.

Exchange differences on structural exposures are recognised in 'Other comprehensive income'.

The Group's foreign exchange exposures are prepared in accordance with the HKMA 'Return of Foreign Currency Position – (MA(BS)6)'.

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

Equities exposures

The Group's equities exposures in the first half of 2020 and for the year 2019 are mainly long-term equity investments which are reported as 'Financial investments'. Equities held for trading purpose are included under 'Trading assets' and subject to trading limit and risk management control procedures and other market risk regime.

(d) Insurance risk

Overview

Insurance risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapses and surrender rates.

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as financial risk and insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to Hang Seng Insurance Company Limited ('HSIC'), the issuer.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture is provided on pages 95 to 104 of the Annual Report 2019.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the Annual Report 2019.

Insurance manufacturing operations risk profile in the first half of 2020

The risk profile of our insurance manufacturing businesses is measured using an economic capital approach. Assets and liabilities are measured on a market value basis, and a capital requirement is defined to ensure that there is a less than one in 200 chance of insolvency over a one-year time horizon, given the risks to which the businesses are exposed. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations. A key risk appetite metric is the economic coverage ratio, which is calculated by dividing the economic net asset value by the economic capital requirement.

Our insurance subsidiary, HSIC, manages the economic capital coverage ratio against its appetite and tolerance as approved by its Board.

(d) ***Insurance risk*** *(continued)*

Insurance manufacturing operations risk profile in the first half of 2020 *(continued)*

The following table shows the composition of assets and liabilities by contract type.

Balance sheet of insurance operations by type of contract

	Linked contracts[1]	Non-linked contracts[1]	Other assets and liabilities[2]	Total
30 June 2020				
Financial assets:				
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	179	14,414	–	14,593
– derivative financial instruments	–	584	–	584
– financial investments	–	111,920	6,250	118,170
– other financial assets	18	8,236	180	8,434
Total financial assets	197	135,154	6,430	141,781
Reinsurance assets	–	8,031	–	8,031
Present value of in-force long-term insurance contracts	–	–	22,574	22,574
Other assets	–	6,134	1,627	7,761
Total assets	197	149,319	30,631	180,147
Liabilities under investment contracts designated at fair value	133	290	–	423
Liabilities under insurance contracts	60	136,449	–	136,509
Deferred tax	–	9	3,725	3,734
Other liabilities	–	–	9,327	9,327
Total liabilities	193	136,748	13,052	149,993
Shareholders' equity	–	–	30,154	30,154
Total liabilities and shareholders' equity	193	136,748	43,206	180,147

(d) ***Insurance risk*** *(continued)*

Insurance manufacturing operations risk profile in the first half of 2020 *(continued)*

Balance sheet of insurance operations by type of contract *(continued)*

	Linked contracts[1]	*Non-linked contracts*[1]	*Other assets and liabilities*[2]	*Total*
31 December 2019				
Financial assets:				
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	198	18,350	–	18,548
– derivative financial instruments	–	357	–	357
– financial investments	–	99,723	6,792	106,515
– other financial assets	10	6,093	622	6,725
Total financial assets	208	124,523	7,414	132,145
Reinsurance assets	–	8,791	–	8,791
Present value of in-force long-term insurance contracts	–	–	20,469	20,469
Other assets	–	6,378	1,555	7,933
Total assets	208	139,692	29,438	169,338
Liabilities under investment contracts designated at fair value	135	294	–	429
Liabilities under insurance contracts	69	132,051	–	132,120
Deferred tax	–	8	3,362	3,370
Other liabilities	–	–	3,996	3,996
Total liabilities	204	132,353	7,358	139,915
Shareholders' equity	–	–	29,423	29,423
Total liabilities and shareholders' equity	204	132,353	36,781	169,338

1 *Comprises life insurance contracts and investment contracts*

2 *Comprises shareholder assets and liabilities*

Market risk (insurance)

Description and exposure

Market risk is the risk of changes in market factors affecting capital or profit. Market factors include interest rates, equity and other growth assets prices and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are contracts with discretionary participating features ('DPF') issued in Hong Kong. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in bonds, with a proportion allocated to other asset classes to provide customers with the potential for enhanced returns.

DPF products expose the Group to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the financial guarantees to the policyholders, in which case the shortfall has to be met by the Group. Reserves are held against the cost of such guarantees, calculated by stochastic modelling.

Where local rules require, these reserves are held as part of liabilities under insurance contracts. Any remainder is accounted for as a deduction from the present value of in-force ('PVIF') long-term insurance business on the relevant product.

(d) Insurance risk *(continued)*

Market risk (insurance) *(continued)*

Description and exposure (continued)

For unit-linked contracts, market risk is substantially borne by the policyholders, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

The following table illustrates the effects of selected interest rate, equity price and foreign exchange rate scenarios on our profit for the period and the total shareholders' equity of our insurance operation.

	30 June 2020		*31 December 2019*	
	Impact on profit after tax for the period	***Impact on shareholders' equity***	*Impact on profit after tax for the year*	*Impact on shareholders' equity*
+ 100 basis points shift in yield curves	**(386)**	**(386)**	(202)	(202)
– 100 basis points shift in yield curves	**147**	**147**	126	126
10 per cent increase in equity prices	**349**	**349**	426	426
10 per cent decrease in equity prices	**(345)**	**(345)**	(493)	(493)
10% increase in USD exchange rate compared to all currencies	**108**	**108**	143	143
10% decrease in USD exchange rate compared to all currencies	**(108)**	**(108)**	(143)	(143)

Where appropriate, the effects of the sensitivity tests on profit after tax and total equity incorporate the impact of the stress on the PVIF. The relationship between the profit and total equity and the risk factors is non-linear and nonsymmetrical, therefore the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities reflect the established risk sharing mechanism with policyholders for discretionary participating products, and are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented do not allow for adverse changes in policyholder behaviour that may arise in response to changes in market rates.

(e) Resilience risk

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption.

Sustained and significant operational disruption means events that affect:

– the stability of the financial system;

– the viability of the Bank and our industry peers; or

– the ability of our customers to access our services

We seek to understand the effects and outcomes of these events, prioritising services which are both vulnerable to disturbance and critical to our customer service offering.

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

A summary of the Group's current policies and practices for the management of resilience risk is set out in 'Resilience risk' section on pages 91 to 92 of the Annual Report 2019.

Capital Management

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

The Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For counterparty credit risk, the Group uses the current exposure method to calculate its default risk 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.

We closely monitor and consider future regulatory change and continue to evaluate the impact upon our capital requirements of regulatory developments. This includes the Basel III reforms package, over which there remains a significant degree of uncertainty due to the number of national discretions within Basel's reforms. It remains premature to provide details of an impact although we currently anticipate the potential for an increase in risk-weighted assets.

Capital Base

The following table sets out the composition of the Group's capital base under Basel III at 30 June 2020 and 31 December 2019. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

	At 30 June 2020	At 31 December 2019
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**139,917**	143,026
– Shareholders' equity per Condensed Consolidated Balance Sheet	**176,019**	178,810
– Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
– Unconsolidated subsidiaries	**(24,358)**	(24,040)
Non-controlling interests	**–**	–
– Non-controlling interests per Condensed Consolidated Balance Sheet	**96**	107
– Non-controlling interests in unconsolidated subsidiaries	**(96)**	(107)
Regulatory deductions to CET1 capital	**(27,609)**	(31,466)
– Cash flow hedging reserve	**(58)**	(7)
– Changes in own credit risk on fair valued liabilities	**(17)**	(5)
– Property revaluation reserves*	**(24,978)**	(26,631)
– Regulatory reserve	**(1,201)**	(3,509)
– Intangible assets	**(1,133)**	(1,027)
– Defined benefit pension fund assets	**(3)**	(22)
– Deferred tax assets net of deferred tax liabilities	**(128)**	(110)
– Valuation adjustments	**(91)**	(155)
Total CET1 Capital	**112,308**	111,560
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	11,744
– Perpetual capital instruments	**11,744**	11,744
Total AT1 Capital	**11,744**	11,744
Total Tier 1 ('T1') Capital	**124,052**	123,304
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**12,369**	14,860
– Property revaluation reserves*	**11,240**	11,984
– Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**1,129**	2,876
Regulatory deductions to T2 capital	**(1,045)**	(915)
– Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(915)
Total T2 Capital	**11,324**	13,945
Total Capital	**135,376**	137,249

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

Risk-weighted assets by risk type

	At 30 June 2020	*At 31 December 2019*
Credit risk	**608,453**	584,631
Market risk	**11,652**	8,357
Operational risk	**67,299**	65,868
Total	**687,404**	658,856

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 2020	*At 31 December 2019*
CET1 capital ratio	**16.3%**	16.9%
Tier 1 capital ratio	**18.0%**	18.7%
Total capital ratio	**19.7%**	20.8%

In addition, the capital ratios of all tiers as of 30 June 2020 would be reduced by approximately 0.2 percentage point after the prospective second interim dividend payment for 2020. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2020	*Pro-forma At 31 December 2019*
CET1 capital ratio	**16.1%**	15.8%
Tier 1 capital ratio	**17.8%**	17.6%
Total capital ratio	**19.5%**	19.7%

Dividend policy

Objective

The Bank's medium to long term dividend objective is to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation.

Considerations

The declaration of dividends is made at the discretion of the Board, which will take into account all relevant factors including the following:

- regulatory requirements;
- financial results;
- level of distributable reserves;
- general business conditions and strategies;
- strategic business plan and capital plan;
- statutory and regulatory restrictions on dividend payment;
- any other factors the Board may deem relevant.

Phasing and Timing

Under normal circumstances and if the Board determines to declare a dividend at its discretion, dividends would be declared on a quarterly basis. The phasing of dividends would be planned on a prudent basis to allow for any unforeseen events, which might arise towards the end of an accounting period. Phasing of dividends would also take account of the volatility of the Bank's profits.

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

Condensed Consolidated Income Statement

	note	*Half-year ended 30 June 2020*	*Half-year ended 30 June 2019*
Interest income	4	**20,428**	21,373
Interest expense	5	**(5,636)**	(5,520)
Net interest income		**14,792**	15,853
Fee income		**4,208**	4,808
Fee expense		**(1,033)**	(1,323)
Net fee income	6	**3,175**	3,485
Net income from financial instruments measured at fair value through profit or loss	7	**(52)**	2,035
Gains less losses from financial investments	8	**20**	1
Dividend income	9	**6**	136
Net insurance premium income		**7,171**	9,224
Other operating income	10	**2,147**	3,066
Total operating income		**27,259**	33,800
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(8,072)**	(11,391)
Net operating income before change in expected credit losses and other credit impairment charges		**19,187**	22,409
Change in expected credit losses and other credit impairment charges	11	**(1,760)**	(510)
Net operating income		**17,427**	21,899
Employee compensation and benefits		**(3,090)**	(3,118)
General and administrative expenses		**(2,033)**	(2,173)
Depreciation expenses		**(1,039)**	(967)
Amortisation of intangible assets		**(131)**	(70)
Operating expenses	12	**(6,293)**	(6,328)
Impairment loss on intangible assets		**–**	(10)
Operating profit		**11,134**	15,561
Net surplus/(deficit) on property revaluation		**(428)**	187
Share of profits/(losses) of associates		**(87)**	146
Profit before tax		**10,619**	15,894
Tax expense	13	**(1,484)**	(2,248)
Profit for the period		**9,135**	13,646
Profit Attributable to:			
Shareholders of the Bank		**9,143**	13,656
Non-controlling interests		**(8)**	(10)
(Figures in HK$)			
Earnings per share – basic and diluted	14	**4.64**	6.98

Details of dividends payable to shareholders of the Bank attributable to the profit for the period are set out in note 15.

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Comprehensive Income

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Profit for the period	**9,135**	13,646
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'):		
– fair value changes taken to equity	**1,313**	855
– fair value changes transferred to Condensed Consolidated Income Statement:		
– on hedged items	**(1,004)**	(789)
– on disposal	**(20)**	–
– expected credit losses recognised in the Condensed Consolidated Income Statement	**46**	2
– deferred taxes	**(40)**	(8)
– exchange difference	**16**	1
Cash flow hedging reserve:		
– fair value changes taken to equity	**395**	71
– fair value changes transferred to Condensed Consolidated Income Statement	**(120)**	10
– deferred taxes	**(45)**	(13)
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and associates	**(268)**	(33)
Items that will not be reclassified subsequently to the Condensed Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
– before deferred taxes	**4**	4
– deferred taxes	**(1)**	(1)
Equity instrument:		
– fair value changes taken to equity	**(869)**	1,298
– exchange difference	**(74)**	(15)
Premises:		
– unrealised surplus/(deficit) on revaluation of premises	**(1,061)**	926
– deferred taxes	**175**	(155)
– exchange difference	**(3)**	–
Defined benefit plans:		
– actuarial losses on defined benefit plans	**(450)**	(81)
– deferred taxes	**74**	13
Exchange difference and others[1]	**–**	(76)
Other comprehensive income for the period, net of tax	**(1,932)**	2,009
Total comprehensive income for the period	**7,203**	15,655
Total comprehensive income for the period attributable to:		
– shareholders of the Bank	**7,211**	15,665
– non-controlling interests	**(8)**	(10)
	7,203	15,655

[1] *Include mainly exchange difference arising from cancellation of additional tier 1 ('AT1') capital instrument during the first half of 2019.*

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Balance Sheet

	note	***At 30 June 2020***	*At 31 December 2019*
ASSETS			
Cash and balances at central banks	17	**8,801**	13,038
Trading assets	18	**35,990**	47,357
Derivative financial instruments	19	**10,656**	7,338
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	20	**14,786**	18,771
Reverse repurchase agreements – non-trading		**8,020**	6,659
Placings with and advances to banks	21	**63,961**	65,807
Loans and advances to customers	22	**953,451**	942,930
Financial investments	23	**517,854**	461,704
Interest in associates	24	**2,390**	2,520
Investment properties	25	**9,645**	10,121
Premises, plant and equipment	25	**30,887**	32,362
Intangible assets	26	**24,244**	21,954
Other assets	27	**51,336**	46,430
Total assets		**1,732,021**	1,676,991
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		**3,957**	2,491
Current, savings and other deposit accounts	28	**1,241,156**	1,203,458
Repurchase agreements – non-trading		**3,137**	1,878
Trading liabilities	29	**28,374**	37,976
Derivative financial instruments	19	**11,432**	7,462
Financial liabilities designated at fair value	30	**30,677**	29,580
Certificates of deposit and other debt securities in issue	31	**30,629**	17,190
Other liabilities	32	**41,955**	35,183
Liabilities under insurance contracts		**136,509**	132,120
Current tax liabilities		**1,361**	4,159
Deferred tax liabilities		**7,239**	7,083
Subordinated liabilities	33	**19,480**	19,494
Total liabilities		**1,555,906**	1,498,074
Equity			
Share capital		**9,658**	9,658
Retained profits		**132,817**	133,734
Other equity instruments	34	**11,744**	11,744
Other reserves		**21,800**	23,674
Total shareholders' equity		**176,019**	178,810
Non-controlling interests		**96**	107
Total equity		**176,115**	178,917
Total equity and liabilities		**1,732,021**	1,676,991

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Changes in Equity

				Other reserves							
	Share capital	Other equity instruments	Retained profits[1]	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2020	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917
Profit for the period	–	–	9,143	–	–	–	–	–	9,143	(8)	9,135
Other comprehensive income (net of tax)	–	–	(376)	(889)	(632)	230	(268)	3	(1,932)	–	(1,932)
Debt instruments at fair value through other comprehensive income	–	–	–	–	311	–	–	–	311	–	311
Equity instruments at fair value through other comprehensive income	–	–	–	–	(943)	–	–	–	(943)	–	(943)
Cash flow hedges	–	–	–	–	–	230	–	–	230	–	230
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	3	3	–	3
Property revaluation	–	–	–	(889)	–	–	–	–	(889)	–	(889)
Actuarial losses on defined benefit plans	–	–	(376)	–	–	–	–	–	(376)	–	(376)
Exchange differences and others	–	–	–	–	–	–	(268)	–	(268)	–	(268)
Total comprehensive income for the period	–	–	8,767	(889)	(632)	230	(268)	3	7,211	(8)	7,203
Dividends paid[3]	–	–	(9,750)	–	–	–	–	–	(9,750)	–	(9,750)
Coupons paid on AT1 capital instruments	–	–	(279)	–	–	–	–	–	(279)	–	(279)
Movement in respect of share-based payment arrangements	–	–	8	–	–	–	–	19	27	–	27
Others	–	–	–	–	–	–	–	–	–	(3)	(3)
Transfers	–	–	337	(337)	–	–	–	–	–	–	–
At 30 June 2020	9,658	11,744	132,817	18,663	2,664	246	(464)	691	176,019	96	176,115

1 *Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. 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. Movements in the reserve are made directly through retained earnings. As at 30 June 2020, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$1,201m (31 December 2019: HK$3,509m).*

2 *Other reserves comprise share-based payment reserve and own credit reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. 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.*

3 *Dividend paid in the first half of 2020 represented the payment of fourth interim dividend of 2019 and the first interim dividend of 2020 amounted to HK$7,647m and HK$2,103m respectively.*

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

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

				Other reserves							
	Share capital	*Other equity instruments*	*Retained profits*	*Premises revaluation reserve*	*Financial assets at FVOCI reserve*	*Cash flow hedge reserve*	*Foreign exchange reserve*	*Others*	*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 upon initial recognition 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	–	–	(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	–	–	(9,560)	–	–	–	–	–	(9,560)	–	(9,560)
Coupons paid on AT1 capital instruments	–	–	(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
At 1 July 2019	9,658	11,744	127,395	20,268	2,914	57	9	676	172,721	117	172,838
Profit for the period	–	–	11,184	–	–	–	–	–	11,184	(8)	11,176
Other comprehensive income (net of tax)	–	–	279	(40)	382	(41)	(205)	(8)	367	–	367
Debt instruments at fair value through other comprehensive income	–	–	–	–	(72)	–	–	–	(72)	–	(72)
Equity instruments at fair value through other comprehensive income	–	–	–	–	454	–	–	–	454	–	454
Cash flow hedges	–	–	–	–	–	(41)	–	–	(41)	–	(41)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(8)	(8)	–	(8)
Property revaluation	–	–	–	(40)	–	–	–	–	(40)	–	(40)
Actuarial gains on defined benefit plans	–	–	279	–	–	–	–	–	279	–	279
Exchange differences and others	–	–	–	–	–	–	(205)	–	(205)	–	(205)
Total comprehensive income for the period	–	–	11,463	(40)	382	(41)	(205)	(8)	11,551	(8)	11,543
Dividends paid	–	–	(5,354)	–	–	–	–	–	(5,354)	–	(5,354)
Coupons paid on AT1 capital instruments	–	–	(110)	–	–	–	–	–	(110)	–	(110)
Movement in respect of share-based payment arrangements	–	–	1	–	–	–	–	1	2	–	2
Others	–	–	–	–	–	–	–	–	–	(2)	(2)
Transfers	–	–	339	(339)	–	–	–	–	–	–	–
At 31 December 2019	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Cash Flow Statement

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019 Re-presented*
Profit before tax	**10,619**	15,894
Adjustments for non-cash items:		
Depreciation and amortisation	**1,170**	1,037
Net interest income	**(14,792)**	(15,853)
Dividend income	**(6)**	(136)
Gains less losses from financial investments	**(20)**	(1)
Share of profits/(losses) in associates	**87**	(146)
Net surplus/(deficit) on property revaluation	**428**	(187)
Change in expected credit losses and other credit impairment charges	**1,760**	510
Impairment loss on intangible assets	**–**	10
Loans and advances written off net of recoveries	**(403)**	(256)
Movement in present value of in-force long-term insurance business ('PVIF')	**(2,106)**	(2,744)
Interest received	**19,740**	21,313
Interest paid	**(5,855)**	(5,054)
Elimination of exchange differences and other non-cash items	**(94)**	(4,017)
Changes in operating assets and liabilities		
Change in trading assets	**11,367**	(2,573)
Change in derivative financial instruments	**652**	630
Change in financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**3,985**	(2,906)
Change in reverse repurchase agreements – non-trading	**(1,480)**	–
Change in placings with and advances to banks maturing after one month	**(7,228)**	(13,780)
Change in loans and advances to customers	**(14,480)**	(46,687)
Change in other assets	**3,796**	2,681
Change in repurchase agreements – non-trading	**1,259**	6,254
Change in deposits from banks	**1,466**	6,874
Change in current, savings and other deposit accounts	**37,698**	32,523
Change in trading liabilities	**(9,602)**	388
Change in financial liabilities designated at fair value	**1,097**	3,928
Change in certificates of deposit and other debt securities in issue	**13,439**	12,928
Change in other liabilities	**607**	102
Change in liabilities under insurance contracts	**4,389**	6,746
Dividends received from financial investments	**(4)**	138
Tax paid	**(4,194)**	(20)
Net cash from operating activities	**53,295**	17,596
Purchase of financial investments	**(341,172)**	(353,735)
Proceeds from sale or redemption of financial investments	**295,279**	314,018
Purchase of property, plant and equipment and intangible assets (excluding PVIF)	**(956)**	(696)
Net cash inflow from the sales of loan portfolio	**2,920**	1,066
Net cash from investing activities	**(43,929)**	(39,347)
Interest paid for subordinated liabilities	**(327)**	–
Principal and interest elements of lease payments	**(305)**	(266)
Dividends paid	**(9,750)**	(9,560)
Coupons paid on AT1 capital instruments	**(279)**	(232)
Cancellation and repayment of AT1 capital instrument	**–**	(7,058)
Proceeds from issuance of new AT1 capital instruments	**–**	11,744
Proceeds from issuance of subordinated liabilities	**–**	19,503
Net cash from financing activities	**(10,661)**	14,131
Net decrease in cash and cash equivalents	**(1,295)**	(7,620)
Cash and cash equivalents at 1 January	**92,702**	98,061
Exchange differences in respect of cash and cash equivalents	**(1,279)**	103
Cash and cash equivalents at 30 June	**90,128**	90,544

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Cash Flow Statement *(continued)*

	Half-year ended 30 June 2020	Half-year ended 30 June 2019 Re-presented
Cash and cash equivalents comprise[1]:		
– cash and balances at central banks	**8,801**	10,082
– balances with banks	**7,059**	8,725
– items in the course of collection from other banks	**10,646**	7,662
– placings with and advances to banks maturing within one month	**31,798**	50,946
– reverse repurchase agreements – non-trading within one month	**5,290**	–
– treasury bills	**39,597**	18,991
– net settlement accounts with banks and cash collateral to banks within one month[2]	**(5,956)**	2,679
– less: items in the course of transmission to other banks	**(7,107)**	(8,541)
	90,128	90,544

1 *At 30 June 2020, the amount of cash and cash equivalents that was not available for use by the Group was HK$13,138m (30 June 2019: HK$14,100m), of which HK$8,992m (30 June 2019: HK$8,847m) related to mandatory deposits at central banks.*

2 *In 2019, the Group changed its presentation to include settlement accounts with bank counterparties of one month or less on a net basis. Comparatives have been re-presented.*

The notes on pages 59 to 88 form part of these Condensed Consolidated Financial Statements.

1 Basis of preparation

The Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and all its subsidiaries ('the Group') have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ('HKAS') 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The Condensed Consolidated Financial Statements were reviewed by the Audit Committee. The Board of Directors of the Bank has approved the Condensed Consolidated Financial Statements on 3 August 2020.

The Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standard ('HKFRS').

The preparation of the Condensed Consolidated Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019, except those mentioned in 'Use of estimates and judgment' in note 2.

The following disclosures in the Risk and Capital Management sections form an integral part of the Condensed Consolidated Financial Statements:

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

– Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage allocation.

In accordance with the Group's policy to provide disclosures that help stakeholders to understand the Group's performance, financial position and changes thereto, the information provided in the Notes on the Condensed Consolidated Financial Statements and the risk disclosures in the Risk and Capital Management sections goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

The Condensed Consolidated Financial Statements are unaudited, but has been reviewed by PricewaterhouseCoopers ('PwC') in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by HKICPA. PwC's independent review report to the Board of Directors is included on page 89.

2 Accounting policies

Except as described below, the accounting policies applied in preparing this Condensed Consolidated Financial Statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2019, as disclosed in the Annual Report for 2019.

Standards applied during the half-year ended 30 June 2020

There were no new standards or amendments to standards that had a material effect on these interim Condensed Consolidated Financial Statements.

Future accounting developments

HKFRS 17 *'Insurance contracts'* was issued in January 2018 and 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. International Accounting Standards Board has issued amendments to IFRS 17 in June 2020 to defer the effective date to 1 January 2023, however HKICPA has yet to adopt the amendments as at the date of the publication of these Condensed Consolidated Financial Statements. 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.

Use of estimates and judgements

Management believes that the Group's critical accounting estimates and judgements are those which related to impairment of amortised cost and FVOCI debt financial assets, the valuation of financial instruments, the provisions for liabilities, interest in associates and the present value of in-force long-term insurance business. There was no major change in the current period to the critical accounting estimates and judgements applied in 2019, which are stated in note 1 of the Annual Report 2019. However, the level of estimation uncertainty and judgement for the calculation of expected credit losses ('ECL') has increased since 31 December 2019 as a result of the economic effects of the COVID-19 outbreak as set out in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on pages 25 to 31.

3 Basis of consolidation

These Condensed Consolidated Financial Statements cover the consolidated position of the Group, unless otherwise stated, and include the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation is different from the basis of consolidation for accounting purposes. They are disclosed under the 'Risk and Capital Management' section.

4 Interest income

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Interest income arising from:		
– financial assets that are not at fair value through profit and loss	**20,020**	20,912
– trading assets	**385**	436
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**23**	25
	20,428	21,373
of which:		
– interest income from impaired financial assets	**1**	18

5 Interest expense

	Half-year ended 30 June 2020	Half-year ended 30 June 2019
Interest expense arising from:		
– financial liabilities that are not at fair value through profit and loss	**4,852**	4,470
– trading liabilities	**266**	308
– financial liabilities designated at fair value	**518**	742
	5,636	5,520
of which:		
– interest expense from subordinated liabilities	**308**	47

6 Net fee income

	Half-year ended 30 June 2020	Half-year ended 30 June 2019
– securities broking and related services	**978**	718
– retail investment funds	**656**	816
– insurance	**317**	336
– account services	**191**	252
– remittances	**147**	262
– cards	**1,132**	1,520
– credit facilities	**377**	448
– trade services	**183**	232
– other	**227**	224
Fee income	**4,208**	4,808
Fee expense	**(1,033)**	(1,323)
	3,175	3,485
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	**962**	1,259
– fee income	**1,877**	2,463
– fee expense	**(915)**	(1,204)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**469**	413
– fee income	**510**	446
– fee expense	**(41)**	(33)

7 Net income from financial instruments measured at fair value through profit or loss

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Net trading income	**487**	936
– trading income	**483**	935
– other trading income – hedging ineffectiveness		
– on cash flow hedges	**–**	–
– on fair value hedges	**4**	1
Net income from financial instruments designated at fair value through profit or loss	**750**	36
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value through profit or loss	**(1,284)**	1,064
– financial assets held to meet liabilities under insurance and investment contracts	**(1,286)**	1,082
– liabilities to customers under investment contracts	**2**	(18)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(5)**	(1)
	(52)	2,035

8 Gains less losses from financial investments

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Net gains from disposal of debt securities measured at amortised cost	**–**	1
Net gains from disposal of debt securities measured at fair value through other comprehensive income	**20**	–
	20	1

9 Dividend income

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Dividend income:		
– listed investments	**–**	130
– unlisted investments	**6**	6
	6	136

10 Other operating income

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Rental income from investment properties	**139**	172
Movement in present value of in-force long-term insurance business	**2,106**	2,744
Net losses from disposal of fixed assets	**(6)**	(3)
Net losses from the derecognition of loans and advances to customers measured at amortised cost	**(1)**	(2)
Others	**(91)**	155
	2,147	3,066

11 Change in expected credit losses and other credit impairment charges

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Loans and advances to banks and customers	**1,456**	491
– new allowances net of allowance releases	**1,484**	543
– recoveries of amounts previously written off	**(42)**	(58)
– other movements	**14**	6
Loan commitments and guarantees	**53**	12
Other financial assets	**251**	7
	1,760	510

12 Operating expenses

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Employee compensation and benefits:		
– salaries and other costs	**2,846**	2,876
– retirement benefit costs		
– defined benefit scheme	**90**	97
– defined contribution scheme	**154**	145
	3,090	3,118
General and administrative expenses:		
– rental expenses	**11**	59
– other premises and equipment	**785**	758
– marketing and advertising expenses	**97**	184
– other operating expenses	**1,140**	1,172
	2,033	2,173
Depreciation of premises, plant and equipment (note 25)	**746**	716
Depreciation of right-of-use assets	**293**	251
Amortisation of intangible assets	**131**	70
	6,293	6,328

13 Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
Current tax – provision for Hong Kong profits tax		
Tax for the period	**1,380**	1,856
Current tax – taxation outside Hong Kong		
Tax for the period	**15**	29
Deferred tax		
Origination and reversal of temporary differences	**89**	363
Total tax expense	**1,484**	2,248

13 Tax expense *(continued)*

The current tax provision is based on the estimated assessable profit for the first half of 2020, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2019: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

14 Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2020 is based on earnings of HK$8,864m (HK$13,347m for the first half of 2019), 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 2019).

15 Dividends/Distributions

(a) Dividends to ordinary shareholders

	Half-year ended 30 June 2020		*Half-year ended 30 June 2019*	
	per share HK$	**HK$m**	*per share HK$*	*HK$m*
First interim	**1.10**	**2,103**	1.40	2,677
Second interim	**0.80**	**1,529**	1.40	2,677
	1.90	**3,632**	2.80	5,354

On 3 August 2020, the Directors of the Bank declared a second interim dividend in respect of the year ending 31 December 2020 of HK$0.8 per ordinary share (HK$1,529m). This distribution will be paid on 3 September 2020. No liability is recognised in the Condensed Consolidated Financial Statements in respect of this dividend.

(b) Distributions to holders of AT1 capital instruments classified as equity

	Half-year ended 30 June 2020	*Half-year ended 30 June 2019*
US$900 million Floating rate perpetual capital instrument (coupon rate at one-year US dollar LIBOR plus 3.84 per cent)[1]	**–**	232
US$900 million Fixed to floating rate perpetual capital instrument (coupon rate at 6.03 per cent and then three-month US dollar LIBOR plus 4.02 per cent from the first call date)[2]	**–**	–
US$600 million Fixed to floating rate perpetual capital instrument (coupon rate at 6.0 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)[2]	**279**	–
	279	232

1 *This subordinated loan was early repaid in the first half of 2019 and distributions were made on repayment.*

2 *These subordinated loans were issued in the first half of 2019.*

16 Segmental analysis

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

- **Wealth and Personal Banking (formerly '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.

16 Segmental analysis *(continued)*

(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.

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other	Total
Half-year ended 30 June 2020					
Net interest income/(expense)	8,138	4,532	2,420	(298)	14,792
Net fee income	2,022	876	152	125	3,175
Net income/(loss) from financial instruments measured at fair value through profit or loss	(939)	128	788	(29)	(52)
Gains less losses from financial investments	–	–	20	–	20
Dividend income	–	–	–	6	6
Net insurance premium income	6,279	892	–	–	7,171
Other operating income/(loss)	2,054	(17)	3	107	2,147
Total operating income/(loss)	17,554	6,411	3,383	(89)	27,259
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,338)	(734)	–	–	(8,072)
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	10,216	5,677	3,383	(89)	19,187
Change in expected credit losses and other credit impairment charges	(740)	(821)	(199)	–	(1,760)
Net operating income/(loss)	9,476	4,856	3,184	(89)	17,427
Operating expenses*	(3,919)	(1,629)	(538)	(207)	(6,293)
Operating profit/(loss)	5,557	3,227	2,646	(296)	11,134
Net deficit on property revaluation	–	–	–	(428)	(428)
Share of profits/(losses) of associates	(89)	–	–	2	(87)
Profit/(loss) before tax	5,468	3,227	2,646	(722)	10,619
Share of profit/(loss) before tax	51.5%	30.4%	24.9%	(6.8)%	100.0%
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	6,297	4,048	2,845	(296)	12,894
** Depreciation/amortisation included in operating expenses*	(11)	(3)	(1)	(1,155)	(1,170)
At 30 June 2020					
Total assets	534,094	412,337	747,863	37,727	1,732,021
Total liabilities	1,009,484	309,937	222,133	14,352	1,555,906
Interest in associates	2,390	–	–	–	2,390

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other	Total
Half-year ended 30 June 2020					
Net fee income by segment					
– securities broking and related services	857	109	12	–	978
– retail investment funds	645	11	–	–	656
– insurance	243	40	34	–	317
– account services	113	75	3	–	191
– remittances	32	98	17	–	147
– cards	563	551	18	–	1,132
– credit facilities	12	296	69	–	377
– trade services	–	160	23	–	183
– other	43	42	20	122	227
Fee income	2,508	1,382	196	122	4,208
Fee expense	(486)	(506)	(44)	3	(1,033)
Net fee income	2,022	876	152	125	3,175

16 Segmental analysis *(continued)*

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

	Wealth and Personal Banking	*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 through profit or loss	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 31 December 2019					
Total assets	522,253	405,779	712,927	36,032	1,676,991
Total liabilities	971,389	303,606	201,948	21,131	1,498,074
Interest in associates	2,522	–	–	(2)	2,520

16 Segmental analysis *(continued)*

(a) Segmental result (continued)

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other	Total
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

16 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'.

	Hong Kong	Mainland China	Others	Inter-region elimination	Total
Half-year ended 30 June 2020					
Total operating income	**25,753**	**1,390**	**144**	**(28)**	**27,259**
Profit before tax	**10,007**	**522**	**90**	**–**	**10,619**
At 30 June 2020					
Total assets	**1,633,142**	**122,900**	**24,425**	**(48,446)**	**1,732,021**
Total liabilities	**1,462,263**	**109,146**	**23,173**	**(38,676)**	**1,555,906**
Equity	**170,879**	**13,754**	**1,252**	**(9,770)**	**176,115**
Share capital	**9,658**	**9,814**	**–**	**(9,814)**	**9,658**
Interest in associates	**2,390**	**–**	**–**	**–**	**2,390**
Non-current assets*	**63,313**	**1,418**	**45**	**–**	**64,776**
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 31 December 2019					
Total assets	1,578,710	120,696	23,239	(45,654)	1,676,991
Total liabilities	1,404,716	107,172	22,070	(35,884)	1,498,074
Equity	173,994	13,524	1,169	(9,770)	178,917
Share capital	9,658	10,018	–	(10,018)	9,658
Interest in associates	2,522	(2)	–	–	2,520
Non-current assets*	63,001	1,415	21	–	64,437

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

17 Cash and balances at central banks

	At 30 June 2020	At 31 December 2019
Cash in hand	**6,590**	8,975
Balances at central banks	**2,211**	4,063
	8,801	13,038

18 Trading assets

	At 30 June 2020	At 31 December 2019
Treasury bills	**15,975**	24,894
Other debt securities	**19,312**	22,452
Debt securities	**35,287**	47,346
Investment funds/equity shares	**36**	11
Reverse repurchase agreements	**667**	–
	35,990	47,357

19 Derivative financial instruments

Use of derivatives

The Group transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge the Group's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Group employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

The following table shows the notional contract amounts and fair value of assets and liabilities by each class of derivatives.

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Exchange rate	**1,128,974**	**21,462**	**1,150,436**	**4,742**	**396**	**5,138**	**4,025**	**66**	**4,091**
Interest rate	**506,923**	**59,400**	**566,323**	**4,610**	**144**	**4,754**	**4,631**	**1,615**	**6,246**
Equity and other	**36,244**	**–**	**36,244**	**764**	**–**	**764**	**1,095**	**–**	**1,095**
At 30 June 2020	**1,672,141**	**80,862**	**1,753,003**	**10,116**	**540**	**10,656**	**9,751**	**1,681**	**11,432**

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Exchange rate	883,348	14,949	898,297	4,869	267	5,136	4,821	60	4,881
Interest rate	462,424	56,197	518,621	1,603	135	1,738	1,581	625	2,206
Equity and other	33,145	–	33,145	464	–	464	375	–	375
At 31 December 2019	1,378,917	71,146	1,450,063	6,936	402	7,338	6,777	685	7,462

20 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	At 30 June 2020	At 31 December 2019
Debt securities	**2**	2
Equity shares	**3,261**	6,916
Investment funds	**10,214**	10,442
Other	**1,309**	1,411
	14,786	18,771

21 Placings with and advances to banks

	At 30 June 2020	At 31 December 2019
Balances with banks	**7,059**	5,677
Placings with and advances to banks maturing within one month	**31,798**	42,253
Placings with and advances to banks maturing after one month but less than one year	**21,105**	12,717
Placings with and advances to banks maturing after one year	**4,001**	5,161
Less: Expected credit losses	**(2)**	(1)
	63,961	65,807
of which:		
Placings with and advances to central banks	**8,253**	7,616

22 Loans and advances to customers

	At 30 June 2020	At 31 December 2019
Gross loans and advances to customers	**958,002**	946,443
Less: Expected credit losses	**(4,551)**	(3,513)
	953,451	942,930
	%	%
Expected credit losses as a percentage of gross loans and advances to customers	**0.48**	0.37
Gross impaired loans and advances	**3,031**	2,073
	%	%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.32**	0.22

23 Financial investments

	At 30 June 2020	At 31 December 2019
Financial investments measured at fair value through other comprehensive income		
– treasury bills	**247,624**	212,041
– debt securities	**135,457**	125,927
– equity shares	**4,937**	5,881
	388,018	343,849
Debt instruments measured at amortised cost		
– treasury bills	**500**	500
– debt securities	**129,610**	117,435
Less: Expected credit losses	**(274)**	(80)
	129,836	117,855
	517,854	461,704

There were no overdue financial investments at 30 June 2020 and 31 December 2019 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

24 Interest in associates

	At 30 June 2020	At 31 December 2019
Share of net assets	**2,390**	2,520

25 Property, plant and equipment

	At 30 June 2020	At 31 December 2019
Premises	**27,791**	29,498
Plant and equipment[1]	**1,792**	1,405
Other right of use assets	**1,304**	1,459
Premises, plant and equipment	**30,887**	32,362
Investment properties	**9,645**	10,121
	40,532	42,483

1 *Includes leasehold land and building assets for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.*

25 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 January 2020	**29,498**	**10,121**	**5,919**	**45,538**
Additions	6	14	620	640
Disposals and write-offs	–	–	(2,785)	(2,785)
Elimination of accumulated depreciation on revalued premises	(526)	–	–	(526)
Deficit on revaluation:				
– debited to premises revaluation reserve	(1,061)	–	–	(1,061)
– debited to income statement	–	(597)	–	(597)
Transfer	(107)	107	–	–
Exchange adjustments and other	(19)	–	(9)	(28)
At 30 June 2020	**27,791**	**9,645**	**3,745**	**41,181**
Accumulated depreciation:				
At 1 January 2020	–	–	(4,514)	(4,514)
Charge for the period (note 12)	(526)	–	(220)	(746)
Attributable to assets sold or written off	–	–	2,778	2,778
Elimination of accumulated depreciation on revalued premises	526	–	–	526
Exchange adjustments and other	–	–	3	3
At 30 June 2020	–	–	(1,953)	(1,953)
Net book value at 30 June 2020	**27,791**	**9,645**	**1,792**	**39,228**
Representing:				
– measure at cost	–	–	1,792	1,792
– measure at valuation	27,791	9,645	–	37,436
	27,791	9,645	1,792	39,228

25 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment *(continued)*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 January 2019	29,344	10,108	5,368	44,820
Additions	114	–	206	320
Disposals and write-offs	–	–	(58)	(58)
Elimination of accumulated depreciation on revalued premises	(507)	–	–	(507)
Surplus on revaluation:				
– credited to premises revaluation reserve	926	–	–	926
– credited to income statement	–	257	–	257
Transfer	21	(21)	–	–
Exchange adjustments and other	(1)	–	1	–
At 30 June 2019	29,897	10,344	5,517	45,758
Accumulated depreciation:				
At 1 January 2019	–	–	(4,202)	(4,202)
Charge for the period (note 12)	(507)	–	(209)	(716)
Attributable to assets sold or written off	–	–	55	55
Elimination of accumulated depreciation on revalued premises	507	–	–	507
Exchange adjustments and other	–	–	(4)	(4)
At 30 June 2019	–	–	(4,360)	(4,360)
Net book value at 30 June 2019	29,897	10,344	1,157	41,398
Representing:				
– measure at cost	–	–	1,157	1,157
– measure at valuation	29,897	10,344	–	40,241
	29,897	10,344	1,157	41,398

25 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment *(continued)*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 July 2019	29,897	10,344	5,517	45,758
Additions	101	31	459	591
Disposals and write-offs	–	–	(48)	(48)
Elimination of accumulated depreciation on revalued premises	(525)	–	–	(525)
Deficit on revaluation:				
– debited to premises revaluation reserve	(38)	–	–	(38)
– debited to income statement	–	(177)	–	(177)
Transfer	77	(77)	–	–
Exchange adjustments and other	(14)	–	(9)	(23)
At 31 December 2019	29,498	10,121	5,919	45,538
Accumulated depreciation:				
At 1 July 2019	–	–	(4,360)	(4,360)
Charge for the period	(525)	–	(203)	(728)
Attributable to assets sold or written off	–	–	44	44
Elimination of accumulated depreciation on revalued premises	525	–	–	525
Exchange adjustments and other	–	–	5	5
At 31 December 2019	–	–	(4,514)	(4,514)
Net book value at 31 December 2019	29,498	10,121	1,405	41,024
Representing:				
– measure at cost	–	–	1,405	1,405
– measure at valuation	29,498	10,121	–	39,619
	29,498	10,121	1,405	41,024

26 Intangible assets

	At 30 June 2020	At 31 December 2019
Present value of in-force long-term insurance business	**22,574**	20,469
Internally developed software	**1,237**	1,057
Acquired software	**104**	99
Goodwill	**329**	329
	24,244	21,954

27 Other assets

	At 30 June 2020	At 31 December 2019
Items in the course of collection from other banks	**10,646**	5,650
Bullion	**6,305**	9,394
Prepayments and accrued income	**4,159**	4,503
Acceptances and endorsements	**8,324**	8,336
Less: Expected credit losses	**(19)**	(8)
Reinsurers' share of liabilities under insurance contracts	**7,907**	8,503
Settlement accounts	**6,897**	4,175
Cash collateral	**3,781**	2,216
Other accounts	**3,336**	3,661
	51,336	46,430

Other accounts included 'Assets held for sale' of HK$30m (31 December 2019: HK$19m). It also included 'Retirement benefit assets' of HK$3m (31 December 2019: HK$26m).

28 Current, savings and other deposit accounts

	At 30 June 2020	At 31 December 2019
Current, savings and other deposit accounts:		
– as stated in Condensed Consolidated Balance Sheet	**1,241,156**	1,203,458
– structured deposits reported as financial liabilities designated as fair value (note 30)	**23,676**	24,498
	1,264,832	1,227,956
By type:		
– demand and current accounts	**122,541**	99,431
– savings accounts	**723,316**	670,573
– time and other deposits	**418,975**	457,952
	1,264,832	1,227,956

29 Trading liabilities

	At 30 June 2020	At 31 December 2019
Short positions in securities	**28,374**	37,976

30 Financial liabilities designated at fair value

	At 30 June 2020	At 31 December 2019
Certificates of deposit in issue (note 31)	**1,528**	2,014
Structured deposits (note 28)	**23,676**	24,498
Other structured debt securities in issue (note 31)	**5,050**	2,639
Liabilities to customers under investment contracts	**423**	429
	30,677	29,580

At 30 June 2020, the accumulated loss in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was HK$1m (31 December 2019: accumulated loss of HK$5m).

31 Certificates of deposit and other debt securities in issue

	At 30 June 2020	At 31 December 2019
Certificates of deposit and other debt securities in issue:		
– as stated in Condensed Consolidated Balance Sheet	**30,629**	17,190
– certificates of deposit in issue designated at fair value (note 30)	**1,528**	2,014
– other structured debt securities in issue reported as financial liabilities designated at fair value (note 30)	**5,050**	2,639
	37,207	21,843
By type:		
– certificates of deposit in issue	**32,157**	19,204
– other debt securities in issue	**5,050**	2,639
	37,207	21,843

32 Other liabilities

	At 30 June 2020	At 31 December 2019
Items in the course of transmission to other banks	**7,107**	6,751
Accruals	**3,423**	4,634
Acceptances and endorsements	**8,324**	8,336
Retirement benefit liabilities	**1,130**	670
Settlement accounts	**15,813**	8,410
Cash collateral	**1,112**	688
Lease liabilities	**1,294**	1,438
Other	**3,752**	4,256
	41,955	35,183

33 Subordinated liabilities

Nominal value	Description	At 30 June 2020	At 31 December 2019
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,100**	3,114
		19,480	19,494
Representing:			
– measured at amortised cost		**19,480**	19,494

1 *Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.*

2 *Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.*

3 *Interest rate at three-month HK dollar HIBOR plus 1.342 per cent per annum, payable quarterly, to the maturity date.*

4 *Interest rate at three-month US dollar LIBOR plus 1.789 per cent per annum, payable quarterly, to the maturity date.*

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during the first half of 2020.

34 Other equity instruments

Nominal value	Description	At 30 June 2020	At 31 December 2019
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**7,044**	7,044
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[2]	**4,700**	4,700
		11,744	11,744

1 *Coupon rate is 6.03% and then three-month US dollar LIBOR plus 4.02 per cent from the first call date.*

2 *Coupon rate is 6% and then three-month US dollar LIBOR plus 4.06 per cent from the first call date.*

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

35 Contingent liabilities and commitments

(a) Off-balance sheet contingent liabilities and commitments

	At 30 June 2020	At 31 December 2019
Contingent liabilities and financial guarantee contracts		
Financial guarantees	**3,412**	3,825
Performance and other guarantees	**15,163**	13,959
Other contingent liabilities	**48**	59
	18,623	17,843
Commitments		
Documentary credits and short-term trade-related transactions	**3,145**	2,570
Forward asset purchases and forward forward deposits placed	**6,773**	4,356
Undrawn formal standby facilities, credit lines and other commitments to lend	**505,685**	491,744
	515,603	498,670

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

(b) Contingencies

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

36 Material related-party transactions

All related party transactions that took place in the half-year to 30 June 2020 were similar in nature to those disclosed in the 2019 Annual Report. There were no changes in the related party transactions described in the 2019 Annual Report that have had a material effect on the financial position or performance of the Group in the half-year to 30 June 2020.

37 Fair value of financial instruments

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

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 2020 are consistent with those applied for the Annual Report 2019. The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
	Quoted market price Level 1	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities**	*Total*
Recurring fair value measurements						
At 30 June 2020						
Assets						
Trading assets	**31,698**	**4,292**	**–**	**35,990**	**–**	**35,990**
Derivative financial instruments	**291**	**6,670**	**1**	**6,962**	**3,694**	**10,656**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**7,162**	**1,312**	**6,312**	**14,786**	**–**	**14,786**
Financial investments	**336,151**	**49,825**	**2,042**	**388,018**	**–**	**388,018**
Liabilities						
Trading liabilities	**28,374**	**–**	**–**	**28,374**	**–**	**28,374**
Derivative financial instruments	**51**	**6,053**	**–**	**6,104**	**5,328**	**11,432**
Financial liabilities designated at fair value	**–**	**26,748**	**3,929**	**30,677**	**–**	**30,677**
At 31 December 2019						
Assets						
Trading assets	43,731	3,626	–	47,357	–	47,357
Derivative financial instruments	307	5,255	3	5,565	1,773	7,338
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	10,607	2,655	5,509	18,771	–	18,771
Financial investments	287,807	53,863	2,179	343,849	–	343,849
Liabilities						
Trading liabilities	37,976	–	–	37,976	–	37,976
Derivative financial instruments	23	5,366	–	5,389	2,073	7,462
Financial liabilities designated at fair value	–	21,839	7,741	29,580	–	29,580

* *Included derivative contracts transacted with HSBC entities which was mainly classified within Level 2 of the valuation hierarchy.*

37 Fair value of financial instruments *(continued)*

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

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	Trading Assets	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Financial liabilities designated at fair value	Derivatives
At 30 June 2020							
Transfer from Level 1 to Level 2	–	–	–	–	–	–	–
Transfer from Level 2 to Level 1	**1,658**	–	–	–	–	–	–
At 31 December 2019							
Transfer from Level 1 to Level 2	–	–	–	–	–	–	–
Transfer from Level 2 to Level 1	–	–	1,268	–	–	–	–

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to changes in observability of valuation inputs and price transparency.

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

	Assets				Liabilities		
	Financial Investments	Trading Assets	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Financial liabilities designated at fair value	Derivatives
At 30 June 2020							
Private equity	**2,042**	–	**6,312**	–	–	–	–
Structured notes	–	–	–	–	–	**3,929**	–
Derivatives	–	–	–	**1**	–	–	–
	2,042	–	**6,312**	**1**	–	**3,929**	–
At 31 December 2019							
Private equity	2,179	–	5,509	–	–	–	–
Structured notes	–	–	–	–	–	7,741	–
Derivatives	–	–	–	3	–	–	–
	2,179	–	5,509	3	–	7,741	–

37 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2020	**2,179**	**–**	**5,509**	**3**	**–**	**7,741**	**–**
Total gains or losses recognised in profit or loss							
– net income from financial instruments measured at fair value through profit or loss	–	–	(122)	5	–	–	5
Total gains or losses recognised in other comprehensive income							
– fair value losses	(137)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	–	–
Purchases	–	–	1,142	–	–	–	–
Issues/deposit taking	–	–	–	–	–	5,464	–
Sales	–	–	–	–	–	–	–
Settlements	–	–	(217)	–	–	(8,923)	–
Transfers out	–	–	–	(7)	–	(353)	(5)
Transfers in	–	–	–	–	–	–	–
At 30 June 2020	**2,042**	**–**	**6,312**	**1**	**–**	**3,929**	**–**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income from financial instruments measured at fair value through profit or loss	–	–	(120)	1	–	1	–

37 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2019	1,287	–	4,089	24	–	12,314	71
Total gains or losses recognised in profit or loss							
– net income from financial instruments measured at fair value through profit or loss	–	–	33	(17)	–	(149)	(70)
Total gains or losses recognised in other comprehensive income							
– fair value gains	660	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	–	–
Purchases	–	–	790	–	–	–	–
Issues/deposit taking	–	–	–	–	–	16,854	–
Sales	–	–	(3)	–	–	–	–
Settlements	–	–	(171)	–	–	(18,361)	–
Transfers out	–	–	(79)	–	–	(192)	–
Transfers in	–	–	–	–	–	3	–
At 30 June 2019	1,947	–	4,659	7	–	10,469	1
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income from financial instruments measured at fair value through profit or loss	–	–	32	3	–	131	–

37 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 July 2019	1,947	–	4,659	7	–	10,469	1
Total gains or losses recognised in profit or loss							
– net income from financial instruments measured at fair value through profit or loss	–	–	223	2	–	208	(1)
Total gains or losses recognised in other comprehensive income							
– fair value gains	232	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	–	–
Purchases	–	–	894	–	–	–	–
Issues/deposit taking	–	–	–	–	–	4,867	–
Settlements	–	–	(267)	–	–	(7,680)	–
Transfers out	–	–	–	(6)	–	(124)	–
Transfers in	–	–	–	–	–	1	–
At 31 December 2019	2,179	–	5,509	3	–	7,741	–
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income from financial instruments measured at fair value through profit or loss	–	–	309	–	–	(225)	–

For the first half of 2020, the transfer out of Level 3 derivatives assets and derivatives liabilities were predominantly resulted from change in observability of equity volatilities. The transfer out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatilities for pricing the instrument.

37 Fair value of financial instruments *(continued)*

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
At 30 June 2020				
Private equity	**316**	**(316)**	**95**	**(95)**
Derivatives	**–**	**–**	**–**	**–**
	316	**(316)**	**95**	**(95)**
At 31 December 2019				
Private equity	275	(275)	140	(140)
Derivatives	1	(1)	–	–
	276	(276)	140	(140)

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

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range
Assets			
Private equity	Net asset value	N/A	**N/A**
	Market-comparable approach	Earnings Multiple	**29 – 37** (31 Dec 2019: 27 – 40)
		P/B ratios	**0.35 – 1.49** (31 Dec 2019: 0.45 – 1.63)
		Liquidity Discount	**10% – 60%** (31 Dec 2019: 10% – 60%)
Derivatives	Option model	Equity Volatility	**32.21% – 36.93%** (31 Dec 2019: 13.23% – 22.82%)
Liabilities			
Structured notes	Option model	Equity Volatility	**21.85% – 22.39%** (31 Dec 2019: 11.23% – 18.22%)
		FX Volatility	**4.15% – 21.52%** (31 Dec 2019: 1.13% – 16.92%)

37 Fair value of financial instruments *(continued)*

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

Key unobservable inputs to Level 3 financial instruments

The table above lists the key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2020. Detailed description of the categories of key unobservable inputs are set out in note 51(a) of the Group's Annual Report 2019.

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

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the Condensed Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	At 30 June 2020		*At 31 December 2019*	
	Carrying Amounts	***Fair Value***	*Carrying Amounts*	*Fair Value*
Financial Assets				
Reverse repurchase agreements – non-trading	**8,020**	**8,020**	6,659	6,659
Placings with and advances to banks	**63,961**	**63,938**	65,807	65,739
Loans and advances to customers	**953,451**	**946,815**	942,930	940,506
Financial investments – at amortised cost	**129,836**	**138,480**	117,855	121,987
Financial Liabilities				
Deposits from banks	**3,957**	**3,957**	2,491	2,491
Repurchase agreements – non-trading	**3,137**	**3,137**	1,878	1,878
Current, savings and other deposit accounts	**1,241,156**	**1,241,237**	1,203,458	1,203,538
Certificates of deposit and other debt securities in issue	**30,629**	**30,640**	17,190	17,178
Subordinated liabilities	**19,480**	**19,381**	19,494	20,333

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

Details of how the fair values of financial instruments that are not carried at fair value on the balance sheet are calculated are set out in note 51(b) of the Group's Annual Report 2019.

38 Condensed Consolidated Financial Statements and statutory financial statements

The financial information relating to the year ended 31 December 2019 that is included in these Condensed Consolidated Financial Statements does not constitute the Bank's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the Hong Kong Monetary Authority.

The auditor has reported on those statutory financial statements for the year ended 31 December 2019. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The Annual Report for the year ended 31 December 2019, which includes the statutory financial statements, can be obtained from the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

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

39 Immediate and ultimate holding companies

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

40 Comparative figures

Certain comparative figures in the Condensed Consolidated Financial Statements have been reclassified to conform with current period's presentation.

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

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements set out on pages 52 to 88, which comprises the condensed consolidated balance sheet of Hang Seng Bank Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2020 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes[1]. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

1 *As described in Note 1 on the condensed consolidated financial statements, certain other disclosures have been presented elsewhere in the Interim Report 2020, rather than in the notes on the condensed consolidated financial statements. These are cross-referenced from the condensed consolidated financial statements and are identified as reviewed.*

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 August 2020

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('Listing Rules')). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2020.

Changes in Directors' Details

Changes in Directors' details since the date of the Annual Report 2019 of the Bank or (as the case may be) the date of announcement for the appointment of Director issued by the Bank subsequent to the date of the Annual Report 2019, and up to the date of release of the interim results of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below.

Dr John CHAN Cho Chak GBS, JP

New appointments

- The Community Chest of Hong Kong (Second Vice President and Campaign Committee Chairman)

Ms Kathleen GAN Chieh Huey

Cessation of appointments

- HSBC Asia Holdings Limited (Director)
- The Hongkong and Shanghai Banking Corporation Limited (Alternate Chief Executive)

Mr Kenneth NG Sing Yip

New appointments

- HSBC Bank Australia Limited (Member of Nomination Committee)

Mr Peter WONG Tung Shun JP

Cessation of appointments

- The Community Chest of Hong Kong (Board Member; First Vice President and Executive Committee Chairman; Chairman of Nominating Committee)

Notes:

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

(2) *Mr Nixon CHAN Lik Sang retired as a Non-executive Director of the Bank at the conclusion of the 2020 Annual General Meeting on 22 May 2020.*

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

Directors' and Alternate Chief Executives' Interests

As at 30 June 2020, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/ issued share capital
Number of ordinary shares in the Bank						
Directors:						
Dr John C C Chan	1,000[1]	–	–	–	1,000	0.00
Ms Kathleen C H Gan	2,500	–	–	–	2,500	0.00
Ms Margaret W H Kwan	65	–	–	–	65	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Dr Raymond K F Ch'ien	59,799	–	–	–	59,799	0.00
Ms Louisa Cheang	557,085	–	–	213,883[2]	770,968	0.00
Dr John C C Chan	24,605[1]	–	–	–	24,605	0.00
Ms Kathleen C H Gan	312,686	–	–	77,852[2]	390,538	0.00
Ms Margaret W H Kwan	83,479	10,041	–	23,543[2]	117,063	0.00
Ms Irene Y L Lee	11,904	–	–	–	11,904	0.00
Dr Eric K C Li	–	64,813	–	–	64,813	0.00
Mr Kenneth S Y Ng	440,723	–	–	–	440,723	0.00
Mr Peter T S Wong	2,601,899	27,442	–	1,053,482[2]	3,682,823	0.02
Alternate Chief Executives:						
Mrs Eunice L C Y Chan	23,874	–	–	12,571[2]	36,445	0.00
Mr Donald Y S Lam	170,568	–	–	28,747[2]	199,315	0.00
Mr Andrew W L Leung	12,866	–	–	20,296[2]	33,162	0.00

Notes:

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

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

Conditional Awards of Shares

As at 30 June 2020, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under various HSBC Share Plans were as follows:

	Awards held as at 1 January 2020	Awards made during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2020
Directors:				
Ms Louisa Cheang	190,431	130,028	106,576	213,883
Ms Kathleen C H Gan	55,573	76,899	54,620	77,852
Ms Margaret W H Kwan	20,104	30,073	26,634	23,543
Mr Peter T S Wong	441,157	309,853	244,063	506,947
Alternate Chief Executives:				
Mrs Eunice L C Y Chan	12,228	6,660	6,317	12,571
Mr Donald Y S Lam	23,905	28,997	24,155	28,747
Mr Andrew W L Leung	20,824	9,247	9,775	20,296

During the first half of 2020, Ms Kathleen C H Gan, Mrs Eunice L C Y Chan and Mr Donald Y S Lam also acquired and were awarded ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan. Their interests in ordinary shares of HSBC Holdings plc under this plan have been included in their 'Personal Interests' disclosed in the table under 'Interests in shares'.

All the interests stated above represented long positions. As at 30 June 2020, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2020.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2020, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

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

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

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

All the interests stated above represented long positions. As at 30 June 2020, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the first half of 2020.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2019 in respect of the remuneration of employees, remuneration policies and staff development.

Corporate Governance Principles and Practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2020.

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. Since the third quarter of 2019, the Bank is in the process of implementing the 'Subsidiary Accountability Framework' initiative introduced by the HSBC Group with an aim of simplifying subsidiary oversight framework, and strengthening and enhancing corporate governance. In addition, the Bank has also continued to embed 'Ways of Working' Governance into the Bank's Board and Board Committee governance for meeting effectiveness. 'Ways of Working' Governance was launched by the HSBC Group in 2018 and has been recognised by The Chartered Governance Institute in the United Kingdom by awarding the HSBC Group 'Governance Project of the Year 2019'.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2020.

2020 Second Interim Dividend

Announcement date	3 August 2020
Ex-dividend date	14 August 2020
Book close and record date	18 August 2020
Payment date	3 September 2020

Register of Shareholders

The Register of Shareholders of the Bank will be closed on Tuesday, 18 August 2020, during which no transfer of shares can be registered. To qualify for the second interim dividend for 2020, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 pm on Monday, 17 August 2020.

Board and Committees

Board

Independent Non-executive Chairman
Raymond CH'IEN Kuo Fung

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

Non-executive Directors
Kathleen GAN Chieh Huey
Vincent LO Hong Sui
Kenneth NG Sing Yip
Peter WONG Tung Shun

Independent Non-executive Directors
John CHAN Cho Chak
CHIANG Lai Yuen
Irene LEE Yun Lien
Eric LI Ka Cheung
Michael WU Wei Kuo

Committees

Executive Committee
Louisa CHEANG (Chairman)
Eunice CHAN
Crystal CHEUNG Pui Sze
Liz CHOW Tan Ling
Margaret KWAN Wing Han
Donald LAM Yin Shing
Gilbert LEE Man Lung
Andrew LEUNG Wing Lok
Godwin LI Chi Chung
Ryan SONG Yue Sheng
Christopher TSANG Hing Keung
Elaine WANG Yee Ning
Daphne WAT Wing Kam
WONG May Kay
YEO Chee Leong

Audit Committee
Eric LI Ka Cheung (Chairman)
CHIANG Lai Yuen
Irene LEE Yun Lien

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

Risk Committee
Irene LEE Yun Lien (Chairman)
Eric LI Ka Cheung
Kenneth NG Sing Yip
Michael WU Wei Kuo

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

Notes:

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

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

Registered Office

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

Stock Code

The Stock Exchange of Hong Kong Limited: 11

Registrar

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

Depositary*

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

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

Interim Report 2020

This Interim Report 2020 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of HKEx (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2020 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2020 in either English or Chinese and wish to receive a printed copy in the other language version,

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

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

If shareholders who have chosen (or are deemed to have chosen) to read this Interim Report 2020 on the Bank's website, have difficulty in reading or gaining access to this Interim Report 2020 via the Bank's website for any reason, the Bank will promptly send this Interim Report 2020 in printed form free of charge upon the shareholders' request.

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

Photography: Ringo Tang

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