

HSBC HOLDINGS PLC  
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of  
the Securities Exchange Act of 1934

For the month of August 2011

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes.....  No

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1 August 2011

HANG SENG BANK LIMITED  
2011 INTERIM RESULTS - HIGHLIGHTS

- Attributable profit up 16% to HK\$8,057m (HK\$6,964m for the first half of 2010; up 1% compared with HK\$7,953m for the second half of 2010).
- Profit before tax up 15% to HK\$9,320m (HK\$8,103m for the first half of 2010; up 1% compared with HK\$9,242m for the second half of 2010).
- Operating profit up 6% to HK\$7,129m (HK\$6,697m for the first half of 2010; down 4% compared with HK\$7,388m for the second half of 2010).
- Operating profit excluding loan impairment charges and other credit risk provisions up 6% to HK\$7,287m (HK\$6,850m for the first half of 2010; down 4% compared with HK\$7,625m for the second half of 2010).
- Return on average shareholders' funds of 22.7% (22.8% for the first half of 2010; 23.5% for the second half of 2010).
  - Earnings per share up 16% to HK\$4.21 per share (HK\$3.64 per share for the first half of 2010).
- Second interim dividend of HK\$1.10 per share; total dividends of HK\$2.20 per share for the first half of 2011 (HK\$2.20 per share for the first half of 2010).
- Capital adequacy ratio of 13.8% (13.6% at 31 December 2010); core capital ratio of 11.0% (10.8% at 31 December 2010).
  - Cost efficiency ratio of 34.6% (33.8% for the first half of 2010 and 33.6% for the second half of 2010).

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'.

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

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The financial information in this news release is based on the unaudited consolidated financial statements of Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') for the six months ended 30 June 2011.

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Comment by Raymond Ch'ien, Chairman

The first half of 2011 brought continued uncertainty for global markets, reflecting the prevailing - and in some instances deteriorating - economic conditions. The devastating earthquake and tsunami in Japan also created supply chain problems in the global economy. Despite these challenges, Hang Seng Bank delivered steady growth.

The bank's growth came despite rising inflationary pressures and intense competition as economic conditions in Hong Kong and mainland China remained strong overall. In Hong Kong, unemployment remains low and consumer spending healthy, while the Mainland's economy continues to be robust.

We enhanced performance by shifting resources towards business where returns commensurate with the risks.

Both net interest income and net fees and commissions grew in the first half of 2011.

In line with our prudent strategy, which underpinned our performance even when market conditions were uncertain, we expanded our investment business.

In the first half of 2011, we consolidated our position as a preferred partner for trade-related services. We further strengthened our position on the Mainland, enhancing our ability to tap into immense growth opportunities there.

One of our key strengths is the bank's leadership position in renminbi businesses at a time when Hong Kong is strengthening its role as the major offshore RMB centre. The bank has strong coverage in cross-border transactions, and offers a wide range of products and services for business and personal customers which should support sustainable growth in both Hong Kong and the Mainland.

In May 2011, Hang Seng Bank (China) Limited moved into its new headquarters located in the Hang Seng Bank Tower in Shanghai's Lujiazui financial district. This important milestone demonstrates our long-term commitment to our business and our customers on the Mainland.

We will continue to maximise growth potential on the Mainland and to further develop cross-border and referral business for our Hong Kong operations.

Financial Performance

Profit attributable to shareholders rose by 16% to HK\$8,057m in the first half of 2011, compared with the same period in 2010. Earnings per share were up 16% at HK\$4.21.

Profit before tax increased by 15% to HK\$9,320m compared with the first half of 2010.

Operating profit excluding loan impairment charges and other credit risk provisions rose by HK\$437m, or 6%, to HK\$7,287m, compared with the first half of 2010. The rise was driven by the growth in net interest income, partly

offset by the rise in operating expenses. Operating profit grew by 6% to HK\$7,129m.

Operating expenses were up 11% to HK\$3,888m. Our cost efficiency ratio was 34.6%, compared with 33.8% for the first half of 2010.

The share of profits from associates increased by HK\$587m, or 50%, to HK\$1,771m, mainly from Industrial Bank.

The return on average shareholders' funds was 22.7%, compared with 22.8% for the same period in 2010. The return on average total assets was maintained at 1.7%.

At 30 June 2011, our capital adequacy ratio was 13.8%. The core capital ratio stood at 11.0%.

The Directors have declared a second interim dividend of HK\$1.10 per share, bringing total dividends to HK\$2.20 per share for the first half of 2011.

### Outlook

Debt default fears persist in Europe, and growth in many developed markets may continue to be uneven. We expect better operating conditions in Hong Kong and the Mainland in the second half of 2011, however.

Strong investment and domestic consumption should continue to drive economic growth on the Mainland, while inflation is likely to peak during the summer months and then start to trend lower in the second half of the year, barring future supply shocks.

Although Hong Kong's inflation is also climbing, we expect buoyant consumer demand to underpin continued economic growth. Unemployment remains at a more than two-year low, and we do not expect that to change in the near term.

Against this backdrop, we will continue to build on our competitive strengths which were recognised when we were named the Best Domestic Bank in Hong Kong again by Asiamoney in 2011. We will enhance our leading position in target businesses and take new opportunities to achieve long-term growth.

We will seek to ensure the high quality of our assets and enhance relationships with our loyal customer base. Reinforcing our already strong position in renminbi services will also be a key focus for the bank. Diversification of income streams will remain important.

As a result of these actions, combined with the strength of our trusted brand, our leading position in key market segments, our excellent cross-border market knowledge and time-to-market capabilities, we are confident the bank remains well-positioned to meet the future needs of our customers.

Review by Margaret Leung, Vice-Chairman and Chief Executive

In the first half of 2011, Hong Kong banks came under pressure as net interest margins narrowed amid intense competition and low interest rates. Higher fee and commission income helped compensate for lower returns in other areas across the banking sector.

Despite the challenging operating environment, Hang Seng increased operating profit by 6%, to HK\$7,129m, from the same period in 2010.

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In the low-interest rate environment, we grew net interest income by HK\$924m, or 14%, on the back of prudent growth in the average balances of trade finance, and corporate and personal lending. Average interest-earning assets increased by 15% year-on-year.

Net fees and commissions increased across most core businesses, by HK\$167m, or 7%, compared with the first half of 2010.

Our credit card business delivered strong performance, and we increased sales of retail investment instruments by successfully promoting a wide range of funds from Hang Seng Investment Management and other providers.

Our efforts to develop and diversify the bank's business continued to yield good results. We increased the revenues generated from the small- and medium-sized business sector and this was among our successes in expanding our sources of income.

Our mainland China business, in particular, delivered a solid performance, with increases in the customer number, revenues and profit.

Operating expenses rose by 11% to HK\$3,888m, reflecting the bank's continued investments to support business growth, capture business opportunities and increase employee compensation.

### Customer Groups

Retail Banking and Wealth Management reported profit before tax of HK\$3,457m in the first half of 2011. Operating income excluding loan impairment charges and other credit risk provisions was HK\$6,062m, a year-on-year decline of 3%.

Total operating income from unsecured lending was up 10% year-on-year, benefiting from a high quality credit card customer base and targeted marketing campaigns.

The increase in card income was supported by a year-on-year increase of 15% in the number of cards in circulation to 2.19 million and a 17% rise in card spending to HK\$38bn. The bank retained its position as Hong Kong's second and third largest issuer of Visa and MasterCard credit cards respectively. Card receivables grew by 4% to HK\$16bn from the end of 2010.

Sales of life insurance recorded solid growth, with new annualised premiums increasing by 24%. The total number of policies in force rose by 8%.

Personal loans saw steady growth, with total outstanding balances up 7% to HK\$4,900m.

Investment businesses registered year-on-year income growth of 10%. Investment fund subscriptions grew by 31% to reach HK\$21bn. Fee income from private banking increased by 27%, supported by a wider range of products.

Commercial Banking delivered a 34% increase in profit before tax to HK\$2,389m, while operating profit excluding loan impairment charges and other credit risk provisions grew by 31% to HK\$1,631m compared with the first half of 2010.

The respectable growth was driven mainly by net interest income from advances and fee income. In line with the increase in the loan portfolio both in Hong Kong and the Mainland, net interest income from advances rose by 50%.

Income from the corporate wealth management business increased by 9%, partly attributable to the provision of competitive products to customers to meet their needs.

At 30 June 2011, the number of commercial renminbi accounts exceeded 65,000.

Corporate Banking posted a 62% rise in profit before tax, reaching HK\$905m, compared with the first half of 2010. Operating profit excluding loan impairment charges and other credit risk provisions was HK\$859m, up 54% year-on-year. This strong profit growth was mainly attributable to a rise in net interest income arising from an increase in the loan portfolio and moderate growth in net fee income.

Corporate Banking achieved these results through selective growth in customer advances of 8%, compared with the end of 2010.

By delivering total solutions to customers to meet their overall business needs and capitalising on our efficient cross-border relationship management system, Corporate Banking deposits grew by 27% despite fierce competition.

Corporate Banking also sought to diversify its customer advances portfolio in terms of customer, industry and currency.

Treasury registered a year-on-year profit before tax increase of 31% to HK\$1,873m, while operating profit increased by 39% to HK\$1,284m. These strong results came as net interest income growth and an increase in its share of profits from associates offset decreases in trading income and disposal gains.

Global interest rates remained at low levels and yield curves were relatively flat in the first half of 2011. Nevertheless, net interest income still increased by 69% to HK\$1,032m, mainly due to our strategy of actively managing our balance sheet.

#### Mainland Business

The central government has been seeking to tighten monetary policy and control inflation. From January to July 2011, the People's Bank of China raised the deposit reserve ratio six times and benchmark interest rates thrice.

Despite these challenges, Hang Seng Bank (China) Limited ('Hang Seng China') increased its deposit base, acquired new customers and boosted operating income.

There was solid growth in the customer base. The number of personal customers rose by 22% and the number of corporate customers by 13% year-on-year. Total deposits increased by 21% compared with the end of 2010. Advances rose by 11% from the 2010 year-end against a tightened lending market.

Total operating income rose by 44% over the same period in 2010, supported by the increase in both net interest income and other operating income. Profit before tax increased by 160% year-on-year.

#### Looking Ahead

In light of Hong Kong's intense competition and mature marketplace, the bank is building on its presence on the Mainland to support growth. As Hong Kong strengthens its role as the major offshore RMB centre, we will seek to further expand our range of renminbi products and services both on the Mainland and in Hong Kong.

To assist commercial customers to grow cross-border business and to establish a more dynamic customer referral channel, our Hong Kong and Mainland teams are working with several strategic partners on the Mainland to enhance cross-border services that provide a valuable source of referral business.



As Hang Seng China puts more resources into its branch network, it will open its third cross-city sub-branch under CEPA VI in Huizhou, Guangdong. The bank has also applied to establish a branch in Xiamen.

In Hong Kong, we will continue to develop areas of strength and deepen our penetration into segments that offer growth opportunity. As part of this, we will further expand our wealth management services and private banking. We also intend to strengthen our presence in the SME segment.

We remain confident that our solid position in key market segments, reputation for quality and customer loyalty will continue to support sustainable growth.

#### Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported an unaudited profit attributable to shareholders of HK\$8,057m for the first half of 2011, up 15.7% compared with the first half of 2010. Earnings per share were up 15.7% at HK\$4.21. Compared with the second half of 2010, attributable profit rose by 1.3%.

- Operating profit excluding loan impairment charges and other credit risk provisions rose by HK\$437m, or 6.4%, to HK\$7,287m, driven by the growth in net interest income partly offset by the rise in operating expenses. Non-interest income and loan impairment charges were maintained at broadly the same level compared with the same period last year.

- Net interest income rose by HK\$924m, or 13.8%, driven by the growth in average balances of trade finance and corporate and personal lending. Average interest earning assets were up 14.6% compared with the half-year ended 30 June 2010. The favourable impact on net interest income was largely offset by the compression in asset spreads while the persistent low interest rate environment continued to constrain deposit spreads. Net interest margin for the first half of 2011 was 1.75%, down two basis points compared with the same period last year, partly affected by the dilutive effect of the increase in lower yielding renminbi funds placed with the local clearing bank. Net interest spread dropped by four basis points to 1.68% and the contribution from net free funds grew by two basis points to seven basis points. Compared with the second half of 2010, net interest income increased marginally, reflecting the bank's continued efforts to enlarge its net interest income base through the strong growth momentum in lending which was offset by the reduced deposit spread.

- Net fees and commissions registered an increase across most core business and grew by HK\$167m, or 7.0%, to HK\$2,536m. Income from sales of retail investment funds increased by 12.2%, attributable to the bank's efforts to offer a wide spectrum of funds from Hang Seng Investment Management and other providers, together with a more stable investment sentiment in the first quarter of 2011. Stockbroking and related services income increased by 3.4%, underpinned by improved investment sentiment and an active stock market during the first quarter of this year. Private banking continued to expand its product range and grew its service fee income by 25.4%. Fee income from our credit card business rose by 6.7% as card spending and transaction volumes increased. Income from trade financing and remittance services recorded impressive growth of 21.5% and 8.2% respectively on the back of reviving global trade demand. There was a decrease in insurance agency fee income of 11.5% as competition intensified.

- Trading income rose by HK\$41m, or 4.6%, to HK\$931m. Foreign exchange income declined by HK\$92m, or 10.5%, due primarily to the decrease in trading net interest income from funding swaps although this was partly offset by growth in normal foreign exchange and foreign exchange-linked structured products income. Securities, derivatives and other trading income grew by HK\$133m, mainly due to the improvement in interest rate derivative trading.

- Income from our insurance business (included under 'net interest income', 'net fee income', 'net income from financial instruments designated at fair value', 'net earned insurance premiums' and 'movement in present value of in-force long-term insurance business' within 'other operating income', and after deducting 'net insurance claims

incurred and movement in policyholders' liabilities') dropped by HK\$121m, or 8.8%, to HK\$1,249m. New annualised life insurance premiums grew by 23.8% compared with the same period last year while renewal premiums declined as policies were paid up. Net interest income and fee income from the life insurance business grew by 10.9%. The favourable sale results contributed to the increase in the size of the life insurance funds, with bond investments held as the major underlying assets. Investment returns on life insurance funds declined by HK\$62m compared with the first half of 2010, affected by the slowdown of the equity market. The movement in present value of in-force long-term insurance business increased by 36.8%, the net effect of higher sales in the first half of 2011 compared with the first half of 2010, a refinement of the calculation of the present value of in-force long-term insurance business ('PVIF') asset during the period and the unfavourable experience variance of the investment return assumption.

- Operating expenses rose by HK\$384m, or 11.0%, compared with the first half of 2010. The group continued to manage costs carefully, while investing for the future to better capture new opportunities. Excluding our mainland business, operating expenses rose by 9.4%, mainly due to higher wages and salaries as a result of the annual salary increment and increase in staff numbers in both frontline and support functions. There was also an increase in marketing expenditure and processing charges. Mainland-related operating expenses increased by 20.6%, mainly to support future growth.

- Impairment loss on intangible assets of HK\$78m related to certain IT projects.

- Operating profit grew by HK\$432m, or 6.5%, to HK\$7,129m after accounting for the slight increase in loan impairment charges and other credit risk provisions.

- Profit before tax increased by 15.0% to HK\$9,320m after taking the following items into account:

- an 87.0% (or HK\$60m) decrease in gains less losses from financial investments and fixed assets;
  - a 168.6% (or HK\$258m) increase in net surplus on property revaluation; and
- a 49.6% (or HK\$587m) increase in share of profits from associates, mainly from Industrial Bank Co., Ltd. and a property investment company.

#### Consolidated balance sheet and key ratios

Total assets increased by HK\$56.3bn, or 6.1%, to HK\$973.2bn. Customer advances grew by HK\$31.0bn, or 6.6%, to HK\$503.6bn due to higher demand for trade finance, corporate and commercial lending and mainland lending. Our residential mortgage business reduced as the bank sought to shift its focus towards more prime-based mortgage lending. Customer deposits rose by HK\$30.5bn, or 4.3%, to HK\$740.8bn as the group proactively grew its customer deposits to underpin loan growth. At 30 June 2011, the advances-to-deposits ratio was 68.0%, compared with 66.5% at the end of December 2010.

At 30 June 2011, shareholders' funds (excluding proposed dividends) were HK\$71,572m, an increase of HK\$5,193m, or 7.8%. Retained profits grew by HK\$3,585m, reflecting the growth in attributable profit (excluding first and second interim dividends) for the first half of 2011. The premises revaluation reserve increased by HK\$1,306m, or 13.9%, against the backdrop of the continued robust growth in the property market during the first half of 2011.

The return on average total assets was 1.7%, compared with 1.7% and 1.8% for the first and second halves of 2010 respectively. The return on average shareholders' funds was 22.7% (22.8% in the first half of 2010 and 23.5% in the second half of 2010).

At 30 June 2011, the capital adequacy ratio was 13.8% compared with 13.6% at the last year-end. The core capital ratio stood at 11.0%, slightly above the 10.8% at 31 December 2010. The ratios were calculated in accordance with the advanced internal ratings-based approach under the Banking (Capital) Rules issued by the Hong Kong Monetary Authority for the implementation of Basel II. The slight increase in both the capital adequacy and core capital ratios

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reflect the net effect of the increase in profit growth after accounting for dividends in the first half of the year and the increase in risk-weighted assets.

The bank maintained a comfortable liquidity position. The average liquidity ratio for the first half of 2011 was 33.3% (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance) compared with 42.0% for the first half of 2010.

The cost efficiency ratio for the first half of 2011 was 34.6% compared with 33.8% and 33.6% for the first and second halves of 2010 respectively.

Dividends

The Directors have declared a second interim dividend of HK\$1.10 per share, which will be payable on 1 September 2011 to shareholders on the register of shareholders as of 17 August 2011. Together with the first interim dividend, the total distribution for the first half of 2011 will amount to HK\$2.20 per share, the same as in the first half of 2010.

Customer group performance

| Figures in HK\$m  | Retail<br>Banking<br>and Wealth<br>Management | Commercial<br>Banking | Corporate<br>Banking | Treasury | Other | Total<br>reportable<br>segments | Inter-<br>segment<br>elimination | Total   |
|---|---|-----------------------|----------------------|----------|-------|---------------------------------|----------------------------------|---------|
| Half-year ended<br>30 June 2011   |   |                       |                      |          |       |                                 |                                  |         |
| Net interest income   | 4,028   | 1,578                 | 947                  | 1,032    | 52    | 7,637                           | —                                | 7,637   |
| Net fee income/(expense)  | 1,780   | 604                   | 109                  | (17)     | 60    | 2,536                           | —                                | 2,536   |
| Trading income/(loss)   | 261   | 278                   | 8                    | 430      | (46)  | 931                             | —                                | 931     |
| Net income from financial<br>instruments designated at<br>fair<br>value                       | 96  | —                     | —                    | —        | —     | 96                              | —                                | 96      |
| Dividend income   | —   | —                     | —                    | —        | 6     | 6                               | —                                | 6       |
| Net earned insurance<br>premiums  | 6,068   | 121                   | 1                    | —        | —     | 6,190                           | —                                | 6,190   |
| Other operating<br>income/(loss)  | 704   | 15                    | (1)                  | —        | 330   | 1,048                           | (246)                            | 802     |
| Total operating income  | 12,937  | 2,596                 | 1,064                | 1,445    | 402   | 18,444                          | (246)                            | 18,198  |
| Net insurance claims<br>incurred and movement<br>in policyholders' liabilities                | (6,875)                                       | (70)                  | —                    | —        | —     | (6,945)                         | —                                | (6,945) |
| Net operating income before<br>loan impairment charges<br>and other credit risk<br>provisions | 6,062   | 2,526                 | 1,064                | 1,445    | 402   | 11,499                          | (246)                            | 11,253  |
| Loan impairment charges<br>and other credit risk<br>provisions                                | (114)   | (90)                  | 46                   | —        | —     | (158)                           | —                                | (158)   |
| Net operating income  | 5,948   | 2,436                 | 1,110                | 1,445    | 402   | 11,341                          | (246)                            | 11,095  |

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|   |         |       |       |       |       |         |     |         |
|---|---------|-------|-------|-------|-------|---------|-----|---------|
| Operating expenses W  | (2,550) | (892) | (205) | (161) | (326) | (4,134) | 246 | (3,888) |
| Impairment loss on intangible assets                          | (75)    | (3)   | —     | —     | —     | (78)    | —   | (78)    |
| Operating profit  | 3,323   | 1,541 | 905   | 1,284 | 76    | 7,129   | —   | 7,129   |
| Gains less losses from financial investments and fixed assets | —       | —     | —     | 2     | 7     | 9       | —   | 9       |
| Net surplus on property revaluation                           | —       | —     | —     | —     | 411   | 411     | —   | 411     |
| Share of profits from associates                              | 134     | 848   | —     | 587   | 202   | 1,771   | —   | 1,771   |
| Profit before tax   | 3,457   | 2,389 | 905   | 1,873 | 696   | 9,320   | —   | 9,320   |
| Share of profit before tax                                    | 37.1%   | 25.6% | 9.7%  | 20.1% | 7.5%  | 100.0%  | —   | 100.0%  |

|   |       |       |     |       |       |       |   |       |
|---|-------|-------|-----|-------|-------|-------|---|-------|
| Operating profit excluding loan impairment charges and other credit risk provisions | 3,437 | 1,631 | 859 | 1,284 | 76    | 7,287 | — | 7,287 |
| W Depreciation/amortisation included in operating expenses                          | (80)  | (15)  | (3) | (3)   | (304) | (405) | — | (405) |

At 30 June 2011

|                        |         |         |         |         |        |         |   |         |
|------------------------|---------|---------|---------|---------|--------|---------|---|---------|
| Total assets           | 267,290 | 210,175 | 138,779 | 311,419 | 45,546 | 973,209 | — | 973,209 |
| Total liabilities      | 585,458 | 156,069 | 64,183  | 58,439  | 35,385 | 899,534 | — | 899,534 |
| Interest in associates | 1,280   | 7,537   | —       | 5,535   | 2,636  | 16,988  | — | 16,988  |

| Figures in HK\$m | Retail Banking and Wealth Management | Commercial Banking | Corporate Banking | Treasury | Other | Total reportable segments | Inter-segment elimination | Total |
|------------------|--------------------------------------|--------------------|-------------------|----------|-------|---------------------------|---------------------------|-------|
|------------------|--------------------------------------|--------------------|-------------------|----------|-------|---------------------------|---------------------------|-------|

Half-year ended  
30 June 2010

|   |       |       |     |      |      |       |   |       |
|---|-------|-------|-----|------|------|-------|---|-------|
| Net interest income   | 4,194 | 1,184 | 641 | 609  | 85   | 6,713 | — | 6,713 |
| Net fee income/(expense)  | 1,585 | 649   | 90  | (12) | 57   | 2,369 | — | 2,369 |
| Trading income/(loss)   | 249   | 145   | 4   | 506  | (14) | 890   | — | 890   |
| Net income/(loss) from financial instruments designated at fair value | 148   | —     | —   | (2)  | (14) | 132   | — | 132   |
| Dividend income   | —     | —     | —   | —    | 4    | 4     | — | 4     |

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|  |         |       |       |       |       |         |       |         |
|--|---------|-------|-------|-------|-------|---------|-------|---------|
| Net earned insurance premiums  | 6,232   | 126   | 1     | —     | —     | 6,359   | —     | 6,359   |
| Other operating income/(loss)  | 541     | 9     | —     | (1)   | 313   | 862     | (226) | 636     |
| Total operating income   | 12,949  | 2,113 | 736   | 1,100 | 431   | 17,329  | (226) | 17,103  |
| Net insurance claims incurred and movement in policyholders' liabilities             | (6,670) | (79)  | —     | —     | —     | (6,749) | —     | (6,749) |
| Net operating income before loan impairment charges and other credit risk provisions | 6,279   | 2,034 | 736   | 1,100 | 431   | 10,580  | (226) | 10,354  |
| Loan impairment charges and other credit risk provisions                             | (102)   | (50)  | (1)   | —     | —     | (153)   | —     | (153)   |
| Net operating income   | 6,177   | 1,984 | 735   | 1,100 | 431   | 10,427  | (226) | 10,201  |
| Total operating expenses W   | (2,334) | (787) | (180) | (173) | (256) | (3,730) | 226   | (3,504) |
| Operating profit   | 3,843   | 1,197 | 555   | 927   | 175   | 6,697   | —     | 6,697   |
| Gains less losses from financial investments and fixed assets                        | —       | —     | 5     | 62    | 2     | 69      | —     | 69      |
| Net surplus on property revaluation  | —       | —     | —     | —     | 153   | 153     | —     | 153     |
| Share of profits from associates   | 94      | 586   | —     | 441   | 63    | 1,184   | —     | 1,184   |
| Profit before tax  | 3,937   | 1,783 | 560   | 1,430 | 393   | 8,103   | —     | 8,103   |
| Share of profit before tax   | 48.6%   | 22.0% | 6.9%  | 17.6% | 4.9%  | 100.0%  | —     | 100.0%  |
| Operating profit excluding loan impairment charges and other credit risk provisions  | 3,945   | 1,247 | 556   | 927   | 175   | 6,850   | —     | 6,850   |
| W Depreciation/amortisation included in total operating expenses                     | (88)    | (16)  | (3)   | (2)   | (246) | (355)   | —     | (355)   |

At 30 June 2010

|                        |         |         |         |         |        |         |   |         |
|------------------------|---------|---------|---------|---------|--------|---------|---|---------|
| Total assets           | 244,132 | 128,459 | 115,306 | 348,071 | 35,119 | 871,087 | — | 871,087 |
| Total liabilities      | 546,668 | 132,261 | 54,456  | 37,866  | 35,616 | 806,867 | — | 806,867 |
| Interest in associates | 1,049   | 5,913   | —       | 4,466   | 2,413  | 13,841  | — | 13,841  |

Retail  
Banking  
and Wealth  
Commercial Corporate

Total Inter-  
reportable segment

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| Figures in HK\$m   | Management | Banking | Banking | Treasury | Other | segments | elimination | Total   |
|--|------------|---------|---------|----------|-------|----------|-------------|---------|
| Half-year ended  |            |         |         |          |       |          |             |         |
| 31 December 2010   |            |         |         |          |       |          |             |         |
| Net interest income  | 4,291      | 1,525   | 799     | 794      | 178   | 7,587    | —           | 7,587   |
| Net fee income/(expense)   | 1,838      | 560     | 98      | (17)     | 49    | 2,528    | —           | 2,528   |
| Trading income/(loss)  | 381        | 189     | 7       | 656      | (64)  | 1,169    | —           | 1,169   |
| Net income from financial instruments designated at fair value                       | 149        | —       | —       | 1        | —     | 150      | —           | 150     |
| Dividend income  | —          | 5       | —       | —        | 5     | 10       | —           | 10      |
| Net earned insurance premiums  | 4,827      | 120     | 1       | —        | —     | 4,948    | —           | 4,948   |
| Other operating income   | 730        | 14      | 1       | —        | 399   | 1,144    | (222)       | 922     |
| Total operating income   | 12,216     | 2,413   | 906     | 1,434    | 567   | 17,536   | (222)       | 17,314  |
| Net insurance claims incurred and movement in policyholders' liabilities             | (5,766)    | (73)    | 1       | —        | —     | (5,838)  | —           | (5,838) |
| Net operating income before loan impairment charges and other credit risk provisions | 6,450      | 2,340   | 907     | 1,434    | 567   | 11,698   | (222)       | 11,476  |
| Loan impairment charges and other credit risk provisions                             | (107)      | (128)   | (2)     | —        | —     | (237)    | —           | (237)   |
| Net operating income   | 6,343      | 2,212   | 905     | 1,434    | 567   | 11,461   | (222)       | 11,239  |
| Total operating expenses W   | (2,530)    | (916)   | (199)   | (154)    | (274) | (4,073)  | 222         | (3,851) |
| Operating profit   | 3,813      | 1,296   | 706     | 1,280    | 293   | 7,388    | —           | 7,388   |
| Gains less losses from financial investments and fixed assets                        | —          | —       | —       | 33       | 10    | 43       | —           | 43      |
| Net surplus on property revaluation  | —          | —       | —       | —        | 334   | 334      | —           | 334     |
| Share of profits from associates   | 122        | 669     | —       | 618      | 68    | 1,477    | —           | 1,477   |
| Profit before tax  | 3,935      | 1,965   | 706     | 1,931    | 705   | 9,242    | —           | 9,242   |
| Share of profit before tax   | 42.6%      | 21.3%   | 7.6%    | 20.9%    | 7.6%  | 100.0%   | —           | 100.0%  |
| Operating profit excluding loan impairment charges and other credit risk provisions  | 3,920      | 1,424   | 708     | 1,280    | 293   | 7,625    | —           | 7,625   |
| W Depreciation/amortisation included in total operating expenses                     | (87)       | (18)    | (2)     | (2)      | (257) | (366)    | —           | (366)   |

At 31 December 2010

|                        |         |         |         |         |        |         |   |         |
|------------------------|---------|---------|---------|---------|--------|---------|---|---------|
| Total assets           | 264,827 | 180,013 | 130,148 | 304,898 | 37,025 | 916,911 | — | 916,911 |
| Total liabilities      | 581,118 | 141,518 | 50,862  | 39,268  | 34,133 | 846,899 | — | 846,899 |
| Interest in associates | 1,384   | 6,197   | —       | 5,626   | 2,459  | 15,666  | — | 15,666  |

Retail Banking and Wealth Management ('RBWM') was able to achieve sales growth in various areas of business despite the challenging operating environment in Hong Kong.

Continuing to be one of the key income drivers, total operating income from unsecured lending was up 10.0% year-on-year, attributed to the quality of our credit card customer base and effective marketing campaigns. The bank's card market shares grew and we remained the second and third largest issuer of Visa and MasterCard cards respectively. The card base of the Hang Seng Hong Kong dollar China UnionPay (CUP) credit card expanded strongly, with the number of cards issued doubling since the end of 2010. As of June 2011, total overall cards issued reached 2.19 million and 194,000 new cards were acquired. Compared with the end of 2010, card receivables grew by 4.0% to HK\$16.4bn while card spending increased by 17.5% to HK\$38.0bn year-on-year. Up to June 2011, personal loans were up 7.5%, with a total loan balance of HK\$4.9bn.

Despite intense market competition and the tightening of regulator policies on mortgage lending, our mortgage business remained third in the market in terms of new mortgage registrations for the first half of 2011. The switch of focus away from HIBOR-based mortgages to prime-based lending, resulting in competitors changing their pricing strategies in follow-up, enhanced mortgage yield and profitability.

Net fee income and trading income grew 12.3% and 4.8% year-on-year. In particular, investment businesses remained as a strong income driver and registered year-on-year income growth of 9.9%. Investment fund subscriptions grew by 30.8% to reach HK\$21bn and the related income recorded over 21.1% growth compared with the same period in 2010. Strong sales momentum was maintained even when uncertainties emerged from March onwards.

With effective distribution efforts and timely promotion offers, life insurance registered good sales results in the first half of 2011. As of June 2011, annualised new premiums grew 23.8% compared to the same period last year. Total policies in force also grew steadily and achieved year-on-year growth of 8.1%.

Service quality was never compromised and Hang Seng Bank continued to receive recognition in the banking industry. For the second consecutive year, the bank was named 'Best Local Private Bank in Hong Kong' in the Euromoney Private Banking Survey 2011 based on the assessment of business performance and peer nominations. Asiamoney also named Hang Seng Bank as the 'Best Domestic Bank in Hong Kong' again in 2011.

While top line business momentum sustained good performance, RBWM's operating income excluding loan impairment charges and other credit risk provisions of HK\$6,062m represented a slight year-on-year decline of 3.5%. Profit before tax was HK\$3,457m in the first half of 2011, representing a year-on-year decline. The reduced profit was due to the higher cost of deposits, the holding back of the growth of mortgage loans and the lower investment return of the life insurance portfolio.

Amid the competitive environment, the bank raised deposit interest rates which reduced deposit spreads. As of June 2011, net interest income from deposits dropped 17.1% compared with the same period last year.

The price competition in HIBOR-based mortgages made the mortgage business less profitable. The bank, therefore, held back on mortgage loan growth and focused more on prime-based lending. Income from secured lending recorded a year-on-year decline as a result, but it remained in line with expectations.

The year-on-year decline in insurance income was mainly due to the under-performance of investment returns.

Commercial Banking ('CMB') achieved a 34.0% increase in profit before tax to HK\$2,389m. CMB's contribution to the bank's total profit before tax increased to 25.6%, up by 3.6 percentage points from the same period of 2010. Operating profit excluding loan impairment charges and other credit risk provisions was up by 30.8% to HK\$1,631m.

Against a backdrop of a brisk-paced economy and buoyant consumer demand, we achieved reasonable growth driven mainly by net interest income from advances. In line with the increase in the loan portfolio both in Hong Kong and the Mainland, net interest income from advances increased by 50.4%. Non-interest income grew by 11.5% and provided the bank with a valuable source of funds to compensate for the decline in deposit-related net interest income under the low interest rate environment. At the same time, the bank achieved healthy growth in customer deposits of 10.1% compared with 31 December 2010.

Income from the corporate wealth management business increased by 8.8% and contributed 12.9% to CMB's total operating income in the first half of 2011. CMB worked to provide timely, competitive corporate wealth management products for its customers, focusing particularly on those in the top-end segment. Enriched corporate investment, insurance and treasury products were marketed to customers on various platforms to capture the shift in investment sentiment and to meet customers' yield enhancement or hedging needs.

At 30 June 2011, the number of commercial renminbi accounts exceeded 65,000, while renminbi cross-border trade-related business routed through the bank topped RMB61.2bn. As Hong Kong strengthens its role as the major offshore RMB centre, we will capitalise on our growth capabilities by further enhancing our full range of renminbi services, especially providing customised renminbi trade solutions and wealth management services, and tapping the potential of renminbi lending in Hong Kong.

Account acquisition remains an important strategy. To enhance services and convenience for our customers and referral partners, we brought to six the total number of Business Banking Centres in the first half of 2011. They are located in areas of high commercial traffic. We will increase the sales force dedicated to this business to strengthen our presence in the SME segment. New customer acquisition momentum in CMB was also strong, achieving a 59.7% increase over the same period in 2010.

The bank has an edge in cross-border transactions. The co-operation between our Hong Kong and Mainland teams and the alliance with several strategic partners on the Mainland supported customers in growing their cross-border business and the establishment of a dynamic customer referral channel.

Compared with end-2010, the Business e-Banking customer base grew by 9.3% by end-June 2011 while the year-on-year increase in the number of online business transactions grew by 15.5%.

Corporate Banking ('CIB') posted a 61.6% growth in profit before tax to HK\$905m compared with the first half of 2010. Operating profit excluding loan impairment charges and other credit risk provisions was HK\$859m, up 54.5%. The strong profit growth was mainly attributable to a rise in net interest income arising from an increase in the loan portfolio and moderate growth in net fee income.

CIB encountered a challenging operating environment in the first half of 2011. On the Mainland, market liquidity tightened following a number of interest rate increases and an increase in banks' deposit reserve ratio requirements. Robust loan demand prompted an increasing number of mainland enterprises to come to Hong Kong to secure loans as the market offered funding at lower cost and in larger amounts. The surge in loan demand in Hong Kong resulted in a



sharp rise in the cost of acquiring customer deposits.

Against a backdrop of tightening market liquidity, CIB leveraged its strong industry knowledge, effective risk management and dedicated business teams in both Hong Kong and on the Mainland to achieve strong financial results through very selective growth in customer advances, delivering an increase of 7.9% compared with the end of December 2010. By offering total solutions to customers to meet their business needs and capitalising on our efficient cross-border relationship management system, CIB customer deposits grew by 26.8% despite fierce competition.

CIB took measures to diversify the customer advances portfolio in terms of customer, industry and currency. Anticipating continued tight Hong Kong dollar and US dollar liquidity, while the renminbi deposit base grew quickly in Hong Kong, CIB successfully made renminbi loans and will continue to explore such opportunities to achieve more balanced and sustainable growth.

Leveraging its well-established business infrastructure, CIB stepped up marketing efforts to drive growth in non-fund income from business customers, including offering a wide spectrum of services encompassing treasury, hedging, trade services, cash management, wealth management and insurance products.

Treasury ("TRY") registered a year-on-year profit before tax increase of 31.0% to HK\$1,873m, while operating profit increased by 38.5% to HK\$1,284m. These strong results came as net interest income growth and an increase in its share of profits from associates offset decreases in trading income and disposal gains.

Global interest rates remained at low levels and yield curves were relatively flat in the first half of 2011. Nevertheless, net interest income still increased by 69.5% to HK\$1,032m, mainly due to our strategy of actively managing our balance sheet.

Trading income decreased by HK\$76m, or 15.0%, to HK\$430m mainly due to a decline in income from funding swaps. Foreign exchange, as well as securities and derivatives trading, on the other hand, registered strong growth, boosted mainly by rising demand for renminbi-denominated products following the further liberalisation of renminbi business in Hong Kong.

#### Mainland business

The bank's wholly owned subsidiary, Hang Seng Bank (China) Limited ('Hang Seng China') currently operates 11 branches and 27 sub-branches, spanning 13 cities on the Mainland. In May 2011, Hang Seng China obtained approval to establish a Huizhou sub-branch, its third cross-city sub-branch in Guangdong Province under CEPA VI. The bank has also applied to establish a branch in Xiamen.

Since the beginning of 2011, the Mainland government has launched a series of macro-economic control measures. Up to 7 July 2011, the People's Bank of China had raised the deposit reserve ratio six times and benchmark interest rates thrice.

Against a very challenging and highly competitive market environment, Hang Seng China increased its deposit base, acquired new customers, widened the loan margin and boosted other operating income.

Hang Seng China achieved these encouraging results through focused strategies. Advances to customers rose by 10.5% over the end of 2010.

To reinforce the bank's brand name and long-term commitment to the mainland market, in May Hang Seng China moved into its new headquarters located in the Hang Seng Bank Tower in Shanghai's Lujiazui financial district, which we earlier acquired for RMB510m. This marked an important milestone for us on the Mainland and demonstrated the bank's long-term commitment to providing quality wealth management services for customers there. The headquarters

includes a VIP Prestige Centre.

The number of personal customers increased by 22.2% year-on-year. Targeting customers with cross-border renminbi business and trade services needs, the number of corporate customers also increased by 13.3% year-on-year. With solid growth in the customer base, total deposits increased by 20.5% compared with the end of 2010.

Total operating income rose by 43.9% over the same period last year, supported by strong growth in both net interest income and non-interest income. Driven by strong revenue growth momentum, profit before tax recorded growth of 160.1% compared with the first half of 2010.

The strategic alliance with Industrial Bank continued to support the bank's long-term growth on the Mainland. In March 2011, the bank signed a memorandum of understanding with Industrial Bank to further strengthen bilateral cooperation in various business areas. Moreover, branch-level cooperation initiatives have been launched between Hang Seng China and Industrial Bank.

#### Consolidated Income Statement (unaudited)

| Figures in HK\$m   | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|--|------------------------------------|------------------------------------|--|
| Interest income  | 9,298                              | 7,665                              | 8,842                                  |
| Interest expense   | (1,661)                            | (952)                              | (1,255)                                |
| Net interest income  | 7,637                              | 6,713                              | 7,587                                  |
| Fee income   | 3,042                              | 2,835                              | 3,060                                  |
| Fee expense  | (506)                              | (466)                              | (532)                                  |
| Net fee income   | 2,536                              | 2,369                              | 2,528                                  |
| Trading income   | 931                                | 890                                | 1,169                                  |
| Net income from financial instruments designated at fair value                       | 96                                 | 132                                | 150                                    |
| Dividend income  | 6                                  | 4                                  | 10                                     |
| Net earned insurance premiums  | 6,190                              | 6,359                              | 4,948                                  |
| Other operating income   | 802                                | 636                                | 922                                    |
| Total operating income   | 18,198                             | 17,103                             | 17,314                                 |
| Net insurance claims incurred and movement in policyholders' liabilities             | (6,945)                            | (6,749)                            | (5,838)                                |
| Net operating income before loan impairment charges and other credit risk provisions | 11,253                             | 10,354                             | 11,476                                 |
| Loan impairment charges and other credit risk provisions                             | (158)                              | (153)                              | (237)                                  |
| Net operating income   | 11,095                             | 10,201                             | 11,239                                 |
| Employee compensation and benefits   | (1,901)                            | (1,773)                            | (1,944)                                |
| General and administrative expenses  | (1,582)                            | (1,376)                            | (1,541)                                |
| Depreciation of premises, plant and equipment  | (347)                              | (306)                              | (313)                                  |
| Amortisation of intangible assets  | (58)                               | (49)                               | (53)                                   |
| Operating expenses   | (3,888)                            | (3,504)                            | (3,851)                                |
| Impairment loss on intangible assets   | (78)                               | —                                  | —                                      |
| Operating profit   | 7,129                              | 6,697                              | 7,388                                  |

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|   |         |         |         |
|---|---------|---------|---------|
| Gains less losses from financial investments and fixed assets | 9       | 69      | 43      |
| Net surplus on property revaluation                           | 411     | 153     | 334     |
| Share of profits from associates                              | 1,771   | 1,184   | 1,477   |
| Profit before tax   | 9,320   | 8,103   | 9,242   |
| Tax expense   | (1,263) | (1,139) | (1,289) |
| Profit for the period   | 8,057   | 6,964   | 7,953   |
| Profit attributable to shareholders                           | 8,057   | 6,964   | 7,953   |
| Earnings per share (in HK\$)                                  | 4.21    | 3.64    | 4.16    |

Details of dividends payable to shareholders of the bank attributable to the profit for the half year are set out on page 39.

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

The table below presents the interest income and interest expense of Hang Seng, as included within the HSBC Group accounts:

| Figures in HK\$m   | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|--|------------------------------------|------------------------------------|--|
| Interest income  | 9,159                              | 7,526                              | 8,702                                  |
| Interest expense   | (1,254)                            | (757)                              | (1,015)                                |
| Net interest income  | 7,905                              | 6,769                              | 7,687                                  |
| Net interest income and expense reported as 'Net trading income'   | (300)                              | (83)                               | (155)                                  |
| Net interest income and expense reported as 'Net income from financial instruments designated at fair value' | 32                                 | 27                                 | 55                                     |

Consolidated Statement of Comprehensive Income (unaudited)

| Figures in HK\$m      | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|-----------------------|------------------------------------|------------------------------------|--|
| Profit for the period | 8,057                              | 6,964                              | 7,953                                  |

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|  |       |       |       |
|--|-------|-------|-------|
| Other comprehensive income   |       |       |       |
| Premises:  |       |       |       |
| - unrealised surplus on revaluation of premises                          | 1,720 | 690   | 1,412 |
| - deferred taxes   | (284) | (114) | (229) |
| Available-for-sale investments reserve:                                  |       |       |       |
| - fair value changes taken to/(from) equity:                             |       |       |       |
| -- on debt securities  | 342   | 774   | —     |
| -- on equity shares  | 16    | (30)  | 25    |
| - fair value changes transferred (to)/from income statement:             |       |       |       |
| -- on hedged items   | (173) | (441) | 169   |
| -- on disposal   | (10)  | (72)  | (33)  |
| - share of changes in equity of associates:                              |       |       |       |
| -- fair value changes  | (411) | 108   | 12    |
| - deferred taxes   | 95    | (34)  | (19)  |
| Cash flow hedging reserve:   |       |       |       |
| - fair value changes taken to equity                                     | 119   | 127   | 164   |
| - fair value changes transferred to income statement                     | (119) | (261) | (153) |
| - deferred taxes   | —     | 23    | (2)   |
| Defined benefit plans:   |       |       |       |
| - actuarial (losses)/gains on defined benefit plans                      | (483) | (183) | 194   |
| - deferred taxes   | 80    | 30    | (32)  |
| Exchange differences on translation of:                                  |       |       |       |
| - financial statements of overseas branches, subsidiaries and associates | 422   | 176   | 511   |
| Others   | 9     | 13    | —     |
| Other comprehensive income for the period, net of tax                    | 1,323 | 806   | 2,019 |
| Total comprehensive income for the period                                | 9,380 | 7,770 | 9,972 |
| Total comprehensive income for the period attributable to shareholders   | 9,380 | 7,770 | 9,972 |

Consolidated Balance Sheet (unaudited)

| Figures in HK\$m  | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| <b>ASSETS</b>   |                    |                    |                        |
| Cash and balances with banks and other financial institutions | 42,644             | 30,065             | 44,411                 |

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|  |         |         |         |
|--|---------|---------|---------|
| Placings with and advances to banks and other financial institutions | 114,507 | 104,711 | 110,564 |
| Trading assets   | 27,621  | 35,559  | 26,055  |
| Financial assets designated at fair value                            | 8,006   | 6,160   | 7,114   |
| Derivative financial instruments                                     | 5,678   | 4,645   | 5,593   |
| Advances to customers  | 503,645 | 394,110 | 472,637 |
| Financial investments  | 210,456 | 247,280 | 199,359 |
| Interest in associates   | 16,988  | 13,841  | 15,666  |
| Investment properties  | 3,660   | 3,013   | 3,251   |
| Premises, plant and equipment  | 16,065  | 12,853  | 14,561  |
| Intangible assets  | 5,966   | 4,706   | 5,394   |
| Other assets   | 17,973  | 14,134  | 12,306  |
| Deferred tax assets  | —       | 10      | —       |
| Total assets   | 973,209 | 871,087 | 916,911 |

LIABILITIES AND EQUITY

|  |         |         |         |
|--|---------|---------|---------|
| Liabilities  |         |         |         |
| Current, savings and other deposit accounts                | 703,321 | 650,859 | 683,628 |
| Deposits from banks  | 19,452  | 12,962  | 15,586  |
| Trading liabilities  | 59,425  | 40,789  | 42,581  |
| Financial liabilities designated at fair value             | 456     | 446     | 457     |
| Derivative financial instruments                           | 4,877   | 5,516   | 4,683   |
| Certificates of deposit and other debt securities in issue | 8,146   | 1,360   | 3,095   |
| Other liabilities  | 17,925  | 23,863  | 17,018  |
| Liabilities to customers under insurance contracts         | 69,081  | 59,547  | 64,425  |
| Current tax liabilities                                    | 1,329   | 963     | 344     |
| Deferred tax liabilities                                   | 3,657   | 2,709   | 3,234   |
| Subordinated liabilities                                   | 11,865  | 7,853   | 11,848  |
| Total liabilities  | 899,534 | 806,867 | 846,899 |
| Equity   |         |         |         |
| Share capital  | 9,559   | 9,559   | 9,559   |
| Retained profits   | 46,551  | 40,474  | 42,966  |
| Other reserves   | 15,462  | 12,084  | 13,854  |
| Proposed dividends   | 2,103   | 2,103   | 3,633   |
| Shareholders' funds  | 73,675  | 64,220  | 70,012  |
| Total equity and liabilities                               | 973,209 | 871,087 | 916,911 |

|                  |                                    |                                    |                                     |
|------------------|------------------------------------|------------------------------------|-------------------------------------|
|                  | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December 2010 |
| Figures in HK\$m |                                    |                                    |                                     |

|                                |       |       |       |
|--------------------------------|-------|-------|-------|
| Share capital                  |       |       |       |
| At beginning and end of period | 9,559 | 9,559 | 9,559 |

Retained profits (including

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|   |         |         |         |
|---|---------|---------|---------|
| proposed dividends)                                   |         |         |         |
| At beginning of period                                | 46,599  | 41,385  | 42,577  |
| Dividends to shareholders                             |         |         |         |
| - dividends approved in respect of the previous year  | (3,633) | (3,633) | —       |
| - dividends declared in respect of the current period | (2,103) | (2,103) | (4,206) |
| Transfer  | 128     | 105     | 113     |
| Total comprehensive income for the period             | 7,663   | 6,823   | 8,115   |
|   | 48,654  | 42,577  | 46,599  |
| Other reserves  |         |         |         |
| Premises revaluation reserve                          |         |         |         |
| At beginning of period                                | 9,426   | 7,885   | 8,356   |
| Transfer  | (131)   | (105)   | (113)   |
| Total comprehensive income for the period             | 1,437   | 576     | 1,183   |
|   | 10,732  | 8,356   | 9,426   |
| Available-for-sale investment reserve                 |         |         |         |
| At beginning of period                                | 202     | (257)   | 48      |
| Transfer  | (4)     | —       | —       |
| Total comprehensive income for the period             | (155)   | 305     | 154     |
|   | 43      | 48      | 202     |
| Cash flow hedging reserve                             |         |         |         |
| At beginning of period                                | 72      | 174     | 63      |
| Total comprehensive income for the period             | —       | (111)   | 9       |
|   | 72      | 63      | 72      |
| Foreign exchange reserve                              |         |         |         |
| At beginning of period                                | 2,069   | 1,382   | 1,558   |
| Total comprehensive income for the period             | 435     | 176     | 511     |
|   | 2,504   | 1,558   | 2,069   |

Consolidated Cash Flow Statement (unaudited)

| Figures in HK\$m                           | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 |
|--|------------------------------------|------------------------------------|
| Net cash outflow from operating activities | (8,739)                            | (33,732)                           |
| Cash flows from investing activities       |                                    |                                    |

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|  |          |          |
|--|----------|----------|
| Dividends received from associates                                 | 456      | 397      |
| Purchase of an interest in an associate                            | —        | (2,626)  |
| Purchase of available-for-sale investments                         | (28,293) | (16,913) |
| Purchase of held-to-maturity debt securities                       | (205)    | (479)    |
| Proceeds from sale or redemption of available-for-sale investments | 34,732   | 23,331   |
| Proceeds from redemption of held-to-maturity debt securities       | 234      | 238      |
| Proceeds from sale of loan portfolio                               | 4,670    | —        |
| Purchase of fixed assets and intangible assets                     | (192)    | (132)    |
| Proceeds from sale of fixed assets and assets held for sale        | 1        | —        |
| Interest received from available-for-sale investments              | 893      | 783      |
| Dividends received from available-for-sale investments             | 3        | 3        |
| Net cash inflow from investing activities                          | 12,299   | 4,602    |
| Cash flows from financing activities                               |          |          |
| Dividends paid   | (5,736)  | (5,736)  |
| Interest paid for subordinated liabilities                         | (82)     | (29)     |
| Repayment of subordinated liabilities                              | —        | (2,500)  |
| Net cash outflow from financing activities                         | (5,818)  | (8,265)  |
| Decrease in cash and cash equivalents                              | (2,258)  | (37,395) |
| Cash and cash equivalents at 1 January                             | 118,560  | 136,759  |
| Effect of foreign exchange rate changes                            | 1,868    | 1,068    |
| Cash and cash equivalents at 30 June                               | 118,170  | 100,432  |

Financial Review

Net interest income

| Figures in HK\$m  | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---|------------------------------------|------------------------------------|--|
| Net interest income/(expense) arising from:   |                                    |                                    |  |
| - financial assets and liabilities that are not at fair value through profit and loss | 7,905                              | 6,772                              | 7,687                                  |
| - trading assets and liabilities  | (300)                              | (83)                               | (155)                                  |
| - financial instruments designated at fair value                                      | 32                                 | 24                                 | 55                                     |
|   | 7,637                              | 6,713                              | 7,587                                  |
| Average interest-earning assets   | 878,514                            | 766,382                            | 837,959                                |

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|                     |       |       |       |
|---------------------|-------|-------|-------|
| Net interest spread | 1.68% | 1.72% | 1.73% |
| Net interest margin | 1.75% | 1.77% | 1.80% |

Net interest income rose by HK\$924m, or 13.8%, to HK\$7,637m, on the back of the 14.6% growth in average interest earning assets, notably in trade finance, corporate and commercial and mainland lending businesses. The favourable impact on net interest income was largely offset by continued compression on asset and deposit spreads due to the persistently low interest rate environment.

Net interest margin fell by two basis points to 1.75% while net interest spread declined by four basis points to 1.68% compared with the same period last year. The reduction in net interest spread was due to narrowing deposit spreads. The average volume growth in mortgage lending offset the tighter spread in HIBOR mortgages in an intensely competitive market. Despite the growth in renminbi business, the dilutive effect of the increase in lower yielding renminbi funds placed with the local clearing bank adversely affected the net interest spread. The impressive average volume growth in corporate and commercial lending, credit cards and trade finance also helped to support net interest income revenue streams. The group also grew its life insurance fund investment portfolio and increased its interest income by 13.8% compared with the same period last year.

The contribution from net free funds grew by two basis points to seven basis points as a result of the modest increase in average market interest rates.

Compared with the second half of 2010, net interest income grew marginally by HK\$50m, or 0.7%, due mainly to fewer days in the period, notwithstanding the 4.8% increase in average interest-earning assets. Net interest margin was affected by compressed deposit spreads and the lower yielding renminbi funds placed with the local clearing bank.

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

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

| Figures in HK\$m                | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---------------------------------|------------------------------------|------------------------------------|--|
| Net interest income             | 7,905                              | 6,769                              | 7,687                                  |
| Average interest-earning assets | 836,753                            | 708,453                            | 802,990                                |
| Net interest spread             | 1.84 %                             | 1.89 %                             | 1.84%                                  |
| Net interest margin             | 1.91 %                             | 1.93 %                             | 1.90%                                  |

Net fee income

Half-year ended      Half-year ended      Half-year ended



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| Figures in HK\$m                    | 30 June<br>2011 | 30 June<br>2010 | 31 December<br>2010 |
|-------------------------------------|-----------------|-----------------|---------------------|
| - Stockbroking and related services | 696             | 673             | 795                 |
| - Retail investment funds           | 551             | 491             | 548                 |
| - Structured investment products    | 8               | 11              | 8                   |
| - Insurance agency                  | 123             | 139             | 117                 |
| - Account services                  | 181             | 180             | 169                 |
| - Private banking service fee       | 79              | 63              | 97                  |
| - Remittances                       | 132             | 122             | 137                 |
| - Cards                             | 792             | 742             | 720                 |
| - Credit facilities                 | 105             | 91              | 104                 |
| - Trade services                    | 249             | 205             | 247                 |
| - Other                             | 126             | 118             | 118                 |
| Fee income                          | 3,042           | 2,835           | 3,060               |
| Fee expense                         | (506)           | (466)           | (532)               |
|                                     | 2,536           | 2,369           | 2,528               |

Net fee income increased by HK\$167m, or 7.0%, to reach HK\$2,536m, compared with the first half of 2010.

With the slowdown of investment market sentiment in Hong Kong, stockbroking and related services income recorded growth of 3.4%. The bank capitalised on investor appetite with the launch of timely investment fund products and grew its investment funds income by 12.2%. This included the Hang Seng Index Fund and Hang Seng China H-Share Index Leveraged 150 Fund from Hang Seng Investment Management as well as other funds issued by other providers that helped to boost sales and turnover. Private banking service fee income rose by 25.4%.

Card service fee income was 6.7% higher than the same period last year, attributable to the growth in average card balances. The bank's effective loyalty scheme and card utilisation promotions helped drive up card spending. The increase in card income was also supported by year-on-year increases of 14.7% in the number of cards in circulation and 17.5% in cardholder spending.

In line with the robust performance of external trade and the expansion of cross-border renminbi trade settlement, income from trade services and remittances registered growth of 21.5% and 8.2% respectively. Fee income from account services and credit facilities also increased.

Compared with the second half of 2010, net fee income remained broadly at the same level. The increase in card service fee income was offset by the fall in stockbroking and related services income which recorded strong growth in the second half of 2010 on the back of the rebound in equity markets.

#### Trading income

| Figures in HK\$m  | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---|------------------------------------|------------------------------------|--|
| Trading income:   |                                    |                                    |  |
| - foreign exchange  | 788                                | 880                                | 888                                    |
| - securities, derivatives and<br>other trading activities | 143                                | 10                                 | 281                                    |

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931 890 1,169

Trading income grew by HK\$41m, or 4.6%, to HK\$931m compared with the first half of 2010. Foreign exchange income decreased by 10.5%, mainly due to the decrease in net interest income from funding swaps. Normal foreign exchange trading, however, grew strongly by 22.4%, as part of the bank's efforts to meet the growing demand for renminbi-denominated products.

Income from securities, derivatives and other trading activities grew by HK\$133m, reflecting an improvement in interest rate derivative trading.

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

Net income from financial instruments designated at fair value

| Figures in HK\$m   | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|--|------------------------------------|------------------------------------|--|
| Net income on assets<br>designated at fair value which<br>back insurance and<br>investment contracts | 96                                 | 147                                | 150                                    |
| Net change in fair value of<br>other financial instruments<br>designated at fair value               | —<br>96                            | (15)<br>132                        | —<br>150                               |

Net income from financial instruments designated at fair value decreased by HK\$36m, or 27.3%, reflecting the fair value changes of assets supporting the linked insurance contracts and reported in 'net income from financial instruments designated at fair value' with offsetting movements in the value of these contracts reported in 'net insurance claims incurred and movement in policyholders' liabilities'.

Other operating income

| Figures in HK\$m   | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|--|------------------------------------|------------------------------------|--|
| Rental income from<br>investment properties                              | 84                                 | 78                                 | 77                                     |
| Movement in present value<br>of in-force long-term<br>insurance business | 639                                | 467                                | 659                                    |

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|       |     |     |     |
|-------|-----|-----|-----|
| Other | 79  | 91  | 186 |
|       | 802 | 636 | 922 |

Other operating income rose by HK\$166m, or 26.1%, to HK\$802m compared with the first half of 2010. The movement in present value of in-force long-term insurance business increased by 36.8%, the net effect of higher sales in 2011 compared with the first half of 2010, a refinement of the calculation of the PVIF asset during the period and the unfavourable experience variance of the investment return assumption.

Analysis of income from wealth management business

| Figures in HK\$m                              | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---|------------------------------------|------------------------------------|--|
| Investment income:                            |                                    |                                    |  |
| - retail investment funds                     | 551                                | 491                                | 548                                    |
| - structured investment products <sup>W</sup> | 308                                | 239                                | 209                                    |
| - private banking service fee <sup>WW</sup>   | 100                                | 80                                 | 116                                    |
| - stockbroking and related services           | 696                                | 673                                | 795                                    |
| - margin trading and others                   | 56                                 | 72                                 | 57                                     |
|   | 1,711                              | 1,555                              | 1,725                                  |
| Insurance income:                             |                                    |                                    |  |
| - life insurance                              | 1,064                              | 1,197                              | 1,085                                  |
| - general insurance and others                | 185                                | 173                                | 169                                    |
|   | 1,249                              | 1,370                              | 1,254                                  |
| Total   | 2,960                              | 2,925                              | 2,979                                  |

<sup>W</sup> Income from structured investment products includes income reported under net fee income on the sales of structured investment products issued by other providers. It also includes profit generated from the selling of structured investment products in issue, reported under trading income.

<sup>WW</sup> Income from private banking includes income reported under net fee income on investment services and profit generated from selling of structured investment products in issue, reported under trading income.

The wealth management business continued to make a major contribution to the bank's income, achieving a steady growth of 1.2% compared with the first half 2010. Investment income increased by 10.0% as opposed to the 8.8% fall in insurance income.

Leveraging the open architecture of the bank's wealth management platform, income from retail investment funds rose by 12.2%, supported by a wide variety of investment funds to meet the various risk appetites of investors. These included funds from Hang Seng Investment Management and other providers. Throughout the first half, the bank continued to distribute competitive structured products to broaden the range of investment options available to customers, with structured investment products income growing by 28.9%, mainly from sales of equity-linked instruments. Stockbroking and related services income registered stable growth of 3.4% as equity markets remained difficult in the second quarter of 2011.

Private banking service fee income increased by 25.0% compared with the first half of 2010.

Life insurance income fell by HK\$133m, or 11.1%, to HK\$1,064m. During the first half of 2011, the bank continued to launch new products catering for customers' investment and protection needs. This included the launch of the

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'RewardYou Life Insurance Plan' and '3-Year Target Life Insurance Plan' which were well received. Total policies in-force increased by 8.1%.

Net interest income and fee income from the life insurance funds investment portfolio grew by 10.9%, as a result of the growth in the size of the portfolio. Investment returns on life insurance funds declined by 63.9%, reflecting changes in the fair value of assets supporting linked insurance contracts and reported under 'net income from financial instruments designated at fair value', with offsetting movements in policyholders' liabilities.

The movement in present value of in-force long-term insurance business increased by 36.8%, representing the net effect of higher sales in 2011 compared with the first half of 2010, a refinement of the calculation of the PVIF asset during the period and the unfavourable experience variance of the investment return assumption.

General insurance income increased by 6.9% to HK\$185m.

| Figures in HK\$m  | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---|------------------------------------|------------------------------------|--|
| Life insurance:   |                                    |                                    |  |
| - net interest income and fee income  | 1,267                              | 1,142                              | 1,240                                  |
| - investment returns on life insurance funds  | 35                                 | 97                                 | 190                                    |
| - net earned insurance premiums   | 6,022                              | 6,189                              | 4,777                                  |
| - net insurance claims incurred and movement in policyholders' liabilities <sup>W</sup> | (6,899)                            | (6,698)                            | (5,781)                                |
| - movement in present value of in-force long-term insurance business                    | 639                                | 467                                | 659                                    |
|   | 1,064                              | 1,197                              | 1,085                                  |
| General insurance and others  | 185                                | 173                                | 169                                    |
| Total   | 1,249                              | 1,370                              | 1,254                                  |

W Including premium and investment reserves

Loan impairment charges and other credit risk provisions

| Figures in HK\$m         | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|--------------------------|------------------------------------|------------------------------------|--|
| Loan impairment charges: |                                    |                                    |  |
| - individually assessed  | (18)                               | (77)                               | (109)                                  |
| - collectively assessed  | (140)                              | (76)                               | (128)                                  |
|                          |                                    | )                                  |  |

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|  |       |       |       |
|--|-------|-------|-------|
|  | (158) | (153) | (237) |
|  |       | )     |       |
| Of which:  |       |       |       |
| - new and additional                                     | (396) | (281) | (328) |
|  |       | )     |       |
| - releases   | 204   | 98    | 59    |
| - recoveries   | 34    | 30    | 32    |
|  | (158) | (153) | (237) |
|  |       | )     |       |
| Other credit risk provisions                             | —     | —     | —     |
| Loan impairment charges and other credit risk provisions | (158) | (153) | (237) |

Loan impairment charges and other credit risk provisions rose slightly by HK\$5m year-on-year to HK\$158m.

Individually assessed provisions fell by HK\$59m, or 76.6%, mainly due to higher releases from commercial and corporate banking customers in the first half of 2011 as economic conditions continued to improve together with the bank's good risk management control.

Collectively assessed provisions rose by HK\$64m, due largely to the rise in impairment allowances for loans not individually identified as impaired. Impairment provisions for credit card portfolios were lower due to the fall in credit card delinquencies.

Operating expenses

| Figures in HK\$m                                | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---|------------------------------------|------------------------------------|--|
| Employee compensation and benefits:             |                                    |                                    |  |
| - salaries and other costs                      | 1,742                              | 1,639                              | 1,809                                  |
| - retirement benefit costs                      | 159                                | 134                                | 135                                    |
|   | 1,901                              | 1,773                              | 1,944                                  |
| General and administrative expenses:            |                                    |                                    |  |
| - rental expenses                               | 245                                | 227                                | 237                                    |
| - other premises and equipment                  | 458                                | 428                                | 474                                    |
| - marketing and advertising expenses            | 266                                | 234                                | 236                                    |
| - other operating expenses                      | 613                                | 487                                | 594                                    |
|   | 1,582                              | 1,376                              | 1,541                                  |
| Depreciation of business premises and equipment | 347                                | 306                                | 313                                    |
| Amortisation of intangible assets               | 58                                 | 49                                 | 53                                     |
|   | 3,888                              | 3,504                              | 3,851                                  |
| Cost efficiency ratio                           | 34.6%                              | 33.8%                              | 33.6%                                  |
|   | At 30 June                         | At 30 June                         | At 31 December                         |

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|                                      |       |       |       |
|--------------------------------------|-------|-------|-------|
| Staff numbers <sup>W</sup> by region | 2011  | 2010  | 2010  |
| Hong Kong                            | 8,145 | 7,933 | 7,960 |
| Mainland                             | 1,662 | 1,497 | 1,623 |
| Others                               | 58    | 58    | 59    |
| Total                                | 9,865 | 9,488 | 9,642 |
| W Full-time equivalent               |       |       |       |

Operating expenses rose by HK\$384m, or 11.0%, compared with the first half of 2010, reflecting the bank's continued investments to support business growth and capture business opportunities while continuing to carefully manage costs. Excluding the mainland business, operating expenses rose by 9.4%. Compared with the second half of 2010, operating expenses were maintained broadly at the same level.

Employee compensation and benefits increased by HK\$128m, or 7.2%. Salaries and other costs rose by 6.3%, reflecting the combined effects of annual salary rises and the higher average headcount. General and administrative expenses were up 15.0%, largely attributable to the rise in processing charges and marketing expenditure as we conducted more branding and promotional activities during the period to support business growth. Rental expenses rose due to higher rents for branches in Hong Kong as well as new branches on the Mainland. Depreciation charges were up 13.4%, reflecting higher depreciation charges on business premises following upward property revaluation in Hong Kong.

The group's number of full-time equivalent staff rose by 223 compared with the 2010 year-end - mainly in frontline and support areas. Headcount for the mainland operations also rose compared with the last year-end as a result of the expansion of Hang Seng China's mainland business. The cost efficiency ratio for the first half of 2011 was 34.6%, compared with 33.8% for the first half of 2010, due primarily to the increase in operating expenses. Compared with the second half of 2010, the cost efficiency ratio rose by one percentage point.

Gains less losses from financial investments and fixed assets

| Figures in HK\$m   | Half-year ended | Half-year ended | Half-year ended     |
|--|-----------------|-----------------|---------------------|
|  | 30 June<br>2011 | 30 June<br>2010 | 31 December<br>2010 |
| Net gains from disposal of<br>available-for-sale equity securities | 8               | 10              | —                   |
| Net gains from disposal of<br>available-for-sale debt securities   | 2               | 62              | 33                  |
| Impairment of available-for-sale<br>equity securities              | —               | —               | —                   |
| Gains less losses on disposal of<br>assets held for sale           | —               | —               | 12                  |
| Gains less losses on disposal of<br>fixed assets                   | (1)             | (3)             | (2)                 |
|  | 9               | 69              | 43                  |

Gains less losses from financial investments and fixed assets amounted to HK\$9m - a decrease of HK\$60m compared with the first half of 2010. Net gains from disposal of available-for-sale equity securities fell by HK\$2m, or 20.0%.

## Tax expense

Taxation in the consolidated income statement represents:

| Figures in HK\$m                                     | Half-year ended | Half-year ended | Half-year ended     |
|--|-----------------|-----------------|---------------------|
|  | 30 June<br>2011 | 30 June<br>2010 | 31 December<br>2010 |
| Current tax - provision for<br>Hong Kong profits tax |                 |                 |                     |
| Tax for the period                                   | 995             | 933             | 1,034               |
| Adjustment in respect of<br>prior periods            | —               | (19)            | —                   |
| Current tax - taxation outside<br>Hong Kong          |                 |                 |                     |
| Tax for the period                                   | 57              | 39              | (1)                 |
| Deferred tax   |                 |                 |                     |
| Origination and reversal of<br>temporary differences | 211             | 186             | 256                 |
| Total tax expense                                    | 1,263           | 1,139           | 1,289               |

The current tax provision is based on the estimated assessable profit for the first half of 2011, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2010). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

## Earnings per share

The calculation of earnings per share for the first half of 2011 is based on earnings of HK\$8,057m (HK\$6,964m and HK\$7,953m for the first and second halves of 2010 respectively) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first and second halves of 2010).

## Dividends per share

|                | Half-year ended   |       | Half-year ended   |       | Half-year ended     |       |
|----------------|-------------------|-------|-------------------|-------|---------------------|-------|
|                | 30 June<br>2011   |       | 30 June<br>2010   |       | 31 December<br>2010 |       |
|                | HK\$<br>per share | HK\$m | HK\$<br>per share | HK\$m | HK\$<br>per share   | HK\$m |
| First interim  | 1.10              | 2,103 | 1.10              | 2,103 | —                   | —     |
| Second interim | 1.10              | 2,103 | 1.10              | 2,103 | —                   | —     |
| Third interim  | —                 | —     | —                 | —     | 1.10                | 2,103 |

|                |      |       |      |       |      |       |
|----------------|------|-------|------|-------|------|-------|
| Fourth interim | 2.20 | 4,206 | 2.20 | 4,206 | 1.90 | 3,633 |
|                |      |       |      |       | 3.00 | 5,736 |

## Segmental analysis

The group's business comprises five customer groups. To be consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the group identified the following five reportable segments:

- Retail Banking and Wealth Management provides banking (including deposits, credit cards, mortgages and other retail lending) and wealth management services (including private banking, investment and insurance) to personal customers.
- Commercial Banking manages middle market and smaller corporate relationships and specialises in trade-related financial services.
  - Corporate Banking handles relationships with large corporate and institutional customers
- Treasury engages in balance sheet management and proprietary trading. Treasury also manages the funding and liquidity positions of the group and other market risk positions arising from banking activities.
- 'Other' mainly represents management of shareholders' funds and investments in premises, investment properties and equity shares.

## (a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the customer groups by way of internal capital allocation and fund transfer-pricing mechanisms. Cost allocation is based on the direct costs incurred by the respective customer groups and apportionment of management overheads. Rental charges at market rates for usage of premises are reflected in other operating income for the 'Other' customer group and total operating expenses for the respective customer groups.

Profit before tax contributed by the customer groups for the periods stated is set out in the table below. More customer group analysis and discussion is set out in the 'Customer group performance' section on page 14.

| Figures in HK\$m             | Retail Banking and Wealth Management | Commercial Banking | Corporate Banking | Treasury | Other | Total reportable segments |
|------------------------------|--------------------------------------|--------------------|-------------------|----------|-------|---------------------------|
| Half-year ended 30 June 2011 |                                      |                    |                   |          |       |                           |
| Profit before tax            | 3,457                                | 2,389              | 905               | 1,873    | 696   | 9,320                     |
| Share of profit before tax   | 37.1%                                | 25.6%              | 9.7%              | 20.1%    | 7.5 % | 100.0%                    |
| Half-year ended 30 June 2010 |                                      |                    |                   |          |       |                           |
|                              | 3,937                                | 1,783              | 560               | 1,430    | 393   | 8,103                     |



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|                            |        |        |      |       |       |        |
|----------------------------|--------|--------|------|-------|-------|--------|
| Profit before tax          |        |        |      |       |       |        |
| Share of profit before tax | 48.6 % | 22.0 % | 6.9% | 17.6% | 4.9 % | 100.0% |

Half-year ended 31 December 2010

|                            |        |       |      |       |       |        |
|----------------------------|--------|-------|------|-------|-------|--------|
| Profit before tax          | 3,935  | 1,965 | 706  | 1,931 | 705   | 9,242  |
| Share of profit before tax | 42.6 % | 21.3% | 7.6% | 20.9% | 7.6 % | 100.0% |

(b) Geographic information

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the bank itself, by the location of the branches responsible for reporting the results or advancing the funds.

| Figures in HK\$m | Hong Kong | Americas | Mainland and others | Total |
|------------------|-----------|----------|---------------------|-------|
|------------------|-----------|----------|---------------------|-------|

Half-year ended 30 June 2011

|                        |        |     |       |        |
|------------------------|--------|-----|-------|--------|
| Income and expense     |        |     |       |        |
| Total operating income | 16,757 | 656 | 785   | 18,198 |
| Profit before tax      | 6,928  | 641 | 1,751 | 9,320  |

At 30 June 2011

|                        |         |        |         |         |
|------------------------|---------|--------|---------|---------|
| Total assets           | 785,812 | 64,145 | 123,252 | 973,209 |
| Total liabilities      | 823,623 | 1,860  | 74,051  | 899,534 |
| Interest in associates | 1,156   | —      | 15,832  | 16,988  |
| Non-current assetsW    | 24,721  | —      | 970     | 25,691  |

Half-year ended 30 June 2010

|                        |        |     |       |        |
|------------------------|--------|-----|-------|--------|
| Income and expense     |        |     |       |        |
| Total operating income | 16,095 | 440 | 568   | 17,103 |
| Profit before tax      | 6,479  | 425 | 1,199 | 8,103  |

At 30 June 2010

|                        |         |        |        |         |
|------------------------|---------|--------|--------|---------|
| Total assets           | 737,526 | 63,322 | 70,239 | 871,087 |
| Total liabilities      | 765,674 | 1,403  | 39,790 | 806,867 |
| Interest in associates | 946     | —      | 12,895 | 13,841  |
| Non-current assetsW    | 20,266  | —      | 306    | 20,572  |

Half-year ended 31 December 2010

Income and expense

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|                        |        |     |       |        |
|------------------------|--------|-----|-------|--------|
| Total operating income | 16,029 | 607 | 678   | 17,314 |
| Profit before tax      | 7,243  | 571 | 1,428 | 9,242  |

At 31 December 2010

|                                 |         |        |        |         |
|---------------------------------|---------|--------|--------|---------|
| Total assets                    | 752,206 | 68,216 | 96,489 | 916,911 |
| Total liabilities               | 786,304 | 1,187  | 59,408 | 846,899 |
| Interest in associates          | 989     | —      | 14,677 | 15,666  |
| Non-current assets <sup>W</sup> | 22,262  | —      | 944    | 23,206  |

<sup>W</sup> Non-current assets consist of properties, plant and equipment, goodwill and other intangible assets.

Cash and balances with banks and other financial institutions

| Figures in HK\$m  | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| Cash in hand  | 7,190              | 3,992              | 6,101                  |
| Balances with central banks                             | 7,835              | 9,404              | 6,591                  |
| Balances with banks and<br>other financial institutions | 27,619             | 16,669             | 31,719                 |
|   | 42,644             | 30,065             | 44,411                 |

Placings with and advances to banks and other financial institutions

| Figures in HK\$m  | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| Placings with and advances to banks<br>and other financial institutions<br>maturing within one month                          | 74,083             | 57,557             | 56,437                 |
| Placings with and advances to banks<br>and other financial institutions<br>maturing after one month<br>but less than one year | 38,829             | 47,154             | 53,659                 |
| Placings with and advances to banks<br>and other financial institutions<br>maturing after one year                            | 1,595              | —                  | 468                    |
|   | 114,507            | 104,711            | 110,564                |

Trading assets

| Figures in HK\$m        | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|-------------------------|--------------------|--------------------|------------------------|
| Treasury bills          | 20,143             | 30,156             | 20,204                 |
| Certificates of deposit | 435                | —                  | 18                     |
| Other debt securities   | 6,679              | 4,203              | 5,101                  |
| Debt securities         | 27,257             | 34,359             | 25,323                 |

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|   |        |        |        |
|---|--------|--------|--------|
| Equity shares                           | 15     | —      | 8      |
| Total trading securities                | 27,272 | 34,359 | 25,331 |
| OtherW                                  | 349    | 1,200  | 724    |
| Total trading assets                    | 27,621 | 35,559 | 26,055 |
| Debt securities:                        |        |        |        |
| - listed in Hong Kong                   | 4,099  | 3,043  | 3,876  |
| - listed outside Hong Kong              | 107    | 109    | 170    |
|   | 4,206  | 3,152  | 4,046  |
| - unlisted                              | 23,051 | 31,207 | 21,277 |
|   | 27,257 | 34,359 | 25,323 |
| Equity shares:                          |        |        |        |
| - listed in Hong Kong                   | 15     | —      | 8      |
| Total trading securities                | 27,272 | 34,359 | 25,331 |
| Debt securities:                        |        |        |        |
| Issued by public bodies:                |        |        |        |
| - central governments and central banks | 24,554 | 34,043 | 24,905 |
| - other public sector entities          | 99     | 85     | 101    |
|   | 24,653 | 34,128 | 25,006 |
| Issued by other bodies:                 |        |        |        |
| - banks                                 | 1,003  | 118    | 149    |
| - corporate entities                    | 1,601  | 113    | 168    |
|   | 2,604  | 231    | 317    |
|   | 27,257 | 34,359 | 25,323 |
| Equity shares:                          |        |        |        |
| Issued by corporate entities            | 15     | —      | 8      |
| Total trading securities                | 27,272 | 34,359 | 25,331 |

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

Financial assets designated at fair value

| Figures in HK\$m           | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|----------------------------|--------------------|--------------------|------------------------|
| Certificates of deposit    | 1                  | 10                 | —                      |
| Other debt securities      | 4,104              | 4,569              | 4,440                  |
| Debt securities            | 4,105              | 4,579              | 4,440                  |
| Equity shares              | 559                | 137                | 583                    |
| Investment funds           | 3,342              | 1,444              | 2,091                  |
|                            | 8,006              | 6,160              | 7,114                  |
| Debt securities:           |                    |                    |                        |
| - listed in Hong Kong      | 11                 | 3                  | 11                     |
| - listed outside Hong Kong | 181                | 195                | 184                    |

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|   |       |       |       |
|---|-------|-------|-------|
|   | 192   | 198   | 195   |
| - unlisted                              | 3,913 | 4,381 | 4,245 |
|   | 4,105 | 4,579 | 4,440 |
| Equity shares:                          |       |       |       |
| - listed in Hong Kong                   | 559   | 137   | 583   |
| Investment funds:                       |       |       |       |
| - listed in Hong Kong                   | 23    | 20    | 23    |
| - listed outside Hong Kong              | 80    | 57    | 65    |
|   | 103   | 77    | 88    |
| - unlisted                              | 3,239 | 1,367 | 2,003 |
|   | 3,342 | 1,444 | 2,091 |
|   | 8,006 | 6,160 | 7,114 |
| Debt securities:                        |       |       |       |
| Issued by public bodies:                |       |       |       |
| - central governments and central banks | 145   | 151   | 148   |
| - other public sector entities          | 54    | 138   | 105   |
|   | 199   | 289   | 253   |
| Issued by other bodies:                 |       |       |       |
| - banks                                 | 3,831 | 4,165 | 4,113 |
| - corporate entities                    | 75    | 125   | 74    |
|   | 3,906 | 4,290 | 4,187 |
|   | 4,105 | 4,579 | 4,440 |
| Equity shares:                          |       |       |       |
| Issued by banks                         | 66    | 25    | 69    |
| Issued by public sector entities        | 15    | —     | 15    |
| Issued by corporate entities            | 478   | 112   | 499   |
|   | 559   | 137   | 583   |
| Investment funds:                       |       |       |       |
| Issued by banks                         | 2,094 | 1,367 | 2,004 |
| Issued by corporate entities            | 1,248 | 77    | 87    |
|   | 3,342 | 1,444 | 2,091 |
|   | 8,006 | 6,160 | 7,114 |

Advances to customers

| Figures in HK\$m            | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|-----------------------------|--------------------|--------------------|------------------------|
| Gross advances to customers | 505,346            | 395,935            | 474,473                |
| Less:                       |                    |                    |                        |
| Loan impairment allowances: |                    |                    |                        |
| - individually assessed     | (979)              | (1,099)            | (1,118)                |
| - collectively assessed     | (722)              | (726)              | (718)                  |

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503,645                      394,110                      472,637

## Loan impairment allowances against advances to customers

| Figures in HK\$m  | Individually<br>assessed | Collectively<br>assessed | Total |
|---|--------------------------|--------------------------|-------|
| At 1 January 2011   | 1,118                    | 718                      | 1,836 |
| Amounts written off   | (170)                    | (157)                    | (327) |
| Recoveries of advances<br>written off in previous years                                   | 13                       | 21                       | 34    |
| New impairment allowances<br>charged to income statement                                  | 145                      | 251                      | 396   |
| Impairment allowances released<br>to income statement                                     | (127)                    | (111)                    | (238) |
| Unwinding of discount of loan<br>impairment allowances<br>recognised as 'interest income' | (4)                      | (2)                      | (6)   |
| Exchange  | 4                        | 2                        | 6     |
| At 30 June 2011   | 979                      | 722                      | 1,701 |

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

|                                  | At 30 June<br>2011<br>% | At 30 June<br>2010<br>% | At 31 December<br>2010<br>% |
|----------------------------------|-------------------------|-------------------------|-----------------------------|
| Loan impairment allowances:      |                         |                         |                             |
| - individually assessed          | 0.19                    | 0.28                    | 0.24                        |
| - collectively assessed          | 0.14                    | 0.18                    | 0.15                        |
| Total loan impairment allowances | 0.33                    | 0.46                    | 0.39                        |

Total loan impairment allowances as a percentage of gross advances to customers was 0.33% at 30 June 2011 - six basis points lower than at the end of 2010. Individually assessed and collectively assessed allowances as a percentage of gross advances fell by five basis points to 0.19% and by one basis point to 0.14% respectively, reflecting the improved credit quality and the bank's good credit risk management control.

## Impaired advances and allowances

| Figures in HK\$m | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|------------------|--------------------|--------------------|------------------------|
|------------------|--------------------|--------------------|------------------------|

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|   |       |         |         |
|---|-------|---------|---------|
| Gross impaired advances   | 1,639 | 2,429   | 1,990   |
| Individually assessed allowances  | (979) | (1,099) | (1,118) |
|   | 660   | 1,330   | 872     |
| Individually assessed allowances<br>as a percentage of<br>gross impaired advances | 59.7% | 45.2%   | 56.2%   |
| Gross impaired advances<br>as a percentage of gross<br>advances to customers      | 0.3%  | 0.6%    | 0.4%    |

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

Gross impaired advances declined by HK\$351m, or 17.6%, to HK\$1,639m compared with the year-end of 2010, with the downgrade of certain commercial banking accounts more than offset by the write-off of irrecoverable balances against impairment allowances and customer repayments. Gross impaired advances as a percentage of gross advances to customers stood at 0.3% - an improvement of 0.1 percentage point compared with the year-end of 2010.

| Figures in HK\$m   | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|--|--------------------|--------------------|------------------------|
| Gross individually assessed<br>impaired advances   | 1,549              | 2,280              | 1,886                  |
| Individually assessed allowances   | (979)              | (1,099)            | (1,118)                |
|  | 570                | 1,181              | 768                    |
| Gross individually assessed<br>impaired advances<br>as a percentage of<br>gross advances to customers                              | 0.3%               | 0.6%               | 0.4%                   |
| Amount of collateral which<br>has been taken into account<br>in respect of individually assessed<br>impaired advances to customers | 422                | 862                | 682                    |

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

Overdue advances

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

|   | At 30 June<br>2011 |     | At 30 June<br>2010 |     | At 31 December<br>2010 |     |
|---|--------------------|-----|--------------------|-----|------------------------|-----|
|   | HK\$m              | %   | HK\$m              | %   | HK\$m                  | %   |
| Gross advances to customers<br>which have been overdue<br>with respect to either principal<br>or interest for periods of: |                    |     |                    |     |                        |     |
| - more than three months but<br>not more than six months  | 120                | —   | 179                | 0.1 | 137                    | —   |
| - more than six months but<br>not more than one year  | 131                | —   | 164                | —   | 89                     | —   |
| - more than one year  | 871                | 0.2 | 1,055              | 0.3 | 1,147                  | 0.3 |
|   | 1,122              | 0.2 | 1,398              | 0.4 | 1,373                  | 0.3 |

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

Overdue advances decreased by HK\$251m, or 18.3%, to HK\$1,122m compared with the last year-end. Overdue advances as a percentage of gross advances to customers stood at 0.2%.

#### Rescheduled advances

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

|                                      | At 30 June<br>2011 |   | At 30 June<br>2010 |     | At 31 December<br>2010 |   |
|--------------------------------------|--------------------|---|--------------------|-----|------------------------|---|
|                                      | HK\$m              | % | HK\$m              | %   | HK\$m                  | % |
| Rescheduled advances<br>to customers | 169                | — | 258                | 0.1 | 194                    | — |

Rescheduled advances are those advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve granting concessionary terms and resetting the overdue account to non-overdue status. A rescheduled advance will continue to be disclosed as such unless the debt has been performing in accordance with the rescheduled terms for a period of six to 12 months. Rescheduled advances that have been overdue for more than three months under the rescheduled terms are reported as overdue advances.

Rescheduled advances decreased by HK\$25m, or 12.9%, to HK\$169m at 30 June 2011, representing 0.03% of gross advances to customers. The improvement was due mainly to the upgrade and repayments of customers.

#### Segmental analysis of advances to customers by geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party located in an area that is different from that of the counterparty.

| Figures in HK\$m     |                             | At 30 June 2011                             |                               |                                  |                                  |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
|                      | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong            | 405,258                     | 1,264                                       | 969                           | 830                              | 530                              |
| Rest of Asia-Pacific | 93,807                      | 273   | 151                           | 142                              | 177                              |
| Others               | 6,281                       | 12  | 2                             | 7                                | 15                               |
|                      | 505,346                     | 1,549                                       | 1,122                         | 979                              | 722                              |

| Figures in HK\$m     |                             | At 30 June 2010                             |                               |                                  |                                  |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
|                      | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong            | 350,711                     | 1,707                                       | 1,025                         | 921                              | 609                              |
| Rest of Asia-Pacific | 37,170                      | 547   | 370                           | 176                              | 101                              |
| Others               | 8,054                       | 26  | 3                             | 2                                | 16                               |
|                      | 395,935                     | 2,280                                       | 1,398                         | 1,099                            | 726                              |

| Figures in HK\$m     |                             | At 31 December 2010                         |                               |                                  |                                  |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
|                      | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong            | 392,836                     | 1,452                                       | 1,112                         | 838                              | 545                              |
| Rest of Asia-Pacific | 76,308                      | 345   | 257                           | 234                              | 162                              |
| Others               | 5,329                       | 89  | 4                             | 46                               | 11                               |
|                      | 474,473                     | 1,886                                       | 1,373                         | 1,118                            | 718                              |

#### Gross advances to customers by industry sector

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

| Figures in HK\$m | At 30 June 2011 | At 30 June 2010<br>(restated) | At 31 December 2010<br>(restated) |
|------------------|-----------------|-------------------------------|-----------------------------------|
|------------------|-----------------|-------------------------------|-----------------------------------|

Gross advances to customers for use in Hong Kong



|  |         |         |         |
|--|---------|---------|---------|
| Industrial, commercial and financial sectors   |         |         |         |
| Property development   | 30,626  | 22,780  | 32,430  |
| Property investment  | 103,977 | 86,440  | 100,023 |
| Financial concerns   | 3,347   | 2,804   | 2,907   |
| Stockbrokers   | 180     | 2,646   | 165     |
| Wholesale and retail trade   | 13,129  | 9,993   | 11,339  |
| Manufacturing  | 16,217  | 14,069  | 14,628  |
| Transport and transport equipment  | 6,889   | 4,918   | 7,546   |
| Recreational activities  | 829     | 37      | 532     |
| Information technology   | 1,851   | 1,227   | 1,957   |
| Other  | 22,023  | 23,879  | 20,177  |
|  | 199,068 | 168,793 | 191,704 |
| Individuals  |         |         |         |
| Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 14,471  | 14,179  | 14,834  |
| Advances for the purchase of other residential properties  | 105,841 | 102,566 | 112,394 |
| Credit card advances   | 16,362  | 14,289  | 15,735  |
| Other  | 14,610  | 13,363  | 13,776  |
|  | 151,284 | 144,397 | 156,739 |
| Total gross advances for use in Hong Kong  | 350,352 | 313,190 | 348,443 |
| Trade finance  | 80,223  | 29,319  | 63,660  |
| Gross advances for use outside Hong Kong   | 74,771  | 53,426  | 62,370  |
| Gross advances to customers  | 505,346 | 395,935 | 474,473 |

Gross advances to customers grew by HK\$30.9bn, or 6.5%, to HK\$505.3bn compared with the end of 2010.

Loans for use in Hong Kong increased by HK\$1.9bn, or 0.5%. Lending to the industrial, commercial and financial sectors grew by 3.8%. Lending to the property investment and financial concerns (including financial vehicles) sectors grew by 4.0% and 15.1% respectively while lending to property development fell by 5.6%, due mainly to repayments by large corporate customers. The bank was an active participant in Hong Kong government-organised schemes to support SMEs, and recorded loan growth of 15.8% to the wholesale and retail trade sector and 10.9% to manufacturing. Growth in lending to 'Other' was attributable to certain new working capital financing for large corporate customers.

Lending to individuals decreased by 3.5% against the last year-end. Residential mortgage lending to individuals declined by 5.8%, as a result of the bank's focus towards prime-based mortgage lending. The decrease was also affected by the intense market competition and new government measures to cool the property market. Credit card advances grew by 4.0%, supported by a year-on-year rise of 14.7% in the number of cards in circulation and a 17.5% increase in cardholder spending. Other loans to individuals were up 6.1%, reflecting the bank's successful efforts to prudently expand personal lending.

Riding on recovering global demand and a rebound in export markets, the bank grew trade finance lending by 26.0%. Commercial Banking strengthened its cross-border service proposition to offer a full range of renminbi commercial banking services and to serve the growing demand from customers for renminbi-related financial solutions as well as trade refinancing lending to other banks on the Mainland.

Loans for use outside Hong Kong rose by 19.9%, compared with the end of 2010, driven largely by lending on the Mainland. The mainland loan portfolio increased by 10.5% to HK\$40.2bn, underpinned by the expansion of renminbi lending to corporate borrowers. The group remained vigilant in assessing credit risk in increasing lending on the Mainland.

## Financial investments

| Figures in HK\$m                                      | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| Available-for-sale at fair value:                     |                    |                    |                        |
| - debt securities                                     | 151,851            | 193,786            | 142,732                |
| - equity shares                                       | 300                | 301                | 326                    |
| Held-to-maturity debt securities<br>at amortised cost | 58,305             | 53,193             | 56,301                 |
|   | 210,456            | 247,280            | 199,359                |
| Fair value of held-to-maturity debt<br>securities     | 61,976             | 56,328             | 58,327                 |
| Treasury bills  | 30,533             | 62,962             | 18,010                 |
| Certificates of deposit                               | 8,150              | 7,005              | 6,713                  |
| Other debt securities                                 | 171,473            | 177,012            | 174,310                |
| Debt securities                                       | 210,156            | 246,979            | 199,033                |
| Equity shares   | 300                | 301                | 326                    |
|   | 210,456            | 247,280            | 199,359                |
| Debt securities:                                      |                    |                    |                        |
| - listed in Hong Kong                                 | 17,247             | 9,168              | 9,783                  |
| - listed outside Hong Kong                            | 58,373             | 73,831             | 67,139                 |
|   | 75,620             | 82,999             | 76,922                 |
| - unlisted  | 134,536            | 163,980            | 122,111                |
|   | 210,156            | 246,979            | 199,033                |
| Equity shares:  |                    |                    |                        |
| - listed in Hong Kong                                 | 53                 | 45                 | 47                     |
| - listed outside Hong Kong                            | 23                 | 58                 | 64                     |
|   | 76                 | 103                | 111                    |
| - unlisted  | 224                | 198                | 215                    |
|   | 300                | 301                | 326                    |
|   | 210,456            | 247,280            | 199,359                |
| Fair value of listed financial investments            | 76,347             | 83,561             | 77,403                 |

Debt securities:

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|   |         |         |         |
|---|---------|---------|---------|
| Issued by public bodies:                |         |         |         |
| - central governments and central banks | 63,135  | 78,730  | 39,007  |
| - other public sector entities          | 27,592  | 20,947  | 23,041  |
|   | 90,727  | 99,677  | 62,048  |
| Issued by other bodies:                 |         |         |         |
| - banks                                 | 101,455 | 129,462 | 119,300 |
| - corporate entities                    | 17,974  | 17,840  | 17,685  |
|   | 119,429 | 147,302 | 136,985 |
|   | 210,156 | 246,979 | 199,033 |
| Equity shares:                          |         |         |         |
| Issued by corporate entities            | 300     | 301     | 326     |
|   | 210,456 | 247,280 | 199,359 |

Debt securities by rating agency designation

| Figures in HK\$m | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|------------------|--------------------|--------------------|------------------------|
| AAA              | 80,402             | 87,424             | 79,046                 |
| AA- to AA+       | 73,951             | 94,497             | 59,924                 |
| A- to A+         | 50,869             | 59,869             | 54,927                 |
| B+ to BBB+       | 3,930              | 2,048              | 3,072                  |
| B and lower      | —                  | —                  | —                      |
| Unrated          | 1,004              | 3,141              | 2,064                  |
|                  | 210,156            | 246,979            | 199,033                |

Financial investments include treasury bills, certificates of deposit, other debt securities and equity shares intended to be held for an indefinite period of time.

Available-for-sale investments may be sold in response to needs for liquidity or changes in the market environment, and are carried at fair value with the gains and losses from changes in fair value recognised through equity reserves. Held-to-maturity debt securities are stated at amortised cost. Where debt securities have been purchased at a premium or discount, the carrying value of the security is adjusted to reflect the effective interest rate of the debt security taking into account such premiums and discounts.

Financial investments rose by HK\$11.1bn, or 5.6%, compared with the last year-end. Investments were primarily in high-quality debt securities or debt securities guaranteed by governments, reflecting the bank's strategy of identifying quality investment opportunities that enable it to optimise returns while prudently managing risk. At 30 June 2011, 99.5% of the group's holdings of debt securities were assigned investment grade ratings by rating agencies. The unrated debt securities were issued by subsidiaries of investment-grade banks and are guaranteed by their corresponding holding companies. These notes rank equally with all of the respective guarantor's other senior debt obligations. The group did not hold any investments in structured investment vehicles or any sub-prime related assets such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

Interest in associates

| Figures in HK\$m | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|------------------|--------------------|--------------------|------------------------|
|------------------|--------------------|--------------------|------------------------|

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|                     |        |        |        |
|---------------------|--------|--------|--------|
| Share of net assets | 16,454 | 13,310 | 15,119 |
| Intangibles         | 70     | 94     | 84     |
| Goodwill            | 464    | 437    | 463    |
|                     | 16,988 | 13,841 | 15,666 |

Interest in associates rose by HK\$1,322m, due mainly to the increase in the bank's share of net assets of Industrial Bank.

Intangible assets

| Figures in HK\$m                                       | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|--|--------------------|--------------------|------------------------|
| Present value of in-force long-term insurance business | 5,232              | 3,933              | 4,593                  |
| Internally developed software                          | 363                | 408                | 429                    |
| Acquired software                                      | 42                 | 36                 | 43                     |
| Goodwill   | 329                | 329                | 329                    |
|  | 5,966              | 4,706              | 5,394                  |

Other assets

| Figures in HK\$m                                   | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|--|--------------------|--------------------|------------------------|
| Items in the course of collection from other banks | 8,865              | 5,393              | 4,673                  |
| Prepayments and accrued income                     | 2,675              | 2,160              | 2,259                  |
| Assets held for sale                               |                    |                    |                        |
| - Repossessed assets                               | 12                 | 19                 | 12                     |
| - Other assets held for sale                       | 217                | 18                 | 206                    |
| Acceptances and endorsements                       | 4,393              | 4,662              | 3,751                  |
| Retirement benefit assets                          | 89                 | 77                 | 95                     |
| Other accounts                                     | 1,722              | 1,805              | 1,310                  |
|  | 17,973             | 14,134             | 12,306                 |

Current, savings and other deposit accounts

| Figures in HK\$m                                      | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| Current, savings and other deposit accounts:          |                    |                    |                        |
| - as stated in consolidated balance sheet             | 703,321            | 650,859            | 683,628                |
| - structured deposits reported as trading liabilities | 25,393             | 17,499             | 20,852                 |

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|                               |         |         |         |
|-------------------------------|---------|---------|---------|
|                               | 728,714 | 668,358 | 704,480 |
| By type:                      |         |         |         |
| - demand and current accounts | 56,315  | 54,432  | 59,116  |
| - savings accounts            | 452,158 | 426,942 | 466,158 |
| - time and other deposits     | 220,241 | 186,984 | 179,206 |
|                               | 728,714 | 668,358 | 704,480 |

Certificates of deposit and other debt securities in issue

| Figures in HK\$m  | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| Certificates of deposit and<br>other debt securities in issue:  |                    |                    |                        |
| - as stated in consolidated<br>balance sheet  | 8,146              | 1,360              | 3,095                  |
| - structured certificates of deposit<br>and other debt securities in issue<br>reported as trading liabilities | 3,903              | 2,508              | 2,738                  |
|   | 12,049             | 3,868              | 5,833                  |
| By type:  |                    |                    |                        |
| - certificates of deposit in issue  | 8,146              | 1,574              | 3,121                  |
| - other debt securities in issue  | 3,903              | 2,294              | 2,712                  |
|   | 12,049             | 3,868              | 5,833                  |

Customer deposits and certificates of deposit and other debt securities in issue stood at HK\$740.8bn at 30 June 2011 - a rise of 4.3% from the end of 2010. Higher growth was recorded in time deposits but partly offset by the fall in savings balances. Structured deposits and other structured certificates of deposit and other debt securities in issue increased, due primarily to a total amount of US\$500m US dollar certificates of deposit issued during the first half of 2011. Deposits with Hang Seng China also rose by 20.5%, driven mainly by renminbi deposits.

Trading liabilities

| Figures in HK\$m   | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|--|--------------------|--------------------|------------------------|
| Structured certificates of deposit and<br>other debt securities in issue | 3,903              | 2,508              | 2,738                  |
| Structured deposits  | 25,393             | 17,499             | 20,852                 |
| Short positions in securities and others                                 | 30,129             | 20,782             | 18,991                 |
|  | 59,425             | 40,789             | 42,581                 |

Other liabilities

|  | At 30 June | At 30 June | At 31 December |
|--|------------|------------|----------------|
|--|------------|------------|----------------|

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| Figures in HK\$m                    | 2011   | 2010   | 2010   |
|-------------------------------------|--------|--------|--------|
| Items in the course of transmission |        |        |        |
| to other banks                      | 6,622  | 12,540 | 7,208  |
| Accruals                            | 2,409  | 1,930  | 2,385  |
| Acceptances and endorsements        | 4,393  | 4,662  | 3,751  |
| Retirement benefit liabilities      | 2,232  | 1,903  | 1,718  |
| Other                               | 2,269  | 2,828  | 1,956  |
|                                     | 17,925 | 23,863 | 17,018 |

Subordinated liabilities

| Figures in HK\$m                       |   | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|--|---|--------------------|--------------------|------------------------|
| Nominal value                          | Description   |                    |                    |                        |
| Amount owed to third parties           |   |                    |                    |                        |
| US\$450m                               | Callable floating rate<br>subordinated notes<br>due July 2016W          | 3,501              | 3,498              | 3,495                  |
| US\$300m                               | Callable floating rate<br>subordinated notes<br>due July 2017           | 2,333              | 2,331              | 2,328                  |
| Amount owed to HSBC Group undertakings |   |                    |                    |                        |
| US\$260m                               | Callable floating rate<br>subordinated loan debt<br>due December 2015WW | —                  | 2,024              | —                      |
| US\$775m                               | Floating rate<br>subordinated loan debt<br>due December 2020WW          | 6,031              | —                  | 6,025                  |
|  |   | 11,865             | 7,853              | 11,848                 |
| Representing:                          |   |                    |                    |                        |
| - measured at amortised cost           |   | 11,865             | 7,853              | 11,848                 |
| - designated at fair value             |   | —                  | —                  | —                      |
|  |   | 11,865             | 7,853              | 11,848                 |

WAfter the period under review, the bank redeemed all the US\$450m floating rate subordinated notes due 2016 at par on 6 July 2011.

WWThe bank exercised its option to redeem this subordinated loan debt at par of US\$260m and replenished it by a new issue of US\$775m subordinated loan debt in December 2010.

The outstanding subordinated notes, which qualify as supplementary capital, serve to help the bank maintain a more balanced capital structure and support business growth.

#### Shareholders' funds

| Figures in HK\$m                      | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---------------------------------------|--------------------|--------------------|------------------------|
| Share capital                         | 9,559              | 9,559              | 9,559                  |
| Retained profits                      | 46,551             | 40,474             | 42,966                 |
| Premises revaluation reserve          | 10,732             | 8,356              | 9,426                  |
| Cash flow hedging reserve             | 72                 | 63                 | 72                     |
| Available-for-sale investment reserve | 43                 | 48                 | 202                    |
| Capital redemption reserve            | 98                 | 99                 | 99                     |
| Other reserves                        | 4,517              | 3,518              | 4,055                  |
| Total reserves                        | 62,013             | 52,558             | 56,820                 |
|                                       | 71,572             | 62,117             | 66,379                 |
| Proposed dividends                    | 2,103              | 2,103              | 3,633                  |
| Shareholders' funds                   | 73,675             | 64,220             | 70,012                 |
| Return on average shareholders' funds | 22.7%              | 22.8%              | 23.5%                  |

Shareholders' funds (excluding proposed dividends) grew by HK\$5,193m, or 7.8%, to HK\$71,572m at 30 June 2011. Retained profits rose by HK\$3,585m, mainly reflecting the growth in attributable profit (excluding first and second interim dividends) during the period. The premises revaluation reserve increased by HK\$1,306m on the back of continued robust growth in the property market during the first half of 2011.

The available-for-sale investment reserve showed a surplus of HK\$43m compared with a surplus of HK\$202m at the year-end of 2010. The group assessed that there were no impaired debt securities during the period and, accordingly, no impairment loss has been recognised.

The return on average shareholders' funds was 22.7%, compared with 22.8% and 23.5% for the first and second halves of 2010 respectively.

There was no purchase, sale or redemption by the bank, or any of its subsidiaries, of the bank's securities during the first half of 2011. After the period under review, the bank redeemed all the US\$450m floating rate subordinated notes due 2016 at par on 6 July 2011.

#### Capital resources management

##### Analysis of capital base and risk-weighted assets

|  | At 30 June | At 30 June | At 31 December |
|--|------------|------------|----------------|
|--|------------|------------|----------------|

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| Figures in HK\$m  | 2011     | 2010     | 2010     |
|---|----------|----------|----------|
| <b>Core capital:</b>  |          |          |          |
| Paid-up ordinary share capital  | 9,559    | 9,559    | 9,559    |
| - Reserves per balance sheet  | 62,013   | 52,558   | 56,820   |
| - Unconsolidated subsidiaries   | (6,882)  | (5,629)  | (6,268)  |
| - Cash flow hedging reserve   | (72)     | (63)     | (72)     |
| - Regulatory reserve  | (2,889)  | (1,254)  | (1,654)  |
| - Reserves arising from revaluation of property and unrealised gains on available-for-sale equities and debt securities | (15,136) | (12,435) | (13,585) |
| - Own credit spread   | —        | —        | —        |
| Total reserves included in core capital   | 37,034   | 33,177   | 35,241   |
| - Goodwill and intangible assets  | (939)    | (972)    | (1,019)  |
| - 50% of unconsolidated investments   | (10,693) | (8,822)  | (9,725)  |
| - 50% of securitisation positions and other deductions  | (158)    | (264)    | (158)    |
| Deductions  | (11,790) | (10,058) | (10,902) |
| Total core capital  | 34,803   | 32,678   | 33,898   |
| <b>Supplementary capital:</b>   |          |          |          |
| - Term subordinated debt  | 11,865   | 7,893    | 11,848   |
| - Property revaluation reserves 1   | 5,894    | 5,894    | 5,894    |
| - Available-for-sale investments revaluation reserves 2   | 226      | 478      | 396      |
| - Regulatory reserve 3  | 318      | 138      | 182      |
| - Collective impairment allowances 3  | 77       | 75       | 77       |
| - Excess impairment allowances over expected losses 4   | 1,373    | —        | 306      |
| Supplementary capital before deductions   | 19,753   | 14,478   | 18,703   |
| - 50% of unconsolidated investments   | (10,693) | (8,822)  | (9,725)  |
| - 50% of securitisation positions and other deductions  | (158)    | (264)    | (158)    |
| Deductions  | (10,851) | (9,086)  | (9,883)  |
| Total supplementary capital   | 8,902    | 5,392    | 8,820    |
| Capital base  | 43,705   | 38,070   | 42,718   |
| <b>Risk-weighted assets</b>   |          |          |          |
| - Credit risk   | 279,207  | 255,927  | 274,969  |
| - Market risk   | 2,099    | 1,405    | 1,615    |
| - Operational risk  | 36,137   | 37,576   | 36,853   |
|   | 317,443  | 294,908  | 313,437  |
| Capital adequacy ratio  | 13.8%    | 12.9%    | 13.6%    |
| Core capital ratio  | 11.0%    | 11.1%    | 10.8%    |



## Reserves and deductible items

| Figures in HK\$m  | At 30 June<br>2011 | At 30 June<br>2010 | At 31 December<br>2010 |
|---|--------------------|--------------------|------------------------|
| Published reserves  | 34,309             | 30,955             | 31,741                 |
| Profit and loss account   | 2,725              | 2,222              | 3,500                  |
| Total reserves included in core capital   | 37,034             | 33,177             | 35,241                 |
| Total of items deductible 50% from core capital<br>and 50% from supplementary capital | 21,702             | 18,172             | 19,766                 |

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

2 Includes adjustments made in accordance with Banking (Capital) rules.

3 Total regulatory reserve and collective impairment allowances are apportioned between the standardised approach and internal ratings-based approach in accordance with Banking (Capital) rules. Those apportioned to the standardised approach are included in supplementary capital. Those apportioned to the internal ratings-based approach are excluded from supplementary capital.

4 Excess impairment allowances over expected losses are applicable to non-securitisation exposures calculated by using the internal ratings-based approach.

Capital ratios at 30 June 2011 were compiled in accordance with the Banking (Capital) Rules ('the Capital Rules') issued by the Hong Kong Monetary Authority ('HKMA') under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II, which came into effect on 1 January 2007. The bank used the advanced internal ratings-based approach to calculate its credit risk exposure which was approved by the HKMA effective 1 January 2009. The standardised (operational risk) approach and internal models approach were used to calculate its operational risk and market risk respectively.

At 30 June 2011, the capital adequacy ratio and core capital ratio were 13.8% and 11.0% respectively, compared with 13.6% and 10.8% at the year-end of 2010.

Capital adequacy and core capital ratios rose slightly by 0.2 percentage point, mainly due to profit growth after accounting for dividends in the first half of the year, partly offset by the increase in risk-weighted assets.

The basis of consolidation for the calculation of capital ratios under the Capital Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment cost of these unconsolidated regulated financial entities is deducted from the capital base.

To satisfy the provisions of the Hong Kong Banking Ordinance and regulatory requirements for prudential supervision purposes, the group has earmarked a regulatory reserve from retained profits. In accordance with updated guidance from the HKMA, the regulatory reserve has been increased to HK\$2,889m (HK\$1,254m and HK\$1,654m at 30 June 2010 and 31 December 2010 respectively).

## Liquidity ratio

The average liquidity ratio for the periods indicated, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, is as follows:

|   | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 | Half-year ended<br>31 December<br>2010 |
|---|------------------------------------|------------------------------------|--|
| The Bank and its subsidiaries<br>designated by the HKMA | 33.3 %                             | 42.0 %                             | 34.1 %                                 |

## Reconciliation of cash flow statement

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

| Figures in HK\$m   | Half-year ended<br>30 June<br>2011 | Half-year ended<br>30 June<br>2010 |
|--|------------------------------------|------------------------------------|
| Operating profit   | 7,129                              | 6,697                              |
| Net interest income  | (7,637)                            | (6,713)                            |
| Dividend income  | (6)                                | (4)                                |
| Loan impairment charges and other credit risk provisions   | 158                                | 153                                |
| Impairment loss of intangible assets   | 78                                 | —                                  |
| Depreciation   | 347                                | 306                                |
| Amortisation of intangible assets  | 58                                 | 49                                 |
| Amortisation of available-for-sale investments   | (15)                               | 68                                 |
| Amortisation of held-to-maturity debt securities   | 2                                  | 2                                  |
| Advances written off net of recoveries   | (293)                              | (283)                              |
| Interest received  | 8,784                              | 7,090                              |
| Interest paid  | (1,772)                            | (943)                              |
| Operating profit before changes in working capital   | 6,833                              | 6,422                              |
| Change in treasury bills and certificates of deposit with original maturity more than three months | (13,198)                           | (9,028)                            |
| Change in placings with and advances to banks maturing after one month                             | 15,298                             | (19,182)                           |
| Change in trading assets   | (18,327)                           | 6,367                              |
| Change in financial assets designated at fair value  | 106                                | 189                                |
| Change in derivative financial instruments   | 109                                | 1,670                              |
| Change in advances to customers  | (35,547)                           | (49,359)                           |
| Change in other assets   | (10,422)                           | (12,352)                           |
| Change in financial liabilities designated at fair value   | —                                  | (2)                                |
| Change in current, savings and other deposit accounts  | 19,693                             | 14,490                             |
| Change in deposits from banks  | 3,866                              | 8,091                              |
| Change in trading liabilities  | 16,844                             | 2,398                              |
| Change in certificates of deposit and other debt securities in issue                               | 5,051                              | (466)                              |
| Change in other liabilities  | 5,300                              | 17,672                             |
|  | (4,290)                            | (605)                              |

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|  |         |          |
|--|---------|----------|
| Elimination of exchange differences and other non-cash items |         |          |
| Cash used in operating activities                            | (8,684) | (33,695) |
| Taxation paid  | (55)    | (37)     |
| Net cash outflow from operating activities                   | (8,739) | (33,732) |

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

| Figures in HK\$m   | At 30 June<br>2011 | At 30 June<br>2010 |
|--|--------------------|--------------------|
| Cash and balances with banks and other financial institutions                                  | 42,644             | 30,065             |
| Placings with and advances to banks and other financial institutions maturing within one month | 71,528             | 55,784             |
| Treasury bills   | 3,998              | 13,851             |
| Certificates of deposit  | —                  | 732                |
|  | 118,170            | 100,432            |

Contingent liabilities, commitments and derivatives

| Figures in HK\$m   | Contract<br>amounts | Credit<br>equivalent<br>amounts | Risk-<br>weighted<br>amounts |
|--|---------------------|---------------------------------|------------------------------|
| At 30 June 2011  |                     |                                 |                              |
| Direct credit substitutes  | 4,856               | 4,711                           | 3,387                        |
| Transaction-related contingencies  | 462                 | 58                              | 32                           |
| Trade-related contingencies  | 11,064              | 1,115                           | 660                          |
| Forward asset purchases  | 49                  | 49                              | 49                           |
| Undrawn formal standby facilities, credit lines and other commitments to lend: |                     |                                 |                              |
| - not unconditionally cancellable W  | 30,334              | 15,289                          | 6,213                        |
| - unconditionally cancellable  | 218,351             | 72,752                          | 23,080                       |
|  | 265,116             | 93,974                          | 33,421                       |
| Exchange rate contracts:   |                     |                                 |                              |
| Spot and forward foreign exchange  | 505,747             | 2,993                           | 1,906                        |
| Other exchange rate contracts  | 92,518              | 2,489                           | 1,621                        |
|  | 598,265             | 5,482                           | 3,527                        |
| Interest rate contracts:   |                     |                                 |                              |
| Interest rate swaps  | 361,412             | 2,744                           | 969                          |
| Other interest rate contracts  | —                   | —                               | —                            |
|  | 361,412             | 2,744                           | 969                          |
| Other derivative contracts   | 11,172              | 719                             | 238                          |

W The contract amounts for undrawn formal standby facilities, credit lines and other commitments to lend with original maturity of 'not more than one year' and 'more than one year' were HK\$11,109m and HK\$19,225m respectively.

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| Figures in HK\$m   | Contract amounts | Credit equivalent amounts | Risk-weighted amounts |
|--|------------------|---------------------------|-----------------------|
| At 30 June 2010  |                  |                           |                       |
| Direct credit substitutes  | 3,377            | 3,246                     | 2,182                 |
| Transaction-related contingencies  | 889              | 540                       | 389                   |
| Trade-related contingencies  | 10,897           | 3,061                     | 1,736                 |
| Forward asset purchases  | 44               | 44                        | 44                    |
| Undrawn formal standby facilities, credit lines and other commitments to lend: |                  |                           |                       |
| - not unconditionally cancellable  | 31,767           | 16,115                    | 7,736                 |
| - unconditionally cancellable  | 168,893          | 57,439                    | 16,463                |
|  | 215,867          | 80,445                    | 28,550                |
| Exchange rate contracts:   |                  |                           |                       |
| Spot and forward foreign exchange  | 431,420          | 5,701                     | 950                   |
| Other exchange rate contracts  | 74,168           | 2,500                     | 1,436                 |
|  | 505,588          | 8,201                     | 2,386                 |
| Interest rate contracts:   |                  |                           |                       |
| Interest rate swaps  | 272,830          | 2,638                     | 558                   |
| Other interest rate contracts  | 143              | —                         | —                     |
|  | 272,973          | 2,638                     | 558                   |
| Other derivative contracts   | 6,982            | 473                       | 100                   |

| Figures in HK\$m   | Contract amounts | Credit equivalent amounts | Risk-weighted amounts |
|--|------------------|---------------------------|-----------------------|
| At 31 December 2010  |                  |                           |                       |
| Direct credit substitutes  | 4,365            | 4,220                     | 3,231                 |
| Transaction-related contingencies  | 455              | 337                       | 168                   |
| Trade-related contingencies  | 10,593           | 3,516                     | 2,008                 |
| Forward asset purchases  | 51               | 51                        | 51                    |
| Undrawn formal standby facilities, credit lines and other commitments to lend: |                  |                           |                       |
| - not unconditionally cancellable  | 38,273           | 17,788                    | 7,479                 |
| - unconditionally cancellable  | 198,724          | 66,852                    | 20,649                |
|  | 252,461          | 92,764                    | 33,586                |
| Exchange rate contracts:   |                  |                           |                       |
| Spot and forward foreign exchange  | 431,732          | 2,738                     | 1,417                 |
| Other exchange rate contracts  | 59,222           | 1,258                     | 712                   |
|  | 490,954          | 3,996                     | 2,129                 |

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|                               |         |       |     |
|-------------------------------|---------|-------|-----|
| Interest rate contracts:      |         |       |     |
| Interest rate swaps           | 340,076 | 2,522 | 602 |
| Other interest rate contracts | 25      | —     | —   |
|                               | 340,101 | 2,522 | 602 |
| Other derivative contracts    | 7,729   | 505   | 137 |

The tables above give the nominal contract, credit equivalent and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for the purpose of deriving the risk-weighted amounts. The nominal contract amounts, credit equivalent amounts, risk-weighted amounts and the consolidation basis for the periods indicated were calculated in accordance with the Banking (Capital) Rules issued by the HKMA.

For the above analysis, contingent liabilities and commitments are credit-related instruments that include acceptances and endorsements, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit origination, portfolio management and collateral requirements as for customers applying for loans. As the facilities may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

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

| Figures in<br>HK\$m        | At 30 June 2011 |                                |         | At 30 June 2010 |                                |         | At 31 December 2010 |                                |         |
|----------------------------|-----------------|--------------------------------|---------|-----------------|--------------------------------|---------|---------------------|--------------------------------|---------|
|                            | Trading         | Designated<br>at fair<br>value | Hedging | Trading         | Designated<br>at fair<br>value | Hedging | Trading             | Designated<br>at fair<br>value | Hedging |
| Contract amounts:          |                 |                                |         |                 |                                |         |                     |                                |         |
| Interest rate contracts    | 287,771         | 140                            | 74,338  | 178,553         | 140                            | 94,461  | 236,030             | 140                            | 105,511 |
| Exchange rate contracts    | 766,754         | -                              | -       | 641,169         | 134                            | -       | 601,220             | 769                            | -       |
| Other derivative contracts | 25,080          | -                              | -       | 15,394          | -                              | -       | 16,891              | -                              | -       |
|                            | 1,079,605       | 140                            | 74,338  | 835,116         | 274                            | 94,461  | 854,141             | 909                            | 105,511 |
| Derivative assets:         |                 |                                |         |                 |                                |         |                     |                                |         |
| Interest rate contracts    | 2,091           | -                              | 396     | 1,650           | -                              | 302     | 1,748               | -                              | 511     |
| Exchange rate contracts    | 2,763           | -                              | -       | 2,260           | -                              | -       | 2,721               | -                              | -       |

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|                            |       |   |       |       |    |       |       |    |     |
|----------------------------|-------|---|-------|-------|----|-------|-------|----|-----|
| Other derivative contracts | 428   | - | -     | 433   | -  | -     | 613   | -  | -   |
|                            | 5,282 | - | 396   | 4,343 | -  | 302   | 5,082 | -  | 511 |
| Derivative liabilities:    |       |   |       |       |    |       |       |    |     |
| Interest rate contracts    | 1,602 | 7 | 1,126 | 1,687 | 11 | 1,147 | 1,557 | 9  | 974 |
| Exchange rate contracts    | 1,853 | - | -     | 2,405 | 2  | -     | 2,031 | 3  | -   |
| Other derivative contracts | 289   | - | -     | 264   | -  | -     | 109   | -  | -   |
|                            | 3,744 | 7 | 1,126 | 4,356 | 13 | 1,147 | 3,697 | 12 | 974 |

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

Additional information

Statutory accounts and accounting policies

1.

The information in this news release is not audited and does not constitute statutory accounts.

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2010 ('2010 accounts'), which have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 28 February 2011.

Disclosures required by the Banking (Disclosure) Rules issued by the HKMA are contained in the bank's Interim Report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release.

The accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 104 to 125 of the 2010 Annual Report and Accounts. A number of new and revised Hong Kong Financial Reporting Standards have become effective in 2011. None has a material impact on the group.

Comparative figures

2.

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

3. Property revaluation

The group's premises and investment properties were revalued at 30 June 2011 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of premises was open market value for existing use and the basis of valuation for investment properties was open market value. The net revaluation surplus for group premises amounted to HK\$1,711m, of which HK\$1,720m was credited to the premises revaluation reserve and HK\$9m was debited to the income statement. Revaluation gains of HK\$409m on investment properties were recognised through the income statement. The related deferred tax provisions for group premises and investment properties were HK\$283m and HK\$67m respectively.

The revaluation exercise also covered business premises/investment properties reclassified as properties held for sale. The revaluation gain of HK\$11m was recognised through the income statement.

#### 4. Foreign currency positions

The group's foreign exchange exposures mainly comprise foreign exchange dealing by Treasury and currency exposures originated by its banking business. The latter are transferred to Treasury where they are centrally managed within foreign exchange position limits approved by the Risk Management Committee. The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. Structural foreign exchange positions arising from capital investment in associates, subsidiaries and branches outside Hong Kong, mainly in US dollar and Chinese renminbi as set out below, are managed by the Asset and Liability Management Committee ('ALCO'). At 30 June 2011, the US dollar ('US\$') was the currency in which the group had non-structural foreign currency positions that was not less than 10% of the total net position in all foreign currencies. The group also had a Chinese renminbi ('RMB') structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

| Figures in HK\$m                         | US\$      | RMB       | GBP      | JPY      | EUR      | CAD      | CHF     | AUD      | NZD      | GOL     | Other foreign currencies | f   |
|--|-----------|-----------|----------|----------|----------|----------|---------|----------|----------|---------|--------------------------|-----|
| At 30 June 2011                          |           |           |          |          |          |          |         |          |          |         |                          |     |
| Non-structural position                  |           |           |          |          |          |          |         |          |          |         |                          |     |
| Spot assets                              | 202,504   | 117,668   | 13,205   | 4,191    | 10,972   | 14,039   | 179     | 49,941   | 8,119    | 2,805   | 822                      | 4   |
| Spot liabilities                         | (138,668) | (116,524) | (16,030) | (1,849)  | (11,831) | (15,192) | (536)   | (47,971) | (10,706) | (3,741) | (2,188)                  | (3) |
| Forward purchases                        | 272,831   | 109,050   | 7,834    | 11,136   | 7,088    | 2,118    | 1,322   | 9,764    | 6,615    | 1,649   | 3,903                    | 4   |
| Forward sales                            | (335,242) | (110,238) | (5,020)  | (13,546) | (6,268)  | (969)    | (1,000) | (11,679) | (4,044)  | (745)   | (2,499)                  | (4) |
| Net options position                     | 67        | (44)      | 1        | —        | (6)      | 2        | —       | —        | (14)     | —       | —                        | —   |
| Net long/(short) non-structural position | 1,492     | (88)      | (10)     | (68)     | (45)     | (2)      | (35)    | 55       | (30)     | (32)    | 38                       | —   |
| Structural position                      | 206       | 21,827    | —        | —        | —        | —        | —       | —        | —        | —       | 273                      | —   |
| Figures in HK\$m                         | US\$      | RMB       | GBP      | JPY      | EUR      | CAD      | CHF     | AUD      | NZD      | GOL     | Other foreign            | T   |

currencies curren

At 30 June 2010

|  | US\$      | RMB      | GBP      | JPY      | EUR     | CAD     | CHF   | AUD      | NZD      | GOL     | Other<br>foreign<br>currencies | T<br>for |
|--|-----------|----------|----------|----------|---------|---------|-------|----------|----------|---------|--------------------------------|----------|
| Non-structural position                  |           |          |          |          |         |         |       |          |          |         |                                |          |
| Spot assets                              | 230,684   | 52,221   | 8,183    | 10,398   | 8,852   | 6,938   | 248   | 20,071   | 5,097    | 525     | 36,572                         | 379      |
| Spot liabilities                         | (152,310) | (52,694) | (10,167) | (1,753)  | (9,647) | (8,996) | (684) | (31,777) | (10,204) | (2,495) | (38,003)                       | (318)    |
| Forward purchases                        | 236,686   | 42,463   | 6,367    | 11,271   | 6,483   | 2,599   | 681   | 16,747   | 6,494    | 2,854   | 1,955                          | 334      |
| Forward sales                            | (315,026) | (42,216) | (4,447)  | (19,916) | (5,826) | (551)   | (208) | (5,096)  | (1,287)  | (851)   | (542)                          | (395)    |
| Net options position                     | (68)      | —        | 4        | —        | 70      | (2)     | —     | 92       | (104)    | —       | —                              | —        |
| Net long/(short) non-structural position | (34)      | (226)    | (60)     | —        | (68)    | (12)    | 37    | 37       | (4)      | 33      | (18)                           | —        |
| Structural position                      | 286       | 18,144   | —        | —        | —       | —       | —     | —        | —        | —       | 285                            | 18       |
| Figures in HK\$m                         | US\$      | RMB      | GBP      | JPY      | EUR     | CAD     | CHF   | AUD      | NZD      | GOL     | Other<br>foreign<br>currencies | T<br>for |

At 31 December 2010

|  |           |          |          |          |          |          |       |          |          |         |         |       |
|--|-----------|----------|----------|----------|----------|----------|-------|----------|----------|---------|---------|-------|
| Non-structural position                  |           |          |          |          |          |          |       |          |          |         |         |       |
| Spot assets                              | 246,638   | 93,067   | 13,026   | 8,985    | 11,068   | 13,933   | 191   | 43,643   | 9,017    | 2,169   | 974     | 442   |
| Spot liabilities                         | (155,377) | (88,666) | (15,470) | (1,912)  | (12,393) | (14,882) | (549) | (41,953) | (11,658) | (3,404) | (3,034) | (349) |
| Forward purchases                        | 228,982   | 72,661   | 7,130    | 8,932    | 3,735    | 2,431    | 1,347 | 8,340    | 3,909    | 2,919   | 3,423   | 343   |
| Forward sales                            | (319,494) | (77,799) | (4,810)  | (16,151) | (2,497)  | (1,449)  | (964) | (9,885)  | (1,341)  | (1,559) | (1,359) | (437) |
| Net options position                     | 133       | (41)     | —        | (5)      | (55)     | (7)      | —     | (71)     | 60       | —       | —       | —     |
| Net long/(short) non-structural position | 882       | (778)    | (124)    | (151)    | (142)    | 26       | 25    | 74       | (13)     | 125     | 4       | —     |
| Structural position                      | 206       | 20,124   | —        | —        | —        | —        | —     | —        | —        | —       | 238     | 20    |

## 5. Ultimate holding company

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

## 6. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 17 August 2011, during which no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the bank's registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 16 August 2011. The second interim dividend will be payable on Thursday, 1



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September 2011, to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 17 August 2011. Shares of the bank will be traded ex-dividend as from Monday, 15 August 2011.

### 7. Proposed timetable for the remaining 2011 quarterly dividends

|                            | Third<br>interim dividend | Fourth<br>interim dividend |
|----------------------------|---------------------------|----------------------------|
| Announcement               | 7 November 2011           | 27 February 2012           |
| Book close and record date | 23 November 2011          | 14 March 2012              |
| Payment date               | 8 December 2011           | 29 March 2012              |

### 8. Code on Corporate Governance Practices

The bank is committed to high standards of corporate governance. The bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority and has fully complied with all the code provisions and most of the recommended best practices as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2011.

The Audit Committee of the bank has reviewed the results of the bank for the six months ended 30 June 2011.

### 9. Board of Directors

At 1 August 2011, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien\* (Chairman), Mrs Margaret Leung (Vice-Chairman and Chief Executive), Dr John C C Chan\*, Dr Marvin K T Cheung\*, Ms L Y Chiang\*, Dr Fred Zulu Hu\*, Mr Jenkin Hui\*, Ms Sarah C Legg#, Mr William W Leung, Dr Eric K C Li\*, Dr Vincent H S Lo#, Mr Mark S McCombe#, Mrs Dorothy K Y P Sit#, Mr Richard Y S Tang\*, Mr Peter T S Wong# and Mr Michael W K Wu\*.

\* Independent non-executive Directors

# Non-executive Directors

### 10. News release

This news release is available on the bank's website [www.hangseng.com](http://www.hangseng.com).

The Interim Report 2011, which contains all disclosures required by the Banking (Disclosure) Rules issued by the HKMA, will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release. Printed copies of the Interim Report 2011 will be sent to shareholders in late August 2011.

Media enquiries to:

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Ruby Chan

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Telephone: (852) 2198 4236



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 1 August 2011