恒生銀行
HANG SENG BANK

新聞稿
PRESS RELEASE

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HANG SENG BANK LIMITED
2018 INTERIM RESULTS - HIGHLIGHTS

- Attributable profit up 29% to HK$12,647m (HK$9,838m for the first half of 2017).

- Profit before tax up 28% to HK$14,864m (HK$11,646m for the first half of 2017).

- Operating profit up 25% to HK$14,662m (HK$11,732m for the first half of 2017).

- Operating profit excluding change in expected credit losses and other credit impairment charges up 20% to HK$14,900m. (Operating profit excluding loan impairment charges and other credit risk provisions of HK$12,402m for the first half of 2017.)

- Return on average ordinary shareholders' equity of 17.4% (14.6% for the first half of 2017).

- Earnings per share up 29% to HK$6.62 per share (HK$5.15 per share for the first half of 2017).

- Second interim dividend of HK$1.30 per share; total dividends of HK$2.60 per share for the first half of 2018 (HK$2.40 per share for the first half of 2017).

- Common equity tier 1 ('CET1') capital ratio of 16.2%, tier 1 ('T1') capital ratio of 17.4% and total capital ratio of 19.6% at 30 June 2018. (CET1 capital ratio of 16.5%, T1 capital ratio of 17.7% and total capital ratio of 20.1% at 31 December 2017.)

- Cost efficiency ratio of 27.7% (29.8% for the first half of 2017).

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

The financial information in this press release is based on the unaudited condensed consolidated financial statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the six months ended 30 June 2018.

Comment by Raymond Ch'ien, Chairman

The world economy maintained a moderate pace of growth in the first half of 2018, prompting central banks in key economies to continue raising interest rates and tighten monetary policies. However, such developments were relatively modest in nature, given ongoing uncertainty over international trade and longer-term global economic and financial trends.

Hang Seng deployed more resources in enhancing efficiency, understanding customers better and improving infrastructure for responding quickly to changing market conditions and new business opportunities. These actions built on our well-established competitive strengths, while also marking us out as a forward-thinking bank with a clear vision for long-term sustainable growth.

Attributable profit grew by 29% to HK$12,647m. Earnings per share also rose by 29% to HK$6.62 per share. Compared with the second half of 2017, attributable profit increased by 24% and earnings per share were up 29%.

Return on average ordinary shareholders' equity was 17.4%, compared with 14.6% and 13.9% in the first and second halves of last year.

The Directors have declared a second interim dividend of HK$1.30 per share. This brings the total distribution for the first half of 2018 to HK$2.60 per share, compared with HK$2.40 per share in the first half of 2017.

Economic Environment

Hong Kong's economic growth hit its fastest pace since 2011 in the first quarter, with GDP rising by 4.7% year-on-year after increasing by 3.8% last year. While higher US interest rates are putting upward pressure on their counterparts in Hong Kong, domestic demand has remained strong and the labour market is in robust health. We expect Hong Kong's full-year growth for 2018 to reach 3.7%.

In mainland China, GDP growth averaged 6.8% in the first half. Trade posted double-digit growth, but ongoing economic deleveraging resulted in a further slowdown in investment growth. Despite concerns over the future of international trade policies, we expect the mainland economy to remain on a stable trajectory and achieve full-year growth of 6.6% for 2018.

Looking ahead, while we remain cautiously optimistic, continuing credit tightening in the US and the deteriorating world trade outlook are increasing the long-tail risk on the downside. Nevertheless, our core banking services strength provides a firm foundation for capitalising on new opportunities created by dynamic growth in the Guangdong-Hong Kong-Macao Greater Bay Area and the changing face of financial service delivery.

We will continue to invest in strengthening customer relationships. Leveraging technology, our diverse portfolio of products and services, and the professionalism of our people, we will take further advantage of our leading market position and respected brand to deliver service excellence and create value for shareholders.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

Hang Seng achieved strong results in the first half of 2018. Building on the good business momentum we established last year, we saw further success with our customer-centric strategy for progressive growth.

We grew profit before tax by 28%, with solid increases in net interest income and non-interest income. All business lines recorded growth in revenue and profitability.

Initiatives to enhance service convenience, access and choice deepened existing relationships and provided us with new business opportunities in key segments. We achieved balanced growth in lending and deposits, and improvement in the net interest margin.

Enhanced data analytics and more effective customer engagement across our diversified distribution channels improved our understanding of the preferences of our clients. Supported by our all-weather portfolio of wealth and health products, this strengthened our ability to deliver tailored financial management solutions and respond swiftly to changing customer needs, resulting in double-digit growth in wealth management income.

With increasingly mobile lifestyles shaping service expectations, particularly among the younger segment, we added value with investments in technology and operational infrastructure that give customers greater flexibility over when and where they manage their finances.

Our new AI chatbots offer retail and commercial customers around-the-clock assistance with a range of service enquiries and information. We expanded the use of biometric authentication and launched a mobile security key to ensure customers enjoy easy and secure access to our digital services.

Our strong cross-border and cross-business connectivity continued to play a key role in capturing new business in Hong Kong and mainland China. Hang Seng China recorded satisfactory growth in profitability despite the high cost of renminbi funding in the first half of the year.

We continued with actions to strengthen staff engagement, enhance their well-being and establish working environments and practices that encourage innovation, collaboration and creativity.

Financial Performance

Attributable profit and earnings per share both increased by 29% to HK$12,647m and HK$6.62 per share respectively. Profit before tax was up 28% at HK$14,864m. Compared with the second half of 2017, attributable profit and profit before tax both rose by 24%, and earnings per share were up 29%.

Operating profit increased by 25% to HK$14,662m. Operating profit excluding change in expected credit losses and other credit impairment charges was up 20% at HK$14,900m. Compared with the second half of 2017, operating profit increased by 24% and operating profit excluding change in expected credit losses grew by 22%.

Net operating income increased by 20% to HK$20,411m. Compared with the second half of 2017, net operating income was up 18%.

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

Net interest income grew by 20% to HK$14,228m, reflecting the 11% increase in average interest-earning assets and the improvement in the net interest margin. Compared with the second half of 2017, net interest income rose by 11%. The net interest margin was 2.10%, up from 1.94% for both the first and second halves of 2017.

Supported by enhanced data analytics and our customer segmentation capabilities, we further leveraged our comprehensive portfolio of wealth and health products to achieve a 10% increase in non-interest income and a 14% rise in wealth management income. Compared with the second half of 2017, non-interest income grew by 30% and wealth management income was up 31%.

Our cost efficiency ratio was 27.7%, compared with 29.8% and 31.1% for the first and second halves of last year, demonstrating our ability to enhance productivity while delivering growth.

We continued to actively manage our lending portfolio to maintain good overall asset quality. Change in expected credit losses and other credit impairment charges was HK$238m, compared with HK$670m and HK$372m for the first and second halves of 2017.

At 30 June 2018, our common equity tier 1 capital ratio was 16.2% and our tier 1 capital ratio was 17.4%, compared with 16.5% and 17.7% respectively at 31 December 2017. Our total capital ratio was 19.6%, compared with 20.1% at the end of last year.

Delivering Excellence for Progressive Growth

Turning to the outlook for the rest of the year, we expect operating conditions to become more challenging. The recent volatility in the world's major financial markets may continue in the months ahead, as uncertainty over international trade policies and geopolitical developments increases. Alongside the upward trend in interest rates, this may cause companies to exercise greater caution when considering their short-to-medium-term investment plans. Such market conditions are also likely to affect consumer sentiment.

In this rapidly evolving operating environment, our progressive approach to business will reinforce our position as Hong Kong's leading domestic bank. Competitive advantages such as our trusted brand, large customer base and extensive distribution network provide a firm foundation for growth. However, we cannot rely solely on our established strengths. We will keep moving forward and sharpen our ability to meet the increasingly sophisticated needs of current and future customers.

We are allocating more capital and resources to further leverage technology in support of long-term business growth, enhancing the customer experience and driving innovation in our industry.

Data analytics and our customer segmentation model are strengthening client engagement. This is facilitating the provision of tailored wealth management solutions for different customer groups.

Our increased investments in digital platforms reflect growing customer expectations that financial services must integrate fully with their fast-paced and mobile lifestyles.

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

We are working with our peers to develop an industry-wide trade finance blockchain platform that will enhance service efficiency, reduce risk and improve financing accessibility. We are also actively involved in other fintech initiatives, including Faster Payment System and Open Banking API, that will encourage greater creativity and collaboration in the development of innovative and convenient banking services.

We will continue to adopt technology and operational systems that drive greater efficiency, enable us to act quickly on new market opportunities and give our staff more capacity to add value when serving customers.

Our well-integrated cross-border infrastructure will facilitate initiatives to grow our core banking business on the Mainland and capitalise on new opportunities arising from major developments such as the Guangdong-Hong Kong-Macao Greater Bay Area and 'One Belt, One Road'.

I wish to thank my colleagues for their significant contributions to our results. In a fast-changing service environment, we are listening to and learning from our people. We will continue to equip our staff to provide high-value services and quality specialist advice tailored to the needs of customers. We remain committed to promoting a working culture and conditions that support personal well-being and enable our people to perform at their best, take pride in their work and feel valued as members of the Hang Seng team.

Under our progressive growth strategy, we will emphasise customer convenience and choice as central to the service experience. We will continue to actively engage stakeholders, drive product and service innovation, and uphold high operational and compliance standards as we deliver excellence as an employer, a financial services provider and a responsible corporate member of our community.

Results Summary

Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') achieved good growth momentum to record strong results for the first half of 2018. **Profit attributable to shareholders** increased by 29% compared with the first half of 2017 to reach HK$12,647m. **Profit before tax** was up 28% at HK$14,864m. **Operating profit** rose by 25% to HK$14,662m. **Operating profit excluding change in expected credit losses and other credit impairment charges** increased by 20% to HK$14,900m, with solid growth in both net interest income and non-interest income. Supported by its all-weather product portfolio, customer segmentation strategy and strong time-to-market capabilities, the Bank's swift response to the changing investment and insurance needs of customers drove a 14% increase in wealth management income to HK$5,328m.

Net interest income rose by HK$2,414m, or 20%, to HK$14,228m, driven by the 11% increase in average interest-earning assets and the widening of the net interest margin. The Bank's successful efforts to expand and diversify lending and attract new deposits led to growth in both average loan and average deposit balances. Average customer lending increased by 19%, with notable growth in term lending and mortgages.

With improved customer deposit spreads being partly offset by compressed customer loan spreads, the Bank recorded a 16-basis-point increase in the net interest margin to 2.10% through effective management of its assets and liabilities. Balance sheet management income declined, reflecting the reduction in surplus funds available for investment due to lending growth. The Bank's treasury team proactively managed interest rate risk and identified good opportunities in the interbank market to enhance yields on the balance sheet investment portfolio, which partly offset the effects of the reduced commercial surplus.

Net fee income increased by HK$695m, or 21%, to HK$3,989m, with growth being recorded across all core business lines. Income from stockbroking and related services was up 46% and retail investment funds grew by 10%, mainly due to higher turnover and the favourable equities markets. Gross fee income from credit card business increased by 14%. Credit facilities fee income rose by 41%, reflecting higher fees from increased corporate lending. Enhanced cross-border commercial payment capabilities resulted in a 16% increase in remittance-related fees. Fees from account services, insurance-related business and trade services increased by 8%, 6% and 10% respectively.

Net income from financial instruments measured at fair value decreased by HK$1,381m, or 58%, to HK$995m.

The Bank has considered market practices for the presentation of certain financial liabilities that contain both deposit and derivative components. It was determined that a change in accounting policy and presentation with respect to 'trading liabilities - structured deposits and structured debt securities in issue' is appropriate to better align with the presentation of similar financial instruments by industry peers and therefore provide more relevant information about the effect of these financial liabilities on the Bank's financial position and performance. This change in accounting policy and presentation took effect on 1 January 2018. Accordingly, rather than classifying 'trading liabilities - structured deposits and structured debt securities in issue' as held for trading, such financial liabilities are now designated as at fair value through profit or loss since they are managed and their performance is evaluated on a fair-value basis. Further information is set out in the 'additional information' section of the press release and the 'accounting policies' section of the Group's 2018 interim report.

Net trading income and net income from financial instruments designated at fair value together decreased by HK$250m, or 18%, to HK$1,140m. Increased customer activity led to a rise in foreign exchange income, but this was more than offset by lower income from funding swaps. Income from interest rate derivatives, debt securities, equities and other trading activities was down compared with a year earlier.

Net income from assets and liabilities of insurance business measured at fair value recorded a loss of HK$145m compared with a gain of HK$986m for the same period last year. Investment returns on financial assets supporting insurance liabilities contracts were adversely affected by unfavourable movements in the 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 present value of in-force long-term insurance business ('PVIF').

Income from insurance business (included under 'net interest income', 'net fee income', 'net income from financial instruments measured at fair value', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and **'other'** within **'other operating income', 'share of profits from associates'** and after deducting **'net insurance claims and benefits paid and movement in liabilities to policyholders')** increased by HK$132m, or 5%, to HK$2,836m. Net interest income and fee income from life insurance business rose by 6%. Investment returns on life insurance business recorded a loss of HK$326m compared with a gain of HK$980m for the same period last year, reflecting the unfavourable movements in the equities markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or movement in PVIF under other operating income.

Net insurance premium income increased by 23%, reflecting higher new premiums attributable to the success of our total solution retirement planning propositions covering a wide range of wellness and protection products as well as increase in renewal premiums. The rise in insurance premiums resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders. The movement in PVIF increased by 86%, mainly attributable to higher new business sales and the market conditions update.

General insurance income decreased by 10%.

Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions decreased by HK$432m, or 64%, to HK$238m.

Under Hong Kong Financial Reporting Standard ('HKFRS') 9 'Financial Instruments', the recognition and measurement of expected credit losses ('ECL') is different to that required under Hong Kong Accounting Standard ('HKAS') 39 'Financial Instruments: Recognition and Measurement'. The change in expected credit losses relating to financial assets under HKFRS 9 is more forward-looking and recorded in the income statement under 'change in expected credit losses and other credit impairment charges'. As relevant figures in the prior period have not been restated, changes in impairment of financial assets in the comparative period have been reported in accordance with HKAS 39 under 'Loan impairment charges and other credit risk provisions' and are therefore not necessarily comparable to the ECL recorded for the current period. Further information is provided in the accounting policies section of the Group's 2018 interim report.

Gross impaired loans and advances increased by HK$454m, or 21%, to HK$2,628m against 2017 year-end on HKFRS 9 basis. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.31% at the end of June 2018, compared with 0.27% on an HKFRS 9 basis at the end of December 2017. Overall credit quality remained stable.

Change in expected credit losses and other credit impairment charges recorded a charge of HK$238m for the first half of 2018. Retail Banking and Wealth Management ('RBWM') recorded an ECL charge of HK$169m, mainly in credit card and personal loan portfolios. ECL for the Commercial Banking ('CMB'), Global Banking and Markets and 'Other' business segments collectively recorded impairment charges of HK$69m. New ECL arising from the downgrading of several CMB customers was partly offset by the decrease in ECL resulting from improved macroeconomic forecasts in Hong Kong.

Loan impairment charges and other credit risk provisions were HK$670m for the first half of 2017. Individually assessed impairment charges were HK$327m, with the adverse impact of the downgrading of several CMB customers partly offset by a release in impairment charges. Collectively assessed impairment charges were HK$343m, with credit card and personal loan portfolios accounting for HK$272m and the remaining related to collectively assessed impairment charges for loans not individually identified as impaired.

HKFRS 9 requires the recognition of impairment earlier in the lifecycle of a financial asset, taking forward-looking information into consideration. As a result, measurement involves more complex judgement with impairment likely to be more volatile as the economic outlook changes. The Bank's senior management will continue to closely monitor market developments and shifts in the economic environment in its management and assessment of the credit performance of financial assets.

Operating expenses increased by HK$467m, or 9%, to HK$5,722m, due mainly to the Bank's continued investment in technology, services enhancement and staff-related costs. Staff costs were up 13%, reflecting the salary increment and higher performance-related pay expenses.

Depreciation charges increased by 11%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation at last year-end. General and administrative expenses increased by 4%, reflecting the increases in marketing and advertising expenses, processing charges and professional fees.

The Group continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in net operating income before change in expected credit losses and other credit impairment charges outpacing the growth in operating expenses, the Bank's cost efficiency ratio improved by 2.1 percentage points compared with the same period last year to 27.7%.

Profit before tax increased by HK$3,218m, or 28%, to HK$14,864m after taking into account the following major items:

- a HK$28m increase in **net surplus on property revaluation**; and
- a gain of HK$124m compared with a loss of HK$136m in the first half of 2017 in **share of profits/(losses) of associates**, mainly reflecting the revaluation surplus of a property investment company in the current period compared with a revaluation loss in the same period last year.

First half of 2018 compared with second half of 2017

Against the second half of 2017, the Group leveraged its core strengths to deliver strong results. Attributable profit grew by HK$2,467m, or 24%, driven by solid growth in both net interest income and non-interest income.

Net interest income increased by HK$1,465m, or 11%, benefiting from the increase in average interest-earning assets and improvement in the net interest margin, despite there being more calendar days in the second half of 2017. Non-interest income rose by HK$1,484m, or 30%, driven mainly by solid growth in wealth management income. There was an improvement in investment services income, with higher income from retail investment funds, securities brokerage and structured investment products. Insurance income recorded strong growth, driven by the increase in new business sales and higher renewals, though this was partly offset by the loss on investment portfolio resulting from unfavourable movements in the equities markets.

Operating expenses rose by HK$209m, or 4%, with increases in staff costs and depreciation largely offset by lower general and administrative expenses. ECL charge decreased by HK$134m, or 36%, reflecting lower impairment charges for RBWM and CMB.

Condensed consolidated balance sheet and key ratios

Assets

Total assets increased by HK$56bn, or 4%, to HK$1,535bn compared with last year-end, with the Group maintaining good business momentum and continuing to pursue its strategy of enhancing profitability through sustainable growth.

Cash and sight balances at central banks decreased by HK$11bn, or 52%, to HK$10bn, due mainly to the decrease in the commercial surplus placed with the Hong Kong Monetary Authority ('HKMA'). Placing with banks fell by HK$6bn, or 6%, to HK$97bn and trading assets dropped by HK$9bn, or 18%, to HK$44bn, reflecting redeployment of these assets to customer loans and advances.

Customer loans and advances (net of ECL allowances) grew by HK$49bn, or 6%, to HK$855bn compared with the end of 2017. Loans for use in Hong Kong increased by 7%, mainly reflecting growth in lending to the property development and investment, and wholesale and retail trade sectors, as well as working capital financing for certain large corporate customers. Lending to individuals increased by 5% compared with the end of 2017. The Group continued to maintain its market share for mortgage business, with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending growing by 5% and 3% respectively. Trade finance lending decreased by 6% against last year-end. Loans and advances for use outside Hong Kong increased by 8%, due mainly to lending by our Hong Kong operation.

Financial investments increased by HK$17bn, or 4%, to HK$402bn, reflecting the partial redeployment of the commercial surplus in debt securities for yield enhancement and the increase in the insurance financial instruments portfolio.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$47bn, or 4%, to HK$1,162bn against last year-end. Growth in time deposits was partly offset by the decrease in current and savings account deposits. At 30 June 2018, the advances-to-deposits ratio was 73.6%, compared with 72.3% at 31 December 2017.

At 30 June 2018, shareholders' equity was up HK$4bn, or 2%, at HK$156bn against last year-end. Retained profits grew by HK$4bn, or 3%, reflecting profit accumulation partly offset by the payment of the 2017 fourth interim dividend and the 2018 first interim dividend. The premises revaluation reserve increased by HK$0.6bn, or 3%, reflecting the upward trend in the commercial property market. Financial assets at fair value through other comprehensive income reserve/available-for-sale investment reserve decreased by HK$0.4bn, or 21%, mainly reflecting the fair-value movement of the Group's investments in financial assets measured at fair value. Other reserves decreased by HK$0.2bn, or 13%, due mainly to a decline in the foreign exchange reserve with the depreciation of the renminbi.

Key ratios

Return on average total assets was 1.7%, compared with 1.4% for both the first and second halves of 2017. **Return on average ordinary shareholders' equity** was 17.4%, compared with 14.6% and 13.9% for the first and second halves of 2017 respectively.

At 30 June 2018, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.2%, 17.4% and 19.6% respectively, compared with 16.5%, 17.7% and 20.1% respectively at 2017 year-end. The reduction reflects the net effect of an increase in capital base and a 5% rise in risk-weighted assets mainly driven by lending growth.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** was 209.6% and 207.0% for the quarters ended 30 June 2018 and 31 March 2018 respectively, compared with 256.7% and 267.7% for the quarters ended 30 June 2017 and 31 March 2017 respectively. The decrease in the LCR was mainly due to the redeployment of the commercial surplus to customer loans and advances. The average liquidity position of the Group remained strong for the first half of 2018. The **net stable funding ratio ('NSFR')** was implemented in Hong Kong since 1 January 2018 and the Group is required to maintain a NSFR of not less than 100%. The period end NSFR was 153.6% and 152.9% for the quarters ended 30 June 2018 and 31 March 2018 respectively.

Dividends

The Directors have declared a second interim dividend of HK$1.30 per share, which will be payable on 6 September 2018 to shareholders on the register as of 21 August 2018. Together with the first interim dividend, the total distribution for the first half of 2018 is HK$2.60 per share.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2018					
Net interest income/(expense)	**7,873**	**4,329**	**2,184**	**(158)**	**14,228**
Net fee income	**2,631**	**1,097**	**156**	**105**	**3,989**
Net income/(loss) from financial instruments measured at fair value	**(115)**	**274**	**830**	**6**	**995**
Gains less losses from financial investments	–	–	**24**	–	**24**
Dividend income	–	–	–	**6**	**6**
Net insurance premium income	**7,982**	**750**	–	–	**8,732**
Other operating income	**1,254**	**236**	**3**	**128**	**1,621**
Total operating income	**19,625**	**6,686**	**3,197**	**87**	**29,595**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,356)**	**(590)**	–	–	**(8,946)**
Net operating income before change in expected credit losses and other credit impairment charges	**11,269**	**6,096**	**3,197**	**87**	**20,649**
Change in expected credit losses and other credit impairment charges	**(169)**	**(80)**	**11**	–	**(238)**
Net operating income	**11,100**	**6,016**	**3,208**	**87**	**20,411**
Operating expenses [W]	**(3,539)**	**(1,577)**	**(474)**	**(132)**	**(5,722)**
Impairment loss on intangible assets	–	–	–	**(27)**	**(27)**
Operating profit/(loss)	**7,561**	**4,439**	**2,734**	**(72)**	**14,662**
Net surplus on property revaluation	–	–	–	**78**	**78**
Share of profits of associates	**122**	–	–	**2**	**124**
Profit before tax	**7,683**	**4,439**	**2,734**	**8**	**14,864**
Share of profit before tax	**51.7** %	**29.9** %	**18.4** %	**0.0** %	**100.0** %
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	**7,730**	**4,519**	**2,723**	**(72)**	**14,900**
[W]Depreciation/amortisation included in operating expenses	**(12)**	**(2)**	**(2)**	**(707)**	**(723)**
At 30 June 2018					
Total assets	**461,834**	**383,863**	**626,604**	**62,321**	**1,534,622**
Total liabilities	**898,370**	**306,777**	**169,133**	**4,668**	**1,378,948**
Interest in associates	**2,405**	–	–	**3**	**2,408**

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

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2017					
Net interest income/(expense)	6,619	3,288	1,969	(62)	11,814
Net fee income	2,104	934	163	93	3,294
Net income/(loss) from financial instruments measured at fair value	1,330	255	829	(38)	2,376
Gains less losses from financial investments	30	–	18	–	48
Dividend income	1	–	–	6	7
Net insurance premium income	6,668	439	–	–	7,107
Other operating income	730	175	–	134	1,039
Total operating income	17,482	5,091	2,979	133	25,685
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,677)	(351)	–	–	(8,028)
Net operating income before loan impairment charges and other credit risk provisions	9,805	4,740	2,979	133	17,657
Loan impairment (charges)/releases and other credit risk provisions	(261)	(410)	1	–	(670)
Net operating income	9,544	4,330	2,980	133	16,987
Operating expenses [W]	(3,170)	(1,337)	(507)	(241)	(5,255)
Operating profit/(loss)	6,374	2,993	2,473	(108)	11,732
Net surplus on property revaluation	–	–	–	50	50
Share of losses of associates	(136)	–	–	–	(136)
Profit/(loss) before tax	6,238	2,993	2,473	(58)	11,646
Share of profit/(loss) before tax	53.6%	25.7%	21.2%	(0.5)%	100.0%
Operating profit/(loss) excluding loan impairment charges and other credit risk provisions	6,635	3,403	2,472	(108)	12,402
[W] Depreciation/amortisation included in operating expenses	(13)	(2)	(1)	(640)	(656)
At 31 December 2017					
Total assets	445,489	350,693	611,717	70,519	1,478,418
Total liabilities	860,396	288,476	156,806	20,661	1,326,339
Interest in associates	2,170	–	–	–	2,170

Half-year ended 30 June 2017					
Net fee income by segment					
- securities broking and related services	604	104	12	–	720
- retail investment funds	958	11	–	–	969
- insurance	199	57	37	–	293
- account services	138	95	3	–	236
- remittances	48	200	17	–	265
- cards	606	660	23	–	1,289
- credit facilities	8	186	65	–	259
- trade services	–	190	13	–	203
- other	37	35	21	91	184
Fee income	2,598	1,538	191	91	4,418
Fee expense	(494)	(604)	(28)	2	(1,124)
Net fee income	2,104	934	163	93	3,294

Retail Banking and Wealth Management ('RBWM') recorded a 17% year-on-year increase in operating profit excluding change in expected credit losses and other credit impairment charges to HK$7,730m in the first half of 2018. Operating profit increased by 19% to HK$7,561m and profit before tax rose by 23% to HK$7,683m.

Net interest income increased by 19% year-on-year to HK$7,873m. Leveraging our extensive network, trusted brand and sophisticated customer propositions, we uplifted our core banking relationships with customers to achieve strong balance sheet growth. Deposit and loan balances rose by 5% and 4% respectively compared with 2017 year-end. Net interest income in mainland China grew by 7%, reflecting the continued success of our low-cost funding strategy.

Non-interest income increased by 7% to HK$3,396m. Backed by sophisticated data analytics and our customer segmentation strategy, we used our comprehensive all-weather product portfolio to grow wealth management business, resulting in a 13% rise in wealth management business income to HK$4,545m. Wealth management business in mainland China grew by 117% year-on-year.

Investment services income increased by 31%. We grew securities turnover and revenue by 75% and 66% respectively. Investment services revenue excluding securities-related income was up 17%. Our diverse suite of investment funds, and structured, fixed-income and foreign currency products, enabled us to meet a wide variety of financial needs and risk appetites.

Insurance income was in line with the first half of 2017. The unfavourable impact of market movements on life insurance portfolio investment returns was slightly offset by net interest income and fee income from life insurance business, which grew by 6% - due in part to an enhanced product suite and effective use of our extensive distribution network. We offered total wellness and protection solutions to customers through our retirement planning propositions. The launch of a new whole life insurance product, EmbraceLife, drove continuous growth in new business. Life insurance new annualised premiums grew by 27%.

With the continuing positive sentiment in the property market, we enhanced our mortgage distribution capabilities to capture new business opportunities, resulting in a higher transaction volume and a 4% increase in mortgage balances in Hong Kong compared with 2017 year-end. Our new mortgage business continued to rank among the top three in Hong Kong.

Unsecured lending remained a key contributor to revenue. Effective marketing campaigns and our deep understanding of our client base helped us achieve 5% growth in card receivables year-on-year. The personal and tax loan portfolio in Hong Kong grew by 7% compared with 2017 year-end.

Led by our sophisticated customer segmentation strategy and enhanced analytics, our customer-centric approach enabled us to build closer relationship with clients and strengthened our ability to provide needs-based financial products and services. In the Prestige Banking segment, we leveraged our high-value proposition and premium wealth management solutions to acquire new business. We successfully expanded our Prestige Signature customer base by 26% year-on-year in Hong Kong. On the Mainland, Prestige and Preferred Banking customers grew by 9%.

We are committed to investing in financial technology and building robust digital infrastructure to better engage our customers by offering a safe, fast and convenient end-to-end digital banking journey. We continued to implement efficient, innovative solutions in our efforts to enhance the retail banking service experience. We were the first bank in Hong Kong to launch retail banking artificial intelligence ('AI') chatbots – 'HARO' and 'DORI' – that can assist with a wide variety of customer enquiries and services. The launch of mobile security key, together with the extension of biometric authentication coverage, further strengthened our simple-yet-secure digital solutions. We continued to enrich the product range and functionality of our digital platforms. We launched new online insurance products and investment products. The number of Personal e-Banking customers increased by 8% year-on-year in Hong Kong, and the number of active mobile banking users increased by 38%.

Commercial Banking ('CMB') recorded a 33% year-on-year increase in operating profit excluding change in expected credit losses and other credit impairment charges to HK$4,519m in the first half of 2018. Both operating profit and profit before tax rose by 48% to HK$4,439m.

We achieved solid balance sheet growth in both average customer loans and average customer deposits, which rose by 19% and 16% respectively, driving the 32% increase in net interest income to HK$4,329m.

Non-interest income increased by 22% to HK$1,767m, underpinned by initiatives such as the introduction of improved analytics in identifying the product and service needs of SME customers and strengthening our channel capabilities by uplifting our digital infrastructure. Closer collaboration between CMB and Global Markets teams, together with the enhancement of our online foreign exchange capabilities, supported a 17% increase in foreign exchange business. Net insurance income rose by 36%.

To facilitate cross-border payments by customers, we went live on SWIFT's global payments innovation service, which provides a fast, transparent and traceable payment service experience. Gross fee income from remittances and account-related services was up 14%.

We were an active participant in the syndicated loans market, ranking first in the Mandated Arranger League Table for Hong Kong Syndicated Loans in the first half of 2018 in terms of number of deals according to Thomson Reuters LPC data.

We continued on our journey to provide comprehensive and user-friendly digital banking services. Our new Business Banking AI chatbot – 'BERI' – is now available on our Business Banking homepage and the Hang Seng Business Mobile App to handle general enquiries. We also launched Live Chat, an online messaging service that enables customers to contact customer service officers at any time and from any location with online access. To speed up the account opening process, customers can now use our new online platform to pre-fill account opening information and upload related documents before coming to one of our Business Banking Centres to complete the procedure. The introduction of biometric authentication for our Mobile App provides customers with a fast and secure service access option.

We maintained good credit quality and sought to optimise returns through proactive credit risk management and active portfolio management.

We gained external recognition for providing outstanding customer service. We received several awards from *The Asian Banker*, including 'Best Transaction Bank', 'Best Cash Management Bank' and 'Best Payment Bank'. We were also named 'Best Bank in Hong Kong' in the Corporate Treasurer Awards.

Global Banking and Markets ('GBM') reported year-on-year growth of 10% in operating profit excluding change in expected credit losses and other credit impairment charges to HK$2,723m. Operating profit and profit before tax both rose by 11% to HK$2,734m.

Global Banking ('GB') recorded a 21% year-on-year increase in operating profit excluding change in expected credit losses and other credit impairment charges to HK$1,018m. Both operating profit and profit before tax rose by 22% to HK$1,027m.

Net interest income grew by 20% to HK$1,088m. We recorded increases in both deposit and loan interest income. Average customer loans and average customer deposits grew by 34% and 9% respectively. Compared with the second half of 2017, net interest income was up 5%.

Our close relationships with customers helped us identify good opportunities for lending, resulting in a 4% rise in the loan balance compared with the end of 2017. Deposits in Hong Kong increased by 2%. However, with active management of the deposit mix for balance sheet optimisation on the Mainland, Global Banking's total deposits fell by 3%.

Non-interest income declined by 1%, due mainly to tighter commission rates on merchant card products, which outweighed solid growth in fee income from credit facilities. Compared with the second half of last year, non-interest income grew by 13%.

Global Markets ('GM') reported a 5% year-on-year increase in operating profit excluding change in expected credit losses and other credit impairment charges to HK$1,705m. Operating profit and profit before tax both increased by 5% to HK$1,707m.

Net interest income increased by 3% to HK$1,096m. Good growth in customer lending reduced surplus funds available for investment. Our balance sheet management team identified good opportunities for achieving enhanced yields under its diverse investment strategy. In addition, our interest rate management team proactively managed its fixed-income portfolio, resulting in strong growth in interest income.

Non-interest income remained stable at HK$843m. A 31% increase in non-fund income from sales and trading activities offset the less favourable mark-to-market position on balance sheet management-related funding swap activities. We continued to cross-sell GM products to a diverse range of customers through close collaboration with RBWM, CMB and GB teams.

With the gradual upward trend in HKD and USD interest rates, we responded to growing customer demand for related treasury products. Together with our active management of interest rate risk, interest rate-related income grew significantly.

The active stock market in Hong Kong in the first half of the year drove a 103% year-on-year rise in income from equity-linked products.

Figures in HK$m	***Half-year ended 30 June 2018***	*2017*	*Variance (%)*
Interest income	**17,363**	13,989	24
Interest expense	**(3,135)**	(2,175)	(44)
Net interest income	**14,228**	11,814	20
Fee income	**5,247**	4,418	19
Fee expense	**(1,258)**	(1,124)	(12)
Net fee income	**3,989**	3,294	21
Net income from financial instruments measured at fair value	**995**	2,376	(58)
Gains less losses from financial investments	**24**	48	(50)
Dividend income	**6**	7	(14)
Net insurance premium income	**8,732**	7,107	23
Other operating income	**1,621**	1,039	56
Total operating income	**29,595**	25,685	15
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,946)**	(8,028)	(11)
Net operating income before change in expected credit losses and other credit impairment charges	**20,649**	17,657	17
Change in expected credit losses and other credit impairment charges	**(238)**	N/A	n.a.
Loan impairment charges and other credit risk provisions	**N/A**	(670)	n.a.
Net operating income	**20,411**	16,987	20
Employee compensation and benefits	**(2,866)**	(2,540)	(13)
General and administrative expenses	**(2,133)**	(2,059)	(4)
Depreciation of premises, plant and equipment	**(668)**	(603)	(11)
Amortisation of intangible assets	**(55)**	(53)	(4)
Operating expenses	**(5,722)**	(5,255)	(9)
Impairment loss on intangible assets	**(27)**	–	n.a.
Operating profit	**14,662**	11,732	25
Net surplus on property revaluation	**78**	50	56
Share of profits/(losses) of associates	**124**	(136)	n.a.
Profit before tax	**14,864**	11,646	28
Tax expense	**(2,227)**	(1,812)	(23)
Profit for the period	**12,637**	9,834	29
Attributable to:			
Shareholders of the company	**12,647**	9,838	29
Non-controlling interests	**(10)**	(4)	(150)
Earnings per share – basic and diluted (in HK$)	**6.62**	5.15	29

Details of dividends payable to shareholders of the Bank attributable to the profit for the half year are set out on page 29.

Figures in HK$m	*Half-year ended 30 June* **2018**	*2017*
Profit for the period	**12,637**	9,834
Other comprehensive income		
Items that will be reclassified subsequently to the condensed consolidated income statement when specific conditions are met:		
Available-for-sale investment reserve:		
- fair value changes taken to equity:		
-- on debt securities	**N/A**	343
-- on equity shares	**N/A**	211
- fair value changes transferred to condensed consolidated income statement:		
-- on hedged items	**N/A**	(52)
-- on disposal	**N/A**	(48)
- deferred taxes	**N/A**	(24)
- exchange difference and other	**N/A**	70
Debt instruments at fair value through other comprehensive income reserve:		
- fair value changes taken to equity	**(103)**	N/A
- fair value changes transferred to condensed consolidated income statement		
-- on hedged items	**303**	N/A
-- on disposal	**(24)**	N/A
- expected credit losses recognised in the condensed consolidated income statement	**(1)**	N/A
- deferred taxes	**(51)**	N/A
- exchange difference	**13**	N/A
Cash flow hedging reserve:		
- fair value changes taken to equity	**22**	(1,372)
- fair value changes transferred to condensed consolidated income statement	**(96)**	1,575
- deferred taxes	**13**	(34)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(176)**	343
Items that will not be reclassified subsequently to the condensed consolidated income statement:		
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**(11)**	(6)
Equity instrument		
- fair value changes taken to equity	**(456)**	N/A
- exchange difference	**(44)**	N/A
Premises:		
- unrealised surplus on revaluation of premises	**1,040**	1,043
- deferred taxes	**(174)**	(176)
- exchange difference	**(3)**	6
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**(37)**	180
- deferred taxes	**6**	(29)
Other comprehensive income for the period, net of tax	**221**	2,030
Total comprehensive income for the period	**12,858**	11,864
Total comprehensive income for the period attributable to:		
- shareholders of the company	**12,868**	11,868
- non-controlling interests	**(10)**	(4)
	12,858	11,864

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*	*Variance (%)*
ASSETS			
Cash and sight balances at central banks	**10,387**	21,718	(52)
Placings with and advances to banks	**97,183**	103,113	(6)
Trading assets	**44,283**	53,704	(18)
Financial assets designated and otherwise mandatorily measured at fair value	**13,070**	N/A	n.a.
Financial assets designated at fair value	**N/A**	9,313	n.a.
Derivative financial instruments	**9,329**	10,836	(14)
Reverse repurchase agreements – non-trading	**3,172**	–	n.a.
Loans and advances to customers	**855,237**	806,573	6
Financial investments	**402,167**	385,261	4
Interest in associates	**2,408**	2,170	11
Investment properties	**9,858**	10,166	(3)
Premises, plant and equipment	**29,742**	28,499	4
Intangible assets	**16,786**	15,354	9
Other assets	**41,000**	31,711	29
Total assets	**1,534,622**	1,478,418	4
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	**1,116,777**	1,074,837	4
Repurchase agreements – non-trading	**5,796**	2,389	143
Deposits from banks	**5,552**	3,676	51
Trading liabilities	**41,921**	88,270	(53)
Financial liabilities designated at fair value	**46,049**	1,047	4,298
Derivative financial instruments	**9,666**	11,169	(13)
Certificates of deposit and other debt securities in issue	–	600	(100)
Other liabilities	**25,694**	22,222	16
Liabilities under insurance contracts	**118,731**	115,545	3
Current tax liabilities	**2,575**	568	353
Deferred tax liabilities	**6,187**	6,016	3
Total liabilities	**1,378,948**	1,326,339	4
Equity			
Share capital	**9,658**	9,658	–
Retained profits	**117,360**	113,646	3
Other equity instruments	**6,981**	6,981	–
Other reserves	**21,636**	21,745	(1)
Total shareholders' equity	**155,635**	152,030	2
Non-controlling interests	**39**	49	(20)
Total equity	**155,674**	152,079	2
Total equity and liabilities	**1,534,622**	1,478,418	4

For the half-year ended 30 June 2018

Figures in HK$m	Share capital	Other equity instruments	Retained profits	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI[1] reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total share-holders' equity	Non-controlling interests	Total equity
At 31 December 2017	**9,658**	**6,981**	**113,646**	**18,379**	**2,116**	**(99)**	**706**	**643**	**152,030**	**49**	**152,079**
Impact on transition to HKFRS 9	–	–	**(776)**	–	**(78)**	–	–	–	**(854)**	–	**(854)**
At 1 January 2018	**9,658**	**6,981**	**112,870**	**18,379**	**2,038**	**(99)**	**706**	**643**	**151,176**	**49**	**151,225**
Profit for the period	–	–	**12,647**	–	–	–	–	–	**12,647**	**(10)**	**12,637**
Other comprehensive income (net of tax)	–	–	**(31)**	**863**	**(363)**	**(61)**	**(176)**	**(11)**	**221**	–	**221**
Debt instruments at fair value through other comprehensive income	–	–	–	–	**137**	–	–	–	**137**	–	**137**
Equity instruments at fair value through other comprehensive income	–	–	–	–	**(500)**	–	–	–	**(500)**	–	**(500)**
Cash flow hedges	–	–	–	–	–	**(61)**	–	–	**(61)**	–	**(61)**
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	**(11)**	**(11)**	–	**(11)**
Property revaluation	–	–	–	**863**	–	–	–	–	**863**	–	**863**
Actuarial losses on defined benefit plans	–	–	**(31)**	–	–	–	–	–	**(31)**	–	**(31)**
Exchange differences and others	–	–	–	–	–	–	**(176)**	–	**(176)**	–	**(176)**
Total comprehensive income for the period	–	–	**12,616**	**863**	**(363)**	**(61)**	**(176)**	**(11)**	**12,868**	**(10)**	**12,858**
Dividends paid	–	–	**(8,412)**	–	–	–	–	–	**(8,412)**	–	**(8,412)**
Coupon paid to holder of AT1 capital instrument	–	–	–	–	–	–	–	–	–	–	–
Movement in respect of share-based payment arrangements	–	–	**(3)**	–	–	–	–	**6**	**3**	–	**3**
Transfers and others	–	–	**289**	**(289)**	–	–	–	–	–	–	–
At 30 June 2018	**9,658**	**6,981**	**117,360**	**18,953**	**1,675**	**(160)**	**530**	**638**	**155,635**	**39**	**155,674**

[1] *FVOCI stands for fair value through other comprehensive income and the balance at 31 December 2017 represents the available-for-sale investment reserve under HKAS 39 basis.*

[2] *Other reserves comprise share-based payment reserve and own credit reserve. The share-based payment reserve is used to record the corresponding amount of share options granted by ultimate holding company to the Group's employees and other cost of share-based payment arrangement. The own credit reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

For the half-year ended 30 June 2017

Figures in HK$m	**Share capital**	**Other equity instruments**	**Retained profits**	**Other Reserves: Premises revaluation reserve**	**Other Reserves: Available-for-sale investment reserve**	**Other Reserves: Cash flow hedge reserve**	**Other Reserves: Foreign exchange reserve**	**Other Reserves: Others[2]**	**Total share-holders' equity**	**Non-controlling interests**	**Total equity**
At 1 January 2017	9,658	6,981	105,204	16,982	1,434	(128)	(162)	657	140,626	60	140,686
Profit for the period	–	–	9,838	–	–	–	–	–	9,838	(4)	9,834
Other comprehensive income (net of tax)	–	–	151	873	500	169	343	(6)	2,030	–	2,030
Available-for-sale investments	–	–	–	–	500	–	–	–	500	–	500
Cash flow hedges	–	–	–	–	–	169	–	–	169	–	169
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	(6)	(6)	–	(6)
Property revaluation	–	–	–	873	–	–	–	–	873	–	873
Actuarial gains on defined benefit plans	–	–	151	–	–	–	–	–	151	–	151
Exchange differences and others	–	–	–	–	–	–	343	–	343	–	343
Total comprehensive income for the period	–	–	9,989	873	500	169	343	(6)	11,868	(4)	11,864
Dividends paid	–	–	(7,647)	–	–	–	–	–	(7,647)	–	(7,647)
Coupon paid to holder of AT1 capital instrument	–	–	–	–	–	–	–	–	–	–	–
Movement in respect of share-based payment arrangements	–	–	(3)	–	–	–	–	(4)	(7)	–	(7)
Transfers and others	–	–	244	(244)	–	–	–	–	–	1	1
At 30 June 2017	9,658	6,981	107,787	17,611	1,934	41	181	647	144,840	57	144,897

For the half-year ended 31 December 2017

Figures in HK$m	Share capital	Other equity instruments	Retained profits	Other Reserves: Premises revaluation reserve	Other Reserves: Available-for-sale investment reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total share-holders' equity	Non-controlling interests	Total equity
At 1 July 2017	9,658	6,981	107,787	17,611	1,934	41	181	647	144,840	57	144,897
Profit for the period	–	–	10,180	–	–	–	–	–	10,180	(11)	10,169
Other comprehensive income (net of tax)	–	–	320	1,050	182	(140)	525	2	1,939	–	1,939
Available-for-sale investments	–	–	–	–	182	–	–	–	182	–	182
Cash flow hedges	–	–	–	–	–	(140)	–	–	(140)	–	(140)
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	2	2	–	2
Property revaluation	–	–	–	1,050	–	–	–	–	1,050	–	1,050
Actuarial gains on defined benefit plans	–	–	320	–	–	–	–	–	320	–	320
Exchange differences and others	–	–	–	–	–	–	525	–	525	–	525
Total comprehensive income for the period	–	–	10,500	1,050	182	(140)	525	2	12,119	(11)	12,108
Dividends paid	–	–	(4,588)	–	–	–	–	–	(4,588)	–	(4,588)
Coupon paid to holder of AT1 capital instrument	–	–	(389)	–	–		–	–	(389)	–	(389)
Movement in respect of share-based payment arrangements	–	–	(1)	–	–	–	–	(15)	(16)	–	(16)
Transfers and others	–	–	337	(282)	–	–	–	9	64	3	67
At 31 December 2017	9,658	6,981	113,646	18,379	2,116	(99)	706	643	152,030	49	152,079

Net interest income

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**15,093**	12,369
- trading assets and liabilities	**90**	(533)
- financial instruments designated and otherwise mandatorily measured at fair value	**(955)**	(22)
	14,228	11,814
Average interest-earning assets	**1,367,995**	1,230,985
Net interest spread	**1.97%**	1.84%
Net interest margin	**2.10%**	1.94%

Net interest income increased by HK$2,414m, or 20%, to HK$14,228m, driven mainly by the increase in average interest-earning assets and improvement in net interest margin.

Average interest-earning assets rose by HK$137bn, or 11%, when compared with the first half of 2017. Average customer lending increased by 19%, with notable growth in corporate and commercial and mortgage lending. Average interbank placement grew by 4% whereas financial investments remained broadly unchanged when compared with same period last year.

Net interest margin improved by 16 basis points to 2.10%, mainly from the widening of customer deposits spreads and a change in asset portfolio mix as average customer lending grew. Treasury realised opportunities in the interbank market and proactively managed the interest rate risk to enhance the portfolios yield. Average loan spread on customer lending reduced, notably on corporate and commercial term lending.

Compared with the second half of 2017, net interest income increased by HK$1,465m, or 11%, mainly supported by increase in average interest-earning assets and widening of net interest margin despite more calendar days in the second half of 2017.

Net interest income *(continued)*

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

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

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**16,967**	13,791
- Interest expense	**(1,882)**	(1,449)
- Net interest income	**15,085**	12,342
Net interest income and expense reported as 'Net income from financial instruments measured at fair value'	**(857)**	(528)
Average interest-earning assets	**1,318,550**	1,190,694
Net interest spread	**2.21%**	2.02%
Net interest margin	**2.31%**	2.09%

Net fee income

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017 (restated)*
- securities broking and related services	**1,049**	720
- retail investment funds	**1,070**	969
- insurance	**310**	293
- account services	**255**	236
- remittances	**307**	265
- cards	**1,468**	1,289
- credit facilities	**364**	259
- trade services	**223**	203
- other	**201**	184
Fee income	**5,247**	4,418
Fee expense	**(1,258)**	(1,124)
	3,989	3,294

Net income from financial instruments measured at fair value

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Net trading income		
- trading income	**701**	1,389
- net gain from hedging activities	**8**	(1)
	709	1,388
Net income from financial instruments designated at fair value	**431**	2
Net income from assets and liabilities of insurance businesses measured at fair value		
- financial assets held to meet liabilities under insurance and investment contracts	**(138)**	1,016
- liabilities to customers under investment contracts	**(7)**	(30)
	(145)	986
Net income from financial instruments measured at fair value	**995**	2,376

Other operating income

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Rental income from investment properties	**166**	183
Movement in present value of in-force long-term insurance business	**1,379**	742
Net losses from disposal of fixed assets	**(3)**	(15)
Others	**79**	129
	1,621	1,039

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017 (restated)*
Investment services income[W]:		
- retail investment funds	**1,064**	904
- structured investment products	**357**	305
- securities broking and related services	**1,028**	705
- margin trading and others	**43**	46
	2,492	1,960
Insurance income:		
- life insurance:		
- net interest income and fee income	**1,856**	1,747
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**(326)**	980
- net insurance premium income	**8,732**	7,107
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,946)**	(8,028)
- movement in present value of in-force long-term insurance business	**1,379**	742
	2,695	2,548
- general insurance and others	**141**	156
	2,836	2,704
Total	**5,328**	4,664

[W] *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.*

Wealth management income increased by 14% when compared with same period last year. Investment services income rose strongly by 27%, with retail investment funds and securities broking related services income increased by 18% and 46% respectively. Life insurance business income increased by 6%.

Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Change in expected credit losses/ Loan impairment charges		
New allowances net of allowance releases	**310**	722
Recoveries of amounts previously written off	**(72)**	(52)
	238	670
Impairment allowances/(releases) of available-for-sale debt securities	**N/A**	–
Other credit impairment charges/(releases)	**–**	–
Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	**238**	670
Attributable to:		
- loans and advances to banks and customers	**251**	670
- other financial assets	**(5)**	–
- loan and other credit related commitments and guarantees	**(8)**	–
Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	**238**	670

Operating expenses

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Employee compensation and benefits:		
- salaries and other costs	**2,656**	2,343
- retirement benefit costs	**210**	197
	2,866	2,540
General and administrative expenses:		
- rental expenses	**304**	312
- other premises and equipment	**536**	697
- marketing and advertising expenses	**241**	198
- other operating expenses	**1,052**	852
	2,133	2,059
Depreciation of premises, plant and equipment	**668**	603
Amortisation of intangible assets	**55**	53
	5,722	5,255
Cost efficiency ratio	**27.7%**	29.8%

Full-time equivalent staff numbers by region	***At 30 June 2018***	*At 30 June 2017*
Hong Kong and others	**8,365**	7,751
Mainland	**1,727**	1,705
Total	**10,092**	9,456

Tax expense

Taxation in the condensed consolidated income statement represents:

Figures in HK$m	***Half-year ended 30 June 2018***	*Half-year ended 30 June 2017*
Current tax – provision for Hong Kong profits tax		
- Tax for the period	**1,988**	1,554
Current tax – taxation outside Hong Kong		
- Tax for the period	**19**	16
- Adjustment in respect of prior periods	–	(2)
Deferred tax		
- Origination and reversal of temporary differences	**220**	244
Total tax expense	**2,227**	1,812

The current tax provision is based on the estimated assessable profit for 2018, and is determined for the Bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2017). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2018 is based on earnings of HK$12,647m (HK$9,838m for the first half of 2017) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first half of 2017).

Dividends per share

	Half-year ended 30 June 2018		*Half-year ended 30 June 2017*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
Dividends to ordinary shareholders				
First interim	**1.30**	**2,485**	1.20	2,294
Second interim	**1.30**	**2,485**	1.20	2,294
	2.60	**4,970**	2.40	4,588

Segmental analysis

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

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

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of management overheads. Bank-owned premises are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 13.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2018					
Profit before tax	**7,683**	**4,439**	**2,734**	**8**	**14,864**
Share of profit before tax	**51.7%**	**29.9%**	**18.4%**	**0.0%**	**100.0%**
Half-year ended 30 June 2017					
Profit/(loss) before tax	6,238	2,993	2,473	(58)	11,646
Share of profit/(loss) before tax	53.6%	25.7%	21.2%	(0.5)%	100.0%

Segmental analysis *(continued)*

(b) Information by geographical region

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

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-region elimination***	***Total***
Half-year ended 30 June 2018					
Total operating income	**28,437**	**1,037**	**144**	**(23)**	**29,595**
Profit before tax	**14,472**	**297**	**95**	–	**14,864**
At 30 June 2018					
Total assets	**1,443,347**	**114,270**	**22,708**	**(45,703)**	**1,534,622**
Total liabilities	**1,291,920**	**101,502**	**21,704**	**(36,178)**	**1,378,948**
Equity	**151,427**	**12,768**	**1,004**	**(9,525)**	**155,674**
Share capital	**9,658**	**10,259**	–	**(10,259)**	**9,658**
Interest in associates	**2,405**	**3**	–	–	**2,408**
Non-current assets[W]	**55,235**	**1,140**	**11**	–	**56,386**
Half-year ended 30 June 2017					
Total operating income	24,657	921	140	(33)	25,685
Profit before tax	11,470	81	95	–	11,646
At 31 December 2017					
Total assets	1,385,176	121,941	20,944	(49,643)	1,478,418
Total liabilities	1,236,896	109,542	20,019	(40,118)	1,326,339
Equity	148,280	12,399	925	(9,525)	152,079
Share capital	9,658	10,396	–	(10,396)	9,658
Interest in associates	2,170	–	–	–	2,170
Non-current assets[W]	52,832	1,173	14	–	54,019

[W] *Non-current assets consist of investment properties, premises, plant and equipment, and intangible assets.*

Trading assets

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Treasury bills	**25,740**	33,066
Other debt securities	**18,527**	18,509
Debt securities	**44,267**	51,575
Investment funds	**16**	24
Total trading securities	**44,283**	51,599
Other[W]	–	2,105
Total trading assets	**44,283**	53,704

[W] *This represents the amount receivable from counterparties on trading transactions not yet settled. Please also refer to the 'change in accounting policy' as set out in note (2) of the accounting policies of the 2018 interim report.*

Financial assets designated and otherwise mandatorily measured at fair value / Financial assets designated at fair value

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Debt securities	**4**	792
Equity shares	**5,626**	5,486
Investment funds	**6,252**	3,035
Other	**1,188**	–
	13,070	9,313

Loans and advances to customers

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Gross loans and advances to customers	**857,662**	808,170
Less: Expected credit losses/loan impairment allowances	**(2,425)**	(1,597)
	855,237	806,573
Expected credit losses/loan impairment allowances as a percentage of gross loans and advances to customers	**0.28%**	0.20%

Expected credit losses at 1 January 2018 to reflect the adoption of HKFRS 9 from this date is HK$2,540m and the corresponding ratio of expected credit losses as a percentage of gross loans and advances to customers is 0.31%.

Gross impaired loans and advances	**2,628**	1,970
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.31%**	0.24%

Gross impaired loans and advances at 1 January 2018 to reflect the adoption of HKFRS 9 from this date is HK$2,174m and the corresponding ratio of gross impaired loans and advances as a percentage of gross loans and advances to customers is 0.27%.

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

	Non credit-impaired				Credit-impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
Figures in HK$m	**Gross Exposure**	**Allowance/ provision for ECL**	**Gross Exposure**	**Allowance/ provision for ECL**	**Gross Exposure**	**Allowance/ provision for ECL**	**Gross Exposure**	**Allowance/ provision for ECL**	**Gross Exposure**	**Allowance/ provision for ECL**
At 1 January 2018	1,121,935	(692)	78,449	(1,175)	2,001	(745)	173	(18)	1,202,558	(2,630)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(24,588)	49	24,588	(49)	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	37,062	(365)	(37,062)	365	–	–	–	–	–	–
- transfers to Stage 3	(771)	2	(616)	14	1,387	(16)	–	–	–	–
- transfers from Stage 3	11	–	8	(1)	(19)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	251	–	(169)	–	(3)	–	–	–	79
Changes due to modifications not derecognised	–	–	–	–	(1)	–	–	–	(1)	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	80,470	(73)	(6,312)	187	(351)	103	(122)	12	73,685	229
Changes to risk parameters (model inputs)	–	76	–	(183)	–	(516)	–	–	–	(623)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(433)	433	(4)	4	(437)	437
Foreign exchange and others	(1,787)	2	(171)	2	(2)	–	(1)	–	(1,961)	4
At 30 June 2018	1,212,332	(750)	58,884	(1,009)	2,582	(743)	46	(2)	1,273,844	(2,504)
ECL income statement (charge)/release for the period	N/A	254	N/A	(165)	N/A	(416)	N/A	12	N/A	(315)
Add: Recoveries	N/A	–	N/A	–	N/A	72	N/A	–	N/A	72
Add: Modification gains/(losses) on contractual cash flows that did not result in derecognition	N/A	–	N/A	–	N/A	–	N/A	–	N/A	–
Add/(less): Others	N/A	–	N/A	–	N/A	–	N/A	–	N/A	–
Total ECL (charge)/release for the period	N/A	254	N/A	(165)	N/A	(344)	N/A	12	N/A	(243)

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *The provision for ECL balance at 30 June 2018 and total ECL charge for the period does not include ECL related to other financial assets measured at amortised cost which has an ECL balance of HK$39m at period end and an ECL release of HK$5m during the period.*
[3] *The above table does not include balances due from HSBC Group companies.*

Loan impairment allowances against loans and advances to customers

Movement of loan impairment allowances against loans and advances to customers during the first half of 2017 as below do not reflect the adoption of HKFRS 9 and are not comparable to the Reconciliation of gross exposure and allowances/provision for loans and advances to banks and customers including loan commitments and financial guarantees which are disclosed on HKFRS 9 basis as shown on page 33.

Figures in HK$m	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January 2017	923	936	1,859
Amounts written off	(114)	(338)	(452)
Recoveries of loans and advances written off in previous period	9	43	52
New impairment allowances charged to condensed consolidated income statement	380	386	766
Impairment allowances released to condensed consolidated income statement	(53)	(43)	(96)
Unwinding of discount of loan impairment allowances recognised as 'interest income'	(29)	(2)	(31)
Exchange difference	13	9	22
At 30 June 2017	1,129	991	2,120

Overdue loans and advances to customers

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

	At 30 June 2018		*At 31 December 2017*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**106**	**0.01**	162	0.02
- more than six months but not more than one year	**51**	**0.01**	253	0.03
- more than one year	**801**	**0.09**	1,226	0.15
	958	**0.11**	1,641	0.20

Overdue loans and advances decreased by HK$683m, or 42%, to HK$958m compared with last year-end, due mainly to loan written off and repayment during the period. Overdue loans and advances as a percentage of gross loans and advances to customers was down by 9 basis points to 0.11% at 30 June 2018.

Rescheduled loans and advances to customers

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

	At 30 June 2018		*At 31 December 2017*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**109**	**0.01**	118	0.01

Rescheduled loans and advances decreased by HK$9m, or 8%, to HK$109m compared with last year-end mainly related to retail portfolios during the period.

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the HKMA is as follows:

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**66,935**	62,715
Property investment	**143,814**	136,214
Financial concerns	**10,508**	8,757
Stockbrokers	**463**	150
Wholesale and retail trade	**29,595**	27,523
Manufacturing	**23,401**	23,548
Transport and transport equipment	**13,979**	14,153
Recreational activities	**192**	191
Information technology	**7,751**	7,027
Other	**75,281**	65,039
	371,919	345,317
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**22,723**	22,046
Loans and advances for the purchase of other residential properties	**182,050**	174,068
Credit card loans and advances	**26,894**	29,229
Other	**31,247**	24,888
	262,914	250,231
Total gross loans and advances for use in Hong Kong	**634,833**	595,548
Trade finance	**44,074**	47,125
Gross loans and advances for use outside Hong Kong	**178,755**	165,497
Gross loans and advances to customers	**857,662**	808,170
Expected credit losses/loan impairment allowances	**(2,425)**	(1,597)
Net loans and advances to customers	**855,237**	806,573

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

At 30 June 2018, gross loans and advances to customers increased by HK$49.5bn, or 6%, at HK$857.7bn compared with the end of 2017.

Loans and advances for use in Hong Kong increased by HK39.3bn, or 7%, to HK$634.8bn at 30 June 2018. Lending to industrial, commercial and financial sectors grew by 8%. Lending to property development and property investment sectors remained active, increasing by 7% and 6% respectively whilst lending to financial concerns grew by 20%. The Bank's continued efforts to support local business saw lending to wholesale and retail trade sector grew by 8%. Lending to information technology sector increased by 10%. Lending to 'Other' sector grew by 16%, due mainly to the granting of certain new working capital financing facilities to large corporate customers.

Lending to individuals increased by 5%. We enhance our mortgages distribution capabilities to capitalise new opportunities for growth, with our residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme mortgages lending grew by 5% and 3% respectively. Credit card advances fell by 8%, due mainly to seasonal factors. Other loans to individuals grew by 26%.

Trade finance lending decreased by 6% when compared with last year-end.

Loans and advances for use outside Hong Kong rose by 8%, mainly due to lending by our Hong Kong operation. The Mainland loan portfolio grew by 1%. The overall credit quality remained stable.

Financial investments

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Financial investments measured at fair value through other comprehensive income		
- treasury and other eligible bills	**185,953**	N/A
- debt securities	**110,594**	N/A
- equity shares	**4,336**	N/A
Debt instruments measured at amortised cost		
- treasury and other eligible bills	**450**	N/A
- debt securities	**100,867**	N/A
- Less: Expected credit losses	**(33)**	N/A
Available-for-sale at fair value:		
- debt securities	**N/A**	283,993
- equity shares	**N/A**	4,942
- investment funds	**N/A**	1,269
Held-to-maturity debt securities at amortised cost	**N/A**	95,057
	402,167	385,261
Fair value of debt securities at amortised cost	**100,151**	97,614
Treasury bills	**186,403**	154,292
Certificates of deposit	**9,225**	12,140
Other debt securities	**202,203**	212,618
Debt securities	**397,831**	379,050
Equity shares	**4,336**	4,942
Investment funds	**–**	1,269
	402,167	385,261

Intangible assets

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Present value of in-force long-term insurance business	**15,965**	14,574
Internally developed/acquired software	**492**	451
Goodwill	**329**	329
	16,786	15,354

Other assets

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Items in the course of collection from other banks	**7,920**	6,464
Bullion	**4,284**	4,127
Prepayments and accrued income	**3,910**	3,773
Acceptances and endorsements	**6,641**	5,108
Less: Expected credit losses	**(6)**	N/A
Reinsurers' share of liabilities under insurance contracts	**8,316**	8,232
Other accounts[W]	**9,935**	4,007
	41,000	31,711

Other accounts included 'Assets held for sale' of HK$28m (31 December 2017: HK$42m). It also included 'Retirement benefit assets' of HK$58m (31 December 2017: HK$54m).

[W] *At 30 June 2018, figure includes settlement accounts of HK$4,574m which represents the amount receivable from counterparties on transactions not yet settled due to change in presentation.*

Current, savings and other deposit accounts

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Current, savings and other deposit accounts:		
- as stated in condensed consolidated balance sheet	**1,116,777**	1,074,837
- structured deposits reported as trading liabilities	**N/A**	36,507
- structured deposits reported as financial liabilities designated as fair value	**36,949**	N/A
	1,153,726	1,111,344
By type:		
- demand and current accounts	**113,796**	117,525
- savings accounts	**721,402**	757,828
- time and other deposits	**318,528**	235,991
	1,153,726	1,111,344

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Certificates of deposit and other debt securities in issue:		
- as stated in condensed consolidated balance sheet	–	600
- certificates of deposit in issue designated at fair value	**1,997**	493
- other structured debt securities in issue reported as financial liabilities designated at fair value	**6,628**	N/A
- other structured debt securities in issue reported as trading liabilities	**N/A**	2,929
	8,625	4,022
By type:		
- certificates of deposit in issue	**1,997**	1,093
- other debt securities in issue	**6,628**	2,929
	8,625	4,022

Trading liabilities

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Other structured debt securities in issue	**N/A**	2,929
Structured deposits	**N/A**	36,507
Short positions in securities and others	**41,921**	48,834
	41,921	88,270

Financial liabilities designated at fair value

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Certificates of deposit in issue	**1,997**	493
Structured deposits	**36,949**	N/A
Other structured debt securities in issue	**6,628**	N/A
Liabilities to customers under investment contracts	**475**	554
	46,049	1,047

Other liabilities

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Items in the course of transmission to other banks	**8,169**	8,987
Accruals	**3,214**	3,511
Acceptances and endorsements	**6,641**	5,108
Retirement benefit liabilities	**155**	89
Other[W]	**7,515**	4,527
	25,694	22,222

[W] *At 30 June 2018, figure includes settlement accounts of HK$2,443m which represents the amount payable to counterparties on transactions not yet settled due to change in presentation.*

Shareholders' equity

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Share capital	**9,658**	9,658
Retained profits	**117,360**	113,646
Other equity instruments	**6,981**	6,981
Premises revaluation reserve	**18,953**	18,379
Cash flow hedging reserve	**(160)**	(99)
Available-for-sale investment reserve		
- on debt securities	**N/A**	(90)
- on equity securities	**N/A**	2,206
Financial assets at fair value through other comprehensive income reserve	**1,675**	N/A
Other reserves	**1,168**	1,349
Total reserves	**145,977**	142,372
Total shareholders' equity	**155,635**	152,030
Annualised return on average ordinary shareholders' equity for the half-year ended	**17.4%**	13.9%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the first half of 2018.

The Bank has issued perpetual capital instrument of HK$6,981m that was included in the Group's capital base as Basel III compliant additional tier 1 capital ('AT1') under the Banking (Capital) Rules to its immediate holding company reported under 'other equity instruments'.

Capital management

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

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

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

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**128,732**	126,241
- Shareholders' equity per condensed consolidated balance sheet	**155,635**	152,030
- Additional Tier 1 ('AT1') perpetual capital instrument	**(6,981)**	(6,981)
- Unconsolidated subsidiaries	**(19,922)**	(18,808)
Non-controlling interests	**–**	–
- Non-controlling interests per condensed consolidated balance sheet	**39**	49
- Non-controlling interests in unconsolidated subsidiaries	**(39)**	(49)
Regulatory deductions to CET1 capital	**(31,190)**	(31,783)
- Cash flow hedging reserve	**81**	41
- Changes in own credit risk on fair valued liabilities	**6**	(5)
- Property revaluation reserves[1]	**(25,487)**	(24,842)
- Regulatory reserve	**(4,871)**	(6,018)
- Intangible assets	**(454)**	(408)
- Defined benefit pension fund assets	**(48)**	(45)
- Deferred tax assets net of deferred tax liabilities	**(145)**	(211)
- Valuation adjustments	**(272)**	(295)
Total CET1 Capital	**97,542**	94,458
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**6,981**	6,981
- Perpetual capital instrument	**6,981**	6,981
Total AT1 Capital	**6,981**	6,981
Total Tier 1 ('T1') Capital	**104,523**	101,439
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**14,492**	14,723
- Property revaluation reserves[1]	**11,469**	11,179
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**3,023**	3,544
Regulatory deductions to T2 capital	**(915)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(915)
Total T2 Capital	**13,577**	13,808
Total Capital	**118,100**	115,247

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

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Credit risk	**534,048**	512,720
Market risk	**11,846**	7,208
Operational risk	**55,655**	52,795
Total	**601,549**	572,723

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

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

	At 30 June 2018	*At 31 December 2017*
CET1 capital ratio	**16.2 %**	16.5 %
T1 capital ratio	**17.4 %**	17.7 %
Total capital ratio	**19.6 %**	20.1 %

The Basel III rules set out the minimum capital requirements, to be phased in sequentially from 1 January 2013 and become fully effective on 1 January 2019. On a pro-forma basis that takes no account of, for example, any future profits or management action and any change in the current regulations or their application before full implementation, the Group's capital ratios at Basel III end point are the same as above as at 30 June 2018. Given the pro-forma Basel III end point basis position is a mechanical application of the current rules to the capital base as at 30 June 2018, it is not a projection.

In addition, the capital ratios of all tiers as of 30 June 2018 would be reduced by approximately 0.4 percentage point after the prospective second interim dividend payment for 2018. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2018	*Pro-forma At 31 December 2017*
CET1 capital ratio	**15.8 %**	15.5 %
T1 capital ratio	**17.0 %**	16.7 %
Total capital ratio	**19.2 %**	19.1 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and net stable funding ratio ('NSFR') on a consolidated basis. During the year of 2018, the Group is required to maintain an LCR of not less than 90%, increasing to not less than 100% by January 2019. The average LCR for the reportable periods are as follows:

	Quarter ended 30 June	*Quarter ended 31 March*
- 2018	**209.6%**	**207.0%**
- 2017	256.7%	267.7%

The NSFR was implemented in Hong Kong since 1 January 2018 and the Group is required to maintain the NSFR of not less than 100%. The NSFR for the reportable periods are as follows:

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

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 30 June 2018***	*At 31 December 2017*
Contingent liabilities and financial guarantee contracts		
- Guarantee and irrevocable letters of credit pledged as collateral security	**17,761**	15,267
- Other contingent liabilities	**55**	61
	17,816	15,328
Commitments		
- Documentary credits and short-term trade-related transactions	**3,586**	3,188
- Forward asset purchases and forward forward deposits placed	**2,079**	983
- Undrawn formal standby facilities, credit lines and other commitments to lend	**452,209**	433,970
	457,874	438,141

Derivative financial instruments are held for trading, designated at fair value, or designated as either fair value or cash flow hedges. The following table shows the nominal contract amounts and marked-to-market value of assets and liabilities by class of derivatives which is prepared on the Group's basis of consolidation for accounting purposes. Therefore, the contract amounts are different from those calculated under the Banking (Capital) Rules.

	At 30 June 2018			*At 31 December 2017*		
Figures in HK$m	***Trading***	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:						
Interest rate contracts	**441,525**	**2,000**	**67,306**	379,937	500	66,565
Exchange rate contracts	**966,807**	–	**20,184**	808,696	–	22,531
Other derivative contracts	**39,305**	–	–	42,591	–	–
	1,447,637	**2,000**	**87,490**	1,231,224	500	89,096
Derivative assets:						
Interest rate contracts	**2,232**	**5**	**722**	1,327	–	452
Exchange rate contracts	**5,830**	–	**254**	7,893	–	375
Other derivative contracts	**286**	–	–	789	–	–
	8,348	**5**	**976**	10,009	–	827
Derivative liabilities:						
Interest rate contracts	**2,275**	**8**	**200**	1,386	4	234
Exchange rate contracts	**5,679**	–	**682**	8,284	–	926
Other derivative contracts	**822**	–	–	335	–	–
	8,776	**8**	**882**	10,005	4	1,160

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

1. Statutory financial statements and accounting policies

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

Certain financial information in this press release is extracted from the interim report prepared under HKAS34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certificate Public Accountants ('HKICPA'). The interim report was reviewed by the Audit Committee. The Board of Directors of the Bank has approved the interim report on 6 August 2018.

The financial information relating to the year ended 31 December 2017 that is included in this press release does not constitute the Group's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the HKMA.

The auditor has reported on those statutory financial statements for the year ended 31 December 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 144 to 157 of the 2017 statutory financial statements.

<u>Standards applied during the half-year to 30 June 2018</u>

The Group has adopted the requirements of HKFRS 9 from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to HKFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not considered to be significant. HKFRS 9 includes an accounting policy choice to remain with HKAS 39 hedge accounting, which the Group has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by HKFRS 9, the Group has not restated comparatives. Adoption reduced net assets at 1 January 2018 by HK$854m as set out in note 3 of the Group's 2018 condensed consolidated financial statements.

In addition, the Group has adopted the requirements of HKFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the condensed consolidated financial statements of the Group.

1. Statutory financial statements and accounting policies *(continued)*

While not necessarily required by the adoption of HKFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation in note 3 of the Group's 2018 condensed consolidated financial statements and the comparatives have not been restated.

- The Group have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. It was concluded that a change in accounting policy and presentation with respect to 'trading liabilities - structured deposits and structured debt securities in issue' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on the financial position and performance. As a result, rather than being classified as held for trading, the Group will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effect of changes in the liabilities' credit risk will be presented in other comprehensive income with the remaining effect presented in profit or loss in accordance with accounting policy adopted in 2017 (following the adoption of the requirements in HKFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).

- Cash collateral, margin and settlement accounts have been reclassified from 'Trading assets', 'Placings with and advances to banks' and 'Loans and advances to customers' to 'Other assets' and from 'Trading liabilities' and 'Deposits from banks' and 'Current, savings and other deposit accounts' to 'Other liabilities'. Settlement accounts have been reclassified from 'Trading assets' to 'Other assets' in accordance with HKFRS 9. Cash collateral, margin and settlement accounts previously presented as 'Placings with and advances to banks' and 'Loans and advances to customers' have been represented in 'Other assets' to ensure consistent presentation of such balances. The change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. The change in presentation for financial liabilities has had no effect on measurement of these items and therefore on retained earnings or profit for any period.

Further information on summary of significant accounting policies, use of estimates and judgements, future accounting developments and effect of reclassification upon adoption of HKFRS 9 are set out in the accounting policies of the Group's 2018 interim report.

2. Comparative figures

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

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3. Ultimate holding company

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

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4. Register of shareholders

The register of shareholders of the Bank will be closed on Tuesday, 21 August 2018, during which no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Monday, 20 August 2018. The second interim dividend will be payable on Thursday, 6 September 2018, to shareholders whose names appear on the register of shareholders of the Bank on Tuesday, 21 August 2018. Shares of the Bank will be traded ex-dividend as from Friday, 17 August 2018.

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5. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2018. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices. The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2018.

6. Board of Directors

At 6 August 2018, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan#, Ms L Y Chiang*, Ms Margaret W H Kwan, Ms Irene Y L Lee*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent non-executive Directors
# Non-executive Directors

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7. Press release and Interim Report

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

The 2018 Interim Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank on the date of the issue of this press release. Printed copies of the 2018 Interim Report will be sent to shareholders before the end of August 2018.

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8. Other financial information

To comply with the Banking (Disclosure) Rules, the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Banking (Disclosure) Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The Banking Disclosure Statement will be available in late August 2018.

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