



The Hongkong and Shanghai Banking
Corporation Limited

Interim Report 2015

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Certain defined terms

This document comprises the *Interim Report 2015* for The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

Cautionary statement regarding forward-looking statements

This *Interim Report* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

Statements that are not historical facts, including statements about the Bank's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Chinese translation

A Chinese translation of the *Interim Report* is available upon request from: Communications (Asia), Level 32, HSBC Main Building, 1 Queen's Road Central, Hong Kong. The report is also available, in English and Chinese, on the Bank's website at www.hsbc.com.hk.

本《中期業績報告》備有中譯本，如欲查閱可向下列地址索取：香港皇后大道中 1 號滙豐總行大廈 32 樓企業傳訊部（亞太區）。本報告之中英文本亦載於本行之網址 www.hsbc.com.hk。

Financial Highlights

- Profit before tax up 19% to HK\$70,079m (HK\$59,096m in the first half of 2014).
- Attributable profit up 12% to HK\$52,290m (HK\$46,667m in the first half of 2014).
- Return on average shareholders' equity of 18.6% (19.5% in the first half of 2014).
- Total assets up 4% to HK\$7,168bn (HK\$6,877bn at the end of 2014).
- Common equity tier 1 ratio of 14.3% (14.4% at the end of 2014), total capital ratio of 17.4% (15.7% at the end of 2014).
- Cost efficiency ratio of 37.7% (40.3% for the first half of 2014.)

Reported results in the first half of 2015 included a gain of HK\$10,636m on the partial disposal of our shareholding in Industrial Bank Co., Limited ('Industrial Bank'), while the first half of 2014 included a gain of HK\$3,320m on the disposal of our shareholding in Bank of Shanghai. Excluding these gains:

- Return on average shareholders' equity of 14.8% (18.1% for the first half of 2014).
- Cost efficiency ratio of 42.1% (41.9% for the first half of 2014).

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Comment by Stuart Gulliver, Chairman

Economic growth in Asia moderated during the first half of 2015. Investment and demand slowed and exports were weaker than expected, particularly into mainland China, although exports from Asia to the US and Europe accelerated. China's economy cooled, despite policy easing, while regional economies also experienced slowing growth. In ASEAN, consumer demand and spending both weakened. In Hong Kong, lower demand resulted in reduced exports to mainland China, while domestic retail sales were also lower. However, unemployment remained low and inflationary pressures were subdued. India, in contrast, has seen an acceleration in economic growth and activity, led by increased public investment and urban consumption.

Against this mixed backdrop, in the first six months of 2015 The Hongkong and Shanghai Banking Corporation Limited recorded profit before tax of HK\$70,079m, which included a gain on the partial disposal of Hang Seng Bank Limited's ('Hang Seng') shareholding in Industrial Bank of HK\$10,636m. This compares with HK\$59,096m in the first half of 2014, which included a gain on the disposal of our shareholding in Bank of Shanghai. Excluding these gains, profit before tax was 7% higher, including an 8% growth in revenue partly offset by a 9% increase in costs as we continued to invest in growth and in Regulatory programmes and Compliance initiatives. The cost efficiency ratio for the period was 42.1%, broadly flat to prior year.

Loans and advances to customers continued to grow during the period across the region, principally in mortgages and corporate lending. We also grew deposits, mainly in Hong Kong. At the end of June 2015, the loans to deposits ratio stood at 61.9%. Our capital position remained strong, with a common equity tier 1 ratio of 14.3% at the end of June 2015. Return on average shareholders' equity was 14.8%, excluding the gains referred to above, lower than the first half of 2014 as we continued to transition to Basel III.

In the first half of 2015, we received a number of awards including 'Best Regional Trade Finance Bank in Asia Pacific' by *Global Finance*, and 'Best Bank', 'Best Equity House' and 'Best Debt House' in Hong Kong by *Asiamoney*. We continued to be the leading international bank for renminbi services and we were named 'Best Overall Offshore RMB Products and Services Provider' by *Asiamoney* for the fourth successive year.

In Retail Banking and Wealth Management, we maintained our leading market share in mortgages in Hong Kong and continued to grow mortgage lending balances. Other personal lending also increased. We grew net fee income from higher securities brokerage and unit trust fees. A number of new mutual funds were successfully launched during the period. We continued to invest in our branch network. In mainland China, HSBC and Hang Seng combined now have a total of 253 outlets, of which 86 are in Guangdong and, within that figure, 71 in the Pearl River Delta area.

In Commercial Banking, in line with our ambition to strengthen our position as the leading international renminbi bank, we continued to explore renminbi internationalisation opportunities and we became one of the first foreign banks to set up a Free Trade Unit in the Shanghai Free Trade Zone. We launched a number of innovative renminbi solutions in the areas of trade finance and payments and cash management. We also continued to identify opportunities for collaboration with Global Banking & Markets in support of our clients. We grew customer lending, particularly term lending in a number of markets including Hong Kong, India and Malaysia.

In Global Banking & Markets, we continued to support our clients through our broad and integrated range of products, and maintained our leading positions in offshore renminbi bond issuance in Hong Kong, as well as in Hong Kong dollar bond issuance. We also continued to lead the market in onshore custodianship in the renminbi Qualified Foreign Institutional Investors scheme. A strong performance was maintained in Asian local currency bonds. We secured a number of market first mandates, including the first two-way renminbi cross-border sweeping deal in Germany, as well as underwriting the first renminbi bond issued in Thailand. We held the top position for M&A deals in Hong Kong by deal value for the period, and number two position for M&A deals by value across Asia. Following the launch of the Hong Kong-Shanghai Stock Connect scheme in late 2014, we established a strong market share in equity trading through the scheme.

Looking forward, an improvement in trade growth will depend on the global economy regaining momentum. Mainland China's economy is showing signs of stabilisation, and with further policy easing we expect growth to pick up during the second half of this year, led by accelerating infrastructure investment combined with improving conditions in the property sector. We expect GDP growth in mainland China of 7.1% in 2015 and 7.4% next year. Against this backdrop, and with our strong balance sheet position, we see opportunities to continue to serve our retail and commercial customers' needs as they grow their activities across the region, and particularly in the economic areas of ASEAN and Greater China.

Financial Review

Geographical Regions

Profit before tax by geographical region

	Hong Kong HK\$m	Rest of Asia- Pacific HK\$m	Intra-segment elimination HK\$m	Total HK\$m
Period ended 30 June 2015				
Net interest income	25,828	21,116	–	46,944
Net fee income	17,718	7,173	–	24,891
Net trading income	8,827	4,900	–	13,727
Net income from financial instruments designated at fair value ..	3,119	914	–	4,033
Gains less losses from financial investments	11,095	110	–	11,205
Dividend income	170	8	–	178
Net insurance premium income	24,964	3,125	–	28,089
Other operating income	6,773	657	(2,077)	5,353
Total operating income	98,494	38,003	(2,077)	134,420
Net insurance claims and benefits paid and movement in liabilities to policyholders	(28,467)	(3,309)	–	(31,776)
Net operating income before loan impairment charges and other credit risk provisions	70,027	34,694	(2,077)	102,644
Loan impairment charges and other credit risk provisions	(445)	(1,462)	–	(1,907)
Net operating income	69,582	33,232	(2,077)	100,737
Operating expenses	(23,177)	(17,602)	2,077	(38,702)
Operating profit	46,405	15,630	–	62,035
Share of profit in associates and joint ventures	123	7,921	–	8,044
Profit before tax	46,528	23,551	–	70,079
Share of profit before tax	66.4%	33.6%	–	100.0%
Cost efficiency ratio	33.1%	50.7%	–	37.7%
Net loans and advances to customers	1,726,814	1,154,183	–	2,880,997
Customer accounts	3,198,940	1,452,533	–	4,651,473
Period ended 30 June 2014				
Net interest income	24,767	22,418	2	47,187
Net fee income	15,070	7,351	–	22,421
Net trading income	6,027	4,209	(2)	10,234
Net income from financial instruments designated at fair value	2,495	453	–	2,948
Gains less losses from financial investments	3,366	47	–	3,413
Dividend income	150	5	–	155
Net insurance premium income	26,406	3,336	–	29,742
Other operating income	6,094	590	(2,076)	4,608
Total operating income	84,375	38,409	(2,076)	120,708
Net insurance claims and benefits paid and movement in liabilities to policyholders	(28,775)	(3,398)	–	(32,173)
Net operating income before loan impairment charges and other credit risk provisions	55,600	35,011	(2,076)	88,535
Loan impairment charges and other credit risk provisions	(776)	(818)	–	(1,594)
Net operating income	54,824	34,193	(2,076)	86,941
Operating expenses	(20,659)	(17,083)	2,076	(35,666)
Operating profit	34,165	17,110	–	51,275
Share of profit in associates and joint ventures	194	7,627	–	7,821
Profit before tax	34,359	24,737	–	59,096
Share of profit before tax	58.1%	41.9%	–	100.0%
Cost efficiency ratio	37.2%	48.8%	–	40.3%
Net loans and advances to customers	1,623,743	1,185,636	–	2,809,379
Customer accounts	2,953,407	1,467,043	–	4,420,450

Financial Review (continued)

Geographical Regions (continued)

Profit before tax by global business – Hong Kong

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Other HK\$m	Intra- segment elimination HK\$m	Total HK\$m
Period ended 30 June 2015							
Net interest income/(expense)	13,435	8,298	5,103	417	(959)	(466)	25,828
Net fee income	10,202	3,933	2,783	694	106	–	17,718
Net trading income/(expense)	754	811	6,505	444	(153)	466	8,827
Net income/(expense) from financial instruments designated at fair value ..	3,106	(85)	48	–	50	–	3,119
Gains less losses from financial investments	289	136	27	–	10,643	–	11,095
Dividend income	1	–	–	–	169	–	170
Net insurance premium income	22,188	2,776	–	–	–	–	24,964
Other operating income	2,296	241	391	5	4,828	(988)	6,773
Total operating income	52,271	16,110	14,857	1,560	14,684	(988)	98,494
Net insurance claims and benefits paid and movement in liabilities to policyholders	(25,679)	(2,788)	–	–	–	–	(28,467)
Net operating income before loan impairment charges and other credit risk provisions	26,592	13,322	14,857	1,560	14,684	(988)	70,027
Loan impairment (charges)/ releases and other credit risk provisions	(627)	(144)	345	(20)	1	–	(445)
Net operating income	25,965	13,178	15,202	1,540	14,685	(988)	69,582
Operating expenses	(9,240)	(3,573)	(5,940)	(779)	(4,633)	988	(23,177)
Operating profit	16,725	9,605	9,262	761	10,052	–	46,405
Share of profit in associates and joint ventures	121	1	1	–	–	–	123
Profit before tax	16,846	9,606	9,263	761	10,052	–	46,528
Share of profit before tax	24.0%	13.7%	13.2%	1.1%	14.4%	–	66.4%
Net loans and advances to customers	566,399	635,554	436,342	71,016	17,503	–	1,726,814
Customer accounts	1,835,941	867,880	347,063	142,057	5,999	–	3,198,940

Financial Review (continued)Geographical Regions (*continued*)*Profit before tax by global business – Hong Kong*

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Other HK\$m	Intra- segment elimination HK\$m	Total HK\$m
Period ended 30 June 2014							
Net interest income/(expense)	12,433	7,233	6,037	379	(1,118)	(197)	24,767
Net fee income	7,981	3,908	2,613	483	85	–	15,070
Net trading income	463	868	3,999	462	38	197	6,027
Net income/(expense) from financial instruments designated at fair value	2,654	(131)	16	–	(44)	–	2,495
Gains less losses from financial investments	2	34	16	–	3,314	–	3,366
Dividend income	1	–	–	–	149	–	150
Net insurance premium income	24,447	1,959	–	–	–	–	26,406
Other operating income	2,266	272	234	–	4,286	(964)	6,094
Total operating income	50,247	14,143	12,915	1,324	6,710	(964)	84,375
Net insurance claims and benefits paid and movement in liabilities to policyholders	(26,825)	(1,950)	–	–	–	–	(28,775)
Net operating income before loan impairment charges and other credit risk provisions	23,422	12,193	12,915	1,324	6,710	(964)	55,600
Loan impairment (charges)/ releases and other credit risk provisions	(552)	(253)	30	–	(1)	–	(776)
Net operating income	22,870	11,940	12,945	1,324	6,709	(964)	54,824
Operating expenses	(8,105)	(3,212)	(5,395)	(659)	(4,252)	964	(20,659)
Operating profit	14,765	8,728	7,550	665	2,457	–	34,165
Share of profit in associates and joint ventures	190	1	2	–	1	–	194
Profit before tax	14,955	8,729	7,552	665	2,458	–	34,359
Share of profit before tax	25.3%	14.8%	12.8%	1.1%	4.1%	–	58.1%
Net loans and advances to customers	520,855	614,189	415,952	62,086	10,661	–	1,623,743
Customer accounts	1,679,960	790,035	335,888	145,960	1,564	–	2,953,407

Financial Review (continued)

Geographical Regions (continued)

Profit before tax by global business – Rest of Asia-Pacific

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Other HK\$m	Intra- segment elimination HK\$m	Total HK\$m
Period ended 30 June 2015							
Net interest income	6,166	5,721	8,167	271	565	226	21,116
Net fee income/(expense)	2,418	2,072	2,477	266	(60)	–	7,173
Net trading income	297	685	3,996	141	7	(226)	4,900
Net income/(expense) from financial instruments designated at fair value....	906	11	13	–	(16)	–	914
Gains less losses from financial investments	(3)	–	119	–	(6)	–	110
Dividend income	5	–	–	–	3	–	8
Net insurance premium income.....	2,538	590	–	–	–	(3)	3,125
Other operating income	134	9	253	4	612	(355)	657
Total operating income	12,461	9,088	15,025	682	1,105	(358)	38,003
Net insurance claims and benefits paid and movement in liabilities to policyholders	(2,814)	(496)	–	–	–	1	(3,309)
Net operating income before loan impairment charges and other credit risk provisions	9,647	8,592	15,025	682	1,105	(357)	34,694
Loan impairment charges and other credit risk provisions	(463)	(960)	(22)	(16)	(1)	–	(1,462)
Net operating income	9,184	7,632	15,003	666	1,104	(357)	33,232
Operating expenses	(7,457)	(4,299)	(4,947)	(471)	(785)	357	(17,602)
Operating profit	1,727	3,333	10,056	195	319	–	15,630
Share of profit in associates and joint ventures	1,033	5,700	1,188	–	–	–	7,921
Profit before tax	2,760	9,033	11,244	195	319	–	23,551
Share of profit before tax	4.0%	12.9%	16.0%	0.3%	0.4%	–	33.6%
Net loans and advances to customers	346,302	400,667	372,248	33,588	1,378	–	1,154,183
Customer accounts	482,199	357,923	531,677	80,245	489	–	1,452,533

Financial Review (continued)

Geographical Regions (continued)

Profit before tax by global business – Rest of Asia-Pacific

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking And Markets HK\$m	Global Private Banking HK\$m	Other HK\$m	Intra- segment elimination HK\$m	Total HK\$m
Period ended 30 June 2014							
Net interest income	6,694	5,475	8,269	292	983	705	22,418
Net fee income/(expense)	2,489	2,180	2,516	208	(42)	–	7,351
Net trading income	294	730	3,677	151	62	(705)	4,209
Net income/(expense) from financial instruments designated at fair value	464	1	2	–	(14)	–	453
Gains less losses from financial investments	–	–	31	–	16	–	47
Dividend income	3	–	–	–	2	–	5
Net insurance premium income	2,499	844	–	–	–	(7)	3,336
Other operating income	373	124	226	2	163	(298)	590
Total operating income	12,816	9,354	14,721	653	1,170	(305)	38,409
Net insurance claims and benefits paid and movement in liabilities to policyholders ..	(2,614)	(785)	–	–	–	1	(3,398)
Net operating income before loan impairment charges and other credit risk provisions ...	10,202	8,569	14,721	653	1,170	(304)	35,011
Loan impairment (charges)/ releases and other credit risk provisions	(634)	(266)	80	1	1	–	(818)
Net operating income	9,568	8,303	14,801	654	1,171	(304)	34,193
Operating expenses	(7,451)	(4,098)	(4,781)	(430)	(627)	304	(17,083)
Operating profit	2,117	4,205	10,020	224	544	–	17,110
Share of profit in associates and joint ventures	1,031	5,459	1,137	–	–	–	7,627
Profit before tax	3,148	9,664	11,157	224	544	–	24,737
Share of profit before tax	5.3%	16.3%	18.9%	0.4%	1.0%	–	41.9%
Net loans and advances to customers	374,654	408,325	367,021	34,150	1,486	–	1,185,636
Customer accounts	519,131	365,940	493,847	87,635	490	–	1,467,043

Financial Review (continued)

Geographical Regions (continued)

Profit before tax by global business

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Other HK\$m	Intra- segment elimination HK\$m	Total HK\$m
Period ended 30 June 2015							
Net interest income/(expense)	19,601	14,019	13,243	688	(367)	(240)	46,944
Net fee income	12,617	6,004	5,263	960	47	–	24,891
Net trading income/(expense)	1,051	1,496	10,501	585	(146)	240	13,727
Net income/(expense) from financial instruments designated at fair value	4,012	(74)	61	–	34	–	4,033
Gains less losses from financial investments	286	136	146	–	10,637	–	11,205
Dividend income	6	–	–	–	172	–	178
Net insurance premium income	24,726	3,366	–	–	–	(3)	28,089
Other operating income	2,430	250	610	9	5,393	(3,339)	5,353
Total operating income	64,729	25,197	29,824	2,242	15,770	(3,342)	134,420
Net insurance claims and benefits paid and movement in liabilities to policyholders ..	(28,493)	(3,284)	–	–	–	1	(31,776)
Net operating income before loan impairment charges and other credit risk provisions	36,236	21,913	29,824	2,242	15,770	(3,341)	102,644
Loan impairment (charges)/ releases and other credit risk provisions	(1,090)	(1,104)	323	(36)	–	–	(1,907)
Net operating income	35,146	20,809	30,147	2,206	15,770	(3,341)	100,737
Operating expenses	(16,697)	(7,872)	(10,853)	(1,250)	(5,371)	3,341	(38,702)
Operating profit	18,449	12,937	19,294	956	10,399	–	62,035
Share of profit in associates and joint ventures	1,154	5,701	1,189	–	–	–	8,044
Profit before tax	19,603	18,638	20,483	956	10,399	–	70,079
Share of profit before tax	28.0%	26.6%	29.2%	1.4%	14.8%	–	100%
Net loans and advances to customers	912,701	1,036,221	808,590	104,604	18,881	–	2,880,997
Customer accounts	2,318,140	1,225,803	878,740	222,302	6,488	–	4,651,473

Financial Review (continued)

Geographical Regions (continued)

Profit before tax by global business

	Retail Banking and Wealth Management HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Global Private Banking HK\$m	Other HK\$m	Intra- segment elimination HK\$m	Total HK\$m
Period ended 30 June 2014							
Net interest income/(expense)	19,127	12,708	14,306	671	(135)	510	47,187
Net fee income	10,470	6,088	5,129	691	43	–	22,421
Net trading income	757	1,598	7,676	613	100	(510)	10,234
Net income/(expense) from financial instruments designated at fair value	3,118	(130)	18	–	(58)	–	2,948
Gains less losses from financial investments	2	34	47	–	3,330	–	3,413
Dividend income	4	–	–	–	151	–	155
Net insurance premium income	26,946	2,803	–	–	–	(7)	29,742
Other operating income	2,639	396	417	2	4,409	(3,255)	4,608
Total operating income	63,063	23,497	27,593	1,977	7,840	(3,262)	120,708
Net insurance claims and benefits paid and movement in liabilities to policyholders ..	(29,439)	(2,735)	–	–	–	1	(32,173)
Net operating income before loan impairment charges and other credit risk provisions	33,624	20,762	27,593	1,977	7,840	(3,261)	88,535
Loan impairment (charges)/ releases and other credit risk provisions	(1,186)	(519)	110	1	–	–	(1,594)
Net operating income	32,438	20,243	27,703	1,978	7,840	(3,261)	86,941
Operating expenses	(15,556)	(7,310)	(10,133)	(1,089)	(4,839)	3,261	(35,666)
Operating profit	16,882	12,933	17,570	889	3,001	–	51,275
Share of profit in associates and joint ventures	1,221	5,460	1,139	–	1	–	7,821
Profit before tax	18,103	18,393	18,709	889	3,002	–	59,096
Share of profit before tax	30.6%	31.1%	31.7%	1.5%	5.1%	–	100.0%
Net loans and advances to customers	895,509	1,022,514	782,973	96,236	12,147	–	2,809,379
Customer accounts	2,199,091	1,155,975	829,735	233,595	2,054	–	4,420,450

Financial Review (continued)

Hong Kong reported pre-tax profits of HK\$46,528m compared with HK\$34,359m in the first half of 2014, an increase of 35%. The increase in pre-tax profits was mainly due to the gain on the partial disposal of Hang Seng's shareholding in Industrial Bank of HK\$10,636m, partly offset by the disposal gain on our shareholding in Bank of Shanghai of HK\$3,320m in the first half of 2014. Excluding these disposal gains, pre-tax profits increased by HK\$4,853m, or 16%.

Revenue increased by HK\$14,427m, or 26%, mainly reflecting the gain on the partial disposal of Industrial Bank. Excluding both of the disposal gains mentioned above, revenue rose 14%, primarily in Retail Banking and Wealth Management ('RBWM') and Global Banking and Markets ('GB&M'), and to a lesser extent in Commercial Banking ('CMB'). The increase also included a gain from the 150th anniversary banknotes issuance, which was fully offset by a corresponding increase in operating expenses related to this issuance.

Revenue in RBWM increased by 14% compared with the first half of 2014, driven by higher net fee income from increased securities brokerage and unit trust fees from a favourable equity market performance. Net interest income also increased from growth in average lending balances, mainly mortgages and other personal lending, and from growth in average deposit balances, although the benefit was partly offset by spread compression on unsecured lending.

Revenue in GB&M increased by 15%, driven by higher trading income from the Equities business due to a favourable equity market performance, coupled with higher Foreign Exchange ('FX') and Rates revenue from increased client flows and market volatility. This was partly offset by lower Balance Sheet Management ('BSM') revenue due to decreased net interest income from lower reinvestment yields, particularly in the renminbi portfolio.

Revenue in CMB increased by 9%, mainly due to higher net interest income from growth in term lending balances and improved lending spreads.

Loan impairment charges were lower by HK\$331m compared to the first half of 2014, primarily due to a release of individually assessed impairment charges in GB&M.

Operating expenses rose by HK\$2,518m or 12% in the first half of 2015, reflecting wage inflation and additional headcount to support business growth, and from Regulatory programmes and Compliance initiatives. The increase also included charitable donations and other expenses in relation to the 150th anniversary banknotes issuance.

Financial Review (continued)

Rest of Asia-Pacific reported pre-tax profits of HK\$23,551m compared with HK\$24,737m in the first half of 2014, a decrease of 5%. The decrease in pre-tax profits was largely due to higher individually assessed impairment charges, coupled with higher operating expenses.

Revenue decreased by HK\$317m, or 1% compared with the first half of 2014, mainly due to an unfavourable impact from foreign exchange. Excluding this impact, revenue increased by 5%, mainly driven by an increase in trading income, and to a lesser extent net fee income. These increases were partly offset by lower net interest income from BSM.

In mainland China, revenue increased by 6%, driven by higher trading income in GB&M, mainly from Rates and FX. Net interest income decreased from lower BSM revenues resulting from lower re-investment yields, partly offset by higher revenues from deposit growth in Securities Services and from lending growth in Capital Financing. Revenue from RBWM also increased, mainly from insurance operations.

Elsewhere in Asia, excluding the impact from foreign exchange, revenue growth was reported by most countries across the region. Increased revenue in Australia was driven by higher trading income in GB&M, partly offset by lower RBWM revenue following the sale of the credit card portfolio in 2014. Revenue in Malaysia and Singapore also increased, driven by GB&M. These increases were partly offset by lower revenue in Taiwan, primarily in GB&M from lower FX and Rates income, coupled with lower net interest income from compressed lending and deposit spreads.

Loan impairment charges increased by HK\$644m compared with the first half of 2014, mainly in CMB from a small number of individually assessed impairment charges in Indonesia, mainland China and India.

Operating expenses increased by HK\$519m, mainly due to increased staff costs, with increased headcount to support business growth and investments in Regulatory programmes and Compliance initiatives, coupled with wage inflation. Other administrative expenses also increased, mainly from increased usage of Global Services Centres.

Share of profit in associates and joint ventures rose by HK\$294m, mainly from a higher share of profits from Bank of Communications.

Financial Review (continued)**Net interest income**

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Net interest income	46,944	47,187
Average interest-earning assets	5,272,723	4,893,026
Net interest spread	1.69%	1.83%
Net interest margin	1.80%	1.94%

Net interest income ('NII') decreased by HK\$243m compared with the first half of 2014 due to an unfavourable foreign exchange impact. Excluding the impact from foreign exchange, NII rose by HK\$914m, or 2%, mainly from balance sheet growth in Hong Kong, although this was largely offset by lower BSM revenue in Hong Kong and mainland China.

Average interest-earning assets increased by HK\$380bn, or 8%, compared with the first half of 2014. Average customer lending increased by 5%, notably in term lending. Financial investments also increased by 9%.

Net interest margin decreased by 14 basis points compared with the first half of 2014, driven by compressed spreads on both customer lending and financial investments, partly offset by widened spreads on customer deposits.

In **Hong Kong**, the net interest margin for the Bank remained broadly flat, with narrower spreads on term lending and financial investments being largely offset by improved deposit spreads.

At **Hang Seng Bank**, the net interest margin decreased by 12 basis points, mainly due to narrower spreads on customer term lending and lower reinvestment yields in BSM, partly offset by improved deposit spreads from an increase in low cost savings balances.

In the **Rest of Asia-Pacific**, the net interest margin decreased by 13 basis points, mainly from lower reinvestment yields in BSM, partly offset by improved spreads on corporate lending.

Net fee income

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Account services	1,470	1,439
Credit facilities	1,757	1,643
Import/export	2,227	2,391
Remittances	1,682	1,710
Securities/broking	5,376	3,618
Cards	3,493	3,451
Insurance	774	723
Unit trusts	4,014	3,372
Funds under management	2,314	1,919
Underwriting	617	1,185
Other	4,226	3,873
Fee income	27,950	25,324
Fee expense	(3,059)	(2,903)
	24,891	22,421

Financial Review (continued)**Net trading income**

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Dealing profits	10,143	7,769
Net interest income on trading assets and liabilities	2,728	1,951
Dividend income from trading securities	864	523
Net loss from hedging activities	(8)	(9)
	13,727	10,234

Gains less losses from financial investments

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Gain on partial disposal of Industrial Bank	10,636	–
Gain on sale of Bank of Shanghai	–	3,320
Gains on disposal of available-for-sale securities	569	102
Impairment of available-for-sale equity investments	–	(9)
	11,205	3,413

Other operating income

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Gain on 150 th anniversary banknotes issuance	706	–
Movement in present value of in-force insurance business	2,075	2,416
Gain on investment properties	261	319
Gain on disposal of property, plant and equipment, and assets held for sale	150	48
Gain on disposal of subsidiaries, associates, joint ventures and business portfolios	23	88
Loss on reclassification of TechCom Bank	–	(251)
Other	2,138	1,988
	5,353	4,608

In 2015, the Bank issued commemorative banknotes to celebrate its 150th anniversary, recognising a gain on banknotes issuance. There is a corresponding increase in operating expenses, reflecting charitable donations and other expenses in relation to the banknotes issuance.

Financial Review (continued)**Insurance income**

Included in net operating income are the following revenues earned by the insurance business:

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Net interest income	5,045	4,552
Net fee income	1,057	1,102
Net trading loss	(148)	(91)
Net income from financial instruments designated at fair value	3,937	2,988
Net insurance premium income	28,089	29,742
Movement in present value of in-force business	2,075	2,416
Other operating income	543	126
	40,598	40,835
Net insurance claims and benefits paid and movement in liabilities to policyholders	(31,776)	(32,173)
Net operating income	8,822	8,662

Net interest income increased by 11%, driven by growth in the debt securities portfolio, reflecting net inflows from new and renewal life insurance premiums.

Net income from financial instruments designated at fair value increased by 32%, reflecting a favourable equity market performance in the first half of 2015. To the extent that revaluation is attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance premium income decreased by 6%, mainly in Hong Kong due to lower premiums from unit-linked contracts partly offset by higher new business premiums from a high net-worth product. The drop in premium income resulted in a corresponding decrease in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

The movement in present value of in-force business decreased by HK\$341m, mainly due to a decrease in the value of new business as a result of the change in sales mix, partly offset by a favourable interest rate assumption update in the first half of 2015, with a corresponding increase in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Other operating income was higher largely due to a gain on disposal of available-for-sale securities, which resulted in a corresponding increase in 'Net insurance claims and benefits paid and movements in liabilities to policyholders'.

Loan impairment charges and other credit risk provisions

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Individually assessed impairment charges	636	309
Collectively assessed impairment charges	1,238	1,285
Other credit risk provisions	33	–
Loan impairment charges and other credit risk provisions	1,907	1,594

Individually assessed impairment charge increased in the first half of 2015, primarily in CMB, comprising charges against a small number of customers mainly in Indonesia, mainland China and India, partly offset by an impairment release against a GB&M customer in Hong Kong. Loan impairment charges as a percentage of average gross customer advances remained low at 0.13% for the first half of 2015 (first half of 2014: 0.12%)

Financial Review (continued)**Employee compensation and benefits**

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Wages and salaries	19,278	17,616
Social security costs	535	513
Retirement benefit costs	1,230	1,156
	21,043	19,285

Employee compensation and benefits increased by HK\$1,758m, reflecting wage inflation and a year-on-year increase in average headcount, mainly to support IT infrastructure, Risk and Compliance initiatives and business growth.

	At 30 June 2015	At 31 December 2014
Staff numbers by region – full-time equivalent		
Hong Kong	29,350	29,368
Rest of Asia-Pacific	38,690	38,926
Total	68,040	68,294

General and administrative expenses

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Premises and equipment		
– Rental expenses	1,746	1,777
– Other premises and equipment	1,962	1,921
	3,708	3,698
Marketing and advertising expenses	1,952	1,858
Other administrative expenses	9,091	7,992
	14,751	13,548

The increase in other administrative expenses was largely due to charitable donations and other expenses in relation to the 150th anniversary banknotes issuance.

Share of profit in associates and joint ventures

Share of profit in associates and joint ventures of HK\$8,044m principally represents the group's share of post-tax profits from Bank of Communications. See note 8 of the Condensed Consolidated Financial Statements ('the Financial Statements') for further information on our interests in associates.

Financial Review (continued)**Capital adequacy**

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

The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to determine credit risk for its banking book securitisation exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate exposures, foreign exchange (including gold) exposures, and equity exposures. The group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group uses the standardised (market risk) approach for calculating other market risk positions as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The Bank and its banking subsidiaries maintain a regulatory reserve to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 30 June 2015, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$28,845m (31 December 2014: HK\$27,959m). There are no relevant capital shortfalls in any of the group's subsidiaries at 30 June 2015 (31 December 2014: Nil) which are not included in its consolidation group for regulatory purposes.

The basis of consolidation for the calculation of capital ratios for regulatory purposes is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the Supplementary Notes that will be posted in the Regulatory Disclosures section of our website www.hsbc.com.hk.

A detailed breakdown of the group's common equity tier 1 ('CET1') capital, additional tier 1 ('AT1') capital, tier 2 capital and regulatory deductions and a full reconciliation between the group's accounting and regulatory balance sheets can be viewed in the Supplementary Notes Appendices that will be posted in the Regulatory Disclosures section of our website www.hsbc.com.hk.

	At 30 June 2015	At 31 December 2014
	%	%
Capital ratios		
CET1 capital	14.3	14.4
Tier 1 capital	15.3	14.4
Total capital	17.4	15.7
Risk weighted assets by risk type	HK\$m	HK\$m
Credit risk	2,100,944	2,064,687
Counterparty credit risk	202,865	209,703
Market risk	124,405	143,199
Operational risk	295,259	290,342
	2,723,473	2,707,931

The following table sets out the composition of the group's capital base under Basel III at 30 June 2015. The position at 30 June 2015 benefitted from transitional arrangements which will be phased out.

Financial Review (continued)**Capital adequacy** (continued)

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
<i>Capital base</i>		
Common equity tier 1 ('CET1') capital		
Shareholders' equity	508,456	491,545
Shareholders' equity per balance sheet	577,681	557,835
Revaluation reserve capitalisation issue	(1,454)	(1,454)
Other equity instruments	(14,737)	(14,737)
Unconsolidated subsidiaries	(53,034)	(50,099)
Non-controlling interests	22,512	27,971
Non-controlling interests per balance sheet	50,625	50,511
Non-controlling interests in unconsolidated subsidiaries	(5,448)	(4,873)
Surplus non-controlling interests disallowed in CET1	(22,665)	(17,667)
Regulatory deductions to CET1 capital	(141,243)	(129,771)
Valuation adjustments	(1,957)	(2,030)
Goodwill and intangible assets	(14,437)	(14,683)
Deferred tax assets net of deferred tax liabilities	(1,394)	(1,485)
Cash flow hedging reserve	(108)	182
Changes in own credit risk on fair valued liabilities	(853)	(596)
Defined benefit pension fund assets	(43)	(89)
Significant capital investments in unconsolidated financial sector entities	(38,605)	(28,866)
Property revaluation reserves ¹	(55,001)	(52,657)
Regulatory reserve	(28,845)	(27,959)
Excess AT1 deductions	–	(1,588)
Total CET1 capital	389,725	389,745
Additional tier 1 ('AT1') capital		
Total AT1 capital before regulatory deductions	52,198	48,750
Perpetual subordinated loans	14,737	14,737
Perpetual non-cumulative preference shares	25,218	25,229
Allowable non-controlling interests in AT1 capital	12,243	8,784
Regulatory deductions to AT1 capital	(25,312)	(48,750)
Significant capital investments in unconsolidated financial sector entities	(25,312)	(50,338)
Excess AT1 deductions	–	1,588
Total AT1 capital	26,886	–
Total tier 1 capital	416,611	389,745
Tier 2 capital		
Total Tier 2 capital before regulatory deductions	86,108	88,802
Perpetual cumulative preference shares	3,101	3,102
Cumulative term preferences shares	8,140	8,143
Perpetual subordinated debt	9,324	9,337
Term subordinated debt	25,018	25,400
Property revaluation reserves ¹	25,405	24,350
Impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital	15,120	14,957
Allowable non-controlling interests in Tier 2 capital	–	3,513
Regulatory deductions to Tier 2 capital	(28,484)	(53,510)
Significant capital investments in unconsolidated financial sector entities	(28,484)	(53,510)
Total tier 2 capital	57,624	35,292
Total capital	474,235	425,037

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

Financial Review (continued)**Capital adequacy** (continued)

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out, based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the balance sheet at 30 June 2015; it is not a projection. On this pro-forma basis, the group's CET1 ratio is 12.5%, which is above the Basel III minimum requirement plus expected regulatory capital buffer requirements.

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

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
CET1 capital on a transitional basis	389,725	389,745
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	(50,624)	(100,676)
Excess AT1 deductions	–	1,588
CET1 capital end point basis	339,101	290,657
AT1 capital on a transitional basis	26,886	–
Grandfathered instruments:		
Perpetual non-cumulative preference shares	(25,218)	(25,229)
Transitional provisions:		
Allowable non-controlling interests in AT1 capital	(10,814)	(5,389)
Significant capital investments in unconsolidated financial sector entities	25,312	50,338
Excess AT1 deductions	–	(1,588)
AT1 capital end point basis	16,166	18,132
Tier 2 capital on a transitional basis	57,624	35,292
Grandfathered instruments:		
Perpetual cumulative preference shares	(3,101)	(3,102)
Cumulative term preference shares	(8,140)	(8,143)
Perpetual subordinated debt	(9,324)	(9,337)
Term subordinated debt	(6,412)	(6,787)
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	25,312	50,338
Tier 2 capital end point basis	55,959	58,261

Principal risks and uncertainties

The group continuously monitors and identifies risks. This process, which is informed by its risk factors and the results of its stress testing programme, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to the group's business strategy and potentially, its risk appetite.

Our principal banking risks are credit risk, operational risk, market risk, liquidity and funding risk, reputational risk and insurance risk. There is no material change in the principal risks and uncertainties for the remaining six months of the financial year, the description of which can be found in the risk report of the Bank's *Annual Report and Accounts 2014*.

Statement of Directors' Responsibilities

The Directors, the names of whom are set out below, confirm to the best of their knowledge that:

- the condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting'; and
- the interim report includes a fair review of the information required by DTR4.2.7R of the Disclosure Rules and Transparency Rules issued by the UK Financial Conduct Authority, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2015 and their impact on the condensed consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Stuart T Gulliver (Chairman); Peter Wong Tung Shun (Deputy Chairman & Chief Executive);
Laura Cha May Lung*, GBS (Deputy Chairman); Zia Mody* (Deputy Chairman); Graham John Bradley*;
Dr Christopher Cheng Wai Chee*, GBS, OBE; Dr Raymond Ch'ien Kuo Fung*, GBS, CBE; Naina L Kidwai;
Irene Lee Yun-lien*; Rose Lee Wai Mun; Jennifer Li Xinzhe*; Victor Li Tzar Kuo[#]; James Riley*; John Robert Slosar*;
Dr Rosanna Wong Yick-ming*, DBE; Marjorie Yang Mun Tak*, GBS; Tan Sri Dr Francis Yeoh Sock Ping*, CBE

* *independent non-executive Director*

[#] *non-executive Director*

On behalf of the Board
Stuart T Gulliver, *Chairman*
3 August 2015

Condensed Consolidated Financial Statements (unaudited)

Consolidated Income Statement

	<i>Note</i>	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Interest income		62,819	62,621
Interest expense		(15,875)	(15,434)
Net interest income		46,944	47,187
Fee income		27,950	25,324
Fee expense		(3,059)	(2,903)
Net fee income		24,891	22,421
Net trading income		13,727	10,234
Net income from financial instruments designated at fair value		4,033	2,948
Gains less losses from financial investments		11,205	3,413
Dividend income		178	155
Net insurance premium income		28,089	29,742
Other operating income		5,353	4,608
Total operating income		134,420	120,708
Net insurance claims and benefits paid and movement in liabilities to policyholders		(31,776)	(32,173)
Net operating income before loan impairment charges and other credit risk provisions		102,644	88,535
Loan impairment charges and other credit risk provisions	2	(1,907)	(1,594)
Net operating income		100,737	86,941
Employee compensation and benefits		(21,043)	(19,285)
General and administrative expenses		(14,751)	(13,548)
Depreciation of property, plant and equipment		(2,165)	(2,026)
Amortisation and impairment of intangible assets		(743)	(807)
Total operating expenses		(38,702)	(35,666)
Operating profit		62,035	51,275
Share of profit in associates and joint ventures		8,044	7,821
Profit before tax		70,079	59,096
Tax expense	4	(10,177)	(9,192)
Profit for the period		59,902	49,904
Profit attributable to shareholders of the parent company		52,290	46,667
Profit attributable to non-controlling interests		7,612	3,237

Condensed Consolidated Financial Statements (unaudited) (continued)**Consolidated Statement of Comprehensive Income**

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Profit for the period	59,902	49,904
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to the income statement when specific conditions are met:		
Available-for-sale investments:		
– fair value changes taken to equity	66	4,485
– fair value changes transferred to the income statement on disposal	(15,330)	(3,407)
– amounts transferred to the income statement on impairment	–	(21)
– fair value changes transferred to the income statement on hedged items	(247)	(310)
– income taxes	137	(870)
Cash flow hedges:		
– fair value changes taken to equity	1,138	(1,515)
– fair value changes transferred to the income statement	(789)	1,337
– income taxes	(117)	46
Share of other comprehensive income/(expense) of associates and joint venture	197	(277)
Exchange differences	(3,647)	(776)
Items that will not be reclassified subsequently to the income statement:		
Property revaluation:		
– fair value changes taken to equity	3,889	1,768
– income taxes	(661)	(278)
Remeasurement of defined benefit:		
– before income taxes	(490)	(250)
– income taxes	103	6
Other comprehensive expense for the period, net of tax	(15,751)	(62)
Total comprehensive income for the period, net of tax	44,151	49,842
Total comprehensive income for the period attributable to:		
– shareholders of the parent company	41,576	46,748
– non-controlling interests	2,575	3,094
	44,151	49,842

Condensed Consolidated Financial Statements (unaudited) (continued)**Consolidated Balance Sheet**

	<i>Note</i>	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
ASSETS			
Cash and sight balances at central banks		257,729	156,475
Items in the course of collection from other banks		55,847	21,122
Hong Kong Government certificates of indebtedness		217,864	214,654
Trading assets		363,639	407,026
Derivatives		375,485	389,934
Financial assets designated at fair value		105,293	98,195
Reverse repurchase agreements - non-trading		216,368	218,901
Placings with and advances to banks		513,826	488,313
Loans and advances to customers	5	2,880,997	2,815,216
Financial investments		1,549,957	1,456,493
Amounts due from Group companies		204,904	191,694
Interests in associates and joint ventures	8	119,973	116,654
Goodwill and intangible assets		47,035	45,078
Property, plant and equipment		108,121	104,679
Deferred tax assets		1,335	1,436
Other assets	9	149,292	150,876
Total assets		7,167,665	6,876,746
LIABILITIES			
Hong Kong currency notes in circulation		217,864	214,654
Items in the course of transmission to other banks		82,606	31,331
Repurchase agreements - non-trading		13,131	28,379
Deposits by banks		213,464	226,713
Customer accounts	10	4,651,473	4,479,992
Trading liabilities		252,062	215,812
Derivatives		357,510	367,128
Financial liabilities designated at fair value		52,119	48,834
Debt securities in issue		42,756	45,297
Retirement benefit liabilities		6,156	5,606
Amounts due to Group companies		155,657	135,814
Other liabilities and provisions	11	90,394	87,731
Liabilities under insurance contracts		329,203	310,182
Current tax liabilities		6,534	2,927
Deferred tax liabilities		19,282	18,586
Subordinated liabilities		12,583	12,832
Preference shares		36,565	36,582
Total liabilities		6,539,359	6,268,400
EQUITY			
Share capital		96,052	96,052
Other equity instruments		14,737	14,737
Other reserves		99,678	107,985
Retained profits		359,714	324,811
Proposed dividend		7,500	14,250
Total shareholders' equity		577,681	557,835
Non-controlling interests		50,625	50,511
Total equity		628,306	608,346
Total equity and liabilities		7,167,665	6,876,746

Consolidated Statement of Changes in Equity

	Half- year ended 30 June 2015										
	Share capital HK\$m	Other equity instruments ⁶ HK\$m	Retained profits and proposed dividend HK\$m	Other reserves				Total share- holders' equity HK\$m	Non- controlling interests HK\$m	Total equity HK\$m	
				Property revaluation reserve ¹ HK\$m	Available- for-sale investment reserve ² HK\$m	Cash flow hedge reserve ³ HK\$m	Foreign exchange reserve ⁴ HK\$m				Other ⁵ HK\$m
At 1 January 2015	96,052	14,737	339,061	48,481	16,537	(166)	1,872	41,261	557,835	50,511	608,346
Profit for the period	-	-	52,290	-	-	-	-	-	52,290	7,612	59,902
Other comprehensive income (net of tax)	-	-	(594)	2,998	(9,715)	226	(3,608)	(21)	(10,714)	(5,037)	(15,751)
Available-for-sale investments	-	-	-	-	(9,926)	-	-	-	(9,926)	(5,448)	(15,374)
Cash flow hedges	-	-	-	-	-	226	-	-	226	6	232
Property revaluation	-	-	(117)	2,998	-	-	-	-	2,881	347	3,228
Actuarial losses/(gains) on defined benefit plans	-	-	(479)	-	-	-	-	-	(479)	92	(387)
Share of other comprehensive income of associates and joint ventures	-	-	2	-	211	-	-	(16)	197	-	197
Exchange differences	-	-	-	-	-	-	(3,608)	(5)	(3,613)	(34)	(3,647)
Total comprehensive income for the period	-	-	51,696	2,998	(9,715)	226	(3,608)	(21)	41,576	2,575	44,151
Dividends paid	-	-	(21,750)	-	-	-	-	-	(21,750)	(2,461)	(24,211)
Movement in respect of share-based payment arrangements	-	-	4	-	-	-	-	32	36	1	37
Other movements	-	-	(1)	(15)	-	-	-	-	(16)	(1)	(17)
Transfers ⁷	-	-	(1,796)	(794)	-	-	-	2,590	-	-	-
At 30 June 2015	96,052	14,737	367,214	50,670	6,822	60	(1,736)	43,862	577,681	50,625	628,306

For footnotes, see page 25.

Consolidated Statement of Changes in Equity (continued)

Half-year ended 31 December 2014

	Share capital HK\$m	Other equity instruments ⁶ HK\$m	Retained profits and proposed dividend HK\$m	Other reserves					Total shareholders' equity HK\$m	Non-controlling interests HK\$m	Total equity HK\$m
				Property revaluation reserve ¹ HK\$m	Available-for-sale investment reserve ² HK\$m	Cash flow hedge reserve ³ HK\$m	Foreign exchange reserve ⁴ HK\$m	Other ⁵ HK\$m			
At 1 July 2014	96,052	–	326,035	47,017	2,606	66	9,150	32,860	513,786	41,946	555,732
Profit for the period	–	–	39,761	–	–	–	–	–	39,761	2,512	42,273
Other comprehensive income (net of tax)	–	–	(569)	2,136	13,622	(232)	(7,278)	(7)	7,672	7,613	15,285
Available-for-sale investments	–	–	–	–	13,007	–	–	–	13,007	7,300	20,307
Cash flow hedges	–	–	–	–	–	(232)	–	–	(232)	(6)	(238)
Property revaluation	–	–	(113)	2,136	–	–	–	–	2,023	266	2,289
Actuarial losses/(gains) on defined benefit plans	–	–	(448)	–	–	–	–	–	(448)	29	(419)
Share of other comprehensive income of associates and joint ventures	–	–	(5)	–	615	–	–	(7)	603	–	603
Exchange differences	–	–	(3)	–	–	–	(7,278)	–	(7,281)	24	(7,257)
Total comprehensive income for the period	–	–	39,192	2,136	13,622	(232)	(7,278)	(7)	47,433	10,125	57,558
Other equity instruments issued	–	14,737	–	–	–	–	–	–	14,737	–	14,737
Dividends paid	–	–	(18,500)	–	–	–	–	–	(18,500)	(1,593)	(20,093)
Movement in respect of share-based payment arrangements	–	–	(15)	–	–	–	–	72	57	2	59
Other movements	–	–	16	–	306	–	–	–	322	31	353
Transfers ⁷	–	–	(7,667)	(672)	3	–	–	8,336	–	–	–
At 31 December 2014	96,052	14,737	339,061	48,481	16,537	(166)	1,872	41,261	557,835	50,511	608,346

For footnotes, see page 25.

Consolidated Statement of Changes in Equity (continued)

	Half-year ended 30 June 2014									
	Share capital	Retained profits and proposed dividend	Other reserves					Total shareholders' equity	Non-controlling interests	Total equity
			Property revaluation reserve ¹	Available-for-sale investment reserve ²	Cash flow hedge reserve ³	Foreign exchange reserve ⁴	Other ⁵			
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
At 1 January 2014	85,319	305,926	46,336	3,280	197	9,619	30,132	480,809	41,415	522,224
Profit for the period	–	46,667	–	–	–	–	–	46,667	3,237	49,904
Other comprehensive income (net of tax)	–	(361)	1,404	(367)	(131)	(469)	5	81	(143)	(62)
Available-for-sale investments	–	–	–	(75)	–	–	–	(75)	(48)	(123)
Cash flow hedges	–	–	–	–	(131)	–	–	(131)	(1)	(132)
Property revaluation	–	(107)	1,404	–	–	–	–	1,297	193	1,490
Actuarial losses/(gains) on defined benefit plans	–	(267)	–	–	–	–	–	(267)	23	(244)
Share of other comprehensive income of associates and joint ventures	–	10	–	(292)	–	–	5	(277)	–	(277)
Exchange differences	–	3	–	–	–	(469)	–	(466)	(310)	(776)
Total comprehensive income for the period	–	46,306	1,404	(367)	(131)	(469)	5	46,748	3,094	49,842
Shares issued	10,733	–	–	–	–	–	–	10,733	–	10,733
Dividends paid	–	(24,250)	–	–	–	–	–	(24,250)	(2,388)	(26,638)
Movement in respect of share-based payment arrangements	–	(126)	–	–	–	–	189	63	3	66
Other movements	–	(10)	–	(307)	–	–	–	(317)	(178)	(495)
Transfers ⁷	–	(1,811)	(723)	–	–	–	2,534	–	–	–
At 30 June 2014	96,052	326,035	47,017	2,606	66	9,150	32,860	513,786	41,946	555,732

1 The property revaluation reserve represents the difference between the fair value of the property and its depreciated cost.

2 The available-for-sale investment reserve includes the cumulative net change in the fair value of available-for-sale investments other than impairments which have been recognised in the income statement.

3 The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

4 The foreign exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investments in foreign operations.

5 The other reserves mainly comprise the share-based payment reserve account, purchase premium arising from transfer of business within the HSBC Group and other non-distributable reserves. The share-based payment reserve account is used to record the amount relating to share options granted to employees of the group directly by HSBC Holdings plc.

6 During 2014, the Bank issued new capital instruments that are included in the group's capital base as Basel III-compliant additional tier 1 capital under the Banking (Capital) Rules.

7 The movement from Retained profits to Other reserves mainly includes the relevant transfers in an associate according to local regulatory requirements.

Condensed Consolidated Financial Statements (unaudited) (continued)**Consolidated Cash Flow Statement**

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Operating activities		
Cash generated from operations	173,685	29,841
Interest received on financial investments	7,683	7,477
Dividends received on financial investments	233	85
Dividends received from associates	79	70
Taxation paid	(4,376)	(4,739)
Net cash inflow from operating activities	177,304	32,734
Investing activities		
Purchase of financial investments	(270,772)	(186,839)
Proceeds from sale or redemption of financial investments	265,324	204,118
Purchase of property, plant and equipment	(1,853)	(917)
Proceeds from sale of property, plant and equipment and assets held for sale	343	153
Purchase of other intangible assets	(741)	(678)
Net cash inflow from the sale of interests in business portfolios	4,001	2,953
Net cash (outflow)/inflow from investing activities	(3,698)	18,790
Net cash inflow before financing activities	173,606	51,524
Financing activities		
Issue of ordinary share capital	–	10,733
Issue of subordinated liabilities	–	12,402
Redemption of preference shares	–	(10,736)
Ordinary dividends paid	(21,750)	(24,250)
Dividends paid to non-controlling interests	(2,461)	(2,388)
Interest paid on preference shares	(550)	(790)
Interest paid on subordinated liabilities	(510)	(462)
Net cash outflow from financing activities	(25,271)	(15,491)
Increase in cash and cash equivalents	148,335	36,033
Changes in cash and cash equivalents		
	2015 HK\$m	2014 HK\$m
At 1 January	679,670	687,596
Net cash inflow before the effect of foreign exchange movements	148,335	36,033
Effect of foreign exchange movements	(11,052)	4,590
At 30 June	816,953	728,219

Notes on the Condensed Consolidated Financial Statements (unaudited)

1 Basis of preparation

a Compliance with Hong Kong Financial Reporting Standards

The Financial Statements of the group have been prepared in accordance with HKAS 34 'Interim Financial Reporting' as issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The Financial Statements should be read in conjunction with the Bank's *Annual Report and Accounts 2014* which have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

Standards adopted during the half year to 30 June 2015

There were no new standards adopted during the half year to 30 June 2015.

During the half year to 30 June 2015, the group applied a number of amendments to standards which had an insignificant effect on the Financial Statements.

New Companies Ordinance

The new Companies Ordinance that came into effect on 3 March 2014 has no material impact on the Financial Statements.

b Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. There was no change in the current period to the critical accounting estimates and judgements applied in 2014, which are stated in note 2 of the Bank's *Annual Report and Accounts 2014*.

c Composition of group

There were no material changes in the composition of the group in the half year to 30 June 2015.

d Future accounting developments

Information on future accounting developments and their potential effect on the Financial Statements of the group are provided in note 1 of the Bank's *Annual Report and Accounts 2014*.

e Going concern

The Financial Statements are prepared on a going concern basis, as the Directors are satisfied that the group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

f Accounting policies

The accounting policies and methods of computation applied by the group for the Financial Statements are consistent with those described in note 3 of the Bank's *Annual Report and Accounts 2014*. The methods of computation applied by the group for the Financial Statements are consistent with those applied for the Bank's *Annual Report and Accounts 2014*.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**2. Loan impairment charges and other credit risk provisions**

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Individually assessed impairment charges:		
New charges	1,716	1,138
Releases	(964)	(759)
Recoveries	(116)	(70)
	636	309
Collectively assessed impairment charges	1,238	1,285
Other credit risk provisions	33	–
Loan impairment charges and other credit risk provisions	1,907	1,594

There were no impairment losses or provisions against held-to-maturity or available-for-sale debt investments (2014: nil).

3. Dividends

	Half-year ended 30 June 2015		Half-year ended 30 June 2014	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Ordinary dividends paid				
– fourth interim dividend in respect of the previous financial year approved and paid during the half-year	0.37	14,250	0.44	15,000
– first interim dividend paid	0.20	7,500	0.27	9,250
	0.57	21,750	0.71	24,250

The Directors have declared a second interim dividend in respect of the half-year ended 30 June 2015 of HK\$0.20 per ordinary share (HK\$7,500m) (half-year ended 30 June 2014 of HK\$0.24 per ordinary share (HK\$9,250m)).

4. Tax expense

The tax expense in the consolidated income statement comprises:

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Current income tax		
– Hong Kong profits tax	5,409	4,547
– Overseas taxation	4,482	4,553
Deferred taxation	286	92
	10,177	9,192

The effective tax rate for the first half of 2015 was 14.5%, compared with 15.5% for the first half of 2014, as the non-taxable gains from disposal of available-for-sale investments were significantly higher in 2015.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**5. Loans and advances to customers**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Gross loans and advances to customers	2,891,834	2,825,736
Impairment allowances:		
– Individually assessed	(6,590)	(6,299)
– Collectively assessed	(4,247)	(4,221)
	<u>(10,837)</u>	<u>(10,520)</u>
Net loans and advances to customers	<u>2,880,997</u>	<u>2,815,216</u>
Allowances as a percentage of gross loans and advances to customers:		
– Individually assessed	0.22%	0.22%
– Collectively assessed	0.15%	0.15%
Total allowances	<u>0.37%</u>	<u>0.37%</u>

6. Impairment allowances against loans and advances to customers

	Individually assessed HK\$m	Collectively assessed HK\$m	Total HK\$m
At 1 January 2015	6,299	4,221	10,520
Amounts written off	(246)	(1,595)	(1,841)
Recoveries of loans and advances written off in previous years	117	489	606
Net charge to income statement	636	1,238	1,874
Unwinding of discount of loan impairment	(100)	(36)	(136)
Exchange and other adjustments	(116)	(70)	(186)
At 30 June 2015	6,590	4,247	10,837
At 1 January 2014	5,007	4,494	9,501
Amounts written off	(399)	(1,709)	(2,108)
Recoveries of loans and advances written off in previous years	70	514	584
Net charge to income statement	309	1,285	1,594
Unwinding of discount of loan impairment	(64)	(42)	(106)
Exchange and other adjustments	128	–	128
At 30 June 2014	<u>5,051</u>	<u>4,542</u>	<u>9,593</u>

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**7. Analysis of loans and advances to customers based on categories used by the HSBC Group**

The following analysis of loans and advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries, to manage associated risks.

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Total HK\$m
At 30 June 2015			
Residential mortgages	456,475	281,342	737,817
Credit card advances	52,287	23,376	75,663
Other personal	136,708	76,000	212,708
Total personal	645,470	380,718	1,026,188
Commercial, industrial and international trade	432,876	437,553	870,429
Commercial real estate	189,773	75,732	265,505
Other property-related lending	241,455	64,897	306,352
Government	5,962	2,697	8,659
Other commercial	137,943	157,285	295,228
Total corporate and commercial	1,008,009	738,164	1,746,173
Non-bank financial institutions	71,245	41,112	112,357
Settlement accounts	6,350	766	7,116
Total financial	77,595	41,878	119,473
Gross loans and advances to customers	1,731,074	1,160,760	2,891,834
Individually assessed impairment allowances	(2,146)	(4,444)	(6,590)
Collectively assessed impairment allowances	(2,114)	(2,133)	(4,247)
Net loans and advances to customers	1,726,814	1,154,183	2,880,997
At 31 December 2014			
Residential mortgages	439,451	283,042	722,493
Credit card advances	54,943	24,863	79,806
Other personal	122,613	79,670	202,283
Total personal	617,007	387,575	1,004,582
Commercial, industrial and international trade	416,759	440,967	857,726
Commercial real estate	201,103	75,631	276,734
Other property-related lending	203,850	62,810	266,660
Government	6,613	2,654	9,267
Other commercial	150,314	151,930	302,244
Total corporate and commercial	978,639	733,992	1,712,631
Non-bank financial institutions	61,264	42,747	104,011
Settlement accounts	3,887	625	4,512
Total financial	65,151	43,372	108,523
Gross loans and advances to customers	1,660,797	1,164,939	2,825,736
Individually assessed impairment allowances	(2,411)	(3,888)	(6,299)
Collectively assessed impairment allowances	(2,103)	(2,118)	(4,221)
Net loans and advances to customers	1,656,283	1,158,933	2,815,216

Loans and advances to customers in Hong Kong increased by HK\$70bn, or 4%, during the first half of 2015, mainly from growth in corporate and commercial lending of HK\$29bn, reflecting the Bank's continued support to business. Residential mortgage lending and other personal lending also increased by HK\$17bn and HK\$14bn respectively.

In the Rest of Asia-Pacific, loans and advances to customers decreased by HK\$4bn, or 0.4%, including unfavourable foreign exchange translation effects of HK\$61bn. The underlying increase of HK\$57bn was mainly from growth in corporate and commercial lending of HK\$39bn from business growth in India, Malaysia and mainland China.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**8. Interests in associates and joint ventures****Bank of Communications Co., Limited ('BoCom')***Impairment testing*

At 30 June 2015, the fair value of the group's investment in BoCom had been below the carrying amount for approximately 38 months, apart from a short period in 2013 and briefly during the first half of 2015. As a result, the group performed an impairment test on the carrying amount of the investment in BoCom. The test confirmed that there was no impairment as at 30 June 2015.

	At 30 June 2015			At 31 December 2014		
	VIU HK\$bn	Carrying Value HK\$bn	Fair Value HK\$bn	VIU HK\$bn	Carrying Value HK\$bn	Fair Value HK\$bn
BoCom	127.9	117.1	114.2	121.7	113.8	101.9

Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of BoCom, determined by a value-in-use ('VIU') calculation, with its carrying amount. The VIU calculation uses discounted cash flow projections based on management's estimates of earnings. Cash flows beyond the short- to medium-term are then extrapolated in perpetuity using a long-term growth rate. An imputed capital maintenance charge ('CMC') is included to meet the expected regulatory capital requirements, and calculated as a deduction from forecast cash flows. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets, and the expected regulatory capital requirements. Management judgement is required in estimating the future cash flows of BoCom.

During 2015, the long-term asset growth rate was further identified as a key assumption to which the VIU is sensitive.

Key assumptions in VIU calculation

Long-term growth rate: the growth rate used was 5% (2014: 5%) for periods after 2018 and does not exceed forecast GDP growth in China.

Long-term asset growth rate: the growth rate used was 4% (2014: 4%) for periods after 2018 and this is the rate of growth required for an assumed 5% long-term growth rate in profit.

Discount rate: the discount rate of 13% (2014: 13%) is derived from a range of values obtained by applying a Capital Asset Pricing Model ('CAPM') calculation for BoCom, using market data. Management supplements this by comparing the rates derived by CAPM with discount rates available from external sources, and HSBC's discount rate for evaluating investments in China. The discount rate used was within the range of 10.1% to 14.3% (2014: 11.4% to 14.2%) indicated by the CAPM and external sources.

Loan impairment charge as a percentage of customer advances: the ratio used ranges from 0.73% to 1% (2014: 0.73% to 1%) in the short- to medium-term. The long-term ratio was assumed to revert to a historical rate of 0.65% (2014: 0.65%). The rates were within the short- to medium-term range forecasts of 0.54% to 1.02% (2014: 0.51% to 1.08%) disclosed by external analysts.

Risk-weighted assets as a percentage of total assets: the ratio used ranges from 70% to 72% (2014: 70% to 72%) in the short- to medium-term. The long-term ratio reverts to a rate of 70% (2014: 70%).

Cost-income ratio: the ratio used was 41% (2014: ranged from 40% to 42.4%) in the short- to medium-term. The ratios were within the short- to medium-term range forecasts of 37.5% to 43.5% (2014: 37.2% to 44.5%) disclosed by external analysts.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**8. Interests in associates and joint ventures** (continued)

Sensitivity analyses were performed on each key assumption to ascertain the impact of reasonably possible changes in assumptions. The following changes to each key assumption on its own used in the VIU calculation would be necessary to reduce headroom to nil:

Key assumption	Changes to key assumption to reduce headroom to nil
• Long-term growth rate	• Decrease by 56 basis points
• Long-term asset growth rate	• Increase by 56 basis points
• Discount rate	• Increase by 72 basis points
• Loan impairment charge as a percentage of customer advances	• Increase by 12 basis points
• Risk-weighted assets as a percentage of total assets	• Increase by 4.4%
• Cost-income ratio	• Increase by 2.5%

9. Other assets

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Current tax assets	609	2,418
Assets held for sale	120	148
Prepayments and accrued income	10,201	3,821
Accrued interest receivable	18,259	18,370
Acceptances and endorsements	31,496	31,200
Gold bullion	51,636	59,401
Other	36,971	35,518
	149,292	150,876

'Other' includes other financial assets and insurance debtors.

10. Customer accounts

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Current accounts	995,645	919,343
Savings accounts	2,489,693	2,379,651
Other deposit accounts	1,166,135	1,180,998
	4,651,473	4,479,992

11. Other liabilities and provisions

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Accruals and deferred income	23,903	26,435
Provisions for liabilities and charges	538	1,141
Acceptances and endorsements	31,496	31,200
Share-based payment liability to HSBC Holdings plc	1,851	2,186
Other liabilities	32,606	26,769
	90,394	87,731

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**12. Contingent liabilities and commitments**

	At 30 June 2015 HK\$m	At 31 December 2014 HK\$m
Contract amount:		
Contingent liabilities	256,220	248,127
Commitments	1,975,816	1,896,242
	2,232,036	2,144,369

The above analysis discloses the nominal principal amounts of commitments, excluding capital commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit.

13. Segmental analysis

The basis of identifying segments and measuring segmental results is set out in note 46 'Segmental Analysis' of the Bank's *Annual Report and Accounts 2014*. There have been no material changes to the segments since 31 December 2014.

Geographical regions	Hong Kong HK\$m	Rest of Asia- Pacific HK\$m	Intra-segment elimination HK\$m	Total HK\$m
Half-year ended 30 June 2015				
Total operating income	98,494	38,003	(2,077)	134,420
Profit before tax	46,528	23,551	–	70,079
Total assets	4,955,249	2,771,602	(559,186)	7,167,665
Total liabilities	4,638,322	2,460,223	(559,186)	6,539,359
Half-year ended 30 June 2014				
Total operating income	84,375	38,409	(2,076)	120,708
Profit before tax	34,359	24,737	–	59,096
Total assets	4,511,362	2,770,964	(516,663)	6,765,663
Total liabilities	4,252,591	2,474,003	(516,663)	6,209,931
Half-year ended 31 December 2014				
Total operating income	75,938	38,912	(1,987)	112,863
Profit before tax	28,607	23,486	–	52,093
Total assets	4,630,716	2,788,418	(542,388)	6,876,746
Total liabilities	4,325,607	2,485,181	(542,388)	6,268,400

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**14. Fair values of financial instruments carried at fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The following table provides an analysis of the basis for the valuation of financial assets and financial liabilities carried at fair value in the Financial Statements:

	Valuation techniques			Third party total HK\$m	Amounts with HSBC entities HK\$m	Total HK\$m
	Quoted market price Level 1 HK\$m	Using observable inputs Level 2 HK\$m	With significant unobservable inputs Level 3 HK\$m			
At 30 June 2015						
Assets						
Trading assets	178,179	185,058	402	363,639	–	363,639
Derivatives	12,093	252,227	759	265,079	110,406	375,485
Financial assets designated at fair value	71,077	31,613	2,603	105,293	–	105,293
Available-for-sale investments	834,090	496,395	7,263	1,337,748	–	1,337,748
	1,095,439	965,293	11,027	2,071,759	110,406	2,182,165
Liabilities						
Trading liabilities	76,185	165,550	10,327	252,062	–	252,062
Derivatives	12,474	236,299	1,240	250,013	107,497	357,510
Financial liabilities designated at fair value	–	52,119	–	52,119	–	52,119
	88,659	453,968	11,567	554,194	107,497	661,691
At 31 December 2014						
Assets						
Trading assets	210,397	196,464	165	407,026	–	407,026
Derivatives	9,039	281,764	785	291,588	98,346	389,934
Financial assets designated at fair value	73,337	22,947	1,911	98,195	–	98,195
Available-for-sale investments	736,254	530,901	6,712	1,273,867	–	1,273,867
	1,029,027	1,032,076	9,573	2,070,676	98,346	2,169,022
Liabilities						
Trading liabilities	63,614	140,045	12,153	215,812	–	215,812
Derivatives	10,766	248,550	1,108	260,424	106,704	367,128
Financial liabilities designated at fair value	–	48,834	–	48,834	–	48,834
	74,380	437,429	13,261	525,070	106,704	631,774

Details of the control framework, fair values determined using valuation techniques, fair value adjustments, and the approach used to calculate the fair value of each type of financial instrument are included in note 49 of the Bank's Annual Report and Accounts 2014.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**14. Fair values of financial instruments carried at fair value** (continued)

The table below sets out quantitative information about significant unobservable inputs used in measuring financial instruments with Level 3 valuations.

Valuation technique	Key unobservable inputs	Assets- fair value HK\$m	Liabilities- fair value HK\$m	Range of inputs	
				Lower	Higher
At 30 June 2015					
Structured notes and deposits					
Option model	Equity correlation	–	2,747	0.35	0.91
Option model	Equity volatility	–	5,274	12%	55%
Option model	Interest rate correlation	–	1,029	0.42	0.99
Option model	Foreign exchange volatility	–	1,120	2%	18%
Corporate bonds					
Market comparable approach	Bid quotes	1,310	–	99.94	101.52
Private equity including strategic investments					
Market comparable approach	Multiples	4,015	–	0.36	35.24
Net asset value	Equity valuation	871	–	n/a	n/a
Net asset value	Fund valuation	2,862	–	n/a	n/a
Broker pricing	Bid quotes	620	–	0.46	0.47
Other		1,349	1,397		
		11,027	11,567		
At 31 December 2014					
Structured notes and deposits					
Option model	Equity correlation	–	6,342	0.27	0.92
Option model	Equity volatility	–	3,354	12%	50%
Option model	Interest rate correlation	–	791	0.40	0.96
Option model	Foreign exchange volatility	–	1,509	4%	19%
Corporate bonds					
Market comparable approach	Bid quotes	765	–	97.60	99.69
Private equity including strategic investments					
Market comparable approach	Multiples	4,189	–	0.62	36.66
Net asset value	Equity valuation	704	–	n/a	n/a
Net asset value	Fund valuation	2,108	–	n/a	n/a
Broker pricing	Bid quotes	610	–	0.44	0.47
Other		1,197	1,265		
		9,573	13,261		

For descriptions of the key unobservable inputs and the inter-relationships between key unobservable inputs used in fair value measurement, please refer to note 49 of the Bank's Annual Report and Accounts 2014.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**14. Fair values of financial instruments carried at fair value** (continued)

Movement in Level 3 financial instruments

	Assets				Liabilities	
	Available-for-sale HK\$m	Held for trading HK\$m	Designated at fair value through profit or loss HK\$m	Derivatives HK\$m	Held for trading HK\$m	Derivatives HK\$m
At 1 January 2015	6,712	165	1,911	785	12,153	1,108
Total gains/(losses) recognised in profit or loss	4	4	137	191	(829)	349
– Trading income excluding net interest income	–	4	–	191	(829)	349
– Net income from other financial instruments designated at fair value	–	–	137	–	–	–
– Gains less losses from financial investments	4	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ¹	61	–	(1)	(1)	(163)	(2)
– Available-for-sale investments: fair value gains	96	–	–	–	–	–
– Exchange differences	(35)	–	(1)	(1)	(163)	(2)
Purchases	527	283	1,283	–	–	–
Issues	–	–	–	–	3,312	–
Sales	(41)	(19)	(45)	–	–	–
Deposits/settlements	–	–	(368)	(69)	(821)	(62)
Transfers out	–	(31)	(314)	(147)	(3,698)	(153)
Transfers in	–	–	–	–	373	–
At 30 June 2015	7,263	402	2,603	759	10,327	1,240
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2015 ¹	–	5	136	116	–	(18)
– Trading income excluding net interest income	–	5	–	116	–	(18)
– Net income from other financial instruments designated at fair value	–	–	136	–	–	–
– Impairment charges	–	–	–	–	–	–

1 The amount has been reported on a net basis, after taking into consideration the total gains or losses arising from those transactions where the risk has been backed out to other HSBC entities.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**14. Fair values of financial instruments carried at fair value** (continued)

	Assets				Liabilities		
	Available- for-sale HK\$m	Held for trading HK\$m	Designated at fair value through profit or loss HK\$m	Derivatives HK\$m	Assets held for sale HK\$m	Held for trading HK\$m	Derivatives HK\$m
At 1 January 2014	11,218	664	1,353	1,112	4,295	17,829	1,445
Total gains/(losses) recognised in profit or loss	91	1	177	16	3,332	(242)	(185)
– Trading income excluding net interest income	–	1	–	16	–	(242)	(185)
– Net income from other financial instruments designated at fair value	–	–	177	–	–	–	–
– Gains less losses from financial investments	91	–	–	–	3,332	–	–
Total gains/(losses) recognised in other comprehensive income ¹	293	–	–	3	(3,458)	(6)	(4)
– Available-for-sale investments: fair value gains/(losses)	305	–	–	–	(3,458)	–	–
– Exchange differences	(12)	–	–	3	–	(6)	(4)
Purchases	1,359	379	292	–	–	–	–
Issues	–	–	–	–	–	2,971	–
Sales	(38)	(412)	(21)	–	(4,169)	–	–
Deposits/settlements	(3,235)	–	(221)	(84)	–	307	155
Transfers out	–	(91)	–	(348)	–	(1,971)	(233)
Transfers in	–	–	26	7	–	–	92
At 30 June 2014	9,688	541	1,606	706	–	18,888	1,270
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2014 ¹	(3)	1	178	24	–	(10)	(136)
– Trading income excluding net interest income	–	1	–	24	–	(10)	(136)
– Net income from other financial instruments designated at fair value	–	–	178	–	–	–	–
– Impairment charges	(3)	–	–	–	–	–	–

1 The amount has been reported on a net basis, after taking into consideration the total gains or losses arising from those transactions where the risk has been backed out to other HSBC entities.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**14. Fair values of financial instruments carried at fair value** (continued)

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

	Reflected in income statement		Reflected in other comprehensive income	
	Favourable changes HK\$m	Unfavourable changes HK\$m	Favourable changes HK\$m	Unfavourable changes HK\$m
At 30 June 2015				
Derivatives/trading assets/trading liabilities	216	(210)	–	–
Financial assets/liabilities designated at fair value	260	(260)	–	–
Financial investments: available-for-sale	–	–	727	(728)
	476	(470)	727	(728)
At 31 December 2014				
Derivatives/trading assets/trading liabilities	329	(322)	–	–
Financial assets/liabilities designated at fair value	191	(191)	–	–
Financial investments: available-for-sale	–	–	672	(674)
	520	(513)	672	(674)

Details of the sensitivity of fair values to reasonably possible alternative assumptions, by Level 3 instrument type, are included in note 49 of the Bank's Annual Report and Accounts 2014.

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

Transfers out of Level 3 held for trading liabilities predominantly resulted from an increase in the observability of inputs, such as correlations, used for pricing the instruments.

15. Fair values of financial instruments not carried at fair value

The accounting policies which determine the classification of financial instruments, and the use of assumptions and estimation in valuing them, are described in note 3 of the Bank's Annual Report and Accounts 2014.

	At 30 June 2015		At 31 December 2014	
	Carrying amount HK\$m	Fair value HK\$m	Carrying amount HK\$m	Fair value HK\$m
Assets				
Reverse repurchase agreements – non-trading	216,368	216,540	218,901	218,976
Placings with and advances to banks	513,826	513,931	488,313	488,454
Loans and advances to customers	2,880,997	2,870,250	2,815,216	2,803,298
Financial investment debt securities	212,209	219,289	182,626	190,736
Liabilities				
Repurchase agreements – non-trading	13,131	13,131	28,379	28,379
Deposits by banks	213,464	213,464	226,713	226,712
Customer accounts	4,651,473	4,652,112	4,479,992	4,479,985
Debt securities in issue	42,756	42,801	45,297	45,325
Subordinated liabilities	12,583	11,722	12,832	11,950
Preference shares	36,565	32,678	36,582	32,623

Details of how the fair values of financial instruments that are not carried at fair value on the balance sheet are calculated can be found in note 50 of the Bank's Annual Report and Accounts 2014.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**16. Legal and regulatory matters**

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Bank considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in note 3(v) of the Bank's Annual Report and Accounts 2014. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2015. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matter

In October 2010, HSBC Bank USA entered into a consent cease-and-desist order with the Office of the Comptroller of the Currency (the 'OCC') and the indirect parent of that company, HSBC North America Holdings Inc. ('HNAH'), entered into a consent cease-and-desist order with the Federal Reserve Board (the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to US Bank Secrecy Act ('BSA') and anti-money laundering ('AML') compliance. Steps continue to be taken to address the requirements of the Orders.

In December 2012, HSBC Holdings plc, HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings plc and HSBC Bank USA entered into a five-year deferred prosecution agreement with the US Department of Justice ('DoJ'), the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the 'US DPA'); HSBC Holdings plc entered into a two-year deferred prosecution agreement with the New York County District Attorney (the 'DANY DPA'); and HSBC Holdings plc consented to a cease-and-desist order and HSBC Holdings plc and HNAH consented to a civil money penalty order with the Federal Reserve Board ('FRB'). In addition, HSBC Bank USA entered into a civil money penalty order with a bureau of the US Treasury Department known as the Financial Crimes Enforcement Network ('FinCEN') and a separate civil money penalty order with the OCC. HSBC Holdings plc also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Conduct Authority ('FCA') to comply with certain forward-looking AML and sanctions-related obligations.

Under these agreements, HSBC Holdings plc and HSBC Bank USA made payments totalling US\$1.9bn to US authorities and are continuing to comply with ongoing obligations. In July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and the FRB, an independent monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) is evaluating and regularly assessing the effectiveness of HSBC's AML and sanctions compliance function and HSBC's progress in implementing its remedial obligations under the agreements.

HSBC Holdings plc has fulfilled all of the requirements imposed by the DANY DPA which expired by its terms at the end of the two-year period of that agreement in December 2014. If HSBC Holdings plc and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that agreement. The DoJ may prosecute HSBC Holdings plc or HSBC Bank USA in relation to any matters that are the subject of the US DPA if HSBC Holdings plc or HSBC Bank USA breaches the terms of the US DPA.

HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination, and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise-wide compliance programme.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML, sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)**16. Legal and regulatory matters** (continued)*Tax investigations*

The Bank continues to cooperate with the relevant US and other authorities, including with respect to US-based clients of the Bank in India.

In addition, various tax administration, regulatory and law enforcement authorities around the world, including in India, are conducting investigations and reviews of HSBC Swiss Private Bank in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation. The Indian tax authority issued a summons and request for information to the Bank in India.

With respect to each of these ongoing matters, the Bank and other HSBC companies are cooperating with the relevant authorities. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews, which could be significant.

In light of the recent media attention regarding these matters, it is possible that other tax administration, regulatory or law enforcement authorities will also initiate or enlarge similar investigations or regulatory proceedings.

Foreign exchange rate investigations

Various regulators and competition and enforcement authorities around the world, including South Korea and elsewhere, are conducting investigations and reviews into a number of firms, including the Bank, related to trading on the foreign exchange markets. These include investigations by the civil competition authorities in South Korea.

The Bank has been cooperating with these ongoing investigations. There are many factors that may affect the range of outcomes, and the resulting financial impact of these investigations, which could be significant.

Notes on the Condensed Consolidated Financial Statements (unaudited) (continued)

17. Additional information

Additional financial information relating to the period ended 30 June 2015, prepared in accordance with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance, will be made available on our website: www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

18. Interim Report 2015 and statutory accounts

The information in this *Interim Report 2015* is not audited and does not constitute statutory accounts.

Certain financial information in the interim report is extracted from the statutory accounts for the year ended 31 December 2014 which have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 23 February 2015. The Annual Report and Accounts for the year ended 31 December 2014, which include the statutory accounts, can be obtained on request from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: www.hsbc.com.hk.

19. Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc, which is incorporated in England.

Report on Review of Interim Financial Information to the Board of Directors of The Hongkong and Shanghai Banking Corporation Limited

Introduction

We have reviewed the interim financial information set out on pages 20 to 41, which comprises the condensed consolidated balance sheet of The Hongkong and Shanghai Banking Corporation Limited (the 'Bank') and its subsidiaries (together, the 'group') as at 30 June 2015 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the United Kingdom's Auditing Practices Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 'Interim Financial Reporting' and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Other matters

The interim financial information includes comparative information as required by HKAS 34, 'Interim Financial Reporting'. The comparative information for the condensed consolidated balance sheet is based on the audited financial statements as at 31 December 2014. The comparative information for the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows, and related explanatory notes, for the six-month period ended 30 June 2014 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
3 August 2015