恒生銀行
HANG SENG BANK

(Stock code: 11)

INTERIM RESULTS FOR 2020

- Net operating income before change in expected credit losses and other credit impairment charges down by 14% to HK$19,187m (HK$22,409m for the first half of 2019).

- Operating profit down 28% to HK$11,134m (HK$15,561m for the first half of 2019).

- Profit before tax down by 33% to HK$10,619m (HK$15,894m for the first half of 2019).

- Profit attributable to shareholders down by 33% to HK$9,143m (HK$13,656m for the first half of 2019).

- Return on average ordinary shareholders' equity of 10.7% (17.0% for the first half of 2019).

- Earnings per share down 34% to HK$4.64 per share (HK$6.98 per share for the first half of 2019).

- Second interim dividend of HK$0.80 per share; total dividends of HK$1.90 per share for the first half of 2020 (HK$2.80 per share for the first half of 2019).

- Common equity tier 1 ('CET1') capital ratio of 16.3%, tier 1 ('T1') capital ratio of 18.0% and total capital ratio of 19.7% at 30 June 2020 (CET1 capital ratio of 16.9%, T1 capital ratio of 18.7% and total capital ratio of 20.8% at 31 December 2019).

- Cost efficiency ratio of 32.8% (28.2% for the first half of 2019).

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

The financial information in this announcement is based on the unaudited Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the six months ended 30 June 2020.

** 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.*

Comment by Raymond Ch'ien, Chairman

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

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

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

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

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

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

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

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

Economic Outlook

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

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

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

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

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

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

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

Review by Louisa Cheang, Vice-Chairman and Chief Executive

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

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

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

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

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

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

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

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

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

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

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

Financial Performance

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

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

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

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

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

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

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

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

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

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

Financial Performance *(continued)*

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

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

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

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

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

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

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

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

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

Continuing to Drive for Future Success

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

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

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

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

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

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

Results Summary

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

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

Net interest income was down by HK$1,061m, or 7%, to HK$14,792m, with increased volumes from balance sheet growth more than offset by the impact of declining interest rates and the narrowing net interest margin. The increased interest paid/payable on loss-absorbing capacity debt instruments issued in June 2019 also accounted for part of the reduction in net interest income. Net interest margin narrowed by 25 basis points to 1.96%.

Average interest-earning assets grew by 5% to HK$1,516bn, driven by growth in average customer deposits. The balance sheet management team managed the interest rate effectively to defend the interest margin and achieve yield enhancement while upholding prudent risk management standards. However, this was more than offset by the compressed loan and deposit spreads in the declining market interest rates environment versus rising market interest rates during same period last year, despite the shift of funds from time deposits to low-cost savings and current deposits. The low interest rates environment also led to a reduction in contribution from net free funds.

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

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

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

Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss recorded a loss of HK$1,284m, compared with a gain of HK$1,064m for the same period last year. Investment returns on financial assets supporting insurance liabilities contracts was substantially impacted, reflecting the unfavourable movement following the weakening of global equities prices compared with a favourable movement for the same period last year. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement reported under ‘net insurance claims and benefits paid and movement in liabilities to policyholders’ or ‘movement in present value of in-force long-term insurance business (‘PVIF’)’ under other operating income.

Income from insurance business (included under ‘net interest income’, ‘net fee income’, ‘net income from financial instruments measured at fair value through profit or loss’, ‘net insurance premium income’, ‘movement in present value of in-force long-term insurance business’ and **‘other’** within **‘other operating income’, ‘share of profits/(losses) of associates’** and after deducting **‘net insurance claims and benefits paid and movement in liabilities to policyholders’** and **‘change in expected credit losses and other credit impairment charges’)** decreased by HK$2,216m, or 57%, to HK$1,667m. Net interest income and fee income from life insurance business rose by 6%. Investment returns on the life insurance portfolio recorded a loss of HK$1,705m, compared with a gain of HK$1,250m for the same period last year, mainly reflecting unfavourable movements in global equities markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in ‘net insurance claims and benefits paid and movement in liabilities to policyholders’ or ‘movement in PVIF’ under other operating income.

Net insurance premium income fell by 22%, reflecting lower new business sales due largely to the impact of the pandemic. In the challenging operating environment, we continued to enrich our comprehensive range of tax and retirement planning as well as healthcare solutions to suit different customer needs, including new savings and protection offerings, and annuity products which qualify as tax-deductible deferred annuity policies. We also supported customers through concessionary measures to provide additional COVID-19-related coverage.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

First half of 2020 compared with second half of 2019

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

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

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

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

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

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

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

Condensed Consolidated Balance Sheet and Key Ratios

Assets

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

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

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

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

Liabilities and equity

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

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

Key ratios

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

At 30 June 2020, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.3%, 18.0% and 19.7% respectively, compared with 16.9%, 18.7% and 20.8% respectively at 2019 year-end. CET1 and Tier 1 capital ratio decreased by 0.6 and 0.7 percentage points respectively against last year-end. This reflects the net effect of a slight increase in CET1 and T1 capital base (mainly resulting from profit growth for the period and lowering of regulatory reserve target rate partly offset by payment of 4Q 2019 and 1Q 2020 interim dividends) and increase in total risk-weighted assets. Total capital ratio decreased by a larger extent due to a decrease in property revaluation gain eligible for inclusion in Tier 2 capital, resulting in a decrease in total capital base.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** was 198.0% and 181.6% for the quarters ended 30 June 2020 and 31 March 2020 respectively, compared with 198.5% and 210.8% for the quarters ended 30 June 2019 and 31 March 2019 respectively. The Group maintained a healthy average LCR for both periods, with both being higher than the statutory requirement of 100%. The LCR at 30 June 2020 was 193.8%, compared with 205.9% at 31 December 2019. The period-end **net stable funding ratio ('NSFR')** was 151.0% and 146.0% for the quarters ended 30 June 2020 and 31 March 2020 respectively, well in excess of the regulatory requirement of 100%.

Dividends

The Directors have declared a second interim dividend of HK$0.80 per share, which will be payable on 3 September 2020 to shareholders on the register as of 18 August 2020. Together with the first interim dividend, the total distribution for the first half of 2020 will be HK$1.90 per share.

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

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

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2019					
Net interest income/(expense)	8,644	5,195	2,256	(242)	15,853
Net fee income	2,076	1,095	185	129	3,485
Net income/(loss) from financial instruments measured at fair value through profit or loss	1,272	216	580	(33)	2,035
Gains less losses from financial investments	1	–	–	–	1
Dividend income	–	–	–	136	136
Net insurance premium income	7,953	1,271	–	–	9,224
Other operating income/(loss)	2,869	57	(1)	141	3,066
Total operating income	22,815	7,834	3,020	131	33,800
Net insurance claims and benefits paid and movement in liabilities to policyholders	(10,304)	(1,087)	–	–	(11,391)
Net operating income before change in expected credit losses and other credit impairment charges	12,511	6,747	3,020	131	22,409
Change in expected credit losses and other credit impairment charges	(315)	(156)	(39)	–	(510)
Net operating income	12,196	6,591	2,981	131	21,899
Operating expenses ⁺	(3,947)	(1,627)	(555)	(199)	(6,328)
Impairment loss on intangible assets	–	–	–	(10)	(10)
Operating profit/(loss)	8,249	4,964	2,426	(78)	15,561
Net surplus on property revaluation	–	–	–	187	187
Share of profits/(losses) of associates	147	–	–	(1)	146
Profit before tax	8,396	4,964	2,426	108	15,894
Share of profit before tax	52.8%	31.2%	15.3%	0.7%	100.0%
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	8,564	5,120	2,465	(78)	16,071
⁺ *Depreciation/amortisation included in operating expenses*	(12)	(2)	–	(1,023)	(1,037)
At 31 December 2019					
Total assets	522,253	405,779	712,927	36,032	1,676,991
Total liabilities	971,389	303,606	201,948	21,131	1,498,074
Interest in associates	2,522	–	–	(2)	2,520

Half-year ended 30 June 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net interest income increased by 15% to HK$1,196m. The balance sheet management team managed interest rate risk effectively, taking steps to proactively defend the interest margin and achieve yield enhancement while upholding prudent risk management standards.

Non-interest income increased by 39% to HK$784m. The increase in volatility in foreign exchange markets, together with the changing interest rate environment, resulted in an increase in non-fund income from sales and trading activities. We continued with initiatives to deepen GM product penetration among Bank customers through close collaboration with the WPB, CMB and GB teams.

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

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

Details of dividends payable to shareholders of the Bank attributable to the profit for the period are set out on page 32.

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

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

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

For the half-year ended 30 June 2020

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

[1] 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 2020, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$1,201m (31 December 2019: HK$3,509m).
[2] Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.
[3] Dividends paid in the first half of 2020 represented the payment of fourth interim dividend of 2019 and the first interim dividend of 2020 amounted to HK$7,647m and HK$2,103m respectively.

For the half-year ended 30 June 2019

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

For the half-year ended 31 December 2019

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

Net interest income

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

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

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

Net interest margin narrowed by 25 basis points to 1.96%, with net interest spread declined by 24 basis points to 1.78%. Volume growth was noted in average balances of corporate and mortgage lending but offset by tighter loan spreads under the declining market interest rates environment. Deposit spreads also narrowed under the current interest rate environment which offered little room for the reduction of interest rates paid to customers. However, these adverse effects were partly offset by the Bank’s effective balance sheet management, including steps to proactively defend the interest margin and achieve yield enhancement. The contribution from net free funds also dropped by 1 basis points to 0.18% as a result of the decline in average market interest rates.

Compared with the second half of 2019, net interest income dropped by HK$1,610m, or 10%, notwithstanding average interest-earning assets maintaining a stable growth of 2%. This was largely due to compressed deposits spreads, more calendar days in the second half and declining market interest rates. Net interest margin was down by 23 basis points.

Net interest income *(continued)*

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

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

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

Net fee income

Figures in HK$m	***Half-year ended 30 June 2020***	*Half-year ended 30 June 2019*
- securities broking and related services	**978**	718
- retail investment funds	**656**	816
- insurance	**317**	336
- account services	**191**	252
- remittances	**147**	262
- cards	**1,132**	1,520
- credit facilities	**377**	448
- trade services	**183**	232
- other	**227**	224
Fee income	**4,208**	4,808
Fee expense	**(1,033)**	(1,323)
	3,175	3,485

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

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

Other operating income

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

Analysis of income from wealth management business

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

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

Change in expected credit losses and other credit impairment charges

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

Operating expenses

Figures in HK$m	***Half-year ended 30 June 2020***	*Half-year ended 30 June 2019*
Employee compensation and benefits:		
- salaries and other costs	**2,846**	2,876
- retirement benefit costs	**244**	242
	3,090	3,118
General and administrative expenses:		
- rental expenses	**11**	59
- other premises and equipment	**785**	758
- marketing and advertising expenses	**97**	184
- other operating expenses	**1,140**	1,172
	2,033	2,173
Depreciation of premises, plant and equipment⌖	**1,039**	967
Amortisation of intangible assets	**131**	70
	6,293	6,328
Cost efficiency ratio	**32.8%**	28.2%

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

⌖ *Included depreciation of right-of-use assets of HK$293m in the first half of 2020 (first half of 2019: HK$251m).*

Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

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

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

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2020 is based on earnings of HK$8,864m (HK$13,347m for the first half of 2019), adjusted for the AT1 capital instrument related deductions and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2019).

Dividends/Distributions

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

	Half-year ended 30 June 2020 HK$m	*Half-year ended 30 June 2019 HK$m*
(b) Distributions to holders of AT1 capital instruments classified as equity		
Coupons paid on AT1 capital instruments	**279**	232

Segmental analysis

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

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

(a) Segmental result

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

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 16.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2020					
Profit/(loss) before tax	**5,468**	**3,227**	**2,646**	**(722)**	**10,619**
Share of profit/(loss) before tax	**51.5%**	**30.4%**	**24.9%**	**(6.8)%**	**100.0%**
Half-year ended 30 June 2019					
Profit before tax	8,396	4,964	2,426	108	15,894
Share of profit before tax	52.8%	31.2%	15.3%	0.7%	100.0%

Segmental analysis *(continued)*

(b) Information by geographical region

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

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-region elimination***	***Total***
Half-year ended 30 June 2020					
Total operating income	**25,753**	**1,390**	**144**	**(28)**	**27,259**
Profit before tax	**10,007**	**522**	**90**	–	**10,619**
At 30 June 2020					
Total assets	**1,633,142**	**122,900**	**24,425**	**(48,446)**	**1,732,021**
Total liabilities	**1,462,263**	**109,146**	**23,173**	**(38,676)**	**1,555,906**
Equity	**170,879**	**13,754**	**1,252**	**(9,770)**	**176,115**
Share capital	**9,658**	**9,814**	–	**(9,814)**	**9,658**
Interest in associates	**2,390**	–	–	–	**2,390**
Non-current assets⌖	**63,313**	**1,418**	**45**	–	**64,776**
Half-year ended 30 June 2019					
Total operating income	32,441	1,242	137	(20)	33,800
Profit before tax	15,350	458	86	–	15,894
At 31 December 2019					
Total assets	1,578,710	120,696	23,239	(45,654)	1,676,991
Total liabilities	1,404,716	107,172	22,070	(35,884)	1,498,074
Equity	173,994	13,524	1,169	(9,770)	178,917
Share capital	9,658	10,018	–	(10,018)	9,658
Interest in associates	2,522	(2)	–	–	2,520
Non-current assets⌖	63,001	1,415	21	–	64,437

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

Trading assets

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

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

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

Loans and advances to customers

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

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

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

	Total
Change in ECL in income statement (charge)/release for the period	**(1,530)**
Add: Recoveries	**42**
Add/(less): Others	**(21)**
Total ECL (charge)/release for the period[2]	**(1,509)**

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

[2] *The provision for ECL balance at 30 June 2020 and total ECL charges for the period does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL charges amount to HK$355m and HK$251m respectively.*

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 2020		*At 31 December 2019*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**294**	**0.03**	228	0.02
- more than six months but not more than one year	**523**	**0.05**	54	0.01
- more than one year	**869**	**0.09**	896	0.09
	1,686	**0.17**	1,178	0.12

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 2020		*At 31 December 2019*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**121**	**0.01**	117	0.01

In response to the COVID-19 pandemic, the Bank has rolled out certain relief measures to customers impacted by the coronavirus to support their immediate cash flow and liquidity by offering principal moratorium or tenor extension. As the Bank offers to revise the repayment terms of the loans on a commercial basis, the regulatory treatment will follow the same as current and the loans under relief measures are not included as “rescheduled loans”. There are no rescheduled loans under relief measure program reported under this category.

Gross loans and advances to customers by industry sector

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

Figures in HK$m	***At 30 June 2020***	*At 31 December 2019*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**73,411**	72,692
Property investment	**159,119**	157,472
Financial concerns	**7,607**	7,764
Stockbrokers	**34**	185
Wholesale and retail trade	**31,478**	29,591
Manufacturing	**24,713**	23,274
Transport and transport equipment	**14,911**	13,891
Recreational activities	**960**	867
Information technology	**9,936**	9,043
Other	**94,146**	89,898
	416,315	404,677
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**31,378**	30,007
Loans and advances for the purchase of other residential properties	**220,234**	216,131
Credit card loans and advances	**26,644**	29,137
Other	**32,479**	30,814
	310,735	306,089
Total gross loans and advances for use in Hong Kong	**727,050**	710,766
Trade finance	**30,613**	33,431
Gross loans and advances for use outside Hong Kong	**200,339**	202,246
Gross loans and advances to customers	**958,002**	946,443

Financial investments

Figures in HK$m	***At 30 June 2020***	*At 31 December 2019*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**247,624**	212,041
- debt securities	**135,457**	125,927
- equity shares	**4,937**	5,881
Debt instruments measured at amortised cost		
- treasury bills	**500**	500
- debt securities	**129,610**	117,435
Less: Expected credit losses	**(274)**	(80)
	517,854	461,704
Fair value of debt securities at amortised cost	**138,480**	121,987
Treasury bills	**248,124**	212,541
Certificates of deposit	**9,962**	9,773
Other debt securities	**254,831**	233,509
Debt securities	**512,917**	455,823
Equity shares	**4,937**	5,881
	517,854	461,704

Intangible assets

Figures in HK$m	***At 30 June 2020***	*At 31 December 2019*
Present value of in-force long-term insurance business	**22,574**	20,469
Internally developed/acquired software	**1,341**	1,156
Goodwill	**329**	329
	24,244	21,954

Other assets

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

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

Current, savings and other deposit accounts

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

Trading liabilities

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

Financial liabilities designated at fair value

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

Certificates of deposit and other debt securities in issue

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

Other liabilities

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

Shareholders' equity

Figures in HK$m	***At 30 June 2020***	*At 31 December 2019*
Share capital	**9,658**	9,658
Retained profits	**132,817**	133,734
Other equity instruments	**11,744**	11,744
Premises revaluation reserve	**18,663**	19,889
Cash flow hedging reserve	**246**	16
Financial assets at fair value through other comprehensive income reserve	**2,664**	3,296
Other reserves	**227**	473
Total reserves	**166,361**	169,152
Total shareholders' equity	**176,019**	178,810
Annualised return on average ordinary shareholders' equity for the half-year ended	**10.7%**	13.4%

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

Capital management

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

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

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

Capital management *(continued)*

(a) Capital base

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

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

Capital management *(continued)*

(b) Risk-weighted assets by risk type

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

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

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

	At 30 June 2020	*At 31 December 2019*
CET1 capital ratio	**16.3 %**	16.9 %
T1 capital ratio	**18.0 %**	18.7 %
Total capital ratio	**19.7 %**	20.8 %

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

	Pro-forma At 30 June 2020	*Pro-forma At 31 December 2019*
CET1 capital ratio	**16.1 %**	15.8 %
T1 capital ratio	**17.8 %**	17.6 %
Total capital ratio	**19.5 %**	19.7 %

Liquidity information

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

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

The LCR as at 30 June 2020 was 193.8% compared with 205.9% at 31 December 2019.

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

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

Contingent liabilities and commitments

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

1. Statutory financial statements and accounting policies

The information in this announcement is unaudited and does not constitute statutory financial statements.

Certain financial information in this announcement is extracted from the interim report prepared under Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The interim report was reviewed by Audit Committee. The Board of Directors of the Bank has approved the interim report on 3 August 2020.

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

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

Except as described below, the accounting policies and methods of computation adopted by the Group for this announcement are consistent with those described on pages 169 to 185 of the 2019 statutory financial statements.

Standards applied during the half-year ended 30 June 2020

There were no new standards or amendments to standards that had a material effect on these interim condensed consolidated financial statements.

Use of estimates and judgements

Further information on summary of significant accounting policies, use of estimates and judgements and future accounting developments are set out in the accounting policies of the Group's 2020 Interim Report.

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2. Future accounting standard development

The Hong Kong Institute of Certified Public Accountants ('HKICPA') has issued a number of amendments and new standards which are not yet effective for the half-year ended 30 June 2020 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

<u>HKFRS 17 'Insurance Contracts'</u>
HKFRS 17 'Insurance Contracts' was issued in January 2018 which sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. HKFRS 17 is effective from 1 January 2021.

2. Future accounting standard development *(Continued)*

HKFRS 17 'Insurance Contracts' *(Continued)*
International Accounting Standards Board (IASB) has issued amendments to IFRS 17 in June 2020 to defer the effective date to 1 January 2023, however HKICPA has yet to adopt the amendments as at the date of the publication of these condensed consolidated financial statements. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

3. Ultimate holding company

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

4. Register of shareholders

The register of shareholders of the Bank will be closed on Tuesday, 18 August 2020, during which no transfer of shares can be registered. In order to qualify for the second interim dividend for 2020, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Monday, 17 August 2020. The second interim dividend will be payable on Thursday, 3 September 2020, to shareholders whose names appear on the register of shareholders of the Bank on Tuesday, 18 August 2020. Shares of the Bank will be traded ex-dividend as from Friday, 14 August 2020.

5. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA.

The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2020.

5. Corporate governance principles and practices *(Continued)*

Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices. Since the third quarter of 2019, the Bank is in the process of implementing the 'Subsidiary Accountability Framework' initiative introduced by the HSBC Group with an aim of simplifying subsidiary oversight framework, and strengthening and enhancing corporate governance. In addition, the Bank has also continued to embed 'Ways of Working' Governance into the Bank's Board and Board Committee governance for meeting effectiveness. 'Ways of Working' Governance was launched by the HSBC Group in 2018 and has been recognised by The Chartered Governance Institute in the United Kingdom by awarding the HSBC Group 'Governance Project of the Year 2019'.

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

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6. Board of Directors

At 3 August 2020, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Ms L Y Chiang*, Ms Kathleen C H Gan#, Ms Margaret W H Kwan, Ms Irene Y L Lee*, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Peter T S Wong# and Mr Michael W K Wu*.

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

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7. Announcement and Interim Report

This announcement is available on the website of Hong Kong Exchanges and Clearing Limited and the Bank's website (www.hangseng.com) on Monday, 3 August 2020. The 2020 Interim Report will be published on the aforesaid websites and printed copies of the 2020 Interim Report will be sent to shareholders before the end of August 2020.

8. Other financial information

To comply with the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (referred to as 'Rules'), the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Rules issued by the HKMA.

By Order of the Board

C C Li
Secretary

Hong Kong, 3 August 2020

恒生銀行有限公司
HANG SENG BANK LIMITED
Incorporated in Hong Kong with limited liability
Registered Office and Head Office: 83 Des Voeux Road Central, Hong Kong

Member HSBC Group