2015 INTERIM REPORT

恒生銀行
HANG SENG BANK

CONTENTS

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

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

RESULTS IN BRIEF

	30 June 2015	30 June 2014
For the half-year ended	**HK$m**	HK$m
Operating profit excluding loan impairment charges and other credit risk provisions	**11,379**	9,833
Operating profit	**10,785**	9,496
Profit before tax[1]	**21,720**	9,877
Profit attributable to shareholders[1]	**20,048**	8,468
	%	%
Return on average shareholders' funds[1]	**29.4**	15.9
Cost efficiency ratio	**31.1**	32.1
Average liquidity coverage ratio (quarter ended 30 Jun 2015)[2]	**221.6**	N/A
Average liquidity coverage ratio (quarter ended 31 Mar 2015)[2]	**167.4**	N/A
Average liquidity ratio[2]	**N/A**	34.5
	HK$	HK$
Earnings per share[1]	**10.49**	4.43
Dividends per share	**2.20**	2.20

	At 30 June 2015	At 31 December 2014
At period-end	**HK$m**	HK$m
Shareholders' funds	**139,474**	139,193
Total assets	**1,331,438**	1,263,990
	%	%
Capital ratios under Basel III		
- Common equity tier 1 ("CET1") capital ratio	**17.1**	15.6
- Tier 1 capital ratio	**18.5**	15.6
- Total capital ratio	**21.8**	15.7

[1] ***Partial disposal of shareholding in Industrial Bank Co., Ltd. ("Industrial Bank") in the first half of 2015***

Reported results for the first half of 2015 include a gain on partial disposal of the ordinary shares of Industrial Bank of HK$10,636m. Figures quoted as "excluding the gain on partial disposal of Industrial Bank" have been adjusted for the above item. Excluding the gain on partial disposal of Industrial Bank, key financial results and performance metrics are set out below for comparison purpose:

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*
Profit before tax (HK$m)	***11,084***	*9,877*
Profit attributable to shareholders (HK$m)	***9,412***	*8,468*
Earnings per share (HK$)	***4.92***	*4.43*
Return on average shareholders' funds (%)	***15.6***	*16.6*

[2] *The Banking (Liquidity) Rules ('BLR'), effective on 1 January 2015, signified the implementation of Liquidity Coverage Ratio ('LCR') for category 1 Institution under Basel III liquidity standards in Hong Kong. The average Liquidity Coverage Ratios reported for the quarters ended 30 June and 31 March 2015 under Basel III are therefore not directly comparable with the average liquidity ratio reported for the half-year ended 30 June 2014, which were calculated in accordance with the Forth Schedule of the Hong Kong Banking Ordinance.*

CHAIRMAN'S STATEMENT

The pace of economic growth was weak in the first half of 2015, reflecting the concerns over developments in Greece and falling commodity prices and weaker trade flows in emerging markets.

Against this backdrop, Hang Seng maintained good growth momentum to achieve an 11% increase in profit attributable to shareholders and earnings per share to HK$9,412m and HK$4.92 per share respectively after excluding the HK$10,636m gain on the partial disposal of our holding in Industrial Bank.

The Directors have declared a second interim dividend of HK$1.10 per share, bringing the total distribution for the first half of 2015 to HK$2.20 per share, the same as in the first half of 2014.

Economic Environment

A slowdown in private consumption expenditure and trade activity saw Hong Kong's annual economic growth rate ease for the second consecutive quarter during the first quarter of 2015 to 2.1%. The competitive market environment and uncertainty over developments in the eurozone will continue to create challenges, but the strong labour market and accommodative monetary environment in Hong Kong should help to support domestic demand. We expect Hong Kong's full-year economic growth rate to be 2.4% for 2015.

In mainland China, the deleveraging process has led to a further slowing in the pace of economic expansion. Gross domestic product growth was 7% in the second quarter, unchanged from the first quarter. The People's Bank of China is continuing with measures to encourage economic activity, including cuts to the required reserve ratio and benchmark interest rates, and these steps should help to stabilise growth in the second half of the year. Our forecast for 2015 full-year economic growth on the Mainland is 7%.

The normalisation of US monetary policy and the possibility of further economic slowdown on the Mainland remain as concerns in the economic outlook for Asia. However, initiatives to strengthen economic ties between Hong Kong and the Mainland and promotion of the internationalisation of the renminbi should continue to create new possibilities for growing our business.

With customer-centred service as the driving force of our long-term strategy, we will deploy our resources to build on our competitive strengths, capture new opportunities and further enhance efficiency to generate increasing value for our shareholders.

Raymond K. F. Ch'ien

Raymond Ch'ien
Chairman
Hong Kong, 3 August 2015

Hang Seng achieved balanced growth in its core business in the first half of 2015. We continued to further enhance our network of service channels, embed closer collaboration to achieve synergy across our operations, and position ourselves to better leverage on our competitive strengths and capture new business opportunities.

The success of these coordinated initiatives is reflected in good growth in total operating income, operating profit, and profit attributable to shareholders excluding the Industrial Bank disposal gain.

Under competitive operating conditions, we achieved further diversification and growth in non-interest income, including strong growth in revenue from wealth management business. The upgrade of Prestige and Preferred Banking Centres and Business Banking Centres, our broad range of products, and improvements to our digital platforms drove the expansion of the target customer base.

Following the establishment of our exclusive partnership with Bupa, our ability to offer unique medical insurance services that meet the evolving needs of customers has strengthened our health-and-wealth proposition.

Our enhanced infrastructure and connectivity have enabled us to respond swiftly to market developments and to capitalise on cross-border policy initiatives such as Shanghai-Hong Kong Stock Connect and the establishment of Free Trade Zones. The increasing integration of our Hong Kong and Mainland business is reflected in the realignment of our segment performance analysis.

Despite continuous downward pressure on net interest margin, growth in average interest-earning assets supported a solid increase in net interest income.

The partial disposal of our shareholding in Industrial Bank has strengthened our capital base and will ensure we remain well prepared to meet evolving regulatory requirements. Our forward-looking capital planning will enable us to continue to invest in our core business for long-term growth and to respond promptly to new business opportunities in the years ahead.

Financial Performance

Operating profit before loan impairment charges rose by 16%, or HK$1,546m, to HK$11,379m. Operating profit increased by 14%, or HK$1,289m, to HK$10,785m. Compared with the second half of 2014, operating profit before loan impairment charges and operating profit were up 6% and 8% respectively.

Attributable profit and earnings per share both increased by 137% to HK$20,048m and HK$10.49 per share respectively. Profit before tax was up 120% at HK$21,720m. Excluding the Industrial Bank disposal gain, attributable profit and earnings per share both rose by 11% to HK$9,412m and HK$4.92 per share respectively, while profit before tax increased by 12% to HK$11,084m. Compared with the second half of 2014, profit attributable to shareholders and earnings per share both grew by 7% and profit before tax was up 8% excluding the Industrial Bank disposal gain in 2015 and impairment loss in 2014.

The 11% increase in average interest-earning assets supported 8% growth in net interest income to HK$10,441m. Net interest margin was 1.86%, compared with 1.92% and 1.88% for the first and second halves of 2014.

Non-interest income grew by 26%, or HK$1,272m, to HK$6,074m, due mainly to strong growth in securities-related and retail investment funds business in the more buoyant investment environment.

Our cost efficiency ratio improved to 31.1%, down 1.0 percentage point and 0.5 percentage points compared with the first and second halves of 2014.

At 30 June 2015, our total capital ratio was 21.8%, compared with 15.7% at 31 December 2014. Our common equity tier 1 capital ratio was 17.1% and our tier 1 capital ratio was 18.5%, compared with 15.6% for both ratios at the end of last year.

A Strategy for Long-term Growth

In a competitive market environment, the economic slowdown on the Mainland, ongoing uncertainty in the eurozone and the normalisation of monetary policy in the US will render operating conditions very challenging for the rest of the year.

We will continue to leverage our trusted brand and our competitive advantages as Hong Kong's leading domestic bank to drive cross-border business, particularly in the Yangtze River Delta and Pearl River Delta regions.

We will deepen existing customer relationships and achieve business growth by further enhancing our service delivery channels and portfolio of products, increasing investment in staff training and development, and improving efficiency while maintaining high standards of corporate governance and risk management.

The strengthening of our capital base and embedding of strategic initiatives will support sustainable growth in our core business and enhance the connectivity of our business and operations to capture new market opportunities.

We will leverage our strong manufacturing capabilities and collaborate with strategic partners to sustain growth in our health-and-wealth business. Our strong cross-border infrastructure and unique market position mean we are well placed to capitalise on business potential and partnerships relating to policy relaxations such as the Stock Connect schemes, the Mutual Recognition of Funds initiative and the development of offshore renminbi business activities.

We will continue to enhance portfolio management and return on risk-weighted assets.

Our people strategy centres on employee engagement to create a performance-driven culture that encourages teamwork, trust and professional integrity in striving for service excellence. Our talent management initiatives and organisational structure provide a robust platform to support staff development and innovative thinking while maximising the potential of individual employees.

The economic and social well-being of the communities that support us is crucial to our strategy for long-term growth and we will remain an active participant in a diverse range of corporate sustainability programmes that have a lasting impact on our community.

I wish to thank my colleagues for their dedication and contribution to our achievements in the first half of 2015. Their commitment and drive remains central to our ability to deliver service excellence to support sustainable business growth that will benefit our customers and shareholders.

Rose Lee
Vice-Chairman and Chief Executive
Hong Kong, 3 August 2015

FINANCIAL PERFORMANCE

Income Statement

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Total operating income	**24,640**	21,362	21,587
Operating expenses	**5,136**	4,640	4,973
Operating profit	**10,785**	9,496	9,954
Profit before tax	**21,720**	9,877	8,172
Profit attributable to shareholders	**20,048**	8,468	6,663
Earnings per share (in HK$)	**10.49**	4.43	3.48

Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') reported an unaudited profit attributable to shareholders of HK$20,048m for the first half of 2015, up 137% compared with the first half of 2014. Earnings per share were up 137% at HK$10.49. The result included a gain on partial disposal of Industrial Bank of HK$10,636m. Excluding this gain, attributable profit increased by 11%.

Operating profit excluding loan impairment charges and other credit risk provisions grew by HK$1,546m, or 16%, to HK$11,379m.

This reflects strong performance in our wealth management business and the growth in net interest income, driven by balance sheet growth. Under challenging operating conditions, the Bank achieved robust growth in revenues across core business lines in the first half of 2015. Operating expenses also rose, but to a lesser extent than income.

Net interest income rose by HK$770m, or 8%, to HK$10,441m, primarily from the 11% growth in average interest-earning assets.

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Net interest income/(expense) arising from:			
- financial assets and liabilities that are not at fair value through profit and loss	**11,270**	10,754	11,134
- trading assets and liabilities	**(819)**	(1,085)	(929)
- financial instruments designated at fair value	**(10)**	2	(5)
	10,441	9,671	10,200
Average interest-earning assets	**1,132,121**	1,016,759	1,077,053
Net interest spread	**1.72%**	1.79%	1.75%
Net interest margin	**1.86%**	1.92%	1.88%

Average interest-earning assets increased by HK$115bn, or 11%, compared with the same period last year. Average customer lending increased by 13%, with notable growth in corporate and commercial and mortgage lending, while average financial investments increased by 13%.

Net interest margin narrowed by six basis points to 1.86% whilst the net interest spread decreased by seven basis points to 1.72%. Average loan spread on customer lending reduced, notably on corporate and commercial term lending. Lower balance sheet management income was recorded, reflecting limited opportunity for deployment of new and maturing proceeds as a result of the compression of the average interest spread on RMB assets due to the drop in RMB market interest rates. However, these were partly offset by improved customer deposits spread as a result of the change in deposit mix, with low cost savings balance increased.

The contribution from net free funds grew by one basis point to 0.14%, benefitting from the modest increase in the average interest rate.

Compared with the second half of 2014, net interest income grew by HK$241m, or 2%, mainly supported by 5% increase in average interest-earning assets, notwithstanding more calendar days in the second half. The net interest margin decreased by two basis points.

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

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

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Net interest income and expense reported as 'Net interest income'			
- Interest income	**13,482**	12,687	13,350
- Interest expense	**(2,227)**	(1,933)	(2,222)
- Net interest income	**11,255**	10,754	11,128
Net interest income and expense reported as 'Net trading income'	**(819)**	(1,085)	(929)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	**5**	2	1
Average interest-earning assets	**1,092,097**	986,694	1,040,276
Net interest spread	**1.96%**	2.09%	2.01%
Net interest margin	**2.08%**	2.20%	2.12%

Net fee income increased by HK$822m, or 27%, to HK$3,884m when compared with the first half of 2014.

Securities broking and related services income rose significantly by 94%, reflecting higher stock market turnover in Hong Kong and favourable investment market sentiment. The buoyant stock markets also stimulated demand for retail investment funds and the related fee income increased by 18%.

Account services and remittances fee income grew by 17% and 8% respectively, reflecting the Group's strong transactional capabilities.

Card services income was 9% higher than the first half of 2014, supported by the 11% increase in cardholder spending, 6% increase in merchant acquiring business as well as a 2% increase in the number of cards in circulation.

Credit facilities fee income rose by 10%, due mainly to higher fees from increased corporate lending.

Trade-related service income was down by 11%, reflecting the decrease in trade finance lending business.

Net trading income increased by HK$316m, or 30%, to HK$1,377m when compared with first half of 2014.

Foreign exchange income rose by HK$244m, or 25%, contributed by increased customer flows and higher interest income from funding swaps* activities, partly offset by reduced demand for foreign exchange derivative products. Debt securities recorded a higher revaluation gain of HK$32m, mainly reflecting the movement in market interest rates. The increases were offset in part by the revaluation loss on interest rate derivatives products. Income from equities and other trading rose by HK$83m, or 277%, driven by the increased customer demand for equity-linked treasury products.

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

Net income from financial instruments designated at fair value increased by HK$293m, or 68%, to HK$721m, reflecting the fair value changes of assets held by the life insurance business due mainly to favourable equity market movements during the first half of 2015. To the extent that this fair value gain is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims and benefits paid and movement in liabilities to policyholders' or 'movement in present value of in-force long-term insurance business ('PVIF')'.

Dividend income increased from HK$5m to HK$125m, mainly attributable to the dividend received on the remaining shareholding of Industrial Bank in the first half of 2015. For 2014, the dividend on the shareholding of Industrial Bank was received in the second half of 2014.

Net insurance premium income increased by HK$243m, or 4% while **net insurance claims and benefits paid and movement in liabilities to policyholders** increased by HK$1,236m, or 18%.

Other operating income rose by HK$714m, or 63% compared with the first half of 2014, primarily due to the 87% increase in the movement in PVIF. During the first half of 2015, there was an update in the discount rate used for valuing insurance liabilities, resulting in an increase in PVIF. New sales with higher profit margins and a favourable change in market conditions also contributed to the increase in PVIF.

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Investment income:			
- retail investment funds	**1,051**	891	790
- structured investment products*	**538**	523	223
- securities broking and related services	**1,143**	586	736
- margin trading and others	**50**	55	47
	2,782	2,055	1,796
Insurance income:			
- life insurance	**2,104**	2,043	1,446
- general insurance and others	**138**	116	103
	2,242	2,159	1,549
Total	**5,024**	4,214	3,345

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

Wealth management business income maintained good growth momentum in the first half of 2015, achieving a 19% increase when compared with the same period last year. Investment income rose by 35%, mainly contributed by the 95% increase in securities broking and related services income and 18% increase in retail investment funds related income on the back of buoyant stock market conditions. Insurance business income grew by 4%.

Compared with the second half of 2014, wealth management business income grew by 50%, driven by the increase of 55% in investment income and 45% in insurance income.

Analysis of insurance business income

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Life insurance:			
- net interest income and fee income	**1,553**	1,517	1,531
- investment return on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**918**	604	735
- net insurance premium income	**6,247**	6,004	4,775
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,125)**	(6,889)	(5,853)
- movement in present value of in-force long-term insurance business	**1,511**	807	258
	2,104	2,043	1,446
General insurance and others	**138**	116	103
Total	**2,242**	2,159	1,549

Life insurance business income rose by HK$61m, or 3%, to HK$2,104m.

Net interest income and fee income from the life insurance investment portfolio grew slightly as a result of net inflows from new and renewal life insurance business.

Investment returns on life insurance funds increased strongly by 52%, mainly reflecting the favourable equity market performance. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims and benefits paid and movement in liabilities to policyholders' or PVIF.

Net insurance premium income rose by 4% as a result of increases in new business premiums from sales of high net-worth and traditional whole life products, partly offset by lower new business premiums from deferred annuity products. The growth in insurance premium resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders.

During the first half of 2015, there was an update to the discount rate used for valuing insurance liabilities, resulting in an increase in net insurance claims and benefits paid and movement in liabilities to policyholders, with a corresponding increase in PVIF.

The movement in PVIF increased by 87%, mainly attributable to the liability discount rate update, new sales with a higher profit margins and a favourable change in market conditions.

General insurance income increased by 19%, reflecting higher distribution commission income following the establishment of our exclusive partnership with Bupa to offer unique medical insurance services to meet the evolving needs of customers.

Loan impairment charges increased by HK$257m, or 76%, reflecting the more challenging credit environment in mainland China. Overall credit quality remained relatively stable with gross impaired loans and advances as a percentage of gross loans and advances to customers standing at 0.43% at the end of June 2015, compared with 0.32% at the end of 2014. The Group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Net charge for impairment of loans and advances to customers:			
Individually assessed impairment allowances:			
- new allowances	**334**	179	520
- releases	**(34)**	(91)	(40)
- recoveries	**(6)**	(31)	(5)
	294	57	475
Net charge for collectively assessed impairment allowances	**300**	252	360
Other credit risk provisions	**–**	28	(28)
Loan impairment charges and other credit risk provisions	**594**	337	807

Individually assessed impairment charges increased from a low base of a HK$57m to HK$294m, mainly due to the downgrade of a small number of individually assessed impairments in Commercial Banking in Hong Kong and mainland China. This was also affected by lower releases and recoveries from corporate and commercial customers in the first half of 2015.

Collectively assessed loan impairment charges increased by HK$48m, or 19%. Impairment charges for credit card and personal loan portfolios increased due to the growth in portfolio balance while impairment allowances for loans not individually identified as impaired remained relatively stable.

Compared with second half of 2014, loan impairment charges and other credit risk provisions decreased by HK$213m, or 26% due mainly to lower new impairment charges.

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

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
	%	*%*	*%*
Loan impairment allowances:			
- individually assessed	**0.18**	0.11	0.15
- collectively assessed	**0.12**	0.12	0.13
Total loan impairment allowances	**0.30**	0.23	0.28

Operating expenses increased by HK$496m, or 11%, compared with the first half of 2014, reflecting the Bank's continued investments in technology, services enhancement, staff-related costs as well as expansion of our mainland business.

Employee compensation and benefits increased by HK$242m, or 11%, mainly in staff salaries and other costs, reflecting the annual salary increment and higher performance-related remuneration. General and administrative expenses were up 10%, due mainly to the rise in rental expenses and expenses on IT and processing charges. Depreciation charges were up 14%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation in Hong Kong and branch renovation costs.

Full-time equivalent staff numbers by region	***At 30 June 2015***	*At 30 June 2014*	*At 31 December 2014*
Hong Kong and others	**7,993**	7,894	8,278
Mainland	**1,837**	1,769	1,914
Total	**9,830**	9,663	10,192

At 30 June 2015, the Group's number of full-time equivalent staff was down by 362 compared with the end of 2014.

The Bank continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio lowered by one percentage point to 31.1%.

Operating profit grew by HK$1,289m, or 14%, to HK$10,785m.

Profit before tax rose by 120% to HK$21,720m after taking the following major items into account:

- the gain on partial disposal of Industrial Bank of HK$10,636m;
- a HK$40m increase in **gains less losses from financial investments and fixed assets**, due mainly to debt securities disposals in the first half of 2015;
- a HK$52m, or 23% decrease in **net surplus on property revaluation**; and
- a HK$70m, or 45% decrease in **share of profits from associates**, mainly from a property investment company.

Net surplus on property revaluation decreased by 23% to HK$178m when compared with the first half of 2014.

Figures in HK$m	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Surplus of revaluation on investment properties	**178**	230	291

The Group's premises and investment properties were revalued at 30 June 2015 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 'Fair Value Measurement' and takes into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for Group premises amounted to HK$1,103m was credited to the premises revaluation reserve. The related deferred tax provision for Group premises was HK$184m. Revaluation gains of HK$178m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

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

Segmental Analysis

The table below set out the profit before tax contributed by the business segments at the periods stated.

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Half-year ended 30 June 2015					
Profit before tax	**5,454**	**2,715**	**2,252**	**11,299**	**21,720**
Share of profit before tax	**25.1%**	**12.5%**	**10.4%**	**52.0%**	**100.0%**
Share of profit before tax (excluding the gain on partial disposal/impairment of Industrial Bank)	**49.2%**	**24.5%**	**20.3%**	**6.0%**	**100.0%**
Half-year ended 30 June 2014 (restated)					
Profit before tax	4,452	2,480	2,423	522	9,877
Share of profit before tax	45.1%	25.1%	24.5%	5.3%	100.0%
Share of profit before tax (excluding the gain on partial disposal/impairment of Industrial Bank)	45.1%	25.1%	24.5%	5.3%	100.0%
Half-year ended 31 December 2014 (restated)					
Profit/(loss) before tax	4,173	2,347	2,269	(617)	8,172
Share of profit/(loss) before tax	51.1%	28.7%	27.8%	(7.6%)	100.0%
Share of profit/(loss) before tax (excluding the gain on partial disposal/impairment of Industrial Bank)	40.6%	22.8%	22.1%	14.5%	100.0%

Retail Banking and Wealth Management ('RBWM') reported profit before tax of HK$5,454m in the first half of 2015, a 23% increase compared with the first half of 2014. Operating profit excluding loan impairment charges reached HK$5,630m, an increase of 24%. Operating profit grew by 24% to HK$5,331m.

Net interest income grew 10% against first half of 2014 to HK$5,503m, supported by balance sheet growth. Customer deposits and the lending portfolio recorded a balanced growth of 5% and 6% respectively compared to the year-end.

Non-interest income grew strongly by 32% to HK$3,444m, reflecting a growth in net fee income as well as an improvement in net income from financial instruments designated at fair value. With initiatives to provide sales and services based on our customers' needs, our wealth management business income rose by 22% to HK$4,254m as compared to the first half of 2014.

Unsecured lending continued to be a major business driver. With effective marketing campaigns and a good quality credit card customer base, card spending achieved year-on-year growth of 11% in Hong Kong. Total cards in circulation rose by 2% to 2.54 million year-on-year and we were the third largest card issuer of VISA and MasterCard cards in Hong Kong during the first half of 2015. Supported by customer analytics, we grew our personal loan portfolio with a more targeted approach from our existing customer base.

With a market share of 18% in terms of new mortgage registration, we maintained our top-three position for mortgage business in Hong Kong. Mortgage balances grew by 5% and 11% in Hong Kong and mainland China respectively compared to 2014 year-end.

Alongside a favourable investment market sentiment, we capitalised our time-to-market products and services to grow investment income by 50% against same period last year. Benefitting from substantial growth in equities market transaction volume, securities turnover and income increased significantly by 128% and 96% respectively. Retail investment funds income grew by 18%, driven by the 11% increase in turnover.

Total operating income for insurance business was in line with last year. With initiatives to broaden our protection and premium insurance plans offerings, we managed to diversify the life insurance product mix to create a more balanced business growth. The distribution of Hang Seng Bupa Precious Health Series has also strengthened our 'Wealth-and-Health' solutions to customers since its launch in late 2014.

Supported by enhanced customer propositions and product features focusing on customer's wealth management needs as well as premium banking experience offered at our Prestige and Preferred Banking Centres, we deepened relationships with affluent customers both in Hong Kong and mainland China and grew the Prestige and Preferred Banking customer base by 9% and 35% year-on-year respectively. Our branch refurbishment exercise, including the renovation of the Hong Kong main branch, has also strengthened our market positioning and supported our business growth objectives.

We continued to invest in our digital capabilities, with aims to enhance customer experience and capture new business opportunities. The number of e-Banking customers rose by 7% and 26% year-on-year in Hong Kong and mainland China respectively.

Commercial Banking ('CMB') achieved a 9% year-on-year increase in profits before tax to HK$2,715m. Operating profit excluding loan impairment charges was up by 16% to HK$2,992m. Operating profit grew by 9% to HK$2,714m.

Net interest income reported a growth of 18% compared with first half of 2014, supported by effective cross-border collaboration and growth in current and saving deposits.

Non-interest income also rose by 6% to HK$1,246m, buoyed by reasonable growth in various streams of non-fund income. Remittance income increased by 10%, supported by targeted marketing programmes and propositions that help customers strengthen their business connectivity in the Greater China region. We achieved good growth momentum in corporate wealth management, alongside with the favourable investment market sentiment and enriched product propositions in both life and general insurance. Securities and investment funds income were up 82% and 15% respectively. Insurance income also recorded a 36% increase.

Acquisition of quality mainland customers remains our key focus in driving growth for small and medium-sized enterprises ('SME') business, which represented 52% of newly acquired customers in the first half of 2015. New customers are the primary drivers of 5% growth in SME deposits, as well as a 21% increase in non-fund income from growth in corporate wealth management business. We continued to enrich our SME service propositions that reinforced our position as the preferred banking partner of SMEs. An expanded Business Banking Centre was opened in Sheung Wan in March 2015 to provide a pleasant environment for our customers to discuss their banking needs with us. For the 10th consecutive year, we received the 'Best SME's Partner Award' from The Hong Kong General Chamber of Small and Medium Business.

We continued our effort in syndicated lending and we ranked third in the Mandated Arranger League Table for Hong Kong and Macau Syndicated Loans in terms of number of deals in the first half of 2015 according to Thomson Reuters LPC data.

Our commitment to connect our commercial customers to business opportunities in the Greater China saw the implementation of various initiatives. We invested in infrastructures to enhance our cross-border payment and cash management capabilities that facilitated swift and timely cash management for our customers. We also launched Total Trade Focused Solutions to capture cross-border trade flow of our customers. The opening of Jinan branch in April 2015 enables us to tap business opportunities from the growing demand of commercial financial services at the Bohai Economic Rim. Our continual efforts to strengthen cross-border transactional capabilities and synergy between commercial banking teams in Hong Kong and the Mainland have helped us in winning the 'Outstanding Corporate/Commercial Banking - Cross Border Commercial Banking Award' from Metro Finance, Metro Finance Digital and Wen Wei Po.

Loan impairment charges increased from a low base, primarily due to a small number of individually assessed impairments in mainland China. We remained vigilant in managing asset quality by adopting proactive credit risk management and overall credit quality remained resilient.

Global Banking and Markets ('GBM') recorded a 7% decrease in profit before tax to HK$2,252m. Operating profit excluding loan impairment charges was down by 6% to HK$2,264m. Operating profit dropped 7% to HK$2,247m.

Global Banking ('GB') achieved a 10% increase in total operating income to HK$1,169m. Operating profit excluding loan impairment charges (mainly due to a one-off specific impairment) increased 7% to HK$949m. Loan impairment charges remained low with robust management of asset quality. Profit before tax rose by 5% to HK$932m.

With weakened loan demand, customer advances remained the same level as the year-end while net interest income increased 4%. Customer deposits grew 12% against the year-end, providing a solid base for asset growth.

Non-interest income recorded a strong growth of 46%, mainly due to increased income from Corporate Wealth Management, MPF and IPO activities. The newly launched Bupa medical insurance product is well received by our customers, with favourable sales recorded in the first half of 2015.

To better support customers in the Southeast Asian region, our Singapore branch has extended their services to corporate lending.

Global Markets ('GM') recorded a 14% decrease in profit before tax to HK$1,320m. Operating profit excluding loan impairment charges fell by 14% to HK$1,315m. Operating profit fell by 14% to HK$1,315m.

Net interest income fell by 37% to HK$727m, with limited opportunity for the deployment of new and maturing proceeds, resulting from tightened interbank placement spread as compared with last year.

Non-interest income increased by HK$236m to HK$838m. Total trading income increased by HK$236m, or 38%, to HK$859m. Foreign exchange trading income rose by 44% year-on-year, supported by an increase in foreign exchange and foreign exchange derivatives trading activity.

Under the challenging and low interest rate environment, GM strived to increase focus in growing non-fund income. We increased cross-selling of GM products to RBWM and CMB customers through collaboration to identify cross-selling opportunities and specific needs of customers. With higher stock market turnover and the launch of the Shanghai-Hong Kong Stock Connect scheme, customer demand on equity-related products has increased and income from equity-linked structured products increased substantially year-on-year.

To further diversify revenue, GM explored new business opportunities from liberalisation of mainland policies. In response to the Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong, we provide support for fund sales and development to capture opportunities from the rising customer demand on cross-border transactions and renminbi-denominated products.

Front-line channels (including e-Banking) and trading systems were enhanced to facilitate straight-through processing, enabling better position management. In May 2015, the Bank has officially joined OTC Clearing Hong Kong Limited as a direct member for central clearing of its over-the-counter derivatives. This strengthened our market standing as the leading domestic bank.

Consolidated Balance Sheet

Total assets grew by HK$67bn, or 5%, to HK$1,331bn when compared with the year-end, reflecting the Group's balanced growth strategy to enhance profitability. Customer loans and advances increased by HK$15bn, or 2%, to HK$673bn, largely from growth in corporate and commercial lending as well as residential mortgages. We reinforced our strong position in the residential mortgage sector and maintained our market share in terms of new mortgage registrations. Residential mortgages increased by 6% when compared with the year-end. Overall credit quality remained sound with total gross impaired loans and advances as a percentage of gross loans and advances standing at 0.43% at the end of June 2015, and 0.32% at the end of December 2014. Customer deposits, including certificates of deposit and other debt securities in issue, rose by HK$44bn, or 5%, to HK$1,000bn. At 30 June 2015, the advances-to-deposits ratio was 67.3%, compared with 68.8% at 31 December 2014.

Loans and advances to customers

Gross loans and advances to customers grew by HK$15bn, or 2%, to HK$675bn compared with the end of 2014.

Loans and advances for use in Hong Kong rose by 4%. Lending to the industrial, commercial and financial sectors grew by 3%. Lending to property development increased by 8% while lending to property investment fell by 4%. Lending to wholesale and retail trade and manufacturing sectors decreased by 7% and 3% respectively due to loan repayment. Growth in lending to 'Other' was attributable to working capital financing for certain large corporate customers.

Lending to individuals increased by 6% compared with the year-end. The Bank was able to maintain its market share for the mortgage business and grew its residential mortgage lending to individuals by 6% compared with the end of 2014. Credit card advances remained stable when compared with the year-end. Other loans to individuals grew by 14%, reflecting the success of the Bank in expanding its consumer finance business.

Trade finance declined by 3% against the year-end as certain cross-border documentary credit loans matured and repaid during the period, partly offset by the growth in other trade finance loan products as a result of the Group's strategic repositioning to focus on core trade business.

Loans and advances for use outside Hong Kong fell by 2% compared with the end of 2014, attributable to the repayment of loans granted by Hong Kong Office. Lending by Hang Seng China decreased by 1% to HK$65bn, underpinned by a decrease in corporate and commercial customers reflecting our prudent risk management strategy in the light of the more challenging credit environment in mainland China.

Customer deposits

Customer deposits, including current, savings and other deposits accounts, certificates of deposit and other debt securities in issue recorded growth of HK$44bn, or 5% to HK$1,000bn at 30 June 2015 from the year-end. Structured deposits, certificates of deposit and other debt securities in issue decreased due to the redemption of certificates of deposit.

At 30 June 2015, the advances-to-deposits ratio was 67.3%, compared with 68.8% at 31 December 2014.

Equity

At 30 June 2015, shareholders' funds (excluding proposed dividends) were HK$137bn, an increase of HK$3bn, or 2%, against the year-end. Retained profits grew by HK$16bn, or 19%, resulting from profit accumulation which included the gain on partial disposal of Industrial Bank and the appropriation of interim dividends. The premises revaluation reserve increased by HK$692m, or 4%, reflecting an increase in the fair value of the Bank's premises. The available-for-sale investment reserve decreased by HK$14bn, or 85%, against the year-end, mainly due to the partial disposal of Industrial Bank.

Risk Management

All the Group's activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The principal types of risk faced by the Group are credit risk, liquidity risk, market risk, insurance risk, operational risk and reputational risk. There have been no material changes to our policies and practices regarding risk management and governance as described in the Group's Annual Report 2014.

The Group's risk management policy is designed to identify and analyse risks, to set appropriate risk limits and to monitor these risks exposures continually by means of reliable and up-to-date management information systems. The Group's risk management policies and major risk appetite or risk control limits are approved by the Board of Directors and they are monitored and reviewed regularly by various Board or management committees, including the Executive Committee, Risk Committee, Asset and Liability Management Committee ("ALCO") and Risk Management Committee ("RMC").

The Risk Committee monitors the effectiveness of the Bank's risk management and internal controls, other than controls over financial reporting, which are monitored by the Audit Committee. As part of the monitoring process, the Risk Committee requires risk management reports from management which enable the Risk Committee to assess the risks involved in the Group's business and how they are controlled and monitored by management. It also requires reports that give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Group's vulnerability to previously unknown or unidentified risks.

Risk appetite statement is a key component of risk management framework. The Group's Risk Appetite Statement for 2015 was approved by the Board as advised by the Risk Committee, which describes the types and amount of risk that the Bank is prepared to accept in executing our business strategy.

Our risk appetite framework is underpinned by the following core characteristics:

- Strong balance sheet and brand
- Healthy capital position
- Accountable use of shareholders' funds
- Conservative liquidity management
- Risk must be commensurate with returns
- Sustainable long term growth
- Risk diversification

These core characteristics are applied to define the Risk Appetite Statement on a Bank-wide and individual risk and business level, which cover key risk types and exposures that are faced by the Group's business activities. The RMC undertook regular reviews and monitors the Group's risk profile against the limits set out in the Risk Appetite Statement and determine appropriate management action if material deviation from approved limits. Reports are submitted to the Risk Committee and Board from Chief Risk Officer on the actual profile of the Risk Appetite Statement including material deviation and management action where required.

For new products and services, in addition to the existing due diligence process, a Product Oversight Committee reporting to the RMC and comprising senior executives from Risk, Legal, Compliance, Finance, and Operations/IT, is responsible for reviewing and approving the launch of such new products and services. Each new service and product launch is also subject to an operational risk self-assessment process, which includes identification, evaluation and mitigation of risk arising from the new initiative. Internal Audit is consulted on the internal control aspect of new products and services in development prior to implementation.

The following information described the Group's management and control of risks, in particular, those associated with its use of financial instruments ("financial risks"). Major types of risks to which the Group was exposed include credit risk, liquidity risk, market risk, insurance risk and operational risk.

(a) Credit Risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance, and treasury businesses. The Group has dedicated standards, policies and procedures in place to control and monitor risk from all such activities.

There are dedicated functions, reported to Chief Risk Officer, responsible for centralised management of credit risk through:

- formulating credit policies on approval process, post disbursement monitoring, recovery process and large exposure;

- issuing guidelines on lending to specified market sectors, industries and products; the acceptability of specific classes of collateral or risk mitigations and valuation parameters for collateral;

- undertaking an independent review and objective assessment of credit risk for all commercial non-bank credit facilities in excess of designated amount prior to the facilities being committed to customers;

- controlling exposures to selected industries, counterparties, countries and portfolio types etc by setting limits;

- maintaining and developing credit risk rating/facility grading process to categorise exposures and facilitate focused management;

- reporting to senior executives and various committees on aspects of the Group loan portfolio;

- managing and directing credit-related systems initiatives; and

- providing advice and guidance to business units on various credit-related issues.

Impaired loan management and recovery

The Group undertakes ongoing credit analysis and monitoring at several levels. Special attention is paid to problem loans. Loan impairment allowances are made promptly where necessary and need to be consistent with established guidelines. Recovery units are established by the Group to provide the customers with intensive support in order to maximise recoveries of doubtful debts. Management regularly performs an assessment of the adequacy of the established impairment provisions by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics against historical trends and undertaking an assessment of current economic conditions.

(a) Credit risk *(continued)*

Risk rating framework

A sophisticated risk rating framework on counterparty credit risk based on default probability and loss estimates is implemented across the Group. The rating methodology of this framework is based upon a wide range of financial analytics. This approach will allow a more granular analysis of risk and trends. The information generated from the risk rating framework is mainly, but not exclusively, applied to credit approval, credit monitoring, pricing, loan classification and capital adequacy assessment. The Group also has control mechanisms in place to validate the performance and accuracy of the risk rating framework.

To measure and manage the risk in these exposures, both to individually assessed customers and to those aggregated into portfolios, the Group employs diverse risk rating systems and methodologies.

Collateral and other credit enhancements

The Group has implemented guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and determined the valuation parameters. Such parameters are established prudently and are reviewed regularly in light of changing market environment and empirical evidence. Security structures and legal covenants are subject to regular review to ensure that they continue to fulfill their intended purpose and remain in line with local market practice. While collateral is an important mitigant to credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather than to rely excessively on security. Facilities may be granted on unsecured basis depending on the customer's standing and the type of product. The principal collateral types are as follows:

- in the personal sector, charges over the properties, securities, investment funds and deposits;

- in the commercial and industrial sector, charges over business assets such as properties, stock, debtors, investment funds, deposits and machinery; and

- in the commercial real estate sector, charges over the properties being financed.

Repossessed assets are non-financial assets acquired in exchange for loans in order to achieve an orderly realisation, and are reported in the balance sheet within "Other assets" at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowance). If excess funds arise after the debt has been repaid, they are made available either to repay other secured lenders with lower priority or are returned to the customer. The Group does not generally occupy repossessed properties for its business use.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

Settlement risk

Settlement risk arises where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily Settlement Limits are established to cover the settlement risk arising from the Group's trading transactions on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated when effected via assured payment systems, or on a delivery-versus-payment basis.

The International Swaps and Derivatives Association ("ISDA") Master Agreement is the Group's preferred agreement for documenting derivative activities. It provides the contractual framework that a full range of over-the-counter ("OTC") products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events.

(a) Credit risk *(continued)*

Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors. Analysis of geographical concentration of the Group's assets is disclosed in note 17 to the financial statements and credit risk concentration of respective financial assets is disclosed in notes 21, 22, 24 and 25.

(i) Maximum exposure to credit risk before collateral held or other credit enhancements

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Cash and balances at central banks	**40,317**	7,721	11,311
Placings with and advances to banks	**152,767**	142,975	145,731
Trading assets	**44,772**	26,178	41,783
Financial assets designated at fair value	**70**	60	75
Derivative financial instruments	**6,004**	6,296	7,421
Reverse repurchase agreements-non-trading	**1,904**	2,309	1,296
Loans and advances to customers	**673,022**	632,947	658,431
Financial investments	**323,181**	270,407	273,983
Other assets	**19,976**	20,457	17,219
Financial guarantees and other credit related contingent liabilities	**14,892**	22,737	14,272
Loan commitments and other credit related commitments	**520,714**	460,243	432,274
	1,797,619	1,592,330	1,603,796

(ii) Credit quality

A summary of the four classifications and risk rating scales describing the credit quality of the Group's lending and debt securities portfolios are provided on page 49 of the Annual Report 2014.

Impaired loans and advances

Special attention is paid to problem loans and appropriate action is initiated to protect the Group's position on a timely basis and to ensure that loan impairment methodologies result in losses being recognised when they are incurred.

The Group's policy for recognising and measuring impairment allowances on both individually assessed advances and those which are collectively assessed on a portfolio basis is described in note 3(d) to the financial statements for the year ended 31 December 2014.

Analysis of impairment allowances at 30 June 2015 and the movement of such allowances during the periods are disclosed in note 24 to the financial statements.

***(a) Credit risk** (continued)*

Impaired loans and advances are those that meet any of the following criteria:

- wholesale loans and advances classified as CRR 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is past due 90 days or more on any material credit obligation to the Group;

- retail loans and advances:

  - classified as EL 9 or EL 10;

  - classified as EL 1 to EL 8 with 90 days and over past due;

  - have been restructured with 90 days and over past due or with economic loss incurred by the Group irrespective of the delinquency status;

- renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence to support reclassification as no longer impaired typically comprises a history of payment performance against the original or revised terms, depending on the nature and volume of renegotiation and the credit risk characteristics surrounding the renegotiation. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case by case basis.

Impairment assessment

It is Group's policy that each operating company in the Group creates impairment allowances for impaired loans promptly and appropriately.

For details of our impairment policies on loans and advances and financial investments, see notes 3(d) and 3(s) on the financial statements for the year ended 31 December 2014.

Impairment and credit risk mitigation

The existence of collateral has an impact when calculating impairment on individually assessed impaired loans. When we no longer expect to recover the principal and interest due on a loan in full or in accordance with the original terms and conditions, it is assessed for impairment. If exposures are secured, the current net realisable value of the collateral will be taken into account when assessing the need for an impairment allowance. No impairment allowance is recognised in cases where all amounts due are expected to be settled in full on realisation of the security.

Personal lending portfolios are generally assessed for impairment on a collective basis as the portfolios typically consist of large groups of homogeneous loans. Two methods are used to calculate allowances on a collective basis: a roll rate methodology or a more basic formulaic approach based on historical losses.

(a) Credit risk *(continued)*

The historical loss methodology is typically used to calculate collective impairment allowances for secured, or low default portfolios such as mortgages, until the point at which they are individually identified and assessed as impaired. For loans which are collectively assessed using historical loss methodology, the historical loss rate is derived from the average contractual write-off net of recoveries over a defined period. The net contractual write-off rate is the actual amount of loss experienced after the realisation of collateral and receipt of recoveries.

A roll rate methodology is more commonly adopted for unsecured portfolios when there are sufficient volumes of empirical data to develop robust statistical models.

The nature of the collective allowance assessment prevents individual collateral values or LTV ratios from being included within the calculation. However, the loss rates used in the collective assessment are adjusted for the collateral realisation experiences which will vary depending on the LTV composition of the portfolio.

Historical loss methodology is applied to estimate the collective impairment allowances under wholesale portfolio which have been incurred but not individually identified. Loss rates are derived from the observed contractual write-off net of recoveries over a defined period of at least 60 months. The net contractual write-off rate is the actual amount of loss experienced after realisation of collateral and receipt of recoveries. These historical loss rates are adjusted by an economic factor which adjusts the historical averages to better represent current economic conditions affecting the portfolio. In order to reflect the likelihood of a loss event not being identified and assessed, an emergence period assumption is applied. This reflects the period between a loss occurring and its identification. The emergence period is estimated by local management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behavior, credit management techniques and collection and recovery experiences in the market. A fixed range for the period between a loss occurring and its identification is not defined across the Group and as it is assessed empirically on a periodic basis, it may vary over time as these factors change.

(b) Liquidity and funding risk

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitment and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise. The Group maintains a stable and diversified funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets.

As part of our Asset, Liability and Capital Management structure, we have established Asset and Liability Management Committee ("ALCO") at Group level and in operating entities. The terms of reference of all ALCOs include the monitoring and control of liquidity and funding. Management of liquidity is carried out both at Group and Bank levels as well as in individual branches and subsidiaries. The Group requires branches and subsidiaries to maintain a strong liquidity position and to manage the liquidity structure of their assets, liabilities and commitments so that cash flows are approximately balanced and all funding obligations are met when due.

The management of liquidity and funding is in compliance with the Group's liquidity and funding risk framework ("LFRF"). It is the responsibility of the Group's management to ensure compliance with local regulatory requirements and limits set by ALCO. Liquidity is managed on a daily basis by the Bank's treasury functions and overseas treasury sites.

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

The Board is ultimately responsible for determining the types and magnitude of liquidity risk that the Group is able to take and ensure that there is an appropriate organisation structure for managing this risk. Under authorities delegated by the Executive Committee, the Group ALCO is responsible for managing all Asset, Liability and Capital Management issues including liquidity and funding risk management.

The Group ALCO delegates to the Group Tactical Asset and Liability Management Committee ("TALCO") the task of reviewing various analyses of the Group pertaining to site liquidity and funding. TALCO's primary responsibilities include but are not limited to:

- reviewing the funding structure of operating entities and the allocation of liquidity among them;
- reviewing operating entities' list of liquid securities and documented proof that a deep and liquid market exists; and
- monitoring liquidity and funding limit breaches and providing direction to those operating entities that have not been able to rectify breaches on a timely basis.

Compliance with liquidity and funding requirements is monitored by the ALCO and is reported to the Risk Management Committee ("RMC"), Executive Committee, Risk Committee and the Board of Directors on a regular basis. This process includes:

- maintaining compliance with relevant regulatory requirements of the reporting entity;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity and advances to core funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within pre-determined limits;
- managing debt financing plans;
- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

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

Liquidity information

The Banking (Liquidity) Rules ('BLR'), effective on 1 January 2015, signified the implementation of Liquidity Coverage Ratio ('LCR') for category 1 Institution under Basel III liquidity standards in Hong Kong. The liquidity information disclosures reported for the quarters ended 30 June and 31 March 2015 under Basel III are therefore not directly comparable with the disclosures reported for the half-year ended 30 June and 31 December 2014.

The Group is required under rule 11(1) of the BLR to calculate its LCR on a consolidated basis. During the year of 2015, the Group is required to maintain an LCR of not less than 60%, increasing to not less than 100% by January 2019. The average LCR for the quarters ended 30 June 2015 and 31 March 2015 are as follows:

	Quarter ended 30 June 2015	*Quarter ended 31 March 2015*
Average Liquidity Coverage Ratio	**221.6%**	167.4%

The liquidity position of the Group remained strong in the first half of 2015. The average LCR increased by 54.2 percentage points from 167.4% for the quarter ended 31 March 2015 to 221.6% for the quarter ended 30 June 2015. The increase mainly reflecting the increase in high quality liquid assets as a result of redeployment of the sale proceeds from the partial disposal the Bank's investment in Industrial Bank and the increase in customer deposits. There was a negative impact in the average LCR for the quarter ended 31 March 2015 mainly due to IPO activity.

Following the issuance of new FAQ by HKMA in July 2015 on the treatment of revocable commitments under the LCR, the Bank is currently assessing the impact on the above average LCR.

The average liquidity ratio, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, for the half-year ended 30 June and 31 December 2014 are as follows:

	Half-year ended 30 June 2014	*Half-year ended 31 December 2014*
Liquidity Ratio of the Bank and its subsidiaries designated by the HKMA	**34.5%**	34.9%

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

	Weighted amount (Average value) Quarter ended 30 June 2015	*Weighted amount (Average value) Quarter ended 31 March 2015*
Level 1 assets	**215,120**	166,084
Level 2A assets	**10,177**	7,391
Level 2B assets	**1,214**	1,097
Total weighted amount of HQLA	**226,511**	174,572

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

Sources of funding

The Group's primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We also issue wholesale securities (secured or unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

Cross-currency liquidity and funding risk

The Group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading. This is on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The Group sets limits on the cash flow projection for all material currencies based on the liquidity in the swap markets. These limits are approved and monitored by ALCO.

Additional contractual obligations

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

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

(c) Market risk

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios.

There were no significant changes to our policies and practices for the management of market risk for the first half of 2015.

Exposure to market risk is separated into two portfolios:

- Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.
- Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, and financial investments designated as available-for-sale.

Where appropriate, the Group applies similar risk management policies and measurement techniques to both trading and non-trading portfolios. The Group's objective is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the status as a professional banking and financial services organisation.

The nature of the hedging and risk mitigation strategies range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

(c) Market risk *(continued)*

Market risk governance

Market risk is managed and controlled through limits approved by the Group's Risk Management Committee. These limits are allocated across business lines and to the Group's legal entities, including Hang Seng Bank (China) Limited.

The management of market risk is principally undertaken in Global Markets using risk limits allocated from the risk appetite, which is subject to the Board's approval. Limits are set for portfolios, products and risk types where appropriate, with market liquidity being a primary factor in determining the level of limits set.

An independent market risk management and control function is responsible for measuring, monitoring and reporting market risk exposures against the prescribed limits on a daily basis.

The Group is required to assess the market risks arising on each product in its business and to transfer them to either the Global Markets unit for management, or to separate books managed under the supervision of ALCO.

The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage them professionally. In certain cases where the market risks cannot be fully transferred, the Group identifies the impact of varying scenarios on valuations or on net interest income resulting from any residual risk positions.

Model risk is governed through Model Oversight Committee ("MOC") at the Wholesale Credit and Market Risk ("WCMR") level. The MOC has direct oversight on traded risk models utilised for risk measurement and management and stress testing to ensure that they remain within our risk appetite and business plans.

Our control of market risk in the trading and non-trading portfolios is based on a policy of restricting trading within a list of permissible instruments authorised for each business lines, of enforcing new product approval procedures, and of restricting trading in the more complex derivative products only to business line with appropriate levels of product expertise and robust control systems.

Monitoring and limiting market risk exposures

The Group's objective is to manage and control market risk exposures while maintaining a market profile consistent with the Group's risk appetite.

The Group uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ("VAR"), and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices. The Group uses sensitivity measures to monitor the market risk positions within each risk type, for example, the present value of a basis point movement in interest rates for interest rate risk.

Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

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

Value at risk ("VAR")

VAR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VAR is integrated into market risk management and is calculated for all trading positions regardless of how the Group capitalises those exposures. Where there is not an approved internal model, the Group uses the appropriate local rules to capitalise exposures.

In addition, the Group calculates VAR for non-trading portfolios in order to have a complete picture of risk. Where VAR is not calculated explicitly, alternative tools are used.

Standard VAR is calculated at a 99% confidence level for a one-day holding period while stressed VAR uses a 10-day holding period and a 99% confidence interval based on a continuous one-year historical significant stress period. The VAR models used by the Group are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VAR are calculated with reference to those historical data; and
- Standard VAR is calculated to a 99% confidence level and use a one-day holding period scaled to 10 days.

The nature of the VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions.

VAR model limitations

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition does not take into account losses that might occur beyond this level of confidence;
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- Standard VAR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

(c) Market risk *(continued)*

Risk not in VAR ("RNIV") framework

The Group's VAR model is designed to capture significant basis risks such as asset swap spreads and cross-currency basis. Other basis risks which are not completely covered in VAR, such as the LIBOR tenor basis, are complemented by calculations and are integrated into the capital framework.

The RNIV framework aims to manage and capitalise material market risks that are not adequately covered in the VAR model. In such instances the RNIV framework uses stress tests to quantify the capital requirement. The average of the first half of 2015, the capital requirement derived from these stress tests represented 1.3% of the total internal model-based market risk requirement.

RNIV is not viewed as being a material component of the Group's market risk capital requirement. Risks covered by RNIV represent 1.3% of market risk RWAs for models with regulatory approval.

Risk factors are reviewed on a regular basis and either incorporated directly in the VAR models, where possible, or quantified through the VAR-based RNIV approach or a stress test approach within the RNIV framework. The severity of the scenarios is calibrated to be in line with the capital adequacy requirements.

Level 3 assets

The fair value of Level 3 assets in trading portfolios, comprising trading derivatives, is immaterial. Market risk arising from Level 3 assets is captured properly in the system and managed by various market risk techniques such as VAR and stress testing.

Stress testing

Stress testing is an important tool that is integrated into the Group's market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VAR modelling.

Stress testing is implemented at the legal entity and the overall Group levels. Scenarios are tailored in order to capture the relevant events or market movements. The risk appetite around potential stress losses for the Group is set and monitored against referral limits.

The process is governed by the HSBC Stress Testing Review Group forum which the Group being a participating member determines the scenarios to be applied at portfolio and consolidated level, as follows:

- single risk factor stress scenarios that are unlikely to be captured within the VAR models, such as the break of a currency peg;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical scenarios consider potential macroeconomic events, for example, the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects; and
- historical scenarios incorporate historical observations of market movements during previous periods of stress which would not be captured within VAR.

(c) Market risk *(continued)*

Market Risk Reverse stress tests are undertaken based upon the premise that there is a fixed loss. The stress test process identifies which scenarios lead to this loss. The rationale behind the reverse stress test is to understand scenarios which are beyond normal business settings that could have contagion and systemic implications.

Stressed VAR and stress testing, together with reverse stress testing, provide management with insights regarding the "tail risk" beyond VAR for which the Group appetite is limited.

Trading portfolios

VAR of the trading portfolios

Trading VAR predominantly resides within Global Markets. The VAR for trading activity at 30 June 2015 was higher than at 30 June 2014, mainly driven by foreign exchange and interest rate trading activities.

The Group's trading VAR for the period ended 30 June 2015 is shown in the table below.

Trading, 99% 1 day

	At 30 June 2015	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Trading	**42**	**12**	**52**	**29**
Foreign exchange trading	**44**	**6**	**48**	**26**
Interest rate trading	**15**	**8**	**18**	**14**
Portfolio diversification	**(17)**	**–**	**–**	**(11)**
Stressed VAR				
Trading	**174**	**25**	**219**	**116**
Foreign exchange trading	**188**	**18**	**226**	**112**
Interest rate trading	**49**	**22**	**94**	**50**

(c) Market risk *(continued)*

	At 30 June 2014	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Trading	8	4	11	7
Foreign exchange trading	5	1	9	4
Interest rate trading	6	3	9	5
Portfolio diversification	(4)	–	–	(3)
Stressed VAR				
Trading	64	23	68	40
Foreign exchange trading	10	1	32	14
Interest rate trading	79	25	83	46

	At 31 December 2014	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Trading	13	4	17	9
Foreign exchange trading	7	1	11	6
Interest rate trading	12	3	14	8
Portfolio diversification	(5)	–	–	(4)
Stressed VAR				
Trading	40	23	157	65
Foreign exchange trading	18	1	32	17
Interest rate trading	64	26	173	77

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

Non-trading portfolios

VAR of the non-trading portfolios

Non-trading VAR of the Group predominantly relates to Balance Sheet Management ("BSM"). Contributions to non-trading VAR are driven by interest rates and credit spread risks. There is no commodity risk in the non-trading portfolios.

The Group's non-trading VAR for the period ended 30 June 2015 is shown in the table below.

Non-trading VAR, 99% 1 day

	At 30 June 2015	**Minimum during the year**	**Maximum during the year**	**Average for the year**
VAR				
Non-trading	**36**	**29**	**46**	**35**
Interest rate non-trading	**30**	**24**	**39**	**31**
Credit spread non-trading	**17**	**9**	**21**	**13**
Portfolio diversification	**(10)**	**–**	**–**	**(9)**

	At 30 June 2014	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Non-trading	30	22	37	30
Interest rate non-trading	32	20	36	27
Credit spread non-trading	12	12	23	17
Portfolio diversification	(13)	–	–	(14)

	At 31 December 2014	*Minimum during the year*	*Maximum during the year*	*Average for the year*
VAR				
Non-trading	36	22	47	34
Interest rate non-trading	35	20	42	32
Credit spread non-trading	12	7	23	15
Portfolio diversification	(11)	–	–	(13)

In measuring, monitoring and managing risk in our non-trading portfolios, VAR is just one of the tools used. The management of interest rate risk in the banking book is described further in "Non-trading interest rate risk" below, including the role of BSM.

Non-trading VAR excludes equity risk on available-for-sale securities, structural foreign exchange risk, and interest rate risk on fixed rate securities issued by HSBC Holdings, the management of which is described in the relevant sections below.

(c) Market risk *(continued)*

The Group's control of market risk in the non-trading portfolios is based on transferring the assessed market risk of non-trading assets and liabilities created outside BSM or Global Markets, to the books managed by BSM, provided the market risk can be neutralised. The net exposure is typically managed by BSM through the use of fixed rate government bonds (liquid asset held in available-for-sale books) and interest rate swaps. The interest rate risk arising from fixed rate government bonds held within available-for-sale portfolios is reflected within the Group's non-trading VAR. Interest rate swaps used by BSM are typically classified as either a fair value hedge or a cash flow hedge and included within the Group's non-trading VAR. Any market risk that cannot be neutralised in the market is managed by local ALCO in segregated ALCO books.

Credit spread risk for available-for-sale debt securities

The risk associated with movements in credit spreads is primarily managed through sensitivity limits, stress testing and VAR. The credit spread VAR is derived from a one-day movement in credit spreads over a two-year period, calculated to a 99% confidence interval.

The credit spreads VAR on our available-for-sale debt securities was HK$17 million (at 30 June 2014: HK$12 million) at 30 June 2015.

The increase in credit spread VAR at 30 June 2015 compared with 30 June 2014 was mainly due to the combined effect of portfolio change and update of historical credit spread movement during the year.

Interest rate exposure

Interest rate risks comprise those originating from Global Markets activities, both trading and non-trading portfolios which include structural interest rate exposures. Global Markets manages interest rate risks within the limits approved by the RMC and under the monitoring of both ALCO and RMC.

<u>Trading interest rate risk</u>

The Group's control of market risk is based on restricting individual operations to trading within VAR and underlying sensitivity limits including foreign exchange position limits, present value of a basis point limits and option limits, and a list of permissible instruments authorised by the RMC, and enforcing rigorous new product approval procedures. In particular, trading in the derivative products is supported by robust control systems whereas more complicated derivatives are mainly traded on back-to-back basis. Analysis of VAR for trading portfolio is disclosed in "Value at Risk" section.

<u>Non-trading interest rate risk</u>

Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes.

Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas, such as the incidence of mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, such as current accounts, and the re-pricing behaviour of managed rate products. These assumptions around behavioural features are captured in our interest rate risk behaviouralisation framework, which is described below.

(c) Market risk *(continued)*

Interest rate risk behaviouralisation

Unlike liquidity risk which is assessed on the basis of a very severe stress scenario, non-traded market interest rate risk is assessed and managed according to "business-as-usual" conditions. In many cases the contractual profile of non-traded assets/liabilities arising from assets/liabilities created outside Markets or BSM does not reflect the behaviour observed.

Behaviouralisation is therefore used to assess the market interest rate risk of non-traded assets/liabilities and this assessed market risk is transferred to BSM, in accordance with the rules governing the transfer of interest rate risk from the global businesses to BSM.

Behaviouralisation is applied in three key areas:

- the assessed re-pricing frequency of managed rate balances;
- the assessed duration of non-interest bearing balances, typically capital and current accounts; and
- the base case expected prepayment behaviour or pipeline take-up rate for fixed rate balances with embedded optionality.

Interest rate behaviouralisation policies have to be formulated in line with the Group's behaviouralisation policies and approved at least annually by ALCO, regional ALCM and Group ALCM, in conjunction with local, regional and Group market risk monitoring teams.

The extent to which balances can be behaviouralised is driven by:

- the amount of the current balance that can be assessed as "stable" under business-as-usual conditions; and
- for managed rate balances the historic market interest rate re-pricing behaviour observed; or
- for non-interest bearing balances the duration for which the balance is expected to remain under business-as-usual conditions. This assessment is often driven by the re-investment tenors available to BSM to neutralise the risk through the use of fixed rate government bonds or interest rate derivatives, and for derivatives the availability of cash flow hedging capacity.

Sensitivity of net interest income

A principal part of the Group's management of interest rate risk in non-trading portfolios is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group aims, through its management of market risk in non-trading portfolios, to mitigate the impact of prospective interest rate movements which could reduce future net interest income, whilst balancing the cost of such hedging activities on the current net revenue stream.

(c) Market risk *(continued)*

Foreign exchange exposure

The Group's foreign exchange exposures mainly comprise foreign exchange dealing by Global Markets and currency exposures originated by its banking business. The latter are transferred to Global Markets where they are centrally managed within foreign exchange position limits approved by the RMC. The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts.

The Group's gross structural foreign exchange exposure is represented by the net asset value of the Group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the Group's long-term foreign currency equity investments. The Group's structural foreign currency exposures are managed by the Group's ALCO with the primary objective of ensuring, where practical, that the Group's and the Bank's capital ratios are protected from the effect of changes in exchange rates.

At 30 June 2015, the US dollar ("USD") and Chinese Renminbi ("RMB") were the currencies in which the Group had non-structural foreign currency positions that were not less than 10% of the total net position in all foreign currencies. The Group also had a RMB structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

The tables below summarise the net structural and non-structural foreign currency positions of the Group.

	USD	***RMB***	***Other foreign currencies***	***Total foreign currencies***
At 30 June 2015				
Non-structural position				
Spot assets	**190,834**	**169,403**	**103,328**	**463,565**
Spot liabilities	**(153,429)**	**(144,863)**	**(64,860)**	**(363,152)**
Forward purchases	**292,420**	**123,125**	**61,251**	**476,796**
Forward sales	**(327,490)**	**(136,603)**	**(99,772)**	**(563,865)**
Net options position	**179**	**(257)**	**40**	**(38)**
Net long/(short) non-structural position	**2,514**	**10,805**	**(13)**	**13,306**
Structural position	**–**	**14,215**	**750**	**14,965**

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

	USD	*RMB*	*Other foreign currencies*	*Total foreign currencies*
At 30 June 2014				
Non-structural position				
Spot assets	185,629	152,815	71,846	410,290
Spot liabilities	(162,374)	(146,419)	(67,348)	(376,141)
Forward purchases	310,445	148,522	51,507	510,474
Forward sales	(328,858)	(154,612)	(56,066)	(539,536)
Net options position	60	(225)	149	(16)
Net long/(short) non-structural position	4,902	81	88	5,071
Structural position	205	36,392	601	37,198
At 31 December 2014				
Non-structural position				
Spot assets	188,559	163,709	83,596	435,864
Spot liabilities	(157,303)	(159,501)	(64,874)	(381,678)
Forward purchases	325,133	147,597	69,666	542,396
Forward sales	(347,341)	(151,149)	(88,460)	(586,950)
Net options position	205	(276)	74	3
Net long/(short) non-structural position	9,253	380	2	9,635
Structural position	–	52,993	669	53,662

Equities exposure

The Group's equities exposures in 2015 and 2014 are mainly long-term equity investments which are reported as "Financial investments" set out in note 25 to the financial statements. Equities held for trading purpose are included under "Trading assets" set out in note 21 to the financial statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Insurance risk

Risk management objectives and policies for management of insurance risk

Through its insurance subsidiaries, the Group offers comprehensive insurance products, including life and non-life insurance, to both personal and commercial customers. These insurance operating subsidiaries are subject to the supervision of the Office of the Commissioner of Insurance and are required to observe the relevant compliance requirements stipulated by the Insurance Commissioner.

The Group is exposed to the uncertainty surrounding the timing and severity of insurance claims under its insurance contracts. The Group also has exposure to market risk through its insurance and investment activities.

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, risk diversification, pricing guidelines, reinsurance and monitoring of emerging issues, taking into account where appropriate local market conditions and regulatory requirements apply.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, incorporated with certain degree of randomness, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Asset/liability management

The Group actively manages its assets using an approach that considers asset quality, risk profile, diversification, asset/liability matching, liquidity and target investment return. The goal of the investment process is to achieve the target level of investment return with minimum volatility. The Investment Committee and Risk Management Committee of the Group's insurance subsidiaries review and approve the investment policy including asset allocation, investment guidelines and limits on a periodic basis, while the Asset and Liability Management Committee provides oversight of the asset/liability management process.

The Group establishes the investment policy for each major insurance product category according to specific product requirements and local regulatory requirement. The investment policy defines the asset allocations and restrictions with an aim to achieve the target investment return in the long term. The estimates and assumptions used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly re-evaluated. Actual results may deviate from the estimate and assumption and could impact the Group's ability to achieve its asset/liability management goals and objectives.

(d) Insurance risk *(continued)*

Underwriting strategy

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposures to losses and protect capital resources. These reinsurance agreements transfer part of the risk and limit the exposure from each life insured. The amount of each risk retained depends on the Group's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. The Group buys a combination of proportionate and non-proportionate reinsurance to reduce the retained sum-at-risk so that it falls within specified insurance risk appetite. The Group also utilises reinsurance to manage the risk arising from guarantees provided to the policyholders under the non-linked traditional non-participating insurance product. In addition, the Group uses reinsurance agreements with non-affiliated reinsurers to manage its exposure to losses resulting from certain catastrophes. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

Concentration of insurance risks

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The Group is subject to concentration risk arising from accidents relating to common carriers, epidemics, earthquakes and other natural disasters that affect the properties, physical conditions and lives of the policyholders insured by the Group. To mitigate these risks, excess of loss and catastrophe reinsurance arrangements have been made by the Group.

Financial risks

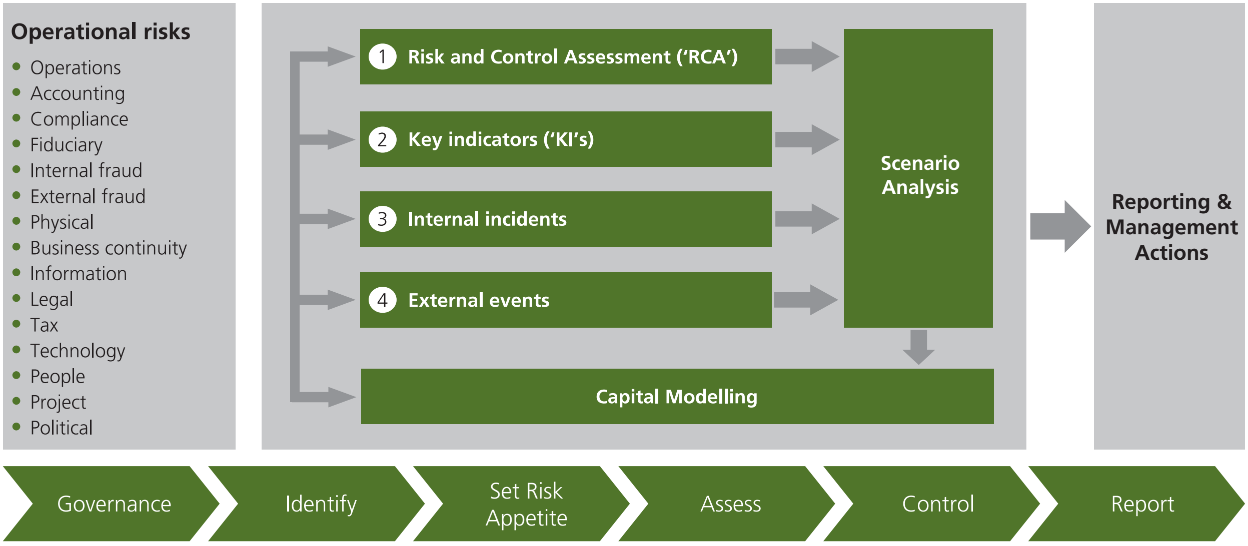
The Group's insurance businesses are exposed to a range of financial risks, including market risk, credit risk and liquidity risk.

The Group is also exposed to investment return guarantee risk for certain investment contracts issued to policyholders for its long-term insurance business. The risk is that the yield on the assets held by the Group to meet these guarantees may fall short of the guaranteed return. The framework for the management of this risk is to adopt a matching approach whereby assets held are managed to meet the liability to policyholders. An additional provision is established where analysis indicates that, over the life of the contracts, the returns from the designated assets may not be adequate to cover the related liabilities.

(e) Operational risk

Operational risk management framework

The Operational Risk function and the operational risk management framework ('ORMF') assist business management in discharging their responsibilities. The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the Group.



- *RCAs are used to inform the evaluation of the effectiveness of controls over material risks.*
- *KIs are used to help monitor the risks and controls.*
- *Scenario Analysis provides management with a quantified view of our top and emerging operational risks.*
- *Internal incidents are used to forecast expected losses.*
- *External sources are used to inform the assessment of extreme risk scenarios.*

Articulating risk appetite for material operational risks helps the organisation determine the level of risk it is willing to accept. Monitoring operational risk exposure against risk appetite on a regular basis and either mitigating or accepting the exposures drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

Operational risk and control assessments are performed by individual business units and functions. The risk and control assessment process is designed to provide businesses and functions with a forward-looking view of operational risks and an assessment of the effectiveness of controls. It also provides a tracking mechanism for action plans so that they can proactively manage operational risk within acceptable levels. Risk and control assessments are reviewed and updated at least annually.

In addition to the risk and control assessment process, an enhanced scenario analysis process will be implemented to improve the quantification and management of top and emerging risks.

Capital Management

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

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

The Bank and its subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 30 June 2015, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK$6,382m (31 December 2014: HK$6,229m).

There are no relevant capital shortfalls in any of the Group's subsidiaries at 30 June 2015 (31 December 2014: nil) which are not included in its consolidation group for regulatory purposes.

The Banking (Capital) (Amendment) Rules 2014 came into effect on 1 January 2015 to implement the Basel III capital buffer requirements in Hong Kong. The changes include the phasing-in from 2016 to 2019 of the Capital Conservation Buffer ("CCB") which is designed to ensure banks build up capital outside periods of stress of 2.5% of risk-weighted assets, the Countercyclical Capital Buffer ("CCyB") which is set on an individual country basis and is built up during periods of excess credit growth to protect against future losses, and the Higher Loss Absorbency ("HLA") requirements for Domestic Systemically Important Banks ("D-SIB"). On 27 January 2015, the HKMA announced a CCyB for Hong Kong of 0.625% of risk-weighted assets from 1 January 2016 under the phase-in arrangements of Basel III, equivalent to 2.5% once fully phased in. On 16 March 2015, the HKMA announced its designation of the Bank as a D-SIB in Hong Kong and required the Bank to establish 0.375% of risk-weighted assets for HLA from 1 January 2016 under the phase-in arrangement, equivalent to 1.5% on full implementation.

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

Capital Base

The following table sets out the composition of the Group's capital base under Basel III at 30 June 2015, 30 June 2014 and 31 December 2014. These positions benefit from transitional arrangements which will be phased out. A more detailed breakdown of the capital position is available in the Regulatory Disclosures section of our website www.hangseng.com.

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Common Equity Tier 1 ("CET1") Capital			
Shareholders' equity	**119,201**	98,313	120,407
- Shareholders' equity per balance sheet	**139,474**	109,501	139,193
- Additional Tier 1 ("AT1") perpetual capital instrument	**(6,981)**	–	(6,981)
- Unconsolidated subsidiaries	**(13,292)**	(11,188)	(11,805)
Regulatory deductions to CET1 capital	**(29,975)**	(44,560)	(47,201)
- Cash flow hedging reserve	**(22)**	(1)	–
- Changes in own credit risk on fair valued liabilities	**(7)**	(5)	(4)
- Property revaluation reserves*	**(22,654)**	(21,006)	(21,784)
- Regulatory reserve	**(6,382)**	(6,063)	(6,229)
- Intangible assets	**(433)**	(400)	(417)
- Defined benefit pension fund assets	**(34)**	(31)	(35)
- Deferred tax assets net of deferred tax liabilities	**(104)**	(41)	(80)
- Valuation adjustments	**(339)**	(156)	(325)
- Significant capital investments in unconsolidated financial sector entities	**–**	(6,019)	(8,436)
- Excess AT1 deductions	**–**	(10,838)	(9,891)
Total CET1 Capital	**89,226**	53,753	73,206
AT1 Capital			
Total AT1 capital before regulatory deductions	**6,981**	–	6,981
- Perpetual capital instrument	**6,981**	–	6,981
Regulatory deductions to AT1 capital	**–**	–	(6,981)
- Significant capital investments in unconsolidated financial sector entities	**–**	(10,838)	(16,872)
- Excess AT1 deductions	**–**	10,838	9,891
Total AT1 Capital	**6,981**	–	–
Total Tier 1 ("T1") Capital	**96,207**	53,753	73,206
Tier 2 ("T2") Capital			
Total T2 capital before regulatory deductions	**18,000**	22,113	17,733
- Term subordinated debt	**4,767**	9,921	5,117
- Property revaluation reserves*	**10,194**	9,453	9,803
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**3,039**	2,739	2,813
Regulatory deductions to T2 capital	**(315)**	(10,838)	(17,187)
- Significant capital investments in unconsolidated financial sector entities	**(315)**	(10,838)	(17,187)
Total T2 Capital	**17,685**	11,275	546
Total Capital	**113,892**	65,028	73,752

* *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.*

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the Group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the capital base at 30 June 2015; it is not a projection. On this pro-forma basis, the Group's CET1 capital ratio is 17.1%, which is above the Basel III minimum requirement, including CCB, CCyB and HLA.

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

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
CET1 Capital on a transitional basis	**89,226**	53,753	73,206
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	–	(21,676)	(33,744)
Excess AT1 deductions	–	10,838	9,891
CET1 Capital end point basis	**89,226**	42,915	49,353
AT1 Capital on a transitional basis	**6,981**	–	–
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	–	10,838	16,872
Excess AT1 deductions	–	(10,838)	(9,891)
AT1 Capital end point basis	**6,981**	–	6,981
T2 Capital on a transitional basis	**17,685**	11,275	546
Grandfathered instruments			
- Term subordinated debt	**(2,441)**	(7,596)	(2,790)
Transitional provisions			
- Significant capital investments in unconsolidated financial sector entities	–	10,838	16,872
T2 Capital end point basis	**15,244**	14,517	14,628

Risk-weighted assets by risk type

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Credit risk	**453,899**	410,284	418,880
Market risk	**20,028**	3,918	5,749
Operational risk	**47,516**	42,628	45,538
Total	**521,443**	456,830	470,167

Market risk-weighted assets

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Internal models approach			
Value at Risk ("VAR")	**4,956**	930	1,623
Stressed VAR	**13,654**	2,432	3,442
Standardised approach			
Specific interest rate exposures	**1,418**	556	684
Total	**20,028**	3,918	5,749

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 2015	At 30 June 2014	At 31 December 2014
CET1 capital ratio	**17.1%**	11.8%	15.6%
Tier 1 capital ratio	**18.5%**	11.8%	15.6%
Total capital ratio	**21.8%**	14.2%	15.7%

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), as described in note 3 to the financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C (1) of the Banking (Capital) Rules.

Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The capital invested by the Group in these subsidiaries is deducted from the capital base as determined in accordance with Part 3 of the Banking (Capital) Rules.

A list of these subsidiaries is shown below:

		At 30 June 2015	
	Principal activities	***Total assets****	***Total equity****
Hang Seng Futures Ltd	Futures brokerages	**103**	**102**
Hang Seng Investment Management Ltd	Fund management	**767**	**721**
Hang Seng Investment Services Ltd	Provision of investment commentaries	**9**	**9**
Hang Seng Securities Ltd	Stockbroking	**7,568**	**1,517**
Hang Seng Insurance Co. Ltd	Retirement benefits and life assurance	**108,225**	**10,041**

* *Prepared in accordance with HKFRS*

As at 30 June 2015, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

The Group operates subsidiaries in different territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

Capital instruments

The following is a summary of the Group's CET1, AT1 and T2 capital instruments issued by the Bank.

	Amount recognised in regulatory capital		
	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
CET1 capital instruments			
Ordinary shares:			
1,911,842,736 issued and fully paid ordinary shares	**9,658**	9,658	9,658
AT1 capital instruments			
Perpetual capital instrument (nominal value: US$900m)	**6,981**	–	6,981
T2 capital instruments			
Subordinated loan due 2020 (nominal value: US$775m)	**–**	4,806	–
Subordinated loan due 2021 (nominal value: US$450m)	**2,441**	2,790	2,790
Subordinated loan due 2022 (nominal value: US$300m)	**2,326**	2,325	2,327

A description of the main features and the full terms and conditions of the Group's capital instruments can be found in the Regulatory Disclosures section of our website www.hangseng.com.

Leverage ratio

The Leverage Ratio ('LR') was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. The ratio is a volume-based measure calculated as Basel III T1 capital divided by exposure measure representing total on and off balance sheet exposures. In accordance with the Basel III framework, there will be a parallel run period for the LR from 2013 to 2017. The Group is required under section 24A (6) of the Banking (Disclosure) Rules to disclose its LR calculated on a consolidated basis effective from 31 March 2015. Comparative figures are not required as this is the first year of disclosure.

	At 30 June 2015
Leverage ratio	**7.7%**
Figures in HK$m	
T1 capital	**96,207**
Exposure measure	**1,255,187**

Detailed breakdown of the Group's leverage exposure measure and a summary comparison table reconciling the assets of the Group's accounting balance sheet with the leverage exposure measure using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosures section of our website www.hangseng.com.

Additional information

A full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the Regulatory Disclosures section of our website www.hangseng.com.

CONSOLIDATED INCOME STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)	*note*	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Interest income	4	**13,645**	12,774	13,496
Interest expense	5	**(3,204)**	(3,103)	(3,296)
Net interest income		**10,441**	9,671	10,200
Fee income		**4,638**	3,757	3,955
Fee expense		**(754)**	(695)	(768)
Net fee income	6	**3,884**	3,062	3,187
Net trading income	7	**1,377**	1,061	883
Net income from financial instruments designated at fair value	8	**721**	428	773
Dividend income	9	**125**	5	1,205
Net insurance premium income		**6,247**	6,004	4,775
Other operating income	10	**1,845**	1,131	564
Total operating income		**24,640**	21,362	21,587
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(8,125)**	(6,889)	(5,853)
Net operating income before loan impairment charges and other credit risk provisions		**16,515**	14,473	15,734
Loan impairment charges and other credit risk provisions	11	**(594)**	(337)	(807)
Net operating income		**15,921**	14,136	14,927
Employee compensation and benefits		**(2,537)**	(2,295)	(2,321)
General and administrative expenses		**(2,081)**	(1,884)	(2,171)
Depreciation of premises, plant and equipment		**(462)**	(406)	(425)
Amortisation of intangible assets		**(56)**	(55)	(56)
Operating expenses	12	**(5,136)**	(4,640)	(4,973)
Operating profit		**10,785**	9,496	9,954
Net gain on partial disposal of Industrial Bank		**10,636**	–	–
Impairment of investment in Industrial Bank		**–**	–	(2,103)
Gains less losses from financial investments and fixed assets	13	**35**	(5)	(51)
Net surplus on property revaluation		**178**	230	291
Share of profits from associates		**86**	156	81
Profit before tax		**21,720**	9,877	8,172
Tax expense	14	**(1,672)**	(1,409)	(1,509)
Profit for the period		**20,048**	8,468	6,663
Profit attributable to shareholders		**20,048**	8,468	6,663
(Figures in HK$)				
Earnings per share	15	**10.49**	4.43	3.48

Details of dividends payable to shareholders of the Bank attributable to the profit for the half year are set out in note 16.

The notes on pages 50 to 109 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

(Expressed in millions of Hong Kong dollars)	**Half-year ended 30 June 2015**	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Profit for the period	**20,048**	8,468	6,663
Other comprehensive income			
Items that will be reclassified subsequently to the income statement when specific conditions are met:			
Available-for-sale investment reserve:			
- fair value changes taken to equity:			
- on debt securities	**(9)**	350	(31)
- on equity shares	**406**	(417)	17,161
- fair value changes transferred to income statement:			
- on hedged items	**11**	29	3
- on disposal	**(14,786)**	2	(36)
- on impairment	**–**	–	2,188
- deferred taxes	**(25)**	(76)	(20)
- exchange difference and others	**(40)**	(730)	207
Cash flow hedging reserve:			
- fair value changes taken to equity	**157**	(74)	392
- fair value changes transferred to income statement	**(139)**	70	(409)
- deferred taxes	**(3)**	1	3
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	**(6)**	(170)	15
Items that will not be reclassified subsequently to the income statement:			
Premises:			
- unrealised surplus on revaluation of premises	**1,103**	612	845
- deferred taxes	**(184)**	(103)	(141)
- exchange difference	**–**	(1)	(1)
Defined benefit plans:			
- actuarial gains on defined benefit plans	**292**	75	89
- deferred taxes	**(48)**	(12)	(15)
Share-based payments	**2**	(1)	(1)
Other comprehensive income for the period, net of tax	**(13,269)**	(445)	20,249
Total comprehensive income for the period	**6,779**	8,023	26,912
Total comprehensive income for the period attributable to shareholders	**6,779**	8,023	26,912

CONSOLIDATED BALANCE SHEET

unaudited

(Expressed in millions of Hong Kong dollars)	note	**At 30 June 2015**	At 30 June 2014	At 31 December 2014
ASSETS				
Cash and sight balances at central banks	19	**40,317**	7,721	11,311
Placings with and advances to banks	20	**152,767**	142,975	145,731
Trading assets	21	**44,772**	26,213	41,823
Financial assets designated at fair value	22	**8,218**	10,331	11,112
Derivative financial instruments	23	**6,004**	6,296	7,421
Reverse repurchase agreements – non-trading		**1,904**	2,309	1,296
Loans and advances to customers	24	**673,022**	632,947	658,431
Financial investments	25	**328,198**	297,303	318,032
Interest in associates	26	**2,258**	2,178	2,218
Investment properties	27	**9,899**	11,108	11,732
Premises, plant and equipment	28	**25,664**	21,594	21,898
Intangible assets	29	**10,577**	8,779	9,053
Other assets	30	**27,838**	26,210	23,932
Total assets		**1,331,438**	1,195,964	1,263,990
LIABILITIES AND EQUITY				
Liabilities				
Current, savings and other deposit accounts	31	**947,495**	860,092	896,521
Repurchase agreements – non-trading		**3,032**	1,837	–
Deposits from banks		**13,964**	11,335	9,095
Trading liabilities	32	**77,543**	65,713	72,587
Financial liabilities designated at fair value	33	**4,027**	493	3,489
Derivative financial instruments	23	**5,877**	5,825	6,462
Certificates of deposit and other debt securities in issue	34	**7,738**	9,904	12,402
Other liabilities	35	**22,887**	24,451	21,304
Liabilities to customers under insurance contracts		**96,986**	89,049	92,442
Current tax liabilities		**1,906**	1,830	374
Deferred tax liabilities		**4,695**	4,114	4,304
Subordinated liabilities	36	**5,814**	11,820	5,817
Total liabilities		**1,191,964**	1,086,463	1,124,797
Equity				
Share capital		**9,658**	9,658	9,658
Retained profits		**99,982**	83,215	83,667
Other equity instruments	38	**6,981**	–	6,981
Other reserves		**20,750**	14,525	34,490
Proposed dividends		**2,103**	2,103	4,397
Shareholders' funds	37	**139,474**	109,501	139,193
Total equity and liabilities		**1,331,438**	1,195,964	1,263,990

The notes on pages 50 to 109 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

(Expressed in millions of Hong Kong dollars)	**Half-year ended 30 June 2015**	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Share capital			
At beginning of period	**9,658**	9,559	9,658
Transfer from capital redemption reserve	**–**	99	–
	9,658	9,658	9,658
Retained profits (including proposed dividends)			
At beginning of period	**88,064**	82,885	85,318
Dividends to shareholders			
- dividends approved in respect of the previous year	**(4,397)**	(4,206)	–
- dividends declared in respect of the current period	**(2,103)**	(2,103)	(4,206)
Transfer	**227**	212	216
Total comprehensive income for the period	**20,294**	8,530	6,736
	102,085	85,318	88,064
Other equity instruments			
At beginning of period	**6,981**	–	–
Other equity instruments issued	**–**	–	6,981
	6,981	–	6,981
Other reserves			
Premises revaluation reserve			
At beginning of period	**15,687**	14,904	15,200
Transfer	**(227)**	(212)	(216)
Total comprehensive income for the period	**919**	508	703
	16,379	15,200	15,687
Available-for-sale investment reserve			
At beginning of period	**17,012**	(1,618)	(2,460)
Total comprehensive income for the period	**(14,443)**	(842)	19,472
	2,569	(2,460)	17,012
Cash flow hedging reserve			
At beginning of period	**(11)**	6	3
Total comprehensive income for the period	**15**	(3)	(14)
	4	3	(11)

(Expressed in millions of Hong Kong dollars)	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Foreign exchange reserve			
At beginning of period	**1,140**	1,295	1,125
Total comprehensive income for the period	**(6)**	(170)	15
	1,134	1,125	1,140
Other reserves			
At beginning of period	**662**	747	657
Cost of sharebased payment arrangements	**2**	9	5
Transfer of capital redemption reserve	**–**	(99)	–
	664	657	662
Total equity			
At beginning of period	**139,193**	107,778	109,501
Dividends to shareholders	**(6,500)**	(6,309)	(4,206)
Other equity instruments issued	**–**	–	6,981
Cost of share-based payment arrangements	**2**	9	5
Total comprehensive income for the period	**6,779**	8,023	26,912
	139,474	109,501	139,193

CONSOLIDATED CASH FLOW STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)	note	Half-year ended 30 June 2015	Half-year ended 30 June 2014
Net cash inflow/(outflow) from operating activities	39(a)	**38,787**	(6,833)
Cash flows from investing activities			
Purchase of available-for-sale investments		**(45,623)**	(27,896)
Purchase of held-to-maturity debt securities		**(1,283)**	(430)
Proceeds from sale or redemption of available-for-sale investments		**72,058**	27,001
Proceeds from redemption of held-to-maturity debt securities		**105**	315
Net cash inflow from sale of loan portfolio		**3,981**	368
Purchase of properties, plant and equipment and intangible assets		**(454)**	(397)
Proceeds from sale of properties, plant and equipment and assets held for sale		**1**	2
Interest received from available-for-sale investments		**964**	731
Dividends received from available-for-sale investments		**125**	6
Net cash inflow/(outflow) from investing activities		**29,874**	(300)
Cash flows from financing activities			
Dividends paid		**(6,500)**	(6,309)
Interest paid for subordinated liabilities		**(91)**	(152)
Net cash outflow from financing activities		**(6,591)**	(6,461)
Increase/(decrease) in cash and cash equivalents		**62,070**	(13,594)
Cash and cash equivalents at 1 January		**105,350**	115,779
Effect of foreign exchange rate changes		**(521)**	42
Cash and cash equivalents at 30 June	39(b)	**166,899**	102,227

The notes on pages 50 to 109 form part of this interim financial report.

(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It also contains the disclosure information required under the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance. The interim financial report was authorised for issue on 3 August 2015.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the interim financial report, the significant judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

The interim financial report is unaudited, but has been reviewed by PricewaterhouseCoopers ("PwC") in accordance with Hong Kong Standards on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by HKICPA. PwC's independent review report to the Board of Directors is included on page 110.

2 Accounting policies

The accounting policies applied in preparing this interim financial report are the same as those applied in preparing the financial statements for the year ended 31 December 2014, as disclosed in the Annual Report and Financial Statements for 2014.

No new accounting standards and amendments to standards issued by HKICPA were adopted by the Group in preparing this interim financial report.

3 Basis of consolidation

This interim financial report covers the consolidated positions of Hang Seng Bank Limited ("the Bank") and all its subsidiaries ("the Group"), unless otherwise stated, and includes the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation is different from the basis of consolidation for accounting purposes. They are disclosed under the "Risk and Capital Management" section.

4 Interest income

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Interest income arising from:			
- financial assets that are not at fair value through profit and loss	**13,482**	12,687	13,350
- trading assets	**158**	85	145
- financial assets designated at fair value	**5**	2	1
	13,645	12,774	13,496
of which:			
- interest income from listed investments	**1,166**	1,079	1,128
- interest income from unlisted investments	**1,497**	1,490	1,614
- interest income from impaired financial assets	**21**	9	3

5 Interest expense

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Interest expense arising from:			
- financial liabilities that are not at fair value through profit and loss	**2,212**	1,933	2,216
- trading liabilities	**977**	1,170	1,074
- financial liabilities designated at fair value	**15**	–	6
	3,204	3,103	3,296
of which:			
- interest expense from debt securities in issue maturing after five years	**–**	–	–
- interest expense from customer accounts maturing after five years	**–**	–	–
- interest expense from subordinated liabilities	**91**	152	150

6 Net fee income

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
- securities broking and related services	**1,167**	602	753
- retail investment funds	**1,051**	891	790
- insurance	**249**	249	217
- account services	**216**	184	208
- remittances	**208**	193	211
- cards	**1,146**	1,051	1,145
- credit facilities	**204**	185	218
- trade services	**231**	260	261
- other	**166**	142	152
Fee income	**4,638**	3,757	3,955
Fee expense	**(754)**	(695)	(768)
	3,884	3,062	3,187
of which:			
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	**1,207**	1,134	1,234
- fee income	**1,816**	1,697	1,852
- fee expense	**(609)**	(563)	(618)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**533**	326	382
- fee income	**610**	396	461
- fee expense	**(77)**	(70)	(79)

7 Net trading income

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Dealing profits/(losses)	**1,380**	1,067	886
- foreign exchange	**1,239**	995	829
- interest rate derivatives	**(47)**	(1)	2
- debt securities	**75**	43	22
- equities and other trading	**113**	30	33
Net gain/(loss) from hedging activities	**(3)**	(6)	(3)
- fair value hedges			
- net gain/(loss) on hedged items attributable to the hedged risk	**(11)**	(29)	(3)
- net gain/(loss) on hedging instruments	**8**	23	(1)
- cash flow hedges			
- net hedging gain/(loss)	**–**	–	1
	1,377	1,061	883

8 Net income from financial instruments designated at fair value

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Net income on assets designated at fair value which back insurance and investment contracts	**716**	428	776
Net change in fair value of other financial instruments designated at fair value	**5**	–	(3)
	721	428	773
of which dividend income from:			
- listed investments	**92**	116	94
- unlisted investments	**–**	–	2
	92	116	96

9 Dividend income

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Dividend income:			
- listed investments	**119**	–	1,194
- unlisted investments	**6**	5	11
	125	5	1,205

10 Other operating income

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Rental income from investment properties	**191**	195	200
Movement in present value of in-force long-term insurance business	**1,511**	807	258
Others	**143**	129	106
	1,845	1,131	564

11 Loan impairment charges and other credit risk provisions

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Net charge for impairment of loans and advances to customers (note 24(b)):			
Individually assessed impairment allowances:			
- new allowances	**334**	179	520
- releases	**(34)**	(91)	(40)
- recoveries	**(6)**	(31)	(5)
	294	57	475
Net charge for collectively assessed impairment allowances	**300**	252	360
Other credit risk provisions	**–**	28	(28)
Loan impairment charges and other credit risk provisions	**594**	337	807

There were no impairment charges (nil for the first and second halves of 2014) provided for available-for-sale debt securities, held-to-maturity debt securities and placings with and advances to banks by the Group.

12 Operating expenses

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Employee compensation and benefits:			
- salaries and other costs	**2,316**	2,071	2,084
- retirement benefit costs			
- defined benefit scheme	**130**	149	148
- defined contribution scheme	**91**	75	89
	2,537	2,295	2,321
General and administrative expenses:			
- rental expenses	**346**	336	346
- other premises and equipment	**570**	507	605
- marketing and advertising expenses	**389**	381	448
- other operating expenses	**776**	660	772
	2,081	1,884	2,171
Depreciation of premises, plant and equipment (note 28)	**462**	406	425
Amortisation of intangible assets	**56**	55	56
	5,136	4,640	4,973

13 Gains less losses from financial investments and fixed assets

	Half-year ended 30 June 2015	Half-year ended 30 June 2014	Half-year ended 31 December 2014
Gains less losses from disposal of available-for-sale equity securities	**–**	(3)	36
Net gains from disposal of available-for-sale debt securities	**43**	1	–
Gains less losses on disposal of assets held for sale	**–**	–	–
Gains less losses on disposal of loans and advances	**–**	2	1
Gains less losses on disposal of fixed assets	**(8)**	(5)	(3)
Impairment of investment in Yantai Bank	**–**	–	(85)
	35	(5)	(51)

There were no impairment losses or gains less losses on disposal of held-to-maturity debt securities, loans and receivables and financial liabilities measured at amortised cost for the periods indicated.

14 Tax expense

Taxation in the consolidated income statement represents:

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Current tax - provision for Hong Kong profits tax			
Tax for the period	**1,558**	1,396	1,412
Adjustment in respect of prior periods	**(31)**	(96)	(4)
	1,527	1,300	1,408
Current tax - taxation outside Hong Kong			
Tax for the period	**38**	13	138
Adjustment in respect of prior periods	**–**	12	1
	38	25	139
Deferred tax			
Origination and reversal of temporary differences	**107**	84	(38)
Total tax expense	**1,672**	1,409	1,509

The current tax provision is based on the estimated assessable profit for the first half of 2015, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2014: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

15 Earnings per share

The calculation of earnings per share for the first half of 2015 is based on earnings of HK$20,048m (HK$8,468m and HK$6,663m for the first and second halves of 2014 respectively) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first and second halves of 2014).

16 Dividends per share

	Half-year ended 30 June 2015		*Half-year ended 30 June 2014*		*Half-year ended 31 December 2014*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*	*HK$ per share*	*HK$m*
First interim	**1.10**	**2,103**	1.10	2,103	–	–
Second interim	**1.10**	**2,103**	1.10	2,103	–	–
Third interim	**–**	**–**	–	–	1.10	2,103
Fourth interim	**–**	**–**	–	–	2.30	4,397
	2.20	**4,206**	2.20	4,206	3.40	6,500

17 Segmental analysis

Hong Kong Financial Reporting Standard 8 ('HKFRS 8') requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. In 2015, there was a change in the reportable segment information reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment. The change has taken into account of the increasingly integrated nature of our Hong Kong and mainland business. Previously, mainland China was presented as a separate segment. From 1 January 2015, mainland China was integrated within the three global businesses. To align with the internal reporting information, the Group has presented the following four reportable segments. Corresponding amounts have been restated to ensure information is provided on a basis consistent with the revised segment information.

- **Retail Banking and Wealth Management** activities offer a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance and wealth management;

- **Commercial Banking** activities offer a comprehensive suite of products and services to corporate, commercial and SME customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;

- **Global Banking and Markets** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking, corporate lending, interest rates, foreign exchange, money markets, structured products and derivatives, etc. Global Banking and Markets also manages the funding and liquidity positions of the Bank and other market risk positions arising from banking activities;

- **Other** mainly represents management of shareholders' funds and investments in premises, investment properties, equity shares and subordinated debt funding.

(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 Global Businesses, notional rent will be charged to the relevant business segments based on market rates.

17 Segmental analysis *(continued)*

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

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total
Half-year ended 30 June 2015					
Net interest income	5,503	2,991	1,705	242	10,441
Net fee income	2,803	844	147	90	3,884
Net trading income/(loss)	286	249	863	(21)	1,377
Net income from financial instruments designated at fair value	715	–	–	6	721
Dividend income	1	–	–	124	125
Net insurance premium income	5,874	373	–	–	6,247
Other operating income	1,584	86	19	156	1,845
Total operating income	16,766	4,543	2,734	597	24,640
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,819)	(306)	–	–	(8,125)
Net operating income before loan impairment charges and other credit risk provisions	8,947	4,237	2,734	597	16,515
Loan impairment (charges)/releases and other credit risk provisions	(299)	(278)	(17)	–	(594)
Net operating income	8,648	3,959	2,717	597	15,921
Operating expenses *	(3,317)	(1,245)	(470)	(104)	(5,136)
Operating profit	5,331	2,714	2,247	493	10,785
Net gain on partial disposal of Industrial Bank	–	–	–	10,636	10,636
Gains less losses from financial investments and fixed assets	38	–	5	(8)	35
Net surplus on property revaluation	–	–	–	178	178
Share of profits from associates	85	1	–	–	86
Profit before tax	5,454	2,715	2,252	11,299	21,720
Share of profit before tax	25.1%	12.5%	10.4%	52.0%	100.0%
Share of profit before tax (excluding the gain on partial disposal/impairment of Industrial Bank)	49.2%	24.5%	20.3%	6.0%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	5,630	2,992	2,264	493	11,379
* *Depreciation/amortisation included in operating expenses*	(27)	(14)	(3)	(474)	(518)
At 30 June 2015					
Total assets	377,134	291,505	541,001	121,798	1,331,438
Total liabilities	751,324	236,701	178,054	25,885	1,191,964
Interest in associates	2,245	13	–	–	2,258

17 Segmental analysis *(continued)*

(a) Segmental result (continued)

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total
Half-year ended 30 June 2014 (restated)					
Net interest income	5,006	2,528	2,085	52	9,671
Net fee income	2,037	849	103	73	3,062
Net trading income	144	276	630	11	1,061
Net income/(loss) from financial instruments designated at fair value	429	(1)	–	–	428
Dividend income	1	–	–	4	5
Net insurance premium income	5,950	54	–	–	6,004
Other operating income	904	45	–	182	1,131
Total operating income	14,471	3,751	2,818	322	21,362
Net insurance claims and benefits paid and movement in liabilities to policyholders	(6,847)	(42)	–	–	(6,889)
Net operating income before loan impairment charges and other credit risk provisions	7,624	3,709	2,818	322	14,473
Loan impairment (charges)/releases and other credit risk provisions	(248)	(90)	1	–	(337)
Net operating income	7,376	3,619	2,819	322	14,136
Operating expenses *	(3,079)	(1,140)	(399)	(22)	(4,640)
Operating profit	4,297	2,479	2,420	300	9,496
Gains less losses from financial investments and fixed assets	–	–	3	(8)	(5)
Net surplus on property revaluation	–	–	–	230	230
Share of profits from associates	155	1	–	–	156
Profit before tax	4,452	2,480	2,423	522	9,877
Share of profit before tax	45.1%	25.1%	24.5%	5.3%	100.0%
Share of profit before tax (excluding the gain on partial disposal/impairment of Industrial Bank)	45.1%	25.1%	24.5%	5.3%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	4,545	2,569	2,419	300	9,833
* *Depreciation/amortisation included in operating expenses*	(26)	(16)	(3)	(416)	(461)
At 30 June 2014					
Total assets	343,198	282,361	491,307	79,098	1,195,964
Total liabilities	696,708	225,363	142,718	21,674	1,086,463
Interest in associates	2,166	12	–	–	2,178

17 Segmental analysis *(continued)*

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

	Retail Banking and Wealth Management	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 31 December 2014 (restated)					
Net interest income/(expense)	5,309	2,979	1,916	(4)	10,200
Net fee income	2,132	865	114	76	3,187
Net trading income	39	156	680	8	883
Net income/(loss) from financial instruments designated at fair value	777	–	–	(4)	773
Dividend income	–	–	–	1,205	1,205
Net insurance premium income	4,721	54	–	–	4,775
Other operating income	369	22	–	173	564
Total operating income	13,347	4,076	2,710	1,454	21,587
Net insurance claims and benefits paid and movement in liabilities to policyholders	(5,808)	(45)	–	–	(5,853)
Net operating income before loan impairment charges and other credit risk provisions	7,539	4,031	2,710	1,454	15,734
Loan impairment (charges)/releases and other credit risk provisions	(295)	(502)	(10)	–	(807)
Net operating income	7,244	3,529	2,700	1,454	14,927
Operating expenses *	(3,151)	(1,181)	(432)	(209)	(4,973)
Operating profit	4,093	2,348	2,268	1,245	9,954
Impairment of investment in Industrial Bank	–	–	–	(2,103)	(2,103)
Gains less losses from financial investments and fixed assets	(1)	(1)	1	(50)	(51)
Net surplus on property revaluation	–	–	–	291	291
Share of profits from associates	81	–	–	–	81
Profit before tax	4,173	2,347	2,269	(617)	8,172
Share of profit before tax	51.1%	28.7%	27.8%	(7.6%)	100.0%
Share of profit before tax (excluding the gain on partial disposal/impairment of Industrial Bank)	40.6%	22.8%	22.1%	14.5%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	4,388	2,850	2,278	1,245	10,761
* *Depreciation/amortisation included in operating expenses*	(26)	(15)	(3)	(437)	(481)
At 31 December 2014					
Total assets	358,323	294,332	501,290	110,045	1,263,990
Total liabilities	717,572	231,673	155,465	20,087	1,124,797
Interest in associates	2,206	12	–	–	2,218

17 Segmental analysis *(continued)*

(b) Geographic information

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

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Total operating income			
Hong Kong	**23,629**	20,307	20,391
Mainland China	**944**	996	1,113
Others	**115**	100	113
Inter-segment elimination	**(48)**	(41)	(30)
	24,640	21,362	21,587
Profit/(loss) before tax			
Hong Kong	**21,627**	9,654	8,160
Mainland China	**14**	162	(58)
Others	**79**	61	70
	21,720	9,877	8,172

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Total assets			
Hong Kong	**1,235,776**	1,090,718	1,165,918
Mainland China	**116,241**	125,434	127,948
Others	**17,635**	14,913	14,636
Inter-segment elimination	**(38,214)**	(35,101)	(44,512)
	1,331,438	1,195,964	1,263,990
Total liabilities			
Hong Kong	**1,099,668**	984,146	1,029,796
Mainland China	**105,912**	115,308	117,726
Others	**17,097**	14,487	14,170
Inter-segment elimination	**(30,713)**	(27,478)	(36,895)
	1,191,964	1,086,463	1,124,797

17 Segmental analysis *(continued)*

(b) Geographic information (continued)

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Equity			
Hong Kong	**136,108**	106,572	136,122
Mainland China	**10,329**	10,126	10,222
Others	**538**	426	466
Inter-segment elimination	**(7,501)**	(7,623)	(7,617)
	139,474	109,501	139,193
of which:			
Share capital			
Hong Kong	**9,658**	9,658	9,658
Mainland China	**8,697**	8,691	8,700
Others	**12**	30	12
Inter-segment elimination	**(8,709)**	(8,721)	(8,712)
	9,658	9,658	9,658
Interest in associates			
Hong Kong	**2,237**	2,149	2,198
Mainland China	**21**	29	20
Others	**–**	–	–
	2,258	2,178	2,218
Non-current assets*			
Hong Kong	**45,025**	40,384	41,571
Mainland China	**1,111**	1,096	1,108
Others	**4**	1	4
	46,140	41,481	42,683
Contingent liabilities and commitments			
Hong Kong	**317,051**	282,054	292,781
Mainland China	**41,795**	36,271	41,691
Others	**4,832**	3,229	4,491
	363,678	321,554	338,963

* *Non-current assets consist of properties, plant and equipment, goodwill and other intangible assets.*

18 Analysis of assets and liabilities by remaining maturity

The maturity analysis is based on the remaining contractual maturity at the balance sheet date, with the exception of the trading portfolio that may be sold before maturity and is accordingly recorded as "Trading".

	Repayable on demand	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
Assets									
Cash and sight balances at central banks	**40,317**	–	–	–	–	–	–	–	**40,317**
Placings with and advances to banks	**33,245**	**68,149**	**47,080**	**2,138**	–	**2,155**	–	–	**152,767**
Trading assets	–	–	–	–	–	–	**44,772**	–	**44,772**
Financial assets designated at fair value	–	–	–	**9**	**7**	**54**	–	**8,148**	**8,218**
Derivative financial instruments	–	–	**2**	**157**	**162**	**1**	**5,682**	–	**6,004**
Reverse repurchase agreements – non trading	–	**1,904**	–	–	–	–	–	–	**1,904**
Loans and advances to customers	**15,881**	**57,360**	**67,320**	**117,987**	**222,776**	**191,698**	–	–	**673,022**
Financial investments:									
- available-for-sale investments	–	**47,586**	**67,089**	**78,204**	**47,984**	**5,511**	–	**5,233**	**251,607**
- held-to-maturity debt securities	–	**408**	**592**	**4,246**	**31,593**	**39,752**	–	–	**76,591**
Interest in associates	–	–	–	–	–	–	–	**2,258**	**2,258**
Investment properties	–	–	–	–	–	–	–	**9,899**	**9,899**
Premises, plant and equipment	–	–	–	–	–	–	–	**25,664**	**25,664**
Intangible assets	–	–	–	–	–	–	–	**10,577**	**10,577**
Other assets	**10,693**	**6,093**	**3,938**	**2,294**	**3,985**	**241**	–	**594**	**27,838**
At 30 June 2015	**100,136**	**181,500**	**186,021**	**205,035**	**306,507**	**239,412**	**50,454**	**62,373**	**1,331,438**
At 30 June 2014	42,546	166,377	179,227	192,996	283,561	217,667	32,020	81,570	1,195,964
At 31 December 2014	54,388	147,060	174,198	220,739	288,573	229,526	48,711	100,795	1,263,990

18 Analysis of assets and liabilities by remaining maturity *(continued)*

	Repayable on demand	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
Liabilities									
Current, savings and other deposit accounts	**668,851**	**135,606**	**101,211**	**40,116**	**1,711**	**–**	**–**	**–**	**947,495**
Repurchase agreements – non trading	**–**	**3,032**	**–**	**–**	**–**	**–**	**–**	**–**	**3,032**
Deposits from banks	**9,995**	**3,969**	**–**	**–**	**–**	**–**	**–**	**–**	**13,964**
Trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**77,543**	**–**	**77,543**
Financial liabilities designated at fair value	**3**	**–**	**–**	**–**	**3,510**	**514**	**–**	**–**	**4,027**
Derivative financial instruments	**–**	**2**	**24**	**59**	**382**	**59**	**5,351**	**–**	**5,877**
Certificates of deposit and other debt securities in issue:									
– certificates of deposit in issue	**–**	**–**	**–**	**2,492**	**4,000**	**–**	**–**	**–**	**6,492**
– other debt securities in issue	**–**	**–**	**–**	**–**	**1,246**	**–**	**–**	**–**	**1,246**
Other liabilities	**7,738**	**6,302**	**4,054**	**2,315**	**148**	**3**	**–**	**2,327**	**22,887**
Liabilities to customers under insurance contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**96,986**	**96,986**
Current tax liabilities	**–**	**–**	**–**	**1,896**	**10**	**–**	**–**	**–**	**1,906**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,695**	**4,695**
Subordinated liabilities	**–**	**–**	**–**	**–**	**–**	**5,814**	**–**	**–**	**5,814**
At 30 June 2015	**686,587**	**148,911**	**105,289**	**46,878**	**11,007**	**6,390**	**82,894**	**104,008**	**1,191,964**
At 30 June 2014	603,350	137,832	95,703	62,195	8,239	12,483	70,837	95,824	1,086,463
At 31 December 2014	640,807	133,236	98,260	56,551	11,741	6,464	78,501	99,237	1,124,797

18 Analysis of assets and liabilities by remaining maturity *(continued)*

	Repayable on demand	One month or less but not on demand	Over one month but within three months	Over three months but within one year	Over one year but within five years	Over five years	Trading	No contractual maturity	Total
of which:									
Certificates of deposit included in:									
- trading assets	–	–	–	–	–	–	–	–	–
- financial assets designated at fair value	–	–	–	–	–	–	–	–	–
- available-for-sale investments	–	251	1,553	4,062	686	–	–	–	6,552
- held-to-maturity debt securities	–	360	65	993	1,880	2,202	–	–	5,500
At 30 June 2015	**–**	**611**	**1,618**	**5,055**	**2,566**	**2,202**	**–**	**–**	**12,052**
At 30 June 2014	–	388	1,707	3,152	3,095	2,201	–	7	10,550
At 31 December 2014	–	113	1,644	5,299	2,831	2,202	–	–	12,089
Debt securities included in:									
- trading assets	–	–	–	–	–	–	41,534	–	41,534
- financial assets designated at fair value	–	–	–	9	7	54	–	–	70
- available-for-sale investments	–	47,335	65,536	74,142	47,298	5,511	–	216	240,038
- held-to-maturity debt securities	–	48	527	3,253	29,713	37,550	–	–	71,091
At 30 June 2015	**–**	**47,383**	**66,063**	**77,404**	**77,018**	**43,115**	**41,534**	**216**	**352,733**
At 30 June 2014	–	32,159	59,438	62,483	66,648	38,901	24,886	288	284,803
At 31 December 2014	–	23,118	64,603	68,782	64,623	40,608	37,727	235	299,696
Certificates of deposit in issue included in:									
- trading liabilities	–	–	–	–	–	–	–	–	–
- financial liabilities designated at fair value	–	–	–	–	3,510	–	–	–	3,510
- issued at amortised cost	–	–	–	2,492	4,000	–	–	–	6,492
At 30 June 2015	**–**	**–**	**–**	**2,492**	**7,510**	**–**	**–**	**–**	**10,002**
At 30 June 2014	–	–	–	4,660	4,000	–	–	–	8,660
At 31 December 2014	–	–	–	7,156	6,994	–	–	–	14,150

19 Cash and sight balances at central banks

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Cash in hand	**4,642**	5,496	5,016
Sight balances at central banks	**35,675**	2,225	6,295
	40,317	7,721	11,311

20 Placings with and advances to banks

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Balances with banks	**30,079**	7,828	15,972
Placings with and advances to banks maturing within one month	**71,315**	73,515	72,605
Placings with and advances to banks maturing after one month but less than one year	**49,218**	59,563	55,042
Placings with and advances to banks maturing after one year	**2,155**	2,069	2,112
	152,767	142,975	145,731
of which:			
Placings with and advances to central banks	**11,368**	14,477	13,566

There were no overdue advances, impaired advances and rescheduled advances to banks for the periods indicated.

21 Trading assets

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Treasury bills	**24,405**	16,108	24,228
Other debt securities	**17,129**	8,778	13,499
Debt securities	**41,534**	24,886	37,727
Investment funds	**23**	35	40
Total trading securities	**41,557**	24,921	37,767
Other*	**3,215**	1,292	4,056
Total trading assets	**44,772**	26,213	41,823
Debt securities:			
- listed in Hong Kong	**11,940**	5,013	9,829
- listed outside Hong Kong	**1,402**	647	424
	13,342	5,660	10,253
- unlisted	**28,192**	19,226	27,474
	41,534	24,886	37,727
Investment funds:			
- listed in Hong Kong	**23**	35	40
Total trading securities	**41,557**	24,921	37,767
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**37,699**	21,770	34,481
	37,699	21,770	34,481
Issued by other bodies:			
- banks	**718**	627	598
- corporate entities	**3,117**	2,489	2,648
	3,835	3,116	3,246
	41,534	24,886	37,727
Investment funds:			
Issued by corporate entities	**23**	35	40
Total trading securities	**41,557**	24,921	37,767

* *This represents the amount receivable from counterparties on trading transactions not yet settled.*

22 Financial assets designated at fair value

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Debt securities	**70**	60	75
Equity shares	**4,258**	7,015	6,799
Investment funds	**3,890**	3,256	4,238
	8,218	10,331	11,112
Debt securities:			
- listed in Hong Kong	**20**	11	20
- listed outside Hong Kong	**50**	49	55
	70	60	75
Equity shares:			
- listed in Hong Kong	**3,406**	2,299	1,958
- listed outside Hong Kong	**774**	4,634	4,735
	4,180	6,933	6,693
- unlisted	**78**	82	106
	4,258	7,015	6,799
Investment funds:			
- listed in Hong Kong	**1,152**	509	1,504
- listed outside Hong Kong	**187**	341	332
	1,339	850	1,836
- unlisted	**2,551**	2,406	2,402
	3,890	3,256	4,238
	8,218	10,331	11,112

22 Financial assets designated at fair value *(continued)*

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Debt securities:			
Issued by public bodies:			
- other public sector entities	**1**	1	1
	1	1	1
Issued by other bodies:			
- banks	**12**	10	14
- corporate entities	**57**	49	60
	69	59	74
	70	60	75
Equity shares:			
Issued by banks	**751**	903	1,069
Issued by public sector entities	**10**	13	9
Issued by corporate entities	**3,497**	6,099	5,721
	4,258	7,015	6,799
Investment funds:			
Issued by banks	**–**	82	–
Issued by corporate entities	**3,890**	3,174	4,238
	3,890	3,256	4,238
	8,218	10,331	11,112

23 Derivative financial instruments

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

	At 30 June 2015			At 30 June 2014			At 31 December 2014		
	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities
Derivatives held for trading									
Exchange rate contracts:									
- spot and forward foreign exchange	618,719	2,986	2,802	629,467	2,314	1,816	638,980	3,588	2,727
- currency swaps	47,353	237	255	14,228	84	104	30,014	192	238
- currency options purchased	117,659	1,025	–	131,403	2,373	–	99,703	2,098	–
- currency options written	114,836	–	1,009	132,098	–	2,350	98,597	–	2,079
- other exchange rate contracts	–	–	–	–	–	–	–	–	–
	898,567	4,248	4,066	907,196	4,771	4,270	867,294	5,878	5,044
Interest rate contracts:									
- interest rate swaps	183,267	1,047	1,022	190,648	878	764	184,283	758	639
- interest rate options written	4,287	–	–	–	–	–	5,084	–	–
- other interest rate contracts	1,141	1	1	1,539	2	–	2,130	2	1
	188,695	1,048	1,023	192,187	880	764	191,497	760	640
Equity and other contracts:									
- equity swaps	4,439	2	141	1,933	10	14	2,223	5	74
- equity options purchased	9,839	353	–	4,455	99	–	8,011	227	–
- equity options written	4,761	–	121	3,424	–	50	5,370	–	154
- other equity contracts	–	–	–	2,263	–	24	–	–	–
- spot and forward contracts and others	690	7	–	1,198	47	2	824	18	1
	19,729	362	262	13,273	156	90	16,428	250	229
Total derivatives held for trading	1,106,991	5,658	5,351	1,112,656	5,807	5,124	1,075,219	6,888	5,913
Derivatives managed in conjunction with financial assets designated at fair value									
Interest rate contracts:									
- interest rate swaps	3,500	24	–	–	–	–	3,000	–	1
Cash flow hedge derivatives									
Exchange rate contracts:									
- currency swaps	7,034	255	32	2,659	417	9	4,332	491	10
Interest rate contracts:									
- interest rate swaps	32,286	59	13	9,200	9	6	17,078	12	8
	39,320	314	45	11,859	426	15	21,410	503	18
Fair value hedge derivatives									
Interest rate contracts:									
- interest rate swaps	22,982	8	481	30,167	63	686	24,075	30	530
Total derivatives	1,172,793	6,004	5,877	1,154,682	6,296	5,825	1,123,704	7,421	6,462

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

24 Loans and advances to customers

(a) Loans and advances to customers

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Gross loans and advances to customers	**675,086**	634,413	660,269
Less: loan impairment allowances			
- individually assessed	**(1,223)**	(721)	(999)
- collectively assessed	**(841)**	(745)	(839)
	673,022	632,947	658,431

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

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
	%	%	%
Loan impairment allowances:			
- individually assessed	**0.18**	0.11	0.15
- collectively assessed	**0.12**	0.12	0.13
Total loan impairment allowances	**0.30**	0.23	0.28

24 Loans and advances to customers *(continued)*

(b) *Loan impairment allowances against loans and advances to customers*

	Individually assessed	*Collectively assessed*	*Total*
At 1 January 2015	**999**	**839**	**1,838**
Amounts written off	**(56)**	**(331)**	**(387)**
Recoveries of loans and advances written off in previous years	**6**	**36**	**42**
New impairment allowances charged to income statement (note 11)	**334**	**342**	**676**
Impairment allowances released to income statement (note 11)	**(40)**	**(42)**	**(82)**
Unwinding of discount of loan impairment allowances recognised as "interest income"	**(18)**	**(3)**	**(21)**
Exchange difference	**(2)**	**–**	**(2)**
At 30 June 2015	**1,223**	**841**	**2,064**
At 1 January 2014	709	739	1,448
Amounts written off	(70)	(269)	(339)
Recoveries of loans and advances written off in previous years	31	27	58
New impairment allowances charged to income statement (note 11)	179	284	463
Impairment allowances released to income statement (note 11)	(122)	(32)	(154)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(3)	(2)	(5)
Exchange difference	(3)	(2)	(5)
At 30 June 2014	721	745	1,466
At 1 July 2014	721	745	1,466
Amounts written off	(196)	(294)	(490)
Recoveries of loans and advances written off in previous years	5	29	34
New impairment allowances charged to income statement (note 11)	520	384	904
Impairment allowances released to income statement (note 11)	(45)	(24)	(69)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(5)	(2)	(7)
Exchange difference	(1)	1	–
At 31 December 2014	999	839	1,838

24 Loans and advances to customers *(continued)*

(c) *Impaired loans and advances to customers and allowances*

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Gross impaired loans and advances	**2,871**	1,292	2,115
Individually assessed allowances	**(1,223)**	(721)	(999)
Net impaired loans and advances	**1,648**	571	1,116
Individually assessed allowances as a percentage of gross impaired loans and advances	**42.6%**	55.8%	47.2%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.43%**	0.20%	0.32%

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

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Gross individually assessed impaired loans and advances	**2,696**	1,124	1,963
Individually assessed allowances	**(1,223)**	(721)	(999)
	1,473	403	964
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	**0.40%**	0.18%	0.30%
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	**1,095**	299	637

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

24 Loans and advances to customers *(continued)*

(d) 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 2015		At 30 June 2014		At 31 December 2014	
		%		%		%
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	**557**	**0.1**	168	–	449	0.1
- more than six months but not more than one year	**937**	**0.1**	100	–	98	–
- more than one year	**590**	**0.1**	640	0.1	558	0.1
	2,084	**0.3**	908	0.1	1,105	0.2
of which:						
- individually impaired allowances	**(1,136)**		(543)		(622)	
- covered portion of overdue loans and advances	**549**		226		377	
- uncovered portion of overdue loans and advances	**1,535**		682		728	
- current market value of collateral held against the covered portion of overdue loans and advances	**1,722**		533		1,043	

Collateral held with respect to overdue loans and advances is mainly residential properties, industrial properties, commercial properties and customer deposits. The current market value of residential properties, industrial properties, commercial properties and customer deposits were HK$837m, HK$253m, HK$77m and HK$503m respectively.

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

24 Loans and advances to customers *(continued)*

(e) 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 2015		At 30 June 2014		At 31 December 2014
		%		%		%
Rescheduled loans and advances to customers	**296**	**–**	139	–	90	–

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status.

Rescheduled loans and advances to customers are stated net of any advances which have subsequently become overdue for more than three months and which are included in "Overdue loans and advances to customers" (note 24d).

(f) Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty. From 1 January 2015, 'Mainland China' is presented as a separate line as the balances under mainland China have exceeded 10% of the total loans and advances. Previously, 'Mainland China' and 'Others' were grouped under 'Rest of Asia Pacific'. Comparative figures for 2014 have been re-grouped to align with current period's presentation.

	Gross loans and advances	Individually impaired loans and advances	Overdue loans and advances	Individually assessed allowances	Collectively assessed allowances
At 30 June 2015					
Hong Kong	**560,975**	**1,671**	**1,117**	**570**	**690**
Mainland China	**88,762**	**1,018**	**964**	**652**	**126**
Others	**25,349**	**7**	**3**	**1**	**25**
	675,086	**2,696**	**2,084**	**1,223**	**841**
At 30 June 2014 (restated)					
Hong Kong	527,996	869	828	530	615
Mainland China	84,236	244	76	189	109
Others	22,181	11	4	2	21
	634,413	1,124	908	721	745
At 31 December 2014 (restated)					
Hong Kong	543,757	1,124	842	506	692
Mainland China	92,510	830	257	490	123
Others	24,002	9	6	3	24
	660,269	1,963	1,105	999	839

24 Loans and advances to customers *(continued)*

(g) Gross loans and advances to customers by industry sector

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

	At 30 June 2015		At 30 June 2014		At 31 December 2014	
		% of gross advances covered by collateral		*% of gross advances covered by collateral*		*% of gross advances covered by collateral*
Gross loans and advances to customers for use in Hong Kong						
Industrial, commercial and financial sectors						
- property development	**44,861**	**46.0**	42,019	36.2	41,676	38.6
- property investment	**107,675**	**97.4**	111,550	92.0	112,589	94.6
- financial concerns	**5,342**	**40.1**	3,709	67.2	5,499	45.8
- stockbrokers	**1,532**	**1.9**	2,937	5.1	531	24.7
- wholesale and retail trade	**25,672**	**47.2**	24,979	52.1	27,550	47.0
- manufacturing	**20,833**	**55.4**	20,811	51.0	21,501	52.5
- transport and transport equipment	**9,011**	**70.6**	7,306	62.5	7,530	72.9
- recreational activities	**120**	**13.3**	137	9.0	125	7.6
- information technology	**3,048**	**31.3**	1,581	35.1	2,935	34.2
- other	**43,231**	**57.3**	35,958	52.1	34,279	64.1
	261,325	**70.2**	250,987	66.9	254,215	70.0
Individuals						
- loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**16,095**	**100.0**	14,972	100.0	15,710	100.0
- loans and advances for the purchase of other residential properties	**152,275**	**100.0**	134,413	100.0	143,541	100.0
- credit card loans and advances	**23,947**	**–**	21,554	–	24,175	–
- other	**19,372**	**42.4**	17,265	47.3	17,039	39.7
	211,689	**83.4**	188,204	83.7	200,465	82.8
Total gross loans and advances for use in Hong Kong	**473,014**	**76.1**	439,191	74.1	454,680	75.7
Trade finance	**40,484**	**26.0**	51,737	24.0	41,537	26.5
Gross loans and advances for use outside Hong Kong	**161,588**	**23.2**	143,485	26.3	164,052	21.4
Gross loans and advances to customers	**675,086**	**60.5**	634,413	59.2	660,269	59.1

25 Financial investments

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Financial investments:			
- which may be repledged or resold by counterparties	**1,226**	313	506
- which may not be repledged or resold or are not subject to repledge or resale by counterparties	**326,972**	296,990	317,526
	328,198	297,303	318,032
Held-to-maturity debt securities at amortised cost	**76,591**	70,228	68,236
Available-for-sale at fair value:			
- debt securities	**246,590**	200,179	205,747
- equity shares	**5,007**	26,851	44,039
- investment funds	**10**	45	10
	328,198	297,303	318,032
Treasury bills	**139,176**	105,192	107,503
Certificates of deposit	**12,052**	10,550	12,089
Other debt securities	**171,953**	154,665	154,391
Debt securities	**323,181**	270,407	273,983
Equity shares	**5,007**	26,851	44,039
Investment funds	**10**	45	10
	328,198	297,303	318,032

There were no overdue debt securities at 30 June 2015 and the comparative periods for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

25 Financial investments *(continued)*

(a) *Held-to-maturity debt securities*

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Listed in Hong Kong	**2,865**	1,871	1,704
Listed outside Hong Kong	**15,345**	13,386	12,303
	18,210	15,257	14,007
Unlisted	**58,381**	54,971	54,229
	76,591	70,228	68,236
Issued by public bodies:			
- central governments and central banks	**609**	547	543
- other public sector entities	**11,425**	10,855	10,143
	12,034	11,402	10,686
Issued by other bodies:			
- banks	**31,682**	31,521	29,321
- corporate entities	**32,875**	27,305	28,229
	64,557	58,826	57,550
	76,591	70,228	68,236
Fair value of held-to-maturity debt securities:			
- listed	**18,728**	15,917	14,805
- unlisted	**60,482**	55,836	56,024
	79,210	71,753	70,829

There were no held-to-maturity debt securities determined to be impaired at 30 June 2015 and the comparative periods for the Group.

25 Financial investments *(continued)*

(b) Available-for-sale debt securities

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Listed in Hong Kong	**13,249**	12,174	10,870
Listed outside Hong Kong	**71,096**	51,767	54,483
	84,345	63,941	65,353
Unlisted	**162,245**	136,238	140,394
	246,590	200,179	205,747
Issued by public bodies:			
- central governments and central banks	**191,346**	147,646	156,336
- other public sector entities	**14,113**	15,826	9,493
	205,459	163,472	165,829
Issued by other bodies:			
- banks	**36,099**	33,371	34,361
- corporate entities	**5,032**	3,336	5,557
	41,131	36,707	39,918
	246,590	200,179	205,747

For the periods indicated, there were no available-for-sale debt securities individually determined to be impaired on the basis that there was objective evidence of impairment in the value of the debt securities for the Group.

(c) Available-for-sale equity shares

	At 30 June 2015	At 30 June 2014	At 31 December 2014
Listed in Hong Kong	**73**	69	69
Listed outside Hong Kong	**3,608**	25,946	42,736
	3,681	26,015	42,805
Unlisted	**1,326**	836	1,234
	5,007	26,851	44,039
Issued by banks	**4,505**	26,441	43,556
Issued by corporate entities	**502**	410	483
	5,007	26,851	44,039

For the first half of 2015, there were no available-for-sale equity securities individually determined to be impaired for the Group. During 2014, certain of the Group's available-for-sale equity shares were individually determined to be impaired on the basis that there was a "significant" or "prolonged" decline in the fair value of an equity investment. Impairment losses on these investments were recognised in the income statement in accordance with the accounting policy.

25 Financial investments *(continued)*

(d) *Available-for-sale investment funds*

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Unlisted	**10**	45	10
Issued by corporate entities	**10**	45	10

For the periods indicated, there were no available-for-sale investment funds individually determined to be impaired for the Group.

(e) The following table presents an analysis of debt securities by rating agency designation at the balance sheet dates, based on Standard and Poor's ratings or their equivalent to the respective issues of the financial securities. If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
AA- to AAA	**246,941**	201,920	203,647
A- to A+	**66,558**	59,592	61,098
B+ to BBB+	**7,402**	6,765	6,670
Unrated	**2,280**	2,130	2,568
	323,181	270,407	273,983

26 Interest in associates

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Share of net assets	**2,258**	2,178	2,218

27 Investment properties

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Half-year ended 31 December 2014*
Beginning of the period	**11,732**	10,918	11,108
Additions	**699**	–	–
Surplus on revaluation credited to income statement	**216**	261	295
Transfer to premises (note 28)	**(2,748)**	(71)	329
End of the period	**9,899**	11,108	11,732
Representing:			
- measure at valuation	**9,899**	11,108	11,732

28 Premises, plant and equipment

Movement of premises, plant and equipment

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 January 2015	21,073	4,163	25,236
Additions	–	386	386
Disposals	–	(135)	(135)
Elimination of accumulated depreciation on revalued premises	(320)	–	(320)
Surplus on revaluation:			
- credited to premises revaluation reserve	1,103	–	1,103
- debited to income statement	–	–	–
Transfer from investment properties (note 27)	2,748	–	2,748
Exchange difference	–	–	–
At 30 June 2015	24,604	4,414	29,018
Accumulated depreciation:			
At 1 January 2015	–	(3,338)	(3,338)
Charge for the period (note 12)	(320)	(142)	(462)
Written off on disposal	–	126	126
Elimination of accumulated depreciation on revalued premises	320	–	320
Exchange difference	–	–	–
At 30 June 2015	–	(3,354)	(3,354)
Net book value at 30 June 2015	24,604	1,060	25,664
Representing:			
- measure at cost	–	1,060	1,060
- measure at valuation	24,604	–	24,604
	24,604	1,060	25,664

28 Premises, plant and equipment *(continued)*

Movement of premises, plant and equipment *(continued)*

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 January 2014	20,496	3,856	24,352
Additions	–	342	342
Disposals	–	(182)	(182)
Elimination of accumulated depreciation on revalued premises	(300)	–	(300)
Surplus on revaluation:			
- credited to premises revaluation reserve	612	–	612
- debited to income statement	–	–	–
Transfer from investment properties (note 27)	71	–	71
Exchange difference and other	(14)	(11)	(25)
At 30 June 2014	20,865	4,005	24,870
Accumulated depreciation:			
At 1 January 2014	–	(3,352)	(3,352)
Charge for the period (note 12)	(300)	(106)	(406)
Written off on disposal	–	174	174
Elimination of accumulated depreciation on revalued premises	300	–	300
Exchange difference	–	8	8
At 30 June 2014	–	(3,276)	(3,276)
Net book value at 30 June 2014	20,865	729	21,594
Representing:			
- measure at cost	–	729	729
- measure at valuation	20,865	–	20,865
	20,865	729	21,594

28 Premises, plant and equipment *(continued)*

Movement of premises, plant and equipment *(continued)*

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 July 2014	20,865	4,005	24,870
Additions	–	214	214
Disposals	–	(56)	(56)
Elimination of accumulated depreciation on revalued premises	(307)	–	(307)
Surplus on revaluation:			
- credited to premises revaluation reserve	845	–	845
Transfer to investment properties (note 27)	(329)	–	(329)
Exchange difference and other	(1)	–	(1)
At 31 December 2014	21,073	4,163	25,236
Accumulated depreciation:			
At 1 July 2014	–	(3,276)	(3,276)
Charge for the period (note 12)	(307)	(118)	(425)
Written off on disposal	–	56	56
Elimination of accumulated depreciation on revalued premises	307	–	307
Exchange difference	–	–	–
At 31 December 2014	–	(3,338)	(3,338)
Net book value at 31 December 2014	21,073	825	21,898
Representing:			
- measure at cost	–	825	825
- measure at valuation	21,073	–	21,073
	21,073	825	21,898

29 Intangible assets

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Present value of in-force long-term insurance business	**9,774**	8,005	8,263
Internally developed software	**387**	369	372
Acquired software	**87**	76	89
Goodwill	**329**	329	329
	10,577	8,779	9,053

30 Other assets

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Items in the course of collection from other banks	**7,177**	6,912	5,182
Bullion	**3,854**	3,392	3,681
Prepayments and accrued income	**3,946**	3,972	3,820
Acceptances and endorsements	**6,326**	6,928	5,715
Other accounts	**6,535**	5,006	5,534
	27,838	26,210	23,932

There are no significant impaired, overdue or rescheduled other assets at the period-end.

Other accounts included “Assets held for sale” of HK$11 million (30 June 2014: HK$5 million, 31 December 2014: HK$6 million). It also included “Retirement benefit assets” of HK$41 million (30 June 2014: HK$38 million, 31 December 2014: HK$42 million).

31 Current, savings and other deposit accounts

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Current, savings and other deposit accounts:			
- as stated in consolidated balance sheet	**947,495**	860,092	896,521
- structured deposits reported as trading liabilities (note 32)	**36,715**	47,042	40,380
	984,210	907,134	936,901
By type:			
- demand and current accounts	**83,459**	73,367	76,807
- savings accounts	**580,379**	525,172	550,765
- time and other deposits	**320,372**	308,595	309,329
	984,210	907,134	936,901

32 Trading liabilities

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Other structured debt securities in issue (note 34)	**4,680**	3,743	4,223
Structured deposits (note 31)	**36,715**	47,042	40,380
Short positions in securities and others	**36,148**	14,928	27,984
	77,543	65,713	72,587

33 Financial liabilities designated at fair value

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Certificate of deposit in issue (note 34)	**3,510**	–	2,994
Liabilities to customers under investment contracts	**517**	493	495
	4,027	493	3,489

34 Certificates of deposit and other debt securities in issue

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Certificates of deposit and other debt securities in issue:			
- as stated in consolidated balance sheet	**7,738**	9,904	12,402
- certificates of deposit issued designated at fair value (note 33)	**3,510**	–	2,994
- other structured debt securities in issue reported as trading liabilities (note 32)	**4,680**	3,743	4,223
	15,928	13,647	19,619
By type:			
- certificates of deposit in issue	**10,002**	8,660	14,150
- other debt securities in issue	**5,926**	4,987	5,469
	15,928	13,647	19,619

35 Other liabilities

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Items in the course of transmission to other banks	**8,563**	8,759	7,508
Accruals	**3,463**	3,247	3,859
Acceptances and endorsements	**6,326**	6,956	5,715
Retirement benefit liabilities	**1,380**	1,768	1,615
Other	**3,155**	3,721	2,607
	22,887	24,451	21,304

36 Subordinated liabilities

Nominal value	Description	**At 30 June 2015**	At 30 June 2014	At 31 December 2014
Amount owed to HSBC Group undertakings				
US$775m	Floating rate subordinated loan debt due December 2020 (1)	**–**	6,007	–
US$450m	Floating rate subordinated loan debt due July 2021 (2)	**3,488**	3,488	3,490
US$300m	Floating rate subordinated loan debt due July 2022 (3)	**2,326**	2,325	2,327
		5,814	11,820	5,817
Representing:				
- measured at amortised cost		**5,814**	11,820	5,817

(1) *The Bank exercised its option to redeem the subordinated loan at par of US$775 million.*

(2) *Interest rate at three-month US dollar LIBOR plus 2.05 per cent, payable quarterly, to the maturity date.*

(3) *Interest rate at three-month US dollar LIBOR plus 4.06 per cent, payable quarterly, to the maturity date.*

The outstanding subordinated loan serves to help the Bank maintain a balanced capital structure and support business growth.

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities for the periods indicated.

37 Shareholders' funds

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Share capital	**9,658**	9,658	9,658
Retained profits	**99,982**	83,215	83,667
Other equity instruments	**6,981**	–	6,981
Premises revaluation reserve	**16,379**	15,200	15,687
Cash flow hedging reserve	**4**	3	(11)
Available-for-sale investment reserve			
- on debt securities	**277**	136	261
- on equity securities	**2,292**	(2,596)	16,751
Other reserves	**1,798**	1,782	1,802
Total reserves	**127,713**	97,740	125,138
	137,371	107,398	134,796
Proposed dividends	**2,103**	2,103	4,397
Shareholders' funds	**139,474**	109,501	139,193
Return on average shareholders' funds*	**29.4%**	15.9%	11.2%

* *For the half-year ended*

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a "regulatory reserve" directly from retained profits. As at 30 June 2015, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$6,382m (HK$6,063m and HK$6,229m at 30 June 2014 and 31 December 2014 respectively).

38 Other equity instruments

Nominal value	Description	*At 30 June 2015*	*At 30 June 2014*	*At 31 December 2014*
US$900m	Floating rate perpetual capital instrument callable from December 2019 [1]	**6,981**	–	6,981

[1] *Interest rate at one-year US dollar LIBOR plus 3.84 per cent.*

In 2014, the Bank issued new capital instruments that were included in the Group's capital base as Basel III compliant additional tier 1 capital under the Banking (Capital) Rules. The net proceeds of the issuances were used to support further business expansion and for other purposes as deemeed appropriate by the Board, and to further strengthen the capital base.

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

39 Reconciliation of cash flow statement

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

	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*
Operating profit	**10,785**	9,496
Net interest income	**(10,441)**	(9,671)
Dividend income	**(125)**	(5)
Loan impairment charges and other credit risk provisions	**594**	337
Depreciation	**462**	406
Amortisation of intangible assets	**56**	55
Amortisation of available-for-sale investments	**25**	20
Amortisation of held-to-maturity debt securities	**(1)**	–
Loans and advances written off net of recoveries	**(345)**	(281)
Movement in present value of in-force long-term insurance business	**(1,511)**	(807)
Interest received	**12,727**	12,439
Interest paid	**(2,841)**	(3,088)
Operating profit before changes in working capital	**9,385**	8,901
Change in treasury bills and certificates of deposit with original maturity more than three months	**(16,986)**	(18,983)
Change in placings with and advances to banks maturing after one month	**5,824**	5,023
Change in trading assets	**(2,198)**	6,541
Change in derivative financial instruments	**832**	929
Change in reverse repurchase agreements – non-trading	**(608)**	(2,309)
Change in loans and advances to customers	**(18,227)**	(46,464)
Change in other assets	**(1,104)**	(4,376)
Change in financial liabilities designated at fair value	**517**	–
Change in current, savings and other deposit accounts	**50,974**	35,094
Change in repurchase agreements – non-trading	**3,032**	1,837
Change in deposits from banks	**4,953**	(491)
Change in trading liabilities	**4,956**	3,596
Change in certificates of deposit and other debt securities in issue	**(4,664)**	1,303
Change in other liabilities	**3,739**	4,485
Elimination of exchange differences and other non-cash items	**(1,616)**	(1,774)
Cash generated from/(used in) operating activities	**38,809**	(6,688)
Taxation paid	**(22)**	(145)
Net cash inflow/(outflow) from operating activities	**38,787**	(6,833)

39 Reconciliation of cash flow statement *(continued)*

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

	At 30 June 2015	At 30 June 2014
Cash and sight balances at central banks	**40,317**	7,721
Balances with banks	**30,079**	7,828
Items in the course of collection from other banks	**7,177**	6,912
Placings with and advances to banks maturing within one month	**69,578**	69,933
Treasury bills	**28,311**	18,592
Less: items in the course of transmission to other banks	**(8,563)**	(8,759)
	166,899	102,227

The balances of cash and cash equivalents included cash and sight balances at central banks, balances with banks and placings with and advances to banks maturing within one month that are subject to exchange control and regulatory restrictions, amounting to HK$36,466m at 30 June 2015 (HK$21,472m at 30 June 2014).

40 Contingent liabilities, commitments and derivatives

The table below gives the nominal contract amounts, credit equivalent amounts and risk-weighted amounts of contingent liabilities, commitments and derivative transactions. The information is consistent with that in the "Capital Adequacy Ratio" return submitted to the HKMA by the Group. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 3C (1) of the Banking (Capital) Rules.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in "Other assets" and "Other Liabilities" in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". For the purpose of the Banking (Capital) Rules ("the Capital Rules"), acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies. The contract amount of acceptances and endorsements included in the below tables was HK$6,326m (30 June 2014: HK$6,956m; 31 December 2014: HK$5,715m).

Contingent liabilities and commitments are credit-related instruments. Contractual amounts represent the amounts at risk should contracts be fully drawn upon and clients default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not representative of expected future liquidity requirements.

Derivatives arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate, equity, credit and commodity markets. The contract amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Capital Rules and depend on the status of the counterparty and maturity characteristics of the instrument.

The netting benefits represent amounts where the Group has in place legally enforceable rights of offset with individual counterparties to offset the gross amount of positive mark-to-market assets with any negative mark-to-market liabilities with the same customer. These offsets are recognised by the HKMA in the calculation of risk-weighted amounts for the capital adequacy ratio.

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

The risk-weighted assets were calculated based on the "advanced internal ratings-based approach".

	At 30 June 2015	*At 30 June 2014*	*At 31 December 2014*
Direct credit substitutes	**4,552**	11,905	4,541
Transaction-related contingencies	**3,108**	2,097	2,474
Trade-related contingencies	**13,541**	16,063	13,355
Forward asset purchases	**–**	34	85
Commitments that are unconditionally cancellable without prior notice	**303,965**	256,666	280,000
Commitments which have an original maturity of not more than one year	**6,391**	4,283	4,286
Commitments which have an original maturity of more than one year	**24,275**	23,000	26,029
Contract amounts	**355,832**	314,048	330,770
Risk-weighted amounts	**32,568**	32,290	31,464

	Contract amount	***Credit equivalent amounts***	***Risk-weighted amount***
At 30 June 2015			
Exchange rate contracts:			
- spot and forward foreign exchange	**525,622**	**3,535**	**1,168**
- currency swaps	**54,650**	**1,319**	**383**
- currency options purchased	**117,196**	**4,282**	**4,336**
	697,468	**9,136**	**5,887**
Interest rate contracts:			
- interest rate swaps	**242,035**	**1,380**	**430**
- other interest rate contracts	**318**	**–**	**–**
	242,353	**1,380**	**430**
Equity and other contracts:			
- equity swaps	**4,439**	**268**	**37**
- equity options purchased	**6,604**	**587**	**323**
	11,043	**855**	**360**

The total fair value of the derivatives at 30 June 2015 was HK$2,971m (30 June 2014: HK$3,852m, 31 December 2014: HK$4,490m) after taking into account the effect of valid bilateral netting agreement amounting to HK$2,404m (30 June 2014: HK$2,003m, 31 December 2014: HK$2,390m).

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

	Contract amounts	*Credit equivalent amounts*	*Risk-weighted amounts*
At 30 June 2014			
Exchange rate contracts:			
- spot and forward foreign exchange	547,644	3,589	1,207
- currency swaps	15,161	597	117
- currency options purchased	131,254	7,112	6,688
	694,059	11,298	8,012
Interest rate contracts:			
- interest rate swaps	230,015	1,370	447
- other interest rate contracts	981	–	–
	230,996	1,370	447
Equity and other contracts:			
- equity swaps	1,933	126	23
- equity options purchased	3,447	260	185
- others	149	13	4
	5,529	399	212
At 31 December 2014			
Exchange rate contracts:			
- spot and forward foreign exchange	556,036	4,353	1,525
- currency swaps	32,426	1,164	242
- currency options purchased	99,709	5,541	5,231
	688,171	11,058	6,998
Interest rate contracts:			
- interest rate swaps	228,436	1,280	405
- other interest rate contracts	2,130	1	–
	230,566	1,281	405
Equity and other contracts:			
- equity swaps	2,223	139	23
- equity options purchased	5,438	484	371
	7,661	623	394

41 Material related-party transactions

(a) Immediate holding company and its subsidiaries, fellow subsidiary companies, subsidiaries and associates

The Group entered into transactions with its immediate holding company and its subsidiaries, fellow subsidiaries and associates in the ordinary course of interbank activities mainly including lending activities, acceptance and placement of interbank deposits, correspondent banking transactions, off-balance sheet transactions and the provision of other banking and financial services. The activities were on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The Group used the IT service of, and shared an automated teller machine network with, its immediate holding company. The Group also shared certain IT projects with and used certain processing services of fellow subsidiaries on a cost recovery basis. The Group maintained a staff retirement benefit scheme for which a fellow subsidiary company acts as insurer and administrator. A fellow subsidiary company was appointed as fund manager to manage the Group's life insurance investment portfolios. The Bank acted as agent for the marketing of Mandatory Provident Fund products and the distribution of retail investment funds for two fellow subsidiary companies.

There was an arrangement whereby a fellow subsidiary provided certain management services to Hang Seng Insurance Company Limited. The fees on these transactions are determined on an arm's length basis.

The Bank issued a perpetual capital instrument of HK$6,981 million to its immediate holding company reported under "Other equity instruments".

41 Material related-party transactions *(continued)*

(a) Immediate holding company and its subsidiaries, fellow subsidiary companies, subsidiaries and associates (continued)

The aggregate amount of income and expenses arising from these transactions during the reporting periods, the balances of amounts due to and from the relevant related parties, at the reporting periods end are as follows:

	Immediate holding company and its subsidiaries		Fellow subsidiaries		Associates	
	Half-year ended 30 June 2015	Half-year ended 30 June 2014	**Half-year ended 30 June 2015**	Half-year ended 30 June 2014	**Half-year ended 30 June 2015**	Half-year ended 30 June 2014
Interest income	**35**	36	**1**	1	**74**	97
Interest expense	**(144)**	(160)	**–**	–	**(2)**	(2)
Other operating income	**39**	61	**(3)**	–	**–**	–
Operating expenses	**(371)**	(339)	**(386)**	(293)	**(23)**	(19)
	At 30 June 2015	At 31 December 2014	**At 30 June 2015**	At 31 December 2014	**At 30 June 2015**	At 31 December 2014
Amounts due from:						
Placings with and advances to banks	**27,593**	24,353	**1,447**	5,218	**4,507**	4,398
Financial assets designated at fair value	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**603**	408	**45**	35	**–**	–
Reverse repurchase agreements – non-trading	**1,904**	1,296	**–**	–	**–**	–
Loans and advances to customers	**400**	300	**–**	–	**233**	233
Financial investments	**–**	–	**–**	–	**–**	–
Other assets	**32**	27	**14**	–	**7**	7
	30,532	26,384	**1,506**	5,253	**4,747**	4,638
Amounts due to:						
Current, savings and other deposit accounts	**1,464**	1,440	**–**	–	**221**	166
Deposits from banks	**6,470**	3,789	**20**	22	**251**	250
Derivative financial instruments	**678**	617	**804**	1,607	**–**	–
Certificates of deposit and other debt securities in issue	**6,492**	6,493	**–**	–	**–**	–
Subordinated liabilities	**5,814**	5,817	**–**	–	**–**	–
Other liabilities	**372**	296	**134**	83	**–**	–
	21,290	18,452	**958**	1,712	**472**	416

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Bank's directors is as follows:

	Half-year ended 30 June 2015	Half-year ended 30 June 2014
Salaries, allowances and benefits in kind	**20**	19
Retirement scheme contributions	**2**	2
Performance-related pay paid or receivable	**15**	14
	37	35

42 Fair value of financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following tables set out the financial instruments carried at fair value.

	Valuation techniques					
	Quoted market price Level 1	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities **	*Total*
Recurring fair value measurements						
At 30 June 2015						
Assets						
Trading assets	**36,316**	**8,456**	**–**	**44,772**	**–**	**44,772**
Financial assets designated at fair value	**5,785**	**1,764**	**669**	**8,218**	**–**	**8,218**
Derivative financial instruments	**632**	**4,703**	**21**	**5,356**	**648**	**6,004**
Available-for-sale financial investments	**163,166**	**87,115**	**1,326**	**251,607**	**–**	**251,607**
Liabilities						
Trading liabilities	**35,704**	**41,789**	**50**	**77,543**	**–**	**77,543**
Financial liabilities designated at fair value	**–**	**4,027**	**–**	**4,027**	**–**	**4,027**
Derivative financial instruments	**109**	**4,284**	**2**	**4,395**	**1,482**	**5,877**
At 30 June 2014						
Assets						
Trading assets	21,154	5,059	–	26,213	–	26,213
Financial assets designated at fair value	8,080	1,648	603	10,331	–	10,331
Derivative financial instruments	410	5,413	18	5,841	455	6,296
Available-for-sale financial investments	139,795	86,444	836	227,075	–	227,075
Liabilities						
Trading liabilities	13,839	51,758	116	65,713	–	65,713
Financial liabilities designated at fair value	–	493	–	493	–	493
Derivative financial instruments	62	3,592	5	3,659	2,166	5,825
At 31 December 2014						
Assets						
Trading assets	34,094	7,729	–	41,823	–	41,823
Financial assets designated at fair value	8,817	1,594	701	11,112	–	11,112
Derivative financial instruments	492	6,455	32	6,979	442	7,421
Available-for-sale financial investments	161,459	87,103	1,234	249,796	–	249,796
Liabilities						
Trading liabilities	27,791	44,707	89	72,587	–	72,587
Financial liabilities designated at fair value	–	3,489	–	3,489	–	3,489
Derivative financial instruments	117	4,121	1	4,239	2,223	6,462

* *Included structured instruments and derivative contracts transacted with HSBC entities which were mainly classified within Level 2 of the valuation hierarchy.*

42 Fair value of financial instruments *(continued)*

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

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

During the six months ended 30 June 2015, there were no material movements between Level 1 and Level 2.

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

To this end, ultimate responsibility for the determination of fair values lies with Finance. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring compliance with all relevant accounting standards.

42 Fair value of financial instruments *(continued)*

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

Determination of fair value

Fair values are determined according to the following hierarchy:

(i) Level 1: Quoted market price
Financial instruments with quoted prices for identical instruments in active markets that the Group can access at the measurement date.

(ii) Level 2: Valuation technique using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(iii) Level 3: Valuation technique with significant unobservable inputs
Financial instruments valued using models where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations. A range of valuation techniques is employed, dependent upon the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analysis, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to consideration of credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the value of some products are dependent upon more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may impact the other market factors. The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations, prepayment and default rates.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ("day 1 gain or loss") or greater than 5% of the instrument's carrying value is driven by unobservable inputs. "Unobservable" in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). All fair value adjustments are included within the levelling determination.

42 Fair value of financial instruments *(continued)*

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

Determination of fair value (continued)

The types of financial instruments carried at fair values are as follows:

- *Debt securities, Treasury and eligible bills, and Equities*

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments, or in the case of certain unquoted equities, valuation techniques using inputs derived from observable and unobservable market data.

- *Structured notes*

The fair value of structured notes valued using a valuation technique is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives.

Trading liabilities valued using a valuation technique with significant unobservable inputs principally comprised equity-linked structured notes, which are issued by the Group and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. The notes are classified as level 3 due to the unobservability of parameters such as long-dated equity volatilities and correlations between equity prices, between equity prices and interest rates and between interest rates and foreign exchange rates.

- *Derivatives*

OTC (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon "no-arbitrage" principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some discrepancies in practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historical data or other sources.

Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors, such as foreign exchange rates, interest rates and equity prices.

Fair value adjustments

Fair value adjustments are adopted when the Group considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. The Group classifies fair value adjustments as either "risk-related" or "model-related". The majority of these adjustments relate to Global Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

42 Fair value of financial instruments *(continued)*

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

The major fair value adjustment categories being regularly reviewed by the Group are as follow:

Risk-related adjustments:

- *Bid-offer*

HKFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

- *Uncertainty*

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

- *Credit valuation adjustment*

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Group may not receive the full market value of the transactions.

- *Debit valuation adjustment*

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Group may default, and that the Group may not pay full market value of the transactions.

- *Funding fair value adjustment*

The funding fair value adjustment is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the Group or the counterparty. The funding fair value adjustment and debit valuation adjustment are calculated independently.

Model-related adjustments:

- *Model limitation*

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the valuation models and a model limitation adjustment is no longer needed.

- *Inception profit (Day 1 P&L reserves)*

Inception profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

42 Fair value of financial instruments *(continued)*

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

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

	Assets				Liabilities		
	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
At 30 June 2015							
Private equity	**1,326**	**–**	**669**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**50**	**–**	**–**
Derivatives	**–**	**–**	**–**	**21**	**–**	**–**	**2**
	1,326	**–**	**669**	**21**	**50**	**–**	**2**
At 30 June 2014							
Private equity	836	–	603	–	–	–	–
Structured notes	–	–	–	–	116	–	–
Derivatives	–	–	–	18	–	–	5
	836	–	603	18	116	–	5
At 31 December 2014							
Private equity	1,234	–	701	–	–	–	–
Structured notes	–	–	–	–	89	–	–
Derivatives	–	–	–	32	–	–	1
	1,234	–	701	32	89	–	1

42 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2015	1,234	–	701	32	89	–	1
Total gains/(losses) recognised in profit or loss							
- trading income	–	–	–	9	(1)	–	1
- net income from other financial instruments designated at fair value	–	–	34	–	–	–	–
- gains less losses from financial investments	–	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income							
- fair value gains/(losses)	92	–	–	–	–	–	–
- exchange differences	–	–	–	–	–	–	–
Purchases	–	–	80	–	–	–	–
Issues/deposit taking	–	–	–	–	51	–	–
Sales	–	–	(11)	–	–	–	–
Settlements	–	–	(106)	–	(71)	–	–
Transfers out	–	–	(29)	(20)	(18)	–	–
Transfers in	–	–	–	–	–	–	–
At 30 June 2015	1,326	–	669	21	50	–	2
Unrealised gains/(losses) recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period							
- trading income	–	–	–	11	1	–	(2)
- net income from other financial instruments designated at fair value	–	–	33	–	–	–	–

42 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2014	984	–	500	3	108	–	–
Total gains/(losses) recognised in profit or loss							
- trading income	–	–	–	15	–	–	5
- net income from other financial instruments designated at fair value	–	–	67	–	–	–	–
- gains less losses from financial investments	–	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income							
- fair value gains/(losses)	(148)	–	–	–	–	–	–
- exchange differences	–	–	–	–	–	–	–
Purchases	–	–	134	–	–	–	–
Issues/deposit taking	–	–	–	–	115	–	–
Sales	–	–	–	–	–	–	–
Settlements	–	–	(108)	–	(87)	–	–
Transfers out	–	–	–	–	(20)	–	–
Transfers in	–	–	10	–	–	–	–
At 30 June 2014	836	–	603	18	116	–	5
Unrealised gains/(losses) recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period							
- trading income	–	–	–	18	–	–	(5)
- net income from other financial instruments designated at fair value	–	–	67	–	–	–	–

42 Fair value of financial instruments *(continued)*

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

Movement in Level 3 financial instruments (continued)

	Assets				*Liabilities*		
	Available-for-sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 July 2014	836	–	603	18	116	–	5
Total gains/(losses) recognised in profit or loss							
- trading income	–	–	–	22	–	–	(3)
- net income from other financial instruments designated at fair value	–	–	43	–	–	–	–
- gains less losses from financial investments	–	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income							
- fair value gains/(losses)	398	–	–	–	–	–	–
- exchange differences	–	–	–	–	–	–	–
Purchases	–	–	130	–	–	–	–
Issues/deposit taking	–	–	–	–	(26)	–	–
Sales	–	–	(2)	–	–	–	–
Settlements	–	–	(149)	–	–	–	–
Transfers out	–	–	–	(9)	(1)	–	(1)
Transfers in	–	–	76	1	–	–	–
At 31 December 2014	1,234	–	701	32	89	–	1
Unrealised gains/(losses) recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period							
- trading income	–	–	–	20	–	–	–
- net income from other financial instruments designated at fair value	–	–	48	–	–	–	–

Transfer out of Level 3 financial assets designated at fair value was due to change in portfolio mix of private equity investments. For derivative assets, the transfer out of Level 3 reflected the change in observability of equity volatilities during the period. In respect of held for trading liabilities, the transfer out of Level 3 reflected the change in observability of correlation between equity and equity index during the period.

42 Fair value of financial instruments *(continued)*

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

Sensitivity of fair values to reasonably possible alternative assumptions

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
At 30 June 2015				
Private equity	**67**	**(67)**	**134**	**(134)**
Structured notes	**–**	**–**	**–**	**–**
Derivatives	**–**	**–**	**–**	**–**
	67	**(67)**	**134**	**(134)**
At 30 June 2014				
Private equity	60	(60)	75	(75)
Structured notes	–	–	–	–
Derivatives	–	–	–	–
	60	(60)	75	(75)
At 31 December 2014				
Private equity	70	(70)	127	(127)
Structured notes	–	–	–	–
Derivatives	–	–	–	–
	70	(70)	127	(127)

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take into account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval.

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

42 Fair value of financial instruments *(continued)*

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

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	*Unobservable input(s)*	*Range*
Assets			
Private equity	Net asset value	N/A	**N/A**
	Market-comparable approach	Earnings Multiple	**24 – 34** (30 Jun 2014: 21 – 27) (31 Dec 2014: 22 – 37)
		P/B ratios	**1.07 – 2.26** (30 Jun 2014: 0.66 – 0.97) (31 Dec 2014: 1.11 – 1.59)
		Liquidity Discount	**10% – 30%** (30 Jun 2014: 10% – 30%) (31 Dec 2014: 10% – 30%)
Derivatives	Option model	Equity Volatility	**17.00% – 49.00%** (30 Jun 2014: 16.90% – 34.74%) (31 Dec 2014: 17.77% – 36.97%)
		FX Volatility	**1.95% – 12.41%** (30 Jun 2014: 2.49% – 6.30%) (31 Dec 2014: 3.61% – 10.49%)
	Discounted cash flow model	IR Curve	**3.00% – 3.96%** (30 Jun 2014: N/A) (31 Dec 2014: 1.33% – 5.37%)
Liabilities			
Structured notes	Option model	FX Volatility	**8.47% – 17.33%** (30 Jun 2014: 4.44% – 9.69%) (31 Dec 2014: 8.95% – 15.56%)
		Equity and Equity Index Correlation	**0.282 – 0.282** (30 Jun 2014: 0.686 – 0.686) (31 Dec 2014: 0.585 – 0.710)
Derivatives	Option model	FX Volatility	**7.82% – 12.41%** (30 Jun 2014: 2.49% – 9.52%) (31 Dec 2014: 6.25% – 10.49%)
	Discounted cash flow model	IR Curve	**3.00% – 3.96%** (30 Jun 2014: N/A) (31 Dec 2014: N/A)

42 Fair value of financial instruments *(continued)*

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

Key unobservable inputs to Level 3 financial instruments

The table above lists the key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2015. A further description of the categories of key unobservable inputs is given below.

Private equity

The Group's private equity includes investment funds and unlisted equity shares, which are classified as designated at fair value through profit or loss or available-for-sale and are not traded in active markets. In the absence of an active market, the investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership.

Investment funds are valued using their net asset value. Higher net asset value results in higher fair value, and vice versa. Given the bespoke nature of the analysis, it is not practical to quote a range of key unobservable inputs.

For unlisted available-for-sale equity shares, the fair values are determined with reference to multiples of comparable listed companies, such as price/earning ratio of comparables, adjusted for a liquidity discount to reflect the fact that the shares are not actively traded. An increase in the ratio in isolation will result in favourable movement in the fair values, while an increase in liquidity discount in isolation will result in unfavourable movement.

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that the Group may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of the Group's long option positions (i.e. the positions in which the Group has purchased options), while the Group's short option positions (i.e. the positions in which the Group has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data.

The range of unobservable volatilities quoted in the table reflects the wide variation in volatility inputs by reference market price. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

42 Fair value of financial instruments *(continued)*

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

Key unobservable inputs to Level 3 financial instruments (continued)

Correlation

Correlation is a measure of the inter-relationship between two market prices. Correlation is a number between minus one and one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions.

Correlation is used to value more complex instruments where the payout is dependent upon more than one market price. Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, the Group's trade prices, proxy correlations and examination of historical price relationships.

The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair. For any single unobservable correlation, the uncertainty in the correlation determination is likely to be less than the range quoted above.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macro-economic or other events. Furthermore, the impact of changing market variables upon the Group's portfolio will depend upon the Group's net risk position in respect of each variable.

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

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

	At 30 June 2015		At 30 June 2014		At 31 December 2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets						
Placings with and advances to banks	**152,767**	**152,831**	142,975	143,008	145,731	145,798
Loans and advances to customers	**673,022**	**670,626**	632,947	629,536	658,431	655,640
Held-to-maturity debt securities	**76,591**	**79,210**	70,228	71,753	68,236	70,829
Financial Liabilities						
Current, savings and other deposit accounts	**947,495**	**947,501**	860,092	860,239	896,521	896,578
Deposits from banks	**13,964**	**13,964**	11,335	11,335	9,095	9,095
Certificates of deposit and other debt securities in issue	**7,738**	**7,801**	9,904	10,008	12,402	12,484
Subordinated liabilities	**5,814**	**6,864**	11,820	13,687	5,817	6,939

The calculation of fair values of financial instruments that are not carried at fair value is described below.

The calculation of fair value incorporates the Group's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Group expects to flow from the instruments' cash flows over their expected future lives.

42 Fair value of financial instruments *(continued)*

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

(i) Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third party brokers which reflect over-the-counter trading activity; forward looking discounted cash flow models using assumptions which the Group believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

Valuation techniques are calibrated on a regular basis and tested for validity using prices from observable current market transactions in the same instrument, without modification or repackaging, or are based on any available observable market data.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date. For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(ii) Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that take into consideration the prices and future earnings streams of equivalent quoted securities.

(iii) Deposits by banks and customer accounts

For the purpose of estimating fair value, deposits by banks and customer accounts are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(iv) Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the Group as a going concern.

42 Fair value of financial instruments *(continued)*

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

The following table lists financial instruments for which their carrying amounts are reasonable approximations of their fair values because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets

Cash and sight balances at central banks
Items in the course of collection from other banks
Reverse repurchase agreements – non-trading
Acceptances and Endorsements
Short-term receivables within "Other assets"
Accrued income

Liabilities

Items in the course of transmission to other banks
Repurchase agreements – non-trading
Acceptances and Endorsements
Short-term payables within "Other liabilities"
Accruals

43 Statutory accounts

The information in this interim report is not audited and does not constitute statutory accounts.

Certain financial information in this interim report is extracted from the statutory accounts for the year ended 31 December 2014, which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and the HKMA.

The former auditor KPMG has reported on the 2014 accounts. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the predecessor Companies Ordinance (Cap 32).

The Annual Report and Financial Statements for the year ended 31 December 2014, which includes the statutory accounts, can be obtained on request from the Legal and Company Secretarial Services Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from Hang Seng Bank's website www.hangseng.com.

44 Major transaction – Partial disposal of the Bank's shareholding in Industrial Bank

On 10 February 2015, the Bank entered into a placing agreement with Goldman Sachs Gao Hua Securities Company Limited to sell 5% (representing 952,616,838 ordinary shares) of its shareholding of the ordinary shares of Industrial Bank Co., Ltd. ('Industrial Bank'), at a price of RMB13.36 per share (approximately HK$16.58 per share). The disposal price represented a discount of approximately 7% to the closing price of Industrial Bank's ordinary shares listed on the Shanghai Stock Exchange on the date of entry into the placing agreement. The transaction was completed on 13 February 2015.

On 12 May 2015, the Bank entered into another placing agreement with Goldman Sachs Gao Hua Securities Company Limited and UBS Securities Co. Limited to sell 4.99% (representing 950,700,000 ordinary shares) of the ordinary shares of Industrial Bank, at a price of RMB17.68 per share (approximately HK$22.08 per share). The purchase price per share represented a discount of approximately 5.96% to the closing price of Industrial Bank's shares on the Shanghai Stock Exchange on the date of entry into the placing agreement. This transaction, together with the previous transaction in February mentioned above, raised approximately RMB30bn (approximately HK$37bn) for the Bank, before expenses.

44 Major transaction – Partial disposal of the Bank's shareholding in Industrial Bank *(continued)*

The net gain on the sale of the shares on the two transactions mentioned above was HK$11bn, representing the difference between the consideration and the carrying value of such shares at 31 December 2014 in the Bank's and the Group's financial statements, together with the reclassification of the related cumulative foreign exchange and revaluation reserve less the tax effect and expenses of the transactions. Following completion of the two transactions, the Bank's remaining shareholding in Industrial Bank represents approximately 0.88% of the ordinary shares of Industrial Bank.

Since there are significant financial implications as a result of the recognition of the gain on partial disposal in the income statement of 2015, the key financial results and performance metrics are not directly comparable with the first half of 2014. For comparison, we have prepared the following key financial results and performance metrics by excluding the partial disposal gain in the first half of 2015.

	As Reported			*Excluding the gain on partial disposal of Industrial Bank*		
	Half-year ended 30 June 2015	*Half-year ended 30 June 2014*	*Change**	***Half-year ended 30 June 2015***	*Half-year ended 30 June 2014*	*Change**
Attributable profit	**20,048**	8,468	+137%	**9,412**	8,468	+11%
Profit before tax	**21,720**	9,877	+120%	**11,084**	9,877	+12%
Return on average shareholders' funds (%)	**29.4**	15.9	+13.5pp	**15.6**	16.6	-1.0pp
Return on average total assets (%)	**3.1**	1.5	+1.6pp	**1.5**	1.5	–
Earnings per share (HK$)	**10.49**	4.43	137%	**4.92**	4.43	+11%

* *Change in "pp" represents change in percentage points.*

45 Property revaluation

The Group's premises and investment properties were revalued at 30 June 2015 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 "Fair Value Measurement" and takes into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for Group premises amounted to HK$1,103m was credited to the premises revaluation reserve. The related deferred tax provision for Group premises was HK$184m. Revaluation gains of HK$178m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

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

46 Immediate and ultimate holding companies

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

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT TO THE BOARD OF DIRECTORS OF HANG SENG BANK LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 44 to 109, which comprises the interim consolidated balance sheet of Hang Seng Bank Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2015 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 August 2015

These notes set out on pages 111 to 115 are supplementary to and should be read in conjunction with the consolidated financial statements set out on pages 44 to 109. The consolidated financial statements and these supplementary notes taken together comply with the Banking (Disclosure) Rules ("Disclosure Rules") made under section 60A of the Banking Ordinance, as amended by the Banking (Disclosure) (Amendment) Rules 2013 which came into operation on 30 June 2013.

1 Basis of preparation

(a) Except where indicated otherwise, the financial information contained in these supplementary notes has been prepared on a consolidated basis in accordance with Hong Kong Financial Reporting Standards.

(b) The accounting policies applied in preparing these supplementary notes are the same as those applied in preparing the consolidated financial statements for the period ended 30 June 2015 as set out in note 2 to the financial statements.

2 Disclosure for selected exposures

Involvement with Special Purpose Entities ("SPEs")

From time to time, the Group enters into certain transactions with customers in the ordinary course of business which involve the establishment of SPEs. The use of SPEs is not a significant part of the Group's activities and the Group is not reliant on SPEs for any material part of its business operations or profitability.

3 Analysis of gross loans and advances to customers by categories based on internal classification used by the Group

Gross advances, overdue advances, impaired advances, individually assessed and collectively assessed loan impairment allowances, the amount of new impairment allowances charged to income statement, and the amount of impaired loans and advances written off during the periods in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	Gross advances	*Overdue advances*	*Impaired advances*	*Individually assessed loan impairment allowances*	*Collectively assessed loan impairment allowances*	*New impairment allowances*	*Advances written off during the period*
At 30 June 2015							
Residential mortgages	**174,634**	**134**	**192**	**(10)**	**(3)**	**4**	**–**
Commercial, industrial and international trade	**155,333**	**1,748**	**2,206**	**(1,193)**	**(589)**	**460**	**54**
Commercial real estate	**85,971**	**39**	**66**	**–**	**(3)**	**1**	**–**
Other property-related lending	**130,301**	**1**	**189**	**(1)**	**(18)**	**3**	**–**
At 30 June 2014							
Residential mortgages	164,511	31	96	(7)	–	3	6
Commercial, industrial and international trade	163,927	711	865	(696)	(526)	213	63
Commercial real estate	81,452	23	53	–	(3)	–	–
Other property-related lending	114,577	1	1	(1)	(14)	1	1
At 31 December 2014							
Residential mortgages	165,481	60	193	(11)	–	11	7
Commercial, industrial and international trade	158,231	883	1,583	(963)	(599)	848	263
Commercial real estate	87,882	27	44	–	(3)	–	–
Other property-related lending	126,112	–	19	–	(16)	5	1

4 Mainland activities exposures

The analysis of mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority ("HKMA") under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland activities. This includes the mainland activities exposures extended by the Bank and its mainland banking subsidiary.

	On-balance sheet exposure	*Off-balance sheet exposure*	*Total exposures*
At 30 June 2015			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	**57,942**	**7,418**	**65,360**
2. Local governments, local government-owned entities and their subsidiaries and JVs	**25,764**	**4,986**	**30,750**
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**54,580**	**20,176**	**74,756**
4. Other entities of central government not reported in item 1 above	**3,991**	**756**	**4,747**
5. Other entities of local governments not reported in item 2 above	**3,530**	**690**	**4,220**
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**42,672**	**1,658**	**44,330**
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**8,914**	**10**	**8,924**
	197,393	**35,694**	**233,087**
Total assets after provision	**1,232,737**		
On-balance sheet exposures as percentage of total assets	**16.01%**		
At 30 June 2014 *			
Mainland entities	62,680	7,973	70,653
Companies and individuals outside Mainland where the credit is granted for use in Mainland	35,707	3,662	39,369
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposures	115	–	115
	98,502	11,635	110,137
Exposures incurred by the Bank's mainland subsidiary	83,865	9,726	93,591
	182,367	21,361	203,728

* *There are changes in categorisation and exposure scope as required by the HKMA during 2014, hence the comparative figures as at 30 June 2014 are not directly comparable.*

4 Mainland activities exposures *(continued)*

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
At 31 December 2014 (restated)#			
1 Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	64,581	10,465	75,046
2 Local governments, local government-owned entities and their subsidiaries and JVs	27,493	4,751	32,244
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	54,404	18,934	73,338
4 Other entities of central government not reported in item 1 above	4,744	1,055	5,799
5 Other entities of local governments not reported in item 2 above	3,762	949	4,711
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	43,123	3,113	46,236
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	8,271	10	8,281
	206,378	39,277	245,655
Total assets after provision	1,183,020		
On-balance sheet exposures as percentage of total assets	17.45%		

The comparative figures for the year as at 31 December 2014 have been restated to align with current period's disclosure and the HKMA requirements.

5 International claims

The Group's country risk exposures in the tables below are prepared in according to the location and types of the counterparties as defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

5 International claims *(continued)*

International claims attributable to individual countries or areas not less than 10% of the Group's total international claims, after recognised risk transfer, are shown as follows:

	Banks	Official Sector	Non Bank Financial Institution	Non-Financial Private Sector	Total
At 30 June 2015					
Asia Pacific					
- Hong Kong SAR	20,097	1,289	5,049	85,124	111,559
- China	60,936	12,593	6,271	43,528	123,328
- Other	70,341	23,411	3,853	23,375	120,980
	151,374	37,293	15,173	152,027	355,867
Americas	11,287	17,775	9,017	27,319	65,398
Europe	26,423	18,396	4,232	15,221	64,272

	Banks & other financial institutions	Public sector entities	Sovereign & other	Total
At 30 June 2014 *				
Asia-Pacific excluding Hong Kong:				
- China	80,920	–	62,585	143,505
- Japan	16,467	–	18,147	34,614
- Other	38,702	2,884	20,953	62,539
	136,089	2,884	101,685	240,658
Americas	5,361	1,737	25,117	32,215
Europe	20,275	8,093	11,875	40,243
At 31 December 2014 *				
Asia-Pacific excluding Hong Kong:				
- China	87,611	–	67,491	155,102
- Japan	14,765	–	20,638	35,403
- Other	42,814	2,713	24,443	69,970
	145,190	2,713	112,572	260,475
Americas	8,387	1,621	25,429	35,437
Europe	20,887	8,736	20,027	49,650

* *There are changes of reporting basis and the categorisation on the types of counterparties as required by the HKMA in 2015, hence the disclosures reported during the year of 2014 are not directly comparable.*

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2015.

Changes in Directors' Details

Changes in Directors' details since the date of the Annual Report 2014 of the Bank and up to the date of release of the interim results of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B (1) of the Listing Rules, are set out below.

Ms Rose LEE Wai Mun JP

<u>New appointments</u>
- CK Hutchison Holdings Limited (1) (Independent Non-executive Director)
- Swire Pacific Limited (1) (Member of Remuneration Committee)

<u>Cessation of appointment</u>
- Hutchison Whampoa Limited (Independent Non-executive Director)

Dr John CHAN Cho Chak GBS, JP

<u>Cessation of appointments</u>
- The Community Chest of Hong Kong (Chairman of Public Relations Committee; Third Vice President)

Mr Nixon CHAN Lik Sang

<u>Cessation of appointment</u>
- MasterCard Asia/Pacific Advisory Board (Director)

Dr Henry CHENG Kar Shun GBS

<u>Cessation of appointment</u>
- Lifestyle International Holdings Limited (1) (Non-executive Director)

Mr Andrew FUNG Hau Chung JP

<u>New appointment</u>
- Airport Authority Hong Kong (Board member)

<u>Cessation of appointment</u>
- The Hong Kong Mortgage Corporation Limited (Director)

Ms Irene LEE Yun Lien

<u>New appointment</u>
- HSBC Holdings plc (1) (Independent Non-executive Director)

Ms Sarah Catherine LEGG

New appointments
- HSBC Holdings plc [(1)] (Group Financial Controller)
- The Hong Kong Society for Rehabilitation (Honorary Vice-President)

Cessation of appointments
- HSBC Bank (Taiwan) Limited (Director)
- HSBC Securities Investments (Asia) Limited (Director)
- The Hong Kong Association of Banks (Acting Chairman; Chairman of the Basel Implementation Committee)
- The Hong Kong Society for Rehabilitation (Honorary Treasurer)
- The Hongkong and Shanghai Banking Corporation Limited (Chief Financial Officer)

Dr Eric LI Ka Cheung GBS, OBE, JP

New appointment
- The Hong Kong Institute of Education (Member of Board of Steward)

Cessation of appointments
- The Hong Kong Institute of Education (Chairman of Finance Committee; Treasurer of the Council)

Dr Vincent LO Hong Sui GBS, JP

New appointment
- Hong Kong Trade Development Council (Chairman)

Cessation of appointments
- Airport Authority Hong Kong (Chairman)
- Lantau Development Advisory Committee of HKSAR Government (Non-official Member)

Mr Peter WONG Tung Shun JP

New appointments
- The Community Chest of Hong Kong (First Vice President; Chairman of Executive Committee)

Mr Michael WU Wei Kuo

New appointment
- Jardine Matheson Holdings Limited [(1)] (Non-executive Director)

Notes:

(1) The securities of these companies are listed on a securities market in Kong Kong or overseas.

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

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

Directors' and Alternate Chief Executives' Interests

As at 30 June 2015, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/ issued share capital
Number of ordinary shares in the Bank						
Director:						
Dr John C C Chan	1,000[(1)]	–	–	–	1,000	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Dr Raymond K F Ch'ien	57,814	–	–	–	57,814	0.00
Ms Rose W M Lee	307,130	1,562	–	132,575[(3)]	441,267	0.00
Dr John C C Chan	24,605[(1)]	–	–	–	24,605	0.00
Mr Nixon L S Chan	77,582	–	–	25,324[(3)]	102,906	0.00
Mr Andrew H C Fung	111,502	–	–	28,712[(3)]	140,214	0.00
Ms Sarah C Legg	172,553	2,688	–	66,439[(3)]	241,680	0.00
Dr Eric K C Li	–	48,762	–	–	48,762	0.00
Mr Kenneth S Y Ng	355,983	–	–	37,581[(3)]	393,564	0.00
Mr Peter T S Wong	344,747	20,653	–	2,146,299[(3)]	2,511,699	0.01
Alternate Chief Executives:						
Mr Christopher H N Ho	113,234	52,655	–	9,277[(3)]	175,166	0.00
Mr Donald Y S Lam	56,821	–	–	12,206[(3)]	69,027	0.00
Mr Andrew W L Leung	11,357	–	–	10,933[(3)]	22,290	0.00
Number of perpetual non-cumulative preference shares of US$0.01 each in HSBC Holdings plc						
Director:						
Ms Rose W M Lee	–	131,000[(2)]	–	75,075[(2)]	206,075	0.14

Interests in debentures of associated corporation of the Bank

Name of debenture	Name of Director	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
8.00% perpetual subordinated capital securities, series 2 issued by HSBC Holdings plc	Ms Rose W M Lee	–	US$3,275,000[(2)]	–	US$1,876,875[(2)]	US$5,151,875

Notes:

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

(2) Ms Rose W M Lee was a beneficiary of a trust, which had interests in the total principal amount of US$1,876,875 of the 8.00% perpetual subordinated capital securities, series 2. Her spouse also had interests in the total principal amount of US$3,275,000 of the 8.00% perpetual subordinated capital securities, series 2. These perpetual subordinated capital securities were exchangeable at the option of HSBC Holdings plc to 75,075 and 131,000 perpetual non-cumulative preference shares respectively of US$0.01 each in HSBC Holdings plc. Ms Lee's interests set out in the table under "Interests in shares" and the table under "Interests in debentures of associated corporation of the Bank" represented the same interests.

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

Conditional Awards of Shares

As at 30 June 2015, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under the HSBC Share Plans were as follows:

	Awards held as at 1 January 2015	Awards made during the Director's/Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2015
Directors:				
Ms Rose W M Lee	100,301	82,215	53,522	132,575[(1)]
Mr Nixon L S Chan	24,353	29,108	28,954	25,324[(1)]
Mr Andrew H C Fung	33,311	28,673	34,286	28,712[(1)]
Ms Sarah C Legg	71,373	48,054	55,176	66,439[(1)]
Mr Kenneth S Y Ng	49,558	33,470	46,870	37,581[(1)]
Mr Peter T S Wong	1,091,027	193,798	132,044	1,181,341[(1)]
Alternate Chief Executives:				
Mr Christopher H N Ho	6,450	5,489	2,935	9,277[(1)]
Mr Donald Y S Lam	10,189	17,153	15,527	12,206[(1)]
Mr Andrew W L Leung	6,760	6,849	2,988	10,933[(1)]

Note:

(1) This included additional shares arising from scrip dividends.

All the interests stated above represented long positions. As at 30 June 2015, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Other than those disclosed above, no right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2015.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2015, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

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

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

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

All the interests stated above represented long positions. As at 30 June 2015, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the first half of 2015.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2014 in respect of the remuneration of employees, remuneration policies and staff development.

Code on Corporate Governance Practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2015. Further, the Board has already established a Risk Committee (all members being Independent Non-executive Directors) which is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems. This practice is in line with the revised Corporate Governance Code under the Listing Rules which will apply to accounting periods beginning on or after 1 January 2016. To ensure that it is in line with international and local corporate governance best practices, the Bank will constantly review and enhance its corporate governance framework.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2015.

Register of Shareholders

The Register of Shareholders of the Bank will be closed on Wednesday, 19 August 2015, during which no transfer of shares can be registered. 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 not later than 4:30 pm on Tuesday, 18 August 2015. The second interim dividend will be payable on Tuesday, 8 September 2015 to shareholders on the Register of Shareholders of the Bank on Wednesday, 19 August 2015. Shares of the Bank will be traded ex-dividend as from Monday, 17 August 2015.

Proposed Timetables for the Remaining Quarterly Dividends for 2015

Third interim dividend for 2015

Announcement date	5 October 2015
Book close and record date	22 October 2015
Payment date	10 November 2015

Fourth interim dividend for 2015

Announcement date	22 February 2016
Book close and record date	9 March 2016
Payment date	29 March 2016

Board and Committees

Board

Independent Non-executive Chairman
Raymond CH'IEN Kuo Fung

Executive Directors
Rose LEE Wai Mun (Vice-Chairman and Chief Executive)
Andrew FUNG Hau Chung
Nixon CHAN Lik Sang

Non-executive Directors
Sarah Catherine LEGG
Vincent LO Hong Sui
Kenneth NG Sing Yip
Peter WONG Tung Shun

Independent Non-executive Directors
John CHAN Cho Chak
Henry CHENG Kar Shun
CHIANG Lai Yuen
HU Zuliu, Fred
Irene LEE Yun Lien
Eric LI Ka Cheung
Richard TANG Yat Sun
Michael WU Wei Kuo

Committees
Executive Committee
Rose LEE Wai Mun (Chairman)
Andrew FUNG Hau Chung
Nixon CHAN Lik Sang
Christopher HO Hing Nin
Donald LAM Yin Shing
Andrew LEUNG Wing Lok
Louise LAM
Ivy CHAN Shuk Pui

Audit Committee
Eric LI Ka Cheung (Chairman)
Irene LEE Yun Lien
Richard TANG Yat Sun
Michael WU Wei Kuo

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

Risk Committee
Irene LEE Yun Lien (Chairman)
Eric LI Ka Cheung
HU Zuliu, Fred

Nomination Committee
Raymond CH'IEN Kuo Fung (Chairman)
Rose LEE Wai Mun
John CHAN Cho Chak
Peter WONG Tung Shun
Michael WU Wei Kuo

Notes:

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

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

Registered Office

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Email: hangseng@computershare.com.hk

Stock Code

The Stock Exchange of Hong Kong Limited: 11

Registrar

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

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PO Box 30170
College Station, TX 77842-3170, USA
Telephone: 1-201-680-6825
Toll free (domestic): 1-888-BNY-ADRS
Website: www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

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

Interim Report 2015

This Interim Report 2015 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of HKEx (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2015 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2015 in either English or Chinese and wish to receive a printed copy in the other language version,

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

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

If shareholders who have chosen (or deemed to have chosen) to read this Interim Report 2015 on the Bank's website have difficulty in reading or gaining access to this Interim Report 2015 via the Bank's website for any reason, the Bank will promptly send this Interim Report 2015 in printed form free of charge upon the shareholders' request.

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

Photography: Josiah Leung

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