Income Statement

Summary of financial performance

(Figures in HK$m)	***Half-year ended 30 June 2006***	*Half-year ended 30 June 2005*	*Half-year ended 31 December 2005*
Total operating income	**12,396**	10,499	12,747
Total operating expenses	**2,338**	2,156	2,390
Operating profit excluding loan impairment charges and other credit risk provisions	**6,387**	5,934	5,752
Profit before tax	**7,513**	7,062	6,296
Profit attributable to shareholders	**6,190**	6,045	5,297
Earnings per share (HK$)	**3.24**	3.16	2.77

Hang Seng Bank Limited ("the Bank") and its subsidiaries and associates ("the Group") reported an unaudited profit attributable to shareholders of HK$6,190 million for the first half of 2006, an increase of 2.4 per cent over the first half of 2005. Earnings per share were up 2.5 per cent to HK$3.24. Compared with the second half of 2005, attributable profit rose by 16.9 per cent.

Total operating income rose by HK$1,897 million, or 18.1 per cent, to HK$12,396 million.

The growth in total operating income was underpinned by the encouraging growth in net interest income, trading profit, and investment services and net insurance premium earned. Taking into account the increase in net insurance claims incurred and movement in policyholder liabilities, **net operating income before loan impairment charges and other credit provisions** rose by HK$635 million, or 7.8 per cent.

Net interest income increased by HK$1,111 million, or 21.1 per cent.

(Figures in HK$m)	***Half-year ended 30 June 2006***	*Half-year ended 30 June 2005*	*Half-year ended 31 December 2005*
Net interest income	**6,375**	5,264	5,804
Average interest-earning assets	**541,337**	497,987	512,337
Net interest spread	**1.82%**	1.99%	1.87%
Net interest margin	**2.37%**	2.13%	2.25%

Net interest income was HK$6,375 million, an increase of HK$1,111 million, or 21.1 per cent, compared with the first half of 2005, on the basis of excluding net interest expenses of HK$847 million on the trading and fair value portfolios. Average interest-earning assets (excluding the trading and fair value portfolios) grew by 8.7 per cent and net interest margin increased by 24 basis points to 2.37 per cent. Net interest spread fell by 17 basis points to 1.82 per cent, while contribution from net free funds rose by 41 basis points to 0.55 per cent.

The non-treasury portfolios performed well due to improvement in spreads on Best Lending Rate ("BLR")-based loans, which benefited from a wider BLR/HIBOR gap, and the widening of deposit spreads, despite continued pressure on mortgage pricing and corporate loan margins. However, the treasury balance sheet management portfolio yields were further compressed under an environment of persistently rising interest rates and flat yield curves.

Contribution from net free funds, including shareholders' funds and non-interest-bearing deposits, increased significantly following the rise in market interest rates. The exclusion of net interest expenses in the trading and fair value portfolios also contributed to the increase in contribution of net free funds.

Compared with the second half of 2005, net interest income rose by HK$571 million, or 9.8 per cent, on the basis of excluding net interest expenses in the trading and fair value portfolios for both periods (HK$847 million in the first half of this year and HK$340 million in the second half of last year). This was mainly due to the 5.7 per cent increase in average interest-earning assets and the increase in contribution from net free funds. The net interest margin rose from 2.25 per cent to 2.37 per cent.

The average yield on the residential mortgage portfolio (excluding Government Home Ownership Scheme ("GHOS") mortgages and staff loans) was 230 basis points below BLR for the first half of 2006, compared with 223 basis points and 227 basis points below BLR for the first and second halves of 2005 respectively. Mortgage incentive payments totalled HK$44 million for the first half of 2006, compared with HK$55 million and HK$42 million for the first and second halves of 2005 respectively.

Net interest income, including net interest expenses of the trading and fair value portfolios, amounted to HK$5,528 million, a rise of HK$196 million, or 3.7 per cent, over the same period last year. Compared with the second half of 2005, net interest income on this basis rose by HK$64 million, or 1.2 per cent.

(Figures in HK$m)	***Half-year ended 30 June 2006***	*Half-year ended 30 June 2005*	*Half-year ended 31 December 2005*
Net interest income as per income statement	**6,375**	5,264	5,804
Interest income less expense from:			
• trading financial instruments	**(879)**	44	(350)
• fair value financial instruments	**32**	24	10
Total net interest income	**5,528**	5,332	5,464

Net fee income rose by HK$205 million, or 13.0 per cent.

Securities broking and related services and private banking investment services benefited from the buoyant equities market, reporting growth in fees and commissions of 88.4 per cent and 68.4 per cent respectively. These increases, together with the growth in card services income, contributed significantly to the rise in net fees and commissions.

Net trading income was down HK$653 million, or 150.8 per cent.

Net trading income comprises trading profits of HK$659 million, which rose by 69.4 per cent over the same period last year. Foreign exchange income rose by 120.2 per cent, attributable to improvement in trading results, increased customer flows and spreads earned on foreign exchange linked structured products. After deducting HK$879 million in net interest expenses, which rose significantly due to the growth in structured deposits classified as trading liabilities, a net trading loss of HK$220 million was reported.

Net income from financial assets designated at fair value rose by HK$32 million, or 64.0 per cent, to HK$82 million, mainly reflecting the improvement in investment returns on life insurance portfolios.

Net earned insurance premiums rose by HK$1,226 million, or 44.9 per cent.

Riding on the successful launch of the Monthly Income Retirement Plan, Hang Seng Life Limited continued to gain market share in terms of new annualised premiums. The investment return on the life insurance funds, reported under net income from financial instruments designated at fair value, also improved under the favourable investment environment.

Net insurance claims incurred and movement in policyholder liabilities rose by HK$1,262 million, or 52.4 per cent.

The growth in liabilities to policyholders, including investment and other reserves, was in line with the growth in long-term life insurance policies in force.

Analysis of income from wealth management businesses

(Figures in HK$m)	***Half-year ended 30 June 2006***	*Half-year ended 30 June 2005*	*Half-year ended 31 December 2005*
Investment income:			
• retail investment products and funds under management *	**724**	711	488
• private banking	**165**	103	85
• securities broking and related services	**439**	233	260
• margin trading	**30**	33	30
	1,358	1,080	863
Insurance income:			
• life insurance			
• underwriting including embedded value	**350**	334	535
• investment income **	**347**	209	197
• general insurance and others	**156**	161	109
	853	704	841
Total	**2,211**	1,784	1,704

* *Income from retail investment products and funds under management includes income reported under net fee income on the sale of unit trust funds and third party investment products. It also includes profits generated from the issue of structured investment products, reported under net trading income.*

** *Investment income from insurance funds includes income reported as net interest income and net income from financial instruments designated at fair value.*

Wealth management income gained strong growth momentum in the first half of 2006, reporting rises of 23.9 per cent over the first half of 2005 and 29.8 per cent over the second half of 2005.

Investment services income rose by 25.7 per cent, benefiting from the buoyant equities market and good investment sentiment. Securities broking business grew in turnover and market share, riding on the active stock market and the success of marketing programmes and special offers to promote active trading, IPO subscriptions and the opening of securities accounts. Private banking continued to grow in customer base and business volume. Retail investment products achieved record sales, with equity, high-yield fixed income funds and market-linked instruments building on the success generated by capital-guaranteed funds in the past few years. The Bank also launched new equity, foreign exchange and other market-linked investment and deposit products that were designed to capture market growth trends and meet the diverse wealth management needs of customers.

Insurance income rose by 21.2 per cent to HK$853 million. Life insurance business continued on an encouraging growth trend, reporting a 37.1 per cent increase in annualised new premiums, gaining market share and raising its market share ranking in Hong Kong to second place. The Monthly Income Retirement Plan, which provides guaranteed income after retirement with flexible premium payment term options and choice of retirement age, has been very successful in capturing a share of the large and lucrative retirement plan market.

Operating expenses rose by HK$182 million, or 8.4 per cent.

Operating expenses rose by HK$182 million, or 8.4 per cent, compared with the same period last year. Employee compensation and benefits increased by 13.5 per cent, due to the annual salary increment and the increase in number of staff. General and administrative expenses were up 1.7 per cent and depreciation charges rose by 11.1 per cent as a result of the increase in fair value of business premises.

Staff numbers by region *

	At 30 June 2006	*At 30 June 2005*	*At 31 December 2005*
Hong Kong	**7,524**	7,148	7,425
Mainland and others	**521**	377	420
Total	**8,045**	7,525	7,845

* *Full-time equivalent*

The number of full-time equivalent staff increased by 200 compared with the previous year-end, with new staff hired to further strengthen the Personal Financial Services and Commercial Banking relationship management teams and to support the expansion of the mainland China network and IT system development and enhancement.

The cost efficiency ratio for the first half of 2006 was 26.8 per cent, compared with 26.7 per cent and 29.4 per cent for the first and second halves of 2005 respectively.

Operating profit

Operating profit excluding loan impairment charges rose by HK$453 million, or 7.6 per cent, compared with the first half of 2005. Taking into account the substantial reduction of 88.7 per cent in loan impairment charges to HK$34 million, **operating profit** recorded strong growth of HK$721 million, or 12.8 per cent, to reach HK$6,353 million. Compared with the second half of 2005, operating profit excluding loan impairment charges rose by 11.0 per cent and operating profit increased by 16.9 per cent.

Loan impairment charges and other credit risk provisions amounted to HK$34 million, compared with a total charge of HK$302 million for the first half of 2005.

(Figures in HK$m)	***Half-year ended 30 June 2006***	*Half-year ended 30 June 2005*	*Half-year ended 31 December 2005*
Loan impairment (charges)/releases			
• individually assessed	**29**	(95)	(214)
• collectively assessed	**(63)**	(207)	(102)
	(34)	(302)	(316)
Of which:			
• new and additional	**(165)**	(666)	(404)
• releases	**97**	314	37
• recoveries	**34**	50	51
	(34)	(302)	(316)

Loan impairment charges and other credit risk provisions decreased by HK$268 million, or 88.7 per cent, to HK$34 million, reflecting benign credit conditions. There was a net release of HK$29 million on individually assessed provisions, mainly due to recoveries from certain commercial banking customers. Of the collectively assessed charges, HK$59 million was made on card and personal loan portfolios, a rise of 7.3 per cent over the same period last year. A charge of HK$4 million was made on advances not identified individually as impaired compared with a charge of HK$152 million made in the first half of 2005.

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

	At 30 June 2006	*At 30 June 2005*	*At 31 December 2005*
	%	%	%
Loan impairment allowances			
• individually assessed	**0.14**	0.28	0.20
• collectively assessed	**0.19**	0.18	0.19
Total loan impairment allowances	**0.33**	0.46	0.39

Total loan impairment allowances as a percentage of gross advances to customers stood at 0.33 per cent at 30 June 2006, compared with 0.39 per cent at the previous year-end. Individually assessed allowances as a percentage of gross advances fell to 0.14 per cent, reflecting recoveries from doubtful accounts and writing-off of irrecoverable balances against impairment allowances.

Attributable profit

Pre-tax profit was HK$7,513 million, an increase of 6.4 per cent over the same period last year. This figure takes into account profit on disposal of fixed assets and financial investments, net surplus on property revaluation and share of profits from associates. **Attributable profit** after taxation and minority interests rose by HK$145 million, or 2.4 per cent, to HK$6,190 million. Compared with the second half of 2005, pre-tax profit and attributable profit rose by 19.3 per cent and 16.9 per cent respectively.

Profit on disposal of fixed assets and financial investments rose by HK$226 million, or 64.9 per cent, over the same period of last year.

The profit on disposal of fixed assets and financial investments amounted to HK$574 million, an increase of 64.9 per cent over the same period last year. There was a HK$202 million reduction in profit from disposal of long-term equity securities. Profit on disposal of properties, however, rose by HK$428 million to HK$448 million, mainly from the disposal of a commercial building situated in Central in Hong Kong.

Net surplus on property revaluation fell by 63.7 per cent to HK$318 million.

(Figures in HK$m)	***Half-year ended 30 June 2006***	*Half-year ended 30 June 2005*	*Half-year ended 31 December 2005*
Net surplus on property revaluation			
• bank premises	**13**	148	5
• investment properties	**305**	729	431
	318	877	436

A revaluation of the Group's premises and investment properties in Hong Kong was performed in June 2006 to reflect property market movements in the first half of 2006. The revaluation surplus for Group premises amounted to HK$582 million, of which HK$13 million was a reversal of revaluation deficits previously charged to the income statement. The balance of HK$569 million was credited to the property revaluation reserve. Revaluation gains on investment properties of HK$305 million were recognised through the income statement in accordance with Hong Kong Accounting Standard 40. The related deferred tax provisions for Group premises and investment properties were HK$102 million and HK$53 million respectively.

Share of profits from associates rose by HK$63 million, or 30.7 per cent

It was mainly attributable to the increase in the share of profits from the associates.

Customer Group Performance

Personal Financial Services ("PFS") reported an operating profit excluding loan impairment charges of HK$3,960 million, an increase of 7.0 per cent over the first half of 2005, driven by the encouraging growth of investment services and insurance businesses. Net interest income rose by 5.4 per cent. The spread of BLR-based lending benefited from a wider BLR/HIBOR spread despite continued pressure on mortgage pricing. While average customer deposits recorded encouraging growth of 9.1 per cent over the same period last year, there has been a significant shift of Hong Kong dollar savings to time deposits, thus lifting the overall funding cost for PFS. Fees and commissions recorded strong growth of 11.5 per cent, contributed by securities broking and related services, private banking and card services. The launch of more diversified structured investment and deposit products boosted net trading income, which grew by 45.7 per cent. Life insurance maintained its strong growth momentum and reported a 28.4 per cent rise in income. At the pre-tax profit level, PFS recorded a fall of 1.8 per cent compared with the same period last year which benefited from large releases in loan impairment allowances for mortgages and personal loans.

Wealth management remained the growth driver of PFS's performance. PFS offers a highly diversified range of investment services and products through a wide distribution network and an efficient and convenient e-banking platform. PFS's Investment Supermart offers over 400 investment funds. Benefiting from the buoyant stock market, income from securities broking and related services rose by 83.5 per cent and trading volume grew 101.3 per cent. Securities broking expanded its customer base and gained market share through promotional campaigns and special offers to acquire new customers and encourage active trading. Equity funds and high-yield fixed income funds built on the previous success of capital guaranteed funds and achieved record sales. Various structured investment and deposit products were developed to capture movements in the equity, foreign exchange and commodity markets to enhance investment returns for customers. Private banking further strengthened its relationship management and advisory team, and continued to deliver outstanding performance, with 42.1 per cent growth in total operating income.

PFS achieved 4.1 per cent growth in customer advances and further diversified its loan portfolio. During the first half of 2006, residential property prices remained stable but market activity slowed down. With the widening of the BLR/HIBOR gap, major market players started to launch price promotion campaigns to compete for market share. The Bank achieved growth of 1.8 per cent in loan balances and gained market share by offering a diverse range of products, adopting a flexible pricing strategy and launching joint offers with developers. Personal loans grew by 16.8 per cent following the introduction of new loan products and the streamlining of credit approval procedures. Credit card advances fell by 1.9 per cent over the previous year-end due to the repayment of tax bill payment balances, but recorded a growth of 15.2 per cent year-on-year. Cards in issue reached 1.32 million, a rise of 3.6 per cent over the end of 2005, the result of continuous acquisition efforts and the launch of VISA Infinite, an invitation-only credit card for prestigious customers, and alpha card, a debit card for young people. Boosted by the Cash Dollar Reward loyalty scheme and joint campaigns with selected merchants, card spending rose by 9.2 per cent, compared with the same period last year.

PFS's strategy in mainland China is to focus on providing wealth management services to the higher end segment. Initiatives in the first half of 2006 include the launch of a series of market-linked structured deposit products, which were well received by customers. The Bank's Mainland business strategy is being implemented through a growing branch and sub-branch network in major cities in the Pearl River Delta and the Yangtze River Delta.

Commercial Banking ("CMB") achieved an encouraging rise of 21.8 per cent in operating profit excluding loan impairment charges, driven by strong growth in trade finance and other advances and the development of corporate wealth management business. Taking into account the release in loan impairment allowances, pre-tax profit reported an increase of 150.8 per cent over the first half of 2005.

Net interest income reported strong growth of 25.3 per cent, attributable to a 9.9 per cent increase in customer advances, with strong growth of 17.8 per cent recorded for trade finance. The widening of the BLR/HIBOR gap also enhanced the interest spread of BLR-based lending, including mortgages, trade advances and SME loans. The spread on current account deposits also benefited from the rise in Hong Kong dollar interest rates. As a key initiative to expand non-fund income, CMB established a corporate wealth management team to look after the investment and treasury needs of commercial banking customers. Payment and cash management also saw solid growth. These resulted in 21.2 per cent growth in net fees and commissions and an increase of 16.7 per cent in net trading income.

CMB also continued to strengthen its relationships with middle-market enterprises ("MME"). Later this year, the Bank will become the first foreign bank to establish a branch in Dongguan, China, putting CMB in a good position to serve the Hong Kong and Mainland financing needs of the large number of MME customers that have business operations in this region.

To further enhance SME services, customer-focused solutions for specific industries were developed. During the first half of 2006, two new business banking centres were opened and the Business Partner Direct 24-hour manned hotline service was launched.

Following further expansion of the Bank's Mainland network to a total of 13 outlets, CMB business on the Mainland reported strong growth of 53.2 per cent in customer advances and expanded its trade services operations.

Corporate Banking ("CIB") reported an operating profit excluding loan impairment charges of HK$257 million, a fall of 8.2 per cent compared with the first half of 2005. Pre-tax profit, however, rose by 58.5 per cent to HK$271 million, with a HK$14 million release in loan impairment allowances in the current period, compared with a charge of HK$109 million in the same period last year.

Ample market liquidity and intense competition further drove down corporate lending margins. In line with CIB's strategy to diversify away from low margin lending, large corporate loans recorded a decline of 6.6 per cent for the first half of 2006. Total operating income was on par with the same period in 2005, as the small decline in net interest income was offset by an increase in net fee income.

CIB has been active in financing the mainland China projects of Hong Kong-based corporate customers and continued to expand its corporate customer base on the Mainland.

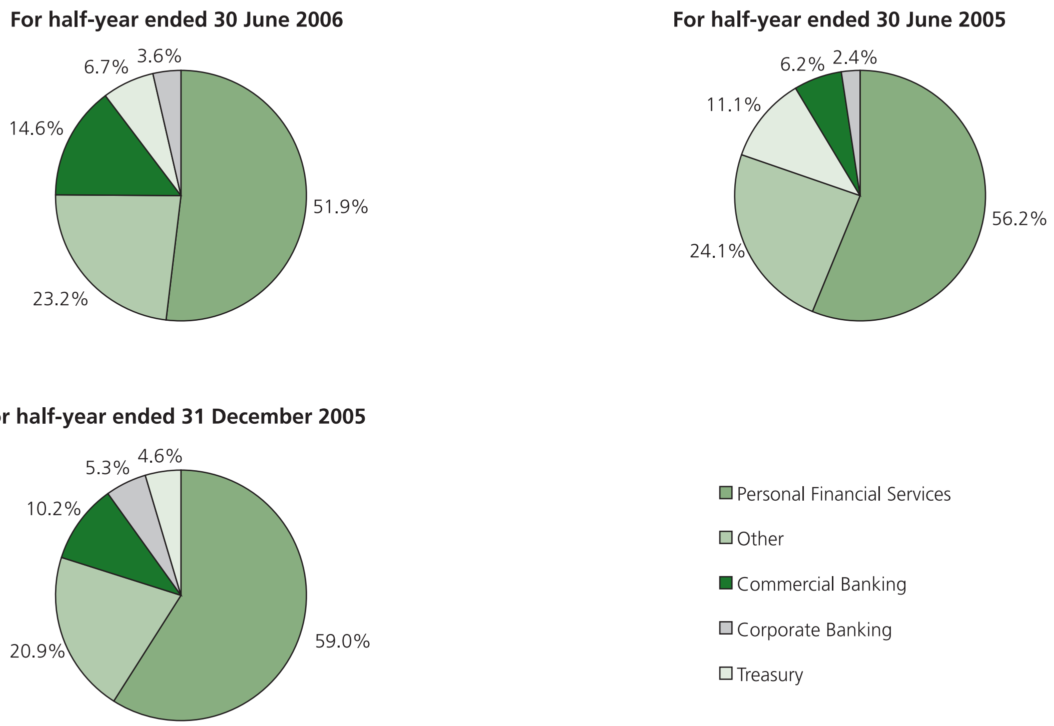
Treasury's ("TRY") pre-tax profit was down by HK$278 million, or 35.5 per cent, to HK$506 million. TRY made substantial efforts to grow its net trading income, resulting in an increase of HK$246 million, or 201.6 per cent. This was achieved by enhancing proprietary trading capabilities, expanding corporate treasury services and further developing structured products for PFS and CMB customers. This partially made up for the HK$511 million, or 74.5 per cent, fall in balance sheet management and money market revenues as the portfolio yields were further compressed by the continued rise in interest rates. With the lack of yield enhancement opportunities under the flat yield curves environment, TRY is taking a defensive balance sheet management position.

TRY expanded its operations on the Mainland using Shanghai as a hub to manage the funding needs of all Mainland branches and to structure investment products for the Mainland market.

Others, comprising return on shareholders' funds, properties and other investments, reported a rise of 2.5 per cent in pre-tax profit to HK$1,743 million.

Income statements by customer groups are set out in note 13 to the interim financial statements.

Pre-tax profit contributed by customer groups



Economic Profit

Economic profit is calculated from post-tax profit, adjusted for any surplus/deficit arising from property revaluation and depreciation attributable to the revaluation surplus, and takes into account the cost of capital invested by the Bank's shareholders. For the first half of 2006, economic profit was HK$3,825 million, an increase of HK$557 million, or 17.0 per cent, compared with the same period last year. Post-tax profit, adjusted for the property revaluation surplus (net of deferred tax) and depreciation attributable to the revaluation, rose by HK$623 million. The cost of capital rose by HK$66 million, in line with growth in invested capital. The economic profit figure demonstrates that the Bank continues to create value for its shareholders.

		Half-year ended 30 June 2006		*Half-year ended 30 June 2005*		*Half-year ended 31 December 2005*
	HK$m	**%**	HK$m	%	HK$m	%
Average invested capital	**37,485**		35,708		36,287	
Return on invested capital *	**5,963**	**32.1**	5,340	30.1	4,963	27.1
Cost of capital	**(2,138)**	**(11.5)**	(2,072)	(11.7)	(2,147)	(11.7)
Economic profit	**3,825**	**20.6**	3,268	18.4	2,816	15.4

* *Return on invested capital is based on post-tax profit excluding any surplus/deficit arising from property revaluation and depreciation attributable to the revaluation surplus.*

Balance Sheet

Total assets grew by HK$47.5 billion, or 8.2 per cent, during the first half of 2006 to HK$628.3 billion. This was driven by the encouraging growth of 5.4 per cent in customer deposits and certificates of deposit and other instruments in issue and a 22.2 per cent rise in life insurance funds. Customer advances rose by 2.2 per cent. In line with the Bank's strategy to diversify its loan portfolio, good growth was recorded in trade finance, commercial banking advances, mortgages and personal loans, outweighing declines in mortgages under the suspended GHOS and lending to large corporations. The increase in customer deposits also funded the growth in interbank placing and money market instruments. At 30 June 2006, the advances-to-deposits ratio was 52.8 per cent, compared with 54.4 per cent at the end of 2005.

Advances to customers

Gross advances to customers rose by 2.2 per cent, compared with the previous year-end.

During the first half of 2006, lending to the property investment sector, financial concerns sector (including investment companies) and stockbrokers recorded satisfactory growth, benefiting from the buoyant investment market. The encouraging 9.9 per cent loan growth recorded by CMB was the result of 19.5 per cent rise in trade finance, a 7.4 per cent increase in lending to the wholesale and retail trade, and 7.2 per cent growth in manufacturing sector loans. Falls in lending to the property development and 'Other' sectors, which include conglomerate enterprises, reflect repayments by large corporate customers, and are in line with the Bank's strategy to diversify its loan portfolio.

Excluding the fall in mortgages under the suspended GHOS, lending to individuals grew by HK$1,805 million, or 1.9 per cent. Residential mortgages rose by 1.8 per cent and gained market share amid intensely competitive conditions. Personal loans (reported under the 'Other' category) rose by 16.8 per cent, reflecting PFS's continued efforts to expand its consumer finance business. Card advances fell by 1.9 per cent, due to the repayment of tax bill payment balances at the previous year-end. Year on year, card advances rose by 15.2 per cent.

Loans for use outside Hong Kong increased by HK$1,951 million, or 12.3 per cent, over the previous year-end, reflecting the 21.7 per cent expansion of lending by mainland China branches to reach HK$12,783 million at 30 June 2006. Encouraging growth was recorded for both foreign currency and renminbi lending to CIB and CMB customers and residential mortgages.

Customer deposits

Customer deposits and certificates and other debt securities in issue rose by 5.4 per cent to HK$504.9 billion. This included 27.4 per cent growth in structured deposits, structured certificates of deposit and other debt securities in issue, reflecting strong customer demand for yield enhancement investment and deposit products. Deposits of mainland China branches grew by 11.2 per cent during the first half of 2006.