2011 Interim Report

HANG SENG BANK

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

RESULTS IN BRIEF

	30 June 2011	*30 June 2010*	*31 December 2010*
For the half-year ended	**HK$m**	HK$m	HK$m
Operating profit excluding loan impairment charges and other credit risk provisions	**7,287**	6,850	7,625
Operating profit	**7,129**	6,697	7,388
Profit before tax	**9,320**	8,103	9,242
Profit attributable to shareholders	**8,057**	6,964	7,953
	HK$	HK$	HK$
Earnings per share	**4.21**	3.64	4.16
Dividends per share	**2.20**	2.20	3.00
At period-end	**HK$m**	HK$m	HK$m
Shareholders' funds	**73,675**	64,220	70,012
Total assets	**973,209**	871,087	916,911
Ratios	**%**	%	%
For the half-year ended			
Return on average shareholders' funds	**22.7**	22.8	23.5
Cost efficiency ratio	**34.6**	33.8	33.6
Average liquidity ratio	**33.3**	42.0	34.1
At period-end			
Capital adequacy ratio *	**13.8**	12.9	13.6
Core capital ratio *	**11.0**	11.1	10.8

* *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 (the "HKMA") under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II. Having obtained approval from the HKMA to adopt the advanced internal ratings-based approach ("AIRB") to calculate the risk-weighted assets for credit risk from 1 January 2009, the Bank used the AIRB approach to calculate its credit risk exposure. The standardised (operational risk) approach and internal models approach were used to calculate its operational risk and market risk respectively.*

The basis of consolidation for 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.

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 are 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.

Raymond K.F. Ch'ien

Raymond Ch'ien
Chairman
Hong Kong, 1 August 2011

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.

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.

Corporate Responsibility

Hang Seng's commitment to excellence extends beyond providing superior financial services. As one of Hong Kong's largest corporate citizens, we support various educational, environmental, social welfare and sports development programmes.

A record number of manufacturing companies took part in the third annual Hang Seng – Pearl River Delta Environmental Awards. Launched jointly by the Federation of Hong Kong Industries and Hang Seng Bank in 2007, the awards encourage manufacturing companies in Hong Kong and the Pearl River Delta region to enhance environmental performance.

In the 2010/11 Awards, a record 144 participants submitted a total of 555 applications – a 40 per cent increase on the previous year. Projects entered in the 2009/10 Awards collectively reduced waste by 140,000 tonnes – an amount that would cover Hong Kong's Victoria Park about 3,700 times. The projects also cut water usage by 1.87 million tonnes (the volume of 472 standard 50-metre swimming pools) and electricity consumption by over 97 million kWh (equivalent to the electricity consumed annually by 15,000 average four-member families). In addition, almost 31,000 tonnes of materials have been recycled – enough to cover Victoria Park about 800 times.

The Bank maintained its strong emphasis on youth development programmes, working with the Hong Kong Federation of Youth Groups to produce the "Hang Seng Bank Leaders to Leaders Lecture Series." This initiative offers secondary school children the opportunity to engage in direct dialogue with prominent community leaders.

In 2011, the Bank also published its first Corporate Responsibility report using Global Reporting Initiative guidelines – the first local bank in Hong Kong to do so. Not only does this increase the credibility of the information we report, it also ensures the Bank's own measurements are in line with widely recognised global practices.

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.

Margaret Leung
Vice-Chairman and Chief Executive
Hong Kong, 1 August 2011

FINANCIAL PERFORMANCE

Income Statement

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2011***	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Total operating income	**18,198**	17,103	17,314
Operating expenses	**3,888**	3,504	3,851
Operating profit after loan impairment charges and other credit risk provisions	**7,129**	6,697	7,388
Profit before tax	**9,320**	8,103	9,242
Profit attributable to shareholders	**8,057**	6,964	7,953
Earnings per share (in HK$)	**4.21**	3.64	4.16

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.

The increase was 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%, 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.

Figures in HK$m	***Half-year ended 30 June 2011***	*Half-year ended 30 June 2010*	*Half-year ended 31 December 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
Net interest spread	**1.68%**	1.72%	1.73%
Net interest margin	**1.75%**	1.77%	1.80%

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 30 June 2011***	*Half-year ended 30 June 2010*	*Half-year ended 31 December 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 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 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.

† *Treasury 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 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".

Net earned insurance premiums fell by HK$169m, or 2.7% while net insurance claims incurred and movement in policyholders' liabilities rose by HK$196m, or 2.9%.

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2011***	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Investment income:			
– retail investment funds	**551**	491	548
– structured investment products†	**308**	239	209
– private banking service fee††	**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

† *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.*

†† *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 "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 30 June 2011***	*Half-year ended 30 June 2010*	*Half-year ended 31 December 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†	**(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

† *Including premium and investment reserves*

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.

Staff numbers*† *by region	***At 30 June 2011***	*At 30 June 2010*	*At 31 December 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

† *Full-time equivalent*

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.

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.**

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

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

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.

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

	At 30 June 2011 %	*At 30 June 2010 %*	*At 31 December 2010 %*
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

Profit before tax increased by 15.0% to HK$9,320m after taking 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.

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%.

Net surplus on property revaluation amounted to HK$411m, an increase of 168.6% compared with the first half of 2010.

Figures in HK$m	Half-year ended 30 June 2011	Half-year ended 30 June 2010	Half-year ended 31 December 2010
Surplus of revaluation on investment properties	409	152	322
Surplus of revaluation on assets held for sale	11	–	10
(Revaluation deficit)/reversal of revaluation deficit on premises	(9)	1	2
	411	153	334

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.

Customer Group Performance

The table below sets out the profit before tax contributed by the customer groups for the periods stated.

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						
Profit before tax	3,937	1,783	560	1,430	393	8,103
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%

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.

Balance Sheet

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.

Advances to customers

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.

Customer deposits

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.

CONSOLIDATED INCOME STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)	note	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010	Half-year ended 31 December 2010
Interest income	4	**9,298**	7,665	8,842
Interest expense	5	**(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	6	**2,536**	2,369	2,528
Trading income	7	**931**	890	1,169
Net income from financial instruments designated at fair value	8	**96**	132	150
Dividend income	9	**6**	4	10
Net earned insurance premiums		**6,190**	6,359	4,948
Other operating income	10	**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	11	**(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	12	**(3,888)**	(3,504)	(3,851)
Impairment loss on intangible assets		**(78)**	–	–
Operating profit		**7,129**	6,697	7,388
Gains less losses from financial investments and fixed assets	13	**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	14	**(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
(Figures in HK$)				
Earnings per share	15	**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 in note 16.

The notes on pages 24 to 72 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

(Expressed in millions of Hong Kong dollars)	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010	Half-year ended 31 December 2010
Profit for the period	**8,057**	6,964	7,953
Other comprehensive income			
Premises:			
– unrealised surplus on revaluation of premises	**1,720**	690	1,412
– deferred taxes	**(284)**	(114)	(229)
Available-for-sale investment 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

(Expressed in millions of Hong Kong dollars)	note	***At 30 June 2011***	*At 30 June 2010*	*At 31 December 2010*
ASSETS				
Cash and balances with banks and other financial institutions	19	**42,644**	30,065	44,411
Placings with and advances to banks and other financial institutions	20	**114,507**	104,711	110,564
Trading assets	21	**27,621**	35,559	26,055
Financial assets designated at fair value	22	**8,006**	6,160	7,114
Derivative financial instruments	23	**5,678**	4,645	5,593
Advances to customers	24	**503,645**	394,110	472,637
Financial investments	25	**210,456**	247,280	199,359
Interest in associates	26	**16,988**	13,841	15,666
Investment properties	27	**3,660**	3,013	3,251
Premises, plant and equipment	28	**16,065**	12,853	14,561
Intangible assets	29	**5,966**	4,706	5,394
Other assets	30	**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	31	**703,321**	650,859	683,628
Deposits from banks		**19,452**	12,962	15,586
Trading liabilities	32	**59,425**	40,789	42,581
Financial liabilities designated at fair value		**456**	446	457
Derivative financial instruments	23	**4,877**	5,516	4,683
Certificates of deposit and other debt securities in issue	33	**8,146**	1,360	3,095
Other liabilities	34	**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	35	**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	36	**73,675**	64,220	70,012
Total equity and liabilities		**973,209**	871,087	916,911

The notes on pages 24 to 72 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

(Expressed in millions of Hong Kong dollars)	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010	Half-year ended 31 December 2010
Share capital			
At beginning and end of period	**9,559**	9,559	9,559
Retained profits (including 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
Other reserve			
At beginning of period	**2,085**	2,020	2,059
Cost of share-based payment arrangements	**19**	38	26
Transfer	**7**	–	–
Total comprehensive income for the period	**–**	1	–
	2,111	2,059	2,085
Total equity			
At beginning of period	**70,012**	62,148	64,220
Dividends to shareholders	**(5,736)**	(5,736)	(4,206)
Cost of share-based payment arrangements	**19**	38	26
Total comprehensive income for the period	**9,380**	7,770	9,972
	73,675	64,220	70,012

CONSOLIDATED CASH FLOW STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)	*note*	***Half-year ended 30 June 2011***	*Half-year ended 30 June 2010*
Net cash outflow from operating activities	37(a)	**(8,739)**	(33,732)
Cash flows from investing activities			
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	37(b)	**118,170**	100,432

The notes on pages 24 to 72 form part of this interim financial report.

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

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It also contains the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA"). It was authorised for issue on 1 August 2011.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by HKICPA. KPMG's independent review report to the Board of Directors is included on page 73.

2 Accounting policies

The accounting policies applied in preparing this interim financial report are the same as those applied in preparing the financial statements for the year ended 31 December 2010, as disclosed in the Annual Report and Financial Statements for 2010. A number of new and revised Hong Kong Financial Reporting Standards have become effective in 2011. None has material impact on the Group.

3 Basis of consolidation

This interim financial report covers the consolidated positions of Hang Seng Bank Limited and all its subsidiaries, unless otherwise stated, and include the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation are different from the basis of consolidation for accounting purposes. They are set out in note 38.

4 Interest income

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Interest income arising from:			
– financial assets that are not at fair value through profit and loss	**9,159**	7,526	8,702
– trading assets	**107**	112	85
– financial assets designated at fair value	**32**	27	55
	9,298	7,665	8,842
of which:			
– interest income from listed investments	**809**	614	822
– interest income from unlisted investments	**1,601**	1,535	1,537
– interest income from impaired financial assets	**10**	35	13

5 Interest expense

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Interest expense arising from:			
– financial liabilities that are not at fair value through profit and loss	**1,254**	754	1,015
– trading liabilities	**407**	195	240
– financial liabilities designated at fair value	**–**	3	–
	1,661	952	1,255
of which:			
– interest expense from debt securities in issue maturing after five years	**–**	–	–
– interest expense from customer accounts maturing after five years	**–**	–	–
– interest expense from subordinated liabilities	**82**	29	34

6 Net fee income

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 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
of which:			
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	**962**	921	889
– fee income	**1,327**	1,217	1,235
– fee expense	**(365)**	(296)	(346)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**371**	342	431
– fee income	**438**	442	531
– fee expense	**(67)**	(100)	(100)

7 Trading income

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Foreign exchange	**788**	880	888
(Losses)/gains from hedging activities:			
– fair value hedge			
– on hedging instruments	**(199)**	(451)	190
– on the hedged items attributable to the hedged risk	**173**	441	(169)
– cash flow hedge			
– net hedging income	**–**	–	–
Securities, derivatives and other trading activities	**169**	20	260
	931	890	1,169

8 Net income from financial instruments designated at fair value

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Net income on assets designated at fair value which back insurance and investment contracts	**96**	147	150
Net change in fair value of other financial instruments designated at fair value	**–**	(15)	–
	96	132	150
of which dividend income from:			
– listed investments	**9**	–	3
– unlisted investments	**–**	–	1
	9	–	4

9 Dividend income

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Dividend income:			
– listed investments	**3**	1	1
– unlisted investments	**3**	3	9
	6	4	10

10 Other operating income

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Rental income from investment properties	**84**	78	77
Movement in present value of in-force long-term insurance business	**639**	467	659
Other	**79**	91	186
	802	636	922

11 Loan impairment charges and other credit risk provisions

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Loan impairment charges (note 24(b)):			
– individually assessed	**(18)**	(77)	(109)
– collectively assessed	**(140)**	(76)	(128)
	(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	**–**	–	–
	(158)	(153)	(237)

There was no impairment charge (nil for the first and second halves of 2010) provided for available-for-sale debt securities by the Group. There was also no impairment loss made in relation to held-to-maturity investments for the periods indicated.

12 Operating expenses

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Employee compensation and benefits:			
– salaries and other costs	**1,742**	1,639	1,809
– retirement benefit costs			
– defined benefit scheme	**116**	96	95
– defined contribution scheme	**43**	38	40
	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 (note 28)	**347**	306	313
Amortisation of intangible assets	**58**	49	53
	3,888	3,504	3,851

13 Gains less losses from financial investments and fixed assets

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Net gains from disposal of available-for-sale equity securities	**8**	10	–
Net gains from disposal of available-for-sale debt securities	**2**	62	33
Impairment of available-for-sale equity securities	**–**	–	–
Gains less losses on disposal of assets held for sale	**–**	–	12
Gains less losses on disposal of fixed assets	**(1)**	(3)	(2)
	9	69	43

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

14 Tax expense

Taxation in the consolidated income statement represents:

	Half-year ended 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
Current tax – provision for Hong Kong profits tax			
Tax for the period	**995**	933	1,034
Adjustment in respect of prior periods	**–**	(19)	–
	995	914	1,034
Current tax – taxation outside Hong Kong			
Tax for the period	**57**	39	(1)
Deferred tax			
Origination and reversal of 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 the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2010: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

15 Earnings per share

The calculation of earnings per share for the first half of 2011 is based on earnings of HK$8,057 million (HK$6,964 million and HK$7,953 million 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).

16 Dividends per share

	Half-year ended 30 June 2011		*Half-year ended 30 June 2010*		*Half-year ended 31 December 2010*	
	HK$ per share	***HK$ million***	*HK$ per share*	*HK$ million*	*HK$ per share*	*HK$ million*
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	**–**	**–**	–	–	1.90	3,633
	2.20	**4,206**	2.20	4,206	3.00	5,736

17 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.

17 Segmental analysis *(continued)*
(a) *Segmental result* *(continued)*

	Retail Banking and Wealth Management	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segments	Inter-segment elimination	Total
Half-year ended 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 instruments designated at fair value	96	–	–	–	–	96	–	96
Dividend income	–	–	–	–	6	6	–	6
Net earned insurance premiums	6,068	121	1	–	–	6,190	–	6,190
Other operating 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 incurred and movement in policyholders' liabilities	(6,875)	(70)	–	–	–	(6,945)	–	(6,945)
Net operating income before loan impairment charges and other credit risk provisions	6,062	2,526	1,064	1,445	402	11,499	(246)	11,253
Loan impairment charges and other credit risk provisions	(114)	(90)	46	–	–	(158)	–	(158)
Net operating income	5,948	2,436	1,110	1,445	402	11,341	(246)	11,095
Operating expenses *	(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
** 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

17 Segmental analysis *(continued)*

(a) *Segmental result* (continued)

	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
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 *	(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
** 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

17 Segmental analysis *(continued)*

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

	Retail Banking and Wealth Management	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segments	Inter-segment 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 *	(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
* *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

17 Segmental analysis *(continued)*

(b) Geographic information

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

	Half-year ended 30 June 2011		Half-year ended 30 June 2010		Half-year ended 31 December 2010	
		%		%		%
Total operating income						
Hong Kong	**16,757**	**92**	16,095	94	16,029	93
Americas	**656**	**4**	440	3	607	3
Mainland and others	**785**	**4**	568	3	678	4
	18,198	**100**	17,103	100	17,314	100
Profit before tax						
Hong Kong	**6,928**	**74**	6,479	80	7,243	78
Americas	**641**	**7**	425	5	571	6
Mainland and others	**1,751**	**19**	1,199	15	1,428	16
	9,320	**100**	8,103	100	9,242	100

17 Segmental analysis *(continued)*

(b) *Geographic information* (continued)

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
		%		%		%
Total assets						
Hong Kong	**785,812**	**81**	737,526	85	752,206	82
Americas	**64,145**	**7**	63,322	7	68,216	7
Mainland and others	**123,252**	**12**	70,239	8	96,489	11
	973,209	**100**	871,087	100	916,911	100
Total liabilities						
Hong Kong	**823,623**	**92**	765,674	95	786,304	93
Americas	**1,860**	**–**	1,403	–	1,187	–
Mainland and others	**74,051**	**8**	39,790	5	59,408	7
	899,534	**100**	806,867	100	846,899	100
Interest in associates						
Hong Kong	**1,156**	**7**	946	7	989	6
Americas	**–**	**–**	–	–	–	–
Mainland and others	**15,832**	**93**	12,895	93	14,677	94
	16,988	**100**	13,841	100	15,666	100
Non-current assets*						
Hong Kong	**24,721**	**96**	20,266	99	22,262	96
Americas	**–**	**–**	–	–	–	–
Mainland and others	**970**	**4**	306	1	944	4
	25,691	**100**	20,572	100	23,206	100
Contingent liabilities and commitments						
Hong Kong	**223,578**	**81**	207,096	89	223,659	83
Americas	**–**	**–**	–	–	–	–
Mainland and others	**52,289**	**19**	24,947	11	44,589	17
	275,867	**100**	232,043	100	268,248	100

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

18 Analysis of assets and liabilities by remaining maturity

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

	Repayable on demand	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
Assets									
Cash and balances with banks and other financial institutions	**42,644**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**42,644**
Placings with and advances to banks and other financial institutions	**7,000**	**67,083**	**33,918**	**4,911**	**–**	**1,595**	**–**	**–**	**114,507**
Trading assets	**–**	**–**	**–**	**–**	**–**	**–**	**27,621**	**–**	**27,621**
Financial assets designated at fair value	**–**	**40**	**1**	**223**	**3,795**	**44**	**–**	**3,903**	**8,006**
Derivative financial instruments	**–**	**–**	**29**	**72**	**289**	**6**	**5,282**	**–**	**5,678**
Advances to customers	**10,691**	**46,823**	**50,596**	**100,170**	**162,598**	**132,767**	**–**	**–**	**503,645**
Financial investments:									
– available-for-sale investments	**241**	**7,607**	**12,799**	**77,406**	**51,735**	**1,388**	**–**	**975**	**152,151**
– held-to-maturity debt securities	**–**	**155**	**252**	**4,874**	**20,263**	**32,761**	**–**	**–**	**58,305**
Investments in associates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,988**	**16,988**
Investment properties	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,660**	**3,660**
Premises, plant and equipment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,065**	**16,065**
Intangible assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,966**	**5,966**
Other assets	**9,280**	**2,678**	**2,800**	**2,706**	**112**	**17**	**–**	**380**	**17,973**
At 30 June 2011	**69,856**	**124,386**	**100,395**	**190,362**	**238,792**	**168,578**	**32,903**	**47,937**	**973,209**
At 30 June 2010	58,207	88,704	85,759	150,395	254,943	155,831	39,902	37,346	871,087
At 31 December 2010	64,319	128,903	98,312	138,223	240,309	172,936	31,137	42,772	916,911

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

	Repayable on demand	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
Liabilities									
Current, savings and other deposit accounts	**513,354**	**87,678**	**65,660**	**35,035**	**1,594**	**–**	**–**	**–**	**703,321**
Deposits from banks	**5,554**	**9,270**	**3,344**	**1,167**	**117**	**–**	**–**	**–**	**19,452**
Trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**59,425**	**–**	**59,425**
Financial liabilities designated at fair value	**4**	**–**	**–**	**–**	**–**	**452**	**–**	**–**	**456**
Derivative financial instruments	**–**	**–**	**–**	**145**	**918**	**63**	**3,751**	**–**	**4,877**
Certificates of deposit and other debt securities in issue:									
– certificates of deposit in issue	**–**	**–**	**794**	**127**	**7,225**	**–**	**–**	**–**	**8,146**
Other liabilities	**6,324**	**3,272**	**2,815**	**2,374**	**104**	**19**	**–**	**3,017**	**17,925**
Liabilities to customers under insurance contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**69,081**	**69,081**
Current tax liabilities	**–**	**–**	**1**	**1,327**	**1**	**–**	**–**	**–**	**1,329**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,657**	**3,657**
Subordinated liabilities	**–**	**3,501**	**–**	**–**	**2,332**	**6,032**	**–**	**–**	**11,865**
At 30 June 2011	**525,236**	**103,721**	**72,614**	**40,175**	**12,291**	**6,566**	**63,176**	**75,755**	**899,534**
At 30 June 2010	525,492	93,828	39,844	28,845	8,208	218	45,158	65,274	806,867
At 31 December 2010	549,706	89,295	42,300	35,259	7,375	6,561	46,290	70,113	846,899

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

	Repayable on demand	One month or less but not on demand	Over one month but within three months	Over three months but within one year	Over one year but within five years	Over five years	Trading	No contractual maturity	Total
of which:									
Certificates of deposit included in:									
– trading assets	–	–	–	–	–	–	435	–	435
– financial assets designated at fair value	–	–	–	–	1	–	–	–	1
– available-for-sale investments	–	1,900	230	1,598	891	–	–	46	4,665
– held-to-maturity debt securities	–	20	30	228	937	2,270	–	–	3,485
At 30 June 2011	**–**	**1,920**	**260**	**1,826**	**1,829**	**2,270**	**435**	**46**	**8,586**
At 30 June 2010	–	1,281	19	1,715	2,748	1,200	–	52	7,015
At 31 December 2010	–	140	779	2,072	2,107	1,572	18	43	6,731
Debt securities included in:									
– trading assets	–	–	–	–	–	–	26,822	–	26,822
– financial assets designated at fair value	–	40	1	223	3,794	44	–	2	4,104
– available-for-sale investments	241	5,707	12,569	75,808	50,844	1,388	–	629	147,186
– held-to-maturity debt securities	–	135	222	4,646	19,326	30,491	–	–	54,820
At 30 June 2011	**241**	**5,882**	**12,792**	**80,677**	**73,964**	**31,923**	**26,822**	**631**	**232,932**
At 30 June 2010	–	6,792	12,991	79,510	115,109	29,497	34,359	644	278,902
At 31 December 2010	–	9,093	11,861	57,701	86,410	31,209	25,305	486	222,065
Certificates of deposit in issue included in:									
– trading liabilities	–	–	–	–	–	–	–	–	–
– financial liabilities designated at fair value	–	–	–	–	–	–	–	–	–
– issue at amortised cost	–	–	794	127	7,225	–	–	–	8,146
At 30 June 2011	**–**	**–**	**794**	**127**	**7,225**	**–**	**–**	**–**	**8,146**
At 30 June 2010	–	–	534	668	158	–	214	–	1,574
At 31 December 2010	–	96	447	112	2,440	–	26	–	3,121

19 Cash and balances with banks and other financial institutions

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Cash in hand	**7,190**	3,992	6,101
Balances with central banks	**7,835**	9,404	6,591
Balances with banks and other financial institutions	**27,619**	16,669	31,719
	42,644	30,065	44,411

20 Placings with and advances to banks and other financial institutions

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Placings with and advances to banks and other financial institutions maturing within one month	**74,083**	57,557	56,437
Placings with and advances to banks and other financial institutions maturing after one month but less than one year	**38,829**	47,154	53,659
Placings with and advances to banks and other financial institutions maturing after one year	**1,595**	–	468
	114,507	104,711	110,564
of which:			
Placings with and advances to central banks	**10,054**	4,421	6,649

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

21 Trading assets

	At 30 June 2011	At 30 June 2010	At 31 December 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
Equity shares	**15**	–	8
Total trading securities	**27,272**	34,359	25,331
Other*	**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

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

22 Financial assets designated at fair value

	At 30 June 2011	At 30 June 2010	At 31 December 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
	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

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

	At 30 June 2011	At 30 June 2010	At 31 December 2010
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

23 Derivative financial instruments

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

	At 30 June 2011			At 30 June 2010			At 31 December 2010		
	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities
Derivatives held for trading									
Exchange rate contracts:									
– spot and forward foreign exchange	**595,593**	**2,396**	**1,480**	505,567	1,545	1,733	495,913	2,471	1,802
– currency swaps	**11,327**	**116**	**91**	19,922	224	110	17,366	190	139
– currency options purchased	**76,611**	**251**	**–**	54,004	481	–	41,183	59	–
– currency options written	**83,091**	**–**	**279**	61,431	–	561	46,657	–	87
– other exchange rate contracts	**132**	**–**	**3**	245	10	1	101	1	3
	766,754	**2,763**	**1,853**	641,169	2,260	2,405	601,220	2,721	2,031
Interest rate contracts:									
– interest rate swaps	**286,934**	**2,091**	**1,602**	178,229	1,650	1,687	234,425	1,748	1,557
– interest rate options purchased	**–**	**–**	**–**	143	–	–	25	–	–
– interest rate options written	**–**	**–**	**–**	142	–	–	25	–	–
– other interest rate contracts	**837**	**–**	**–**	39	–	–	1,555	–	–
	287,771	**2,091**	**1,602**	178,553	1,650	1,687	236,030	1,748	1,557
Equity and other contracts:									
– equity swaps	**8,783**	**30**	**279**	5,767	44	258	5,980	32	99
– equity options purchased	**12,159**	**246**	**–**	4,998	126	–	5,503	168	–
– equity options written	**2,372**	**–**	**10**	1,220	–	4	1,731	–	8
– other equity contracts	**12**	**–**	**–**	–	–	–	8	–	–
– spot and forward contracts and others	**1,754**	**152**	**–**	3,409	263	2	3,669	413	2
	25,080	**428**	**289**	15,394	433	264	16,891	613	109
Total derivatives held for trading	**1,079,605**	**5,282**	**3,744**	835,116	4,343	4,356	854,141	5,082	3,697

23 Derivative financial instruments *(continued)*

	At 30 June 2011			At 30 June 2010			At 31 December 2010		
	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities
Derivatives embedded in financial assets designated at fair value									
Exchange rate contracts:									
– spot and forward foreign exchange	–	–	–	134	–	2	769	–	3
Interest rate contracts:									
– interest rate swaps	140	–	7	140	–	11	140	–	9
	140	–	7	274	–	13	909	–	12
Cash flow hedge derivatives									
Interest rate contracts:									
– interest rate swaps	41,842	148	10	71,889	268	44	78,389	256	19
Fair value hedge derivatives									
Interest rate contracts:									
– interest rate swaps	32,496	248	1,116	22,572	34	1,103	27,122	255	955
Total derivatives	1,154,083	5,678	4,877	929,851	4,645	5,516	960,561	5,593	4,683

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

24 Advances to customers

(a) Advances to customers

	At 30 June 2011	At 30 June 2010	At 31 December 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)
	503,645	394,110	472,637

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

	At 30 June 2011	At 30 June 2010	At 31 December 2010
	%	%	%
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

24 Advances to customers *(continued)*

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

	Individually assessed	*Collectively assessed*	*Total*
At 1 January 2011	**1,118**	**718**	**1,836**
Amounts written off	**(170)**	**(157)**	**(327)**
Recoveries of advances written off in previous years (note 11)	**13**	**21**	**34**
New impairment allowances charged to income statement (note 11)	**145**	**251**	**396**
Impairment allowances released to income statement (note 11)	**(127)**	**(111)**	**(238)**
Unwinding of discount of loan impairment allowances recognised as "interest income"	**(4)**	**(2)**	**(6)**
Exchange	**4**	**2**	**6**
At 30 June 2011	**979**	**722**	**1,701**
At 1 January 2010	1,151	814	1,965
Amounts written off	(129)	(184)	(313)
Recoveries of advances written off in previous years (note 11)	9	21	30
New impairment allowances charged to income statement (note 11)	114	167	281
Impairment allowances released to income statement (note 11)	(37)	(91)	(128)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(9)	(1)	(10)
At 30 June 2010	1,099	726	1,825
At 1 July 2010	1,099	726	1,825
Amounts written off	(98)	(161)	(259)
Recoveries of advances written off in previous years (note 11)	9	23	32
New impairment allowances charged to income statement (note 11)	182	146	328
Impairment allowances released to income statement (note 11)	(73)	(18)	(91)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(7)	(2)	(9)
Exchange	6	4	10
At 31 December 2010	1,118	718	1,836

24 Advances to customers *(continued)*

(c) Impaired advances and allowances

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Gross impaired advances	**1,639**	2,429	1,990
Individually assessed allowances	**(979)**	(1,099)	(1,118)
	660	1,330	872
Individually assessed allowances as a percentage of gross impaired advances	**59.7%**	45.2%	56.2%
Gross impaired advances as a percentage of gross 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.

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Gross individually assessed impaired advances	**1,549**	2,280	1,886
Individually assessed allowances	**(979)**	(1,099)	(1,118)
	570	1,181	768
Gross individually assessed impaired advances as a percentage of gross advances to customers	**0.3%**	0.6%	0.4%
Amount of collateral which has been taken into account in respect of individually assessed 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.

24 Advances to customers *(continued)*

(d) Overdue advances

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 2011		At 30 June 2010		At 31 December 2010	
		%		%		%
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:						
– more than three months but not more than six months	**120**	**–**	179	0.1	137	–
– more than six months but 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
of which:						
– individually impaired allowances	**(861)**		(955)		(994)	
– covered portion of overdue loans and advances	**205**		588		354	
– uncovered portion of overdue loans and advances	**917**		810		1,019	
– current market value of collateral held against the covered portion of overdue loans and advances	**434**		895		586	

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.

24 Advances to customers *(continued)*

(e) Rescheduled advances

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

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
		%		%		%
Rescheduled advances 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.

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

(f) 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.

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed allowances	Collectively assessed allowances
At 30 June 2011					
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**
At 30 June 2010					
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
At 31 December 2010					
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

24 Advances to customers *(continued)*

(g) 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:

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
		% of gross advances covered by collateral		% of gross advances covered by collateral (restated)		% of gross advances covered by collateral (restated)
Gross advances to customers for use in Hong Kong						
Industrial, commercial and financial sectors						
– property development	**30,626**	**45.7**	22,780	39.4	32,430	43.0
– property investment	**103,977**	**82.3**	86,440	82.3	100,023	83.0
– financial concerns	**3,347**	**30.4**	2,804	31.2	2,907	33.7
– stockbrokers	**180**	**52.8**	2,646	20.0	165	82.4
– wholesale and retail trade	**13,129**	**40.5**	9,993	42.8	11,339	43.5
– manufacturing	**16,217**	**34.1**	14,069	30.1	14,628	35.7
– transport and transport equipment	**6,889**	**63.9**	4,918	68.9	7,546	72.8
– recreational activities	**829**	**94.5**	37	41.0	532	99.5
– information technology	**1,851**	**0.9**	1,227	1.8	1,957	0.7
– other	**22,023**	**54.1**	23,879	54.6	20,177	61.8
	199,068	**64.6**	168,793	63.1	191,704	66.1
Individuals						
– advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**14,471**	**100.0**	14,179	99.8	14,834	100.0
– advances for the purchase of other residential properties	**105,841**	**100.0**	102,566	99.9	112,394	100.0
– credit card advances	**16,362**	**–**	14,289	–	15,735	–
– other	**14,610**	**31.7**	13,363	34.5	13,776	30.9
	151,284	**82.6**	144,397	83.9	156,739	83.9
Total gross advances for use in Hong Kong	**350,352**	**72.4**	313,190	72.7	348,443	74.1
Trade finance	**80,223**	**19.4**	29,319	27.4	63,660	18.3
Gross advances for use outside Hong Kong	**74,771**	**29.4**	53,426	47.1	62,370	40.5
Gross advances to customers	**505,346**	**57.6**	395,935	65.9	474,473	62.2

25 Financial investments

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Financial investments:			
– which may be repledged or resold by counterparties	**380**	435	207
– which may not be repledged or resold or are not subject to repledge or resale by counterparties	**210,076**	246,845	199,152
	210,456	247,280	199,359
Held-to-maturity debt securities at amortised cost	**58,305**	53,193	56,301
Available-for-sale at fair value:			
– debt securities	**151,851**	193,786	142,732
– equity shares	**300**	301	326
	210,456	247,280	199,359
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

There was no overdue debt securities at 30 June 2011 and the comparative periods for the Group.

25 Financial investments *(continued)*

(a) Held-to-maturity debt securities

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Listed in Hong Kong	991	828	997
Listed outside Hong Kong	10,086	6,067	9,822
	11,077	6,895	10,819
Unlisted	47,228	46,298	45,482
	58,305	53,193	56,301
Issued by public bodies:			
– central governments and central banks	370	293	272
– other public sector entities	8,053	7,595	7,563
	8,423	7,888	7,835
Issued by other bodies:			
– banks	37,027	34,363	36,225
– corporate entities	12,855	10,942	12,241
	49,882	45,305	48,466
	58,305	53,193	56,301
Fair value of held-to-maturity debt securities:			
– listed	11,728	7,354	11,189
– unlisted	50,248	48,974	47,138
	61,976	56,328	58,327

There was no held-to-maturity debt securities determined to be impaired at 30 June 2011 and the comparative periods for the Group.

25 Financial investments *(continued)*

(b) *Available-for-sale debt securities*

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Listed in Hong Kong	**16,256**	8,340	8,786
Listed outside Hong Kong	**48,287**	67,764	57,317
	64,543	76,104	66,103
Unlisted	**87,308**	117,682	76,629
	151,851	193,786	142,732
Issued by public bodies:			
– central governments and central banks	**62,765**	78,437	38,735
– other public sector entities	**19,539**	13,352	15,478
	82,304	91,789	54,213
Issued by other bodies:			
– banks	**64,428**	95,099	83,075
– corporate entities	**5,119**	6,898	5,444
	69,547	101,997	88,519
	151,851	193,786	142,732

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

(c) *Available-for-sale equity shares*

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Listed in Hong Kong	**53**	45	47
Listed outside Hong Kong	**23**	58	64
	76	103	111
Unlisted	**224**	198	215
	300	301	326
Issued by corporate entities	**300**	301	326

For the periods indicated, there was no available-for-sale equity securities individually determined to be impaired for the Group.

25 Financial investments *(continued)*

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

	At 30 June 2011	At 30 June 2010	At 31 December 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

26 Interest in associates

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Share of net assets	**16,454**	13,310	15,119
Intangible assets	**70**	94	84
Goodwill	**464**	437	463
	16,988	13,841	15,666

27 Investment properties

	Half-year ended 30 June 2011	Half-year ended 30 June 2010	Half-year ended 31 December 2010
Beginning of the period	**3,251**	2,872	3,013
Surplus on revaluation credited to income statement	**409**	152	322
Transfer to assets held for sale	**–**	(17)	(61)
Transfer from/(to) premises (note 28)	**–**	6	(23)
End of the period	**3,660**	3,013	3,251

28 Premises, plant and equipment

Movement of premises, plant and equipment

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 January 2011	**13,899**	**3,502**	**17,401**
Exchange adjustments	**15**	**10**	**25**
Additions	**–**	**122**	**122**
Disposals	**–**	**(27)**	**(27)**
Elimination of accumulated depreciation on revalued premises	**(195)**	**–**	**(195)**
Surplus on revaluation:			
– credited to premises revaluation reserve	**1,720**	**–**	**1,720**
– debited to income statement	**(9)**	**–**	**(9)**
Transfer	**14**	**(14)**	**–**
At 30 June 2011	**15,444**	**3,593**	**19,037**
Accumulated depreciation:			
At 1 January 2011	**(1)**	**(2,839)**	**(2,840)**
Exchange adjustments	**–**	**(5)**	**(5)**
Charge for the period (note 12)	**(198)**	**(149)**	**(347)**
Written off on disposal	**–**	**25**	**25**
Elimination of accumulated depreciation on revalued premises	**195**	**–**	**195**
At 30 June 2011	**(4)**	**(2,968)**	**(2,972)**
Net book value at 30 June 2011	**15,440**	**625**	**16,065**

28 Premises, plant and equipment *(continued)*

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

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 January 2010	11,638	3,387	15,025
Exchange adjustments	1	4	5
Additions	–	58	58
Disposals	–	(31)	(31)
Elimination of accumulated depreciation on revalued premises	(157)	–	(157)
Surplus on revaluation:			
– credited to premises revaluation reserve	690	–	690
– credited to income statement	1	–	1
Transfer to investment properties (note 27)	(6)	–	(6)
At 30 June 2010	12,167	3,418	15,585
Accumulated depreciation:			
At 1 January 2010	–	(2,611)	(2,611)
Exchange adjustments	–	(1)	(1)
Charge for the period (note 12)	(159)	(147)	(306)
Written off on disposal	–	29	29
Elimination of accumulated depreciation on revalued premises	157	–	157
At 30 June 2010	(2)	(2,730)	(2,732)
Net book value at 30 June 2010	12,165	688	12,853

28 Premises, plant and equipment *(continued)*

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

	Premises	*Plant and equipment*	*Total*
Cost or valuation:			
At 1 July 2010	12,167	3,418	15,585
Exchange adjustments	19	11	30
Additions	585	117	702
Disposals	–	(44)	(44)
Elimination of accumulated depreciation on revalued premises	(172)	–	(172)
Surplus on revaluation:			
– credited to premises revaluation reserve	1,412	–	1,412
– credited to income statement	2	–	2
Transfer to assets held for sale	(137)	–	(137)
Transfer from investment properties (note 27)	23	–	23
At 31 December 2010	13,899	3,502	17,401
Accumulated depreciation:			
At 1 July 2010	(2)	(2,730)	(2,732)
Exchange adjustments	–	(8)	(8)
Charge for the period (note 12)	(171)	(142)	(313)
Written off on disposal	–	41	41
Elimination of accumulated depreciation on revalued premises	172	–	172
At 31 December 2010	(1)	(2,839)	(2,840)
Net book value at 31 December 2010	13,898	663	14,561

29 Intangible assets

	At 30 June 2011	At 30 June 2010	At 31 December 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

30 Other assets

	At 30 June 2011	At 30 June 2010	At 31 December 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

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

31 Current, savings and other deposit accounts

	At 30 June 2011	At 30 June 2010	At 31 December 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 (note 32)	**25,393**	17,499	20,852
	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

32 Trading liabilities

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Structured certificates of deposit in issue (note 33)	–	214	26
Other debt securities in issue (note 33)	**3,903**	2,294	2,712
Structured deposits (note 31)	**25,393**	17,499	20,852
Short positions in securities and others	**30,129**	20,782	18,991
	59,425	40,789	42,581

33 Certificates of deposit and other debt securities in issue

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Certificates of deposit and other debt securities in issue:			
– as stated in consolidated balance sheet	**8,146**	1,360	3,095
– structured certificates of deposit in issue reported as trading liabilities (note 32)	–	214	26
– other structured debt securities in issue reported as trading liabilities (note 32)	**3,903**	2,294	2,712
	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

34 Other liabilities

	At 30 June 2011	At 30 June 2010	At 31 December 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

35 Subordinated liabilities

Nominal value	Description	**At 30 June 2011**	At 30 June 2010	At 31 December 2010
Amount owed to third parties				
US$450 million	Callable floating rate subordinated notes due July 2016 [(1)]	**3,501**	3,498	3,495
US$300 million	Callable floating rate subordinated notes due July 2017 [(2)]	**2,333**	2,331	2,328
Amount owed to HSBC Group undertakings				
US$260 million	Callable floating rate subordinated loan debt due December 2015 [(3)]	**–**	2,024	–
US$775 million	Floating rate subordinated loan debt due December 2020 [(3)]	**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

The above subordinated notes (excluding the subordinated loan debt due December 2020) each carries a one-time call option exercisable by the Group on a day falling five years plus one day after the relevant date of issue/drawdown.

(1) Interest rate at three-month US dollar LIBOR plus 0.30 per cent, payable quarterly, to the call option date. Thereafter, it will be reset to three-month US dollar LIBOR plus 0.80 per cent, payable quarterly. After the period under review, the Bank redeemed all the US$450 million floating rate subordinated notes due 2016 at par on 6 July 2011.

(2) Interest rate at three-month US dollar LIBOR plus 0.25 per cent, payable quarterly, to the call option date. Thereafter, it will be reset to three-month US dollar LIBOR plus 0.75 per cent, payable quarterly.

(3) The Bank exercised its option to redeem this subordinated loan debt at par of US$260 million and replenished by a new issue of US$775 million 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.

36 Shareholders' funds

	At 30 June 2011	*At 30 June 2010*	*At 31 December 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%

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a "regulatory reserve" directly from retained profits. As at 30 June 2011, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$2,889 million (HK$1,254 million and HK$1,654 million at 30 June 2010 and 31 December 2010 respectively).

37 Reconciliation of cash flow statement

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

	Half-year ended 30 June 2011	*Half-year ended 30 June 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
Elimination of exchange differences and other non-cash items	**(4,290)**	(605)
Cash used in operating activities	**(8,684)**	(33,695)
Taxation paid	**(55)**	(37)
Net cash outflow from operating activities	**(8,739)**	(33,732)

37 Reconciliation of cash flow statement *(continued)*

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

	At 30 June 2011	At 30 June 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

The balances of cash and cash equivalents included cash balances with central banks and financial institutions that are subject to exchange control and regulatory restrictions, amounting to HK$21,488 million at 30 June 2011 (HK$7,822 million at 30 June 2010).

38 Contingent liabilities, commitments and derivatives

The tables below give the contract amounts, credit equivalent amounts and risk-weighted amounts of off-balance sheet transactions. The information is consistent with that in the "Capital Adequacy Ratio" return submitted to the HKMA by the Group. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 98(2) of the Banking Ordinance.

For the purposes of these financial statements, acceptances and endorsements are recognised on the balance sheet in "Other assets" and "Other liabilities" in accordance with HKAS 39. For the purpose of the Banking (Capital) Rules ("the Capital Rules"), acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies. The contract amount of acceptances and endorsements included in the below tables were HK$4,393 million (HK$4,662 million and HK$3,751 million at 30 June 2010 and 31 December 2010 respectively).

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

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

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

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

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

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

	Contract amounts	Credit equivalent amounts	Risk-weighted 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 *	**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**
– currency swaps	**11,327**	**270**	**37**
– currency options purchased	**81,059**	**2,215**	**1,584**
– other exchange rate contracts	**132**	**4**	**–**
	598,265	**5,482**	**3,527**
Interest rate contracts:			
– interest rate swaps	**361,412**	**2,744**	**969**
– interest rate options purchased	**–**	**–**	**–**
	361,412	**2,744**	**969**
Equity and other contracts:			
– equity swaps	**8,783**	**561**	**127**
– equity options purchased	**2,372**	**156**	**111**
– others	**17**	**2**	**–**
	11,172	**719**	**238**

* *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" as at 30 June 2011 were HK$11,109 million and HK$19,225 million respectively.*

The total fair value of the derivatives at 30 June 2011 was HK$2,747 million (30 June 2010: HK$3,960 million, 31 December 2010: HK$2,513 million) after taking into account the effect of valid bilateral netting agreement amounting to HK$1,870 million (30 June 2010: nil, 31 December 2010: HK$2,174 million).

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

	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
– currency swaps	19,922	870	229
– currency options purchased	54,001	1,618	1,206
– other exchange rate contracts	245	12	1
	505,588	8,201	2,386
Interest rate contracts:			
– interest rate swaps	272,830	2,638	558
– interest rate options purchased	143	–	–
– other exchange rate contracts	–	–	–
	272,973	2,638	558
Equity and other contracts:			
– equity swaps	5,767	396	55
– equity options purchased	1,215	77	45
– other equity contracts	–	–	–
	6,982	473	100

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

	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
– currency swaps	17,366	433	70
– currency options purchased	41,755	820	642
– other exchange rate contracts	101	5	–
	490,954	3,996	2,129
Interest rate contracts:			
– interest rate swaps	340,076	2,522	602
– interest rate options purchased	25	–	–
	340,101	2,522	602
Equity and other contracts:			
– equity swaps	5,980	391	65
– equity options purchased	1,732	112	72
– others	17	2	–
	7,729	505	137

39 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 per cent 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 per cent of the total net structural position in all foreign currencies.

The table below summarises the net structural and non-structural foreign currency positions of the Group.

	US$	*RMB*	*GBP*	*JPY*	*EUR*	*CAD*	*CHF*	*AUD*	*NZD*	*GOL*	*Other foreign currencies*	*Total foreign currencies*
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**	**424,445**
Spot liabilities	**(138,668)**	**(116,524)**	**(16,030)**	**(1,849)**	**(11,831)**	**(15,192)**	**(536)**	**(47,971)**	**(10,706)**	**(3,741)**	**(2,188)**	**(365,236)**
Forward purchases	**272,831**	**109,050**	**7,834**	**11,136**	**7,088**	**2,118**	**1,322**	**9,764**	**6,615**	**1,649**	**3,903**	**433,310**
Forward sales	**(335,242)**	**(110,238)**	**(5,020)**	**(13,546)**	**(6,268)**	**(969)**	**(1,000)**	**(11,679)**	**(4,044)**	**(745)**	**(2,499)**	**(491,250)**
Net options position	**67**	**(44)**	**1**	**–**	**(6)**	**2**	**–**	**–**	**(14)**	**–**	**–**	**6**
Net long/(short) non-structural position	**1,492**	**(88)**	**(10)**	**(68)**	**(45)**	**(2)**	**(35)**	**55**	**(30)**	**(32)**	**38**	**1,275**
Structural position	**206**	**21,827**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**273**	**22,306**
At 30 June 2010												
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	379,789
Spot liabilities	(152,310)	(52,694)	(10,167)	(1,753)	(9,647)	(8,996)	(684)	(31,777)	(10,204)	(2,495)	(38,003)	(318,730)
Forward purchases	236,686	42,463	6,367	11,271	6,483	2,599	681	16,747	6,494	2,854	1,955	334,600
Forward sales	(315,026)	(42,216)	(4,447)	(19,916)	(5,826)	(551)	(208)	(5,096)	(1,287)	(851)	(542)	(395,966)
Net options position	(68)	–	4	–	70	(2)	–	92	(104)	–	–	(8)
Net long/(short) non-structural position	(34)	(226)	(60)	–	(68)	(12)	37	37	(4)	33	(18)	(315)
Structural position	286	18,144	–	–	–	–	–	–	–	–	285	18,715
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	442,711
Spot liabilities	(155,377)	(88,666)	(15,470)	(1,912)	(12,393)	(14,882)	(549)	(41,953)	(11,658)	(3,404)	(3,034)	(349,298)
Forward purchases	228,982	72,661	7,130	8,932	3,735	2,431	1,347	8,340	3,909	2,919	3,423	343,809
Forward sales	(319,494)	(77,799)	(4,810)	(16,151)	(2,497)	(1,449)	(964)	(9,885)	(1,341)	(1,559)	(1,359)	(437,308)
Net options position	133	(41)	–	(5)	(55)	(7)	–	(71)	60	–	–	14
Net long/(short) non-structural position	882	(778)	(124)	(151)	(142)	26	25	74	(13)	125	4	(72)
Structural position	206	20,124	–	–	–	–	–	–	–	–	238	20,568

40 Fair value of financial instruments

Determination of fair value

	Valuation techniques: quoted market price Level 1	using observable inputs Level 2	with significant non-observable inputs Level 3	Third party total	Amounts with HSBC entities*	Total
At 30 June 2011						
Assets						
Trading assets	**24,573**	**3,048**	**–**	**27,621**	**–**	**27,621**
Financial assets designated at fair value	**801**	**2,931**	**665**	**4,397**	**3,609**	**8,006**
Derivative financial instruments	**787**	**4,221**	**175**	**5,183**	**495**	**5,678**
Available-for-sale financial investments	**42,725**	**109,215**	**211**	**152,151**	**–**	**152,151**
Liabilities						
Trading liabilities	**30,129**	**28,560**	**736**	**59,425**	**–**	**59,425**
Financial liabilities designated at fair value	**–**	**456**	**–**	**456**	**–**	**456**
Derivative financial instruments	**96**	**4,154**	**–**	**4,250**	**627**	**4,877**
At 30 June 2010						
Assets						
Trading assets	34,364	1,195	–	35,559	–	35,559
Financial assets designated at fair value	341	1,873	444	2,658	3,502	6,160
Derivative financial instruments	557	3,536	81	4,174	471	4,645
Available-for-sale financial investments	69,355	124,428	304	194,087	–	194,087
Liabilities						
Trading liabilities	20,782	18,169	1,838	40,789	–	40,789
Financial liabilities designated at fair value	–	446	–	446	–	446
Derivative financial instruments	54	4,873	–	4,927	589	5,516

40 Fair value of financial instruments *(continued)*

Determination of fair value *(continued)*

	Valuation techniques					
	quoted market price Level 1	*using observable inputs Level 2*	*with significant non-observable inputs Level 3*	*Third party total*	*Amounts with HSBC entities**	*Total*
At 31 December 2010						
Assets						
Trading assets	24,840	1,215	–	26,055	–	26,055
Financial assets designated at fair value	818	2,245	510	3,573	3,541	7,114
Derivative financial instruments	721	4,161	106	4,988	605	5,593
Available-for-sale financial investments	25,207	117,568	283	143,058	–	143,058
Liabilities						
Trading liabilities	18,991	23,037	553	42,581	–	42,581
Financial liabilities designated at fair value	–	457	–	457	–	457
Derivative financial instruments	96	4,034	–	4,130	553	4,683

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

During the first half of 2011, the amounts of financial assets transferred in and out of Level 3 in the fair value hierarchy were HK$22 million and HK$151 million respectively (HK$177 million and HK$641 million respectively for the first half of 2010, HK$161 million and HK$181 million respectively for the second half of 2010). The total amounts of financial liabilities transferred in and out of Level 3 were HK$122 million and HK$52 million respectively (HK$997 million and HK$63 million respectively for the first half of 2010, HK$47 million and HK$622 million respectively for the second half of 2010). There were no significant transfers between Level 1 and Level 2 in the period.

41 Statutory accounts

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

Certain financial information in this interim report is extracted from the statutory accounts for the year ended 31 December 2010, 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. The Annual Report and Financial Statements for the year ended 31 December 2010, which includes the statutory accounts, can be obtained on request from the Legal and Company Secretarial Services Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from Hang Seng Bank's website www.hangseng.com.

42 Comparative figures

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

43 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$1,711 million, of which HK$1,720 million was credited to the premises revaluation reserve and HK$9 million was debited to the income statement. Revaluation gains of HK$409 million on investment properties were recognised through the income statement. The related deferred tax provisions for Group premises and investment properties were HK$283 million and HK$67 million respectively.

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

44 Immediate and ultimate holding companies

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

TO THE BOARD OF DIRECTORS OF HANG SENG BANK LIMITED

Introduction

We have reviewed the interim financial report set out on pages 19 to 72 which comprises the consolidated balance sheet of Hang Seng Bank Limited ("the Bank") as of 30 June 2011 and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

1 August 2011

These notes set out on pages 74 to 92 are supplementary to and should be read in conjunction with the consolidated financial statements set out on pages 19 to 72. The consolidated financial statements and these supplementary notes taken together comply with the Banking (Disclosure) Rules ("Disclosure Rules") made under section 60A of the Banking Ordinance.

1 Basis of preparation

(a) Except where indicated otherwise, the financial information contained in these supplementary notes has been prepared on a consolidated basis in accordance with Hong Kong Financial Reporting Standards. Some parts of these supplementary notes, however, are required by the Disclosure Rules to be prepared on a different basis. In such cases, the Disclosure Rules require that certain information is prepared on a basis which excluded some of the subsidiaries of the Bank.

Further information regarding subsidiaries that are not included in the consolidation for regulatory purpose is set out in note 2 to the supplementary notes to the financial statements.

(b) The accounting policies applied in preparing these supplementary notes are the same as those applied in preparing the consolidated financial statements for the period ended 30 June 2011 as set out in note 2 to the financial statements.

2 Financial Risk Management

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

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

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

2 Financial Risk Management *(continued)*

(a) Credit risk

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

The Credit Risk Management ("CRM") function headed by the Chief Credit Officer who reported to Chief Risk Officer is mandated to provide centralised management of credit risk through:

- formulating credit policies on approval process, post disbursement monitoring, recovery process and large exposure;
- issuing guidelines on lending to specified market sectors, industries and products; the acceptability of specific classes of collateral or risk mitigations and valuation parameters for collateral;
- undertaking an independent review and objective assessment of credit risk for all commercial non-bank credit facilities in excess of designated amount prior to the facilities being committed to customers;
- controlling exposures to selected industries, counterparties, countries and portfolio types etc by setting limits;
- maintaining and developing credit risk rating/facility grading process to categorise exposures and facilitate focused management;
- reporting to senior executives and various committees on aspects of the Group loan portfolio;
- managing and directing credit-related systems initiatives; and
- providing advice and guidance to business units on various credit-related issues.

Impairment loan management and recovery

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

Risk rating framework

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

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

2 Financial Risk Management *(continued)*

(a) Credit risk *(continued)*

Collateral and other credit enhancements

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

- in the personal sector, charges over the properties, securities, investment funds and deposits;
- in the commercial and industrial sector, charges over business assets such as properties, stock, debtors, investment funds, deposits and machinery; and
- in the commercial real estate sector, charges over the properties being financed.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets.

Settlement risk

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

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

Concentration of credit risk

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

2 Financial Risk Management *(continued)*

(b) Liquidity risk

Liquidity relates to the ability of a company to meet its obligations as they fall due. The Group maintains a stable and diversified funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets. The objective of the Group's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due.

Management of liquidity is carried out both at Group and Bank level as well as in individual branches and subsidiaries. The Group requires branches and subsidiaries to maintain a strong liquidity position and to manage the liquidity structure of their assets, liabilities and commitments so that cash flows are approximately balanced and all funding obligations are met when due.

It is the responsibility of the Group's management to ensure compliance with local regulatory requirements and limits set by Executive Committee. Liquidity is managed on a daily basis by the Bank's treasury functions and overseas treasury sites.

Compliance with liquidity requirements is monitored by the Asset and Liability Management Committee ("ALCO") and is reported to the Risk Management Committee, Executive Committee and the Board of Directors. This process includes:

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

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Group's overall funding. The Group places considerable importance on the stability of these deposits, which is achieved through the Group's retail banking activities and by maintaining depositor confidence in the Group's capital strength. Professional markets are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities. Although the contractual repayments of many customer accounts are on demand or short notice, in practice short-term deposit balances remain stable as inflows and outflows broadly match.

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 30 June 2011	*Half-year ended 30 June 2010*	*Half-year ended 31 December 2010*
The Bank and its subsidiaries designated by the Hong Kong Monetary Authority ("HKMA")	**33.3%**	42.0%	34.1%

2 Financial Risk Management *(continued)*

(c) Market risk

Market risk is the risk that foreign exchange rates, interest rates, equity and commodity prices and indices will move and result in profits or losses for the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's status as a premier provider of financial products and services.

The Group separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, customer-related business, proprietary position-taking and strategic foreign exchange. Non-trading portfolios primarily arise from the effective interest rate management of the Group's retail and commercial banking assets and liabilities.

The management of market risk is principally undertaken in Treasury using risk limits approved by the Risk Management Committee. Limits are set for each portfolio, product and risk type, with market liquidity being a principal factor in determining the level of limits set. The Group has dedicated standards, policies and procedures in place to control and monitor the market risk. An independent market risk control function is responsible for measuring market risk exposures, monitoring and reporting these exposures against the prescribed limits on a daily basis. The market risks which arise on each business are assessed and transferred to either Treasury for management, or to separate books managed under the supervision of ALCO.

Value at risk ("VAR")

One of the principal tools used by the Group to monitor and limit market risk exposure is VAR. The Group has obtained approval from the HKMA to use its VAR model for calculation of market risk capital charge.

VAR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. Historical simulation uses scenarios derived from historical market rates and takes account of the relationships between different markets and rates, for example, interest rates and foreign exchange rates. Movements in market prices are calculated by reference to market data from the last two years. The assumed holding period is a 1-day period with a 99 per cent level of confidence, reflecting the way the risk positions are managed.

VAR is calculated daily. The Group validates the accuracy of its VAR models by back-testing the actual daily profit and loss results which include both end of day market movements and intra-day trading outcomes, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. Statistically, the Group would expect to see losses in excess of VAR only one per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

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

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

2 Financial Risk Management *(continued)*

(c) Market risk *(continued)*

Value at risk ("VAR") *(continued)*

The Group recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Additionally, the Group applies a wide range of stress testing, both on individual portfolios and on the Group's consolidated positions. The Group's stress testing regime provides senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group.

The Group's VAR, both trading and non-trading, for total positions and all interest rate risk and foreign exchange risk positions and on individual risk portfolios during the first halves of 2011 and 2010 are shown in the table below:

Value at risk

	At 30 June 2011	***Minimum during the period***	***Maximum during the period***	***Average for the period***
Total VAR	**40**	**37**	**69**	**48**
Total trading VAR	**7**	**6**	**16**	**10**
VAR for foreign exchange risk (trading)	**5**	**2**	**9**	**6**
VAR for interest rate risk:				
– trading	**6**	**5**	**12**	**8**
– non-trading	**18**	**15**	**24**	**19**

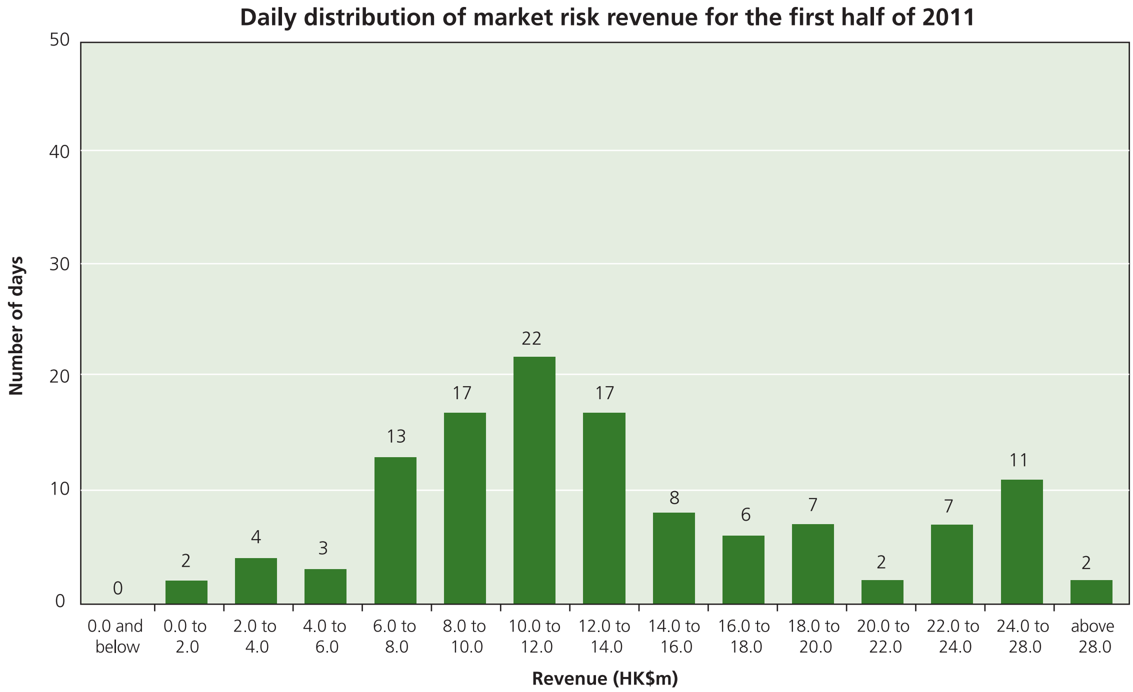
	At 30 June 2010	*Minimum during the period*	*Maximum during the period*	*Average for the period*
Total VAR	69	63	106	85
Total trading VAR	5	5	17	10
VAR for foreign exchange risk (trading)	2	1	10	3
VAR for interest rate risk:				
– trading	6	5	17	10
– non-trading	66	61	100	84

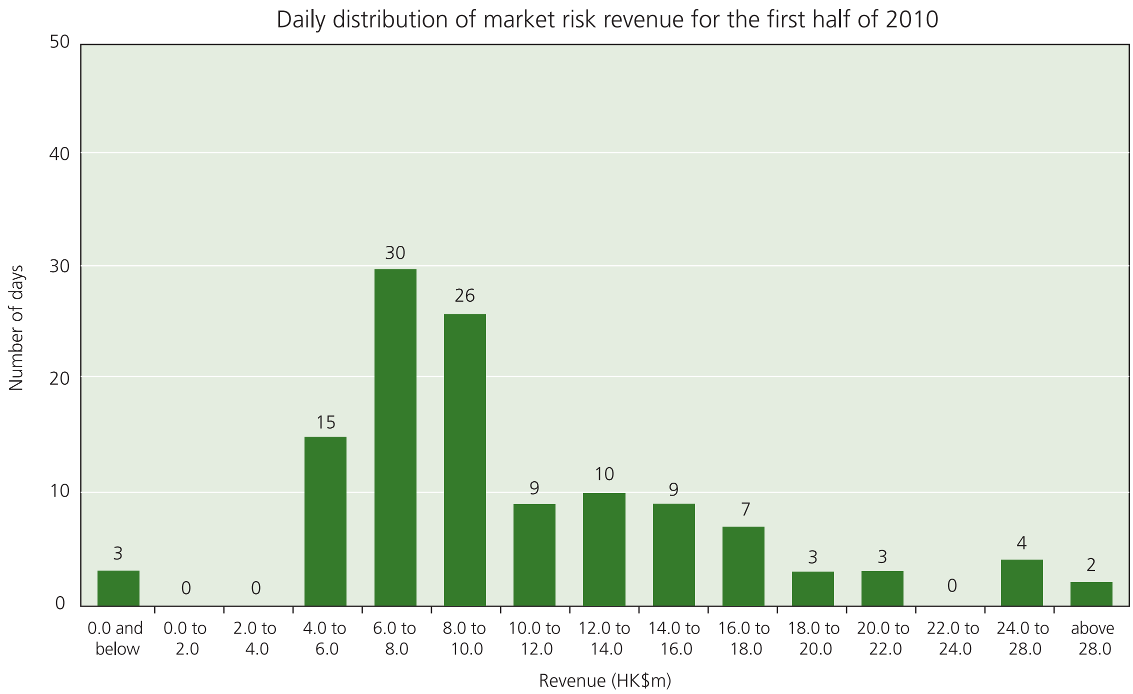
The average daily revenue earned from market risk-related treasury activities for the first half of 2011, including non-trading book net interest income and funding related to trading positions, was HK$14 million (HK$10 million for the first half of 2010). The standard deviation of these daily revenues was HK$7 million (HK$7million for the first half of 2010).

An analysis of the frequency distribution of daily revenue shows that out of 121 trading days for the first half of 2011, no loss was recorded (3 days with maximum daily loss of HK$35 million for the first half of 2010). The most frequent result was a daily revenue of between HK$6 million and HK$16 million, with 77 occurrences (84 occurrences for the first half of 2010). The highest daily revenue was HK$34 million (HK$32 million for the first half of 2010).

2 Financial Risk Management *(continued)*

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





2 Financial Risk Management *(continued)*

(c) Market risk (continued)

Interest rate exposure

Interest rate risks comprise those originating from treasury activities, both trading and non-trading portfolios which include structural interest rate exposures. Treasury manages interest rate risks within the limits approved by the Risk Management Committee and under the monitoring of both ALCO and Risk Management Committee.

Trading

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

Non-trading

The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Structural interest rate risk arising from the differing repricing characteristics of commercial banking assets and liabilities, including non-interest bearing liabilities, such as shareholders' funds and some current accounts.

Analysis of these risks is complicated by having to make assumptions on optionality in certain product areas, for example, mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts. The prospective change in future net interest income from non-trading portfolios will be reflected in the current realisable value of these positions, should they be sold or closed prior to maturity. In order to manage this risk optimally, market risk in non-trading portfolios and structural interest rate risks are transferred to Treasury or to separate books managed under the supervision of the ALCO.

The transfer of market risk to books managed by Treasury or supervised by the ALCO is usually achieved by a series of internal deals between the business units and these books. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. ALCO regularly monitors all such behavioural assumptions and interest rate risk positions, to ensure they comply with interest rate risk limits established by the Risk Management Committee.

Foreign exchange exposure

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. Net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contract. Structural foreign exchange positions arising from capital investments in associates, subsidiaries and branches outside Hong Kong, mainly in US dollar and Chinese renminbi, are managed by the ALCO.

2 Financial Risk Management *(continued)*

(d) Capital management

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group recognises the impact on shareholder returns of the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

An annual Group capital plan is prepared and approved by the Board with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Group manages its own capital within the context of the approved annual Group capital plan, which determines levels of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth. As part of the Group's capital management policy, subsidiary with capital generated in excess of planned requirement will return to the Bank, normally by way of dividends. The Group also raised its subordinated debt in accordance with HSBC Group's guidelines regarding market and investor concentration, cost, market conditions, timing and maturity profile.

The Bank is primarily a provider of equity capital to its subsidiaries. These investments are substantially funded by the Bank's own capital issuance and profit retentions. The Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the consolidated balance sheet: called up share capital, retained profits, other reserves and subordinated liabilities. Capital also includes the collectively assessed impairment allowances held in respect of loans and advances and the regulatory reserve.

Externally imposed capital requirements:
The HKMA supervises the Group on a consolidated and solo-consolidated basis and, as such, receives information on the capital adequacy of, and set capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

The Basel Committee on Banking Supervision has published a new capital adequacy framework, known as "Basel II", for calculating minimum capital requirements. With effect from 1 January 2007, the HKMA adopted Basel II as set out in the Banking (Capital) Rules made under the Banking Ordinance. The new Rules, which replace the Third Schedule to the Banking Ordinance, stipulate the calculation methodology for capital adequacy ratio. Basel II is structured around three "pillars": minimum capital requirements, supervisory review process and market discipline. The supervisory objectives for Basel II are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system; enhance competitive equality; constitute a more comprehensive approach to addressing risks; and focus on internationally active bank.

With respect to Pillar One minimum capital requirements, Basel II provides three approaches, of increasing sophistication, to the calculation of credit risk regulatory capital. The most basic, the standardised approach, requires banks to use external credit ratings to determine risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories. In the next level, the foundation internal ratings-based approach, allows banks to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a counterparty will default ("PD"), but with quantification of exposure at default ("EAD") and loss given default estimates ("LGD") being subject to standard supervisory parameters. Finally, the advanced internal ratings-based approach, will allow banks to use their own internal assessment of not only the probability of default but also the quantification of exposure at default and loss given default.

2 Financial Risk Management *(continued)*

(d) Capital management *(continued)*

Expected losses are calculated by multiplying EAD by PD and LGD. The capital resources requirement under the IRB approaches is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

For credit risk, with the HKMA approval, the Group has adopted the advanced internal ratings-based approach for the majority of its business with effect from 1 January 2009, with the remainder on the standardised approach.

Basel II also introduces capital requirements for operational risk and, again, contains three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentage of gross revenues allocated to each of eight defined business lines. Finally, the advanced measurement approach uses Bank's own statistical analysis and modelling of operational risk data to determine capital requirements. The Group has adopted the standardised approach to the determination of operational risk capital requirements.

The Group is required to use a variety of approaches to calculate its market risk capital requirement, including the internal model approach and the standardised approach for different risk categories.

Under Pillar Two, the Group has initiated its internal capital adequacy assessment process ("ICAAP") to comply with HKMA's requirement set out in the Supervisory Policy Manual "Supervisory Review Process". The Group will also align with HSBC Group guidance in setting up its ICAAP.

To comply with Pillar Three requirements which focuses on disclosure requirements and policies as prescribed by the Disclosure Rules, the Group has formulated a disclosure policy which was approved by the Board with an aim of making relevant disclosures in accordance with the disclosure rules.

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

(i) Capital adequacy ratios

Capital ratios at 30 June 2011 were compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the HKMA under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II. Having obtained approval from the HKMA to adopt the advanced internal ratings-based approach ("AIRB") to calculate the risk-weighted assets for credit risk from 1 January 2009, the Bank used the AIRB approach to calculate its credit risk exposure. There are no changes in the approaches used in 30 June 2011. In addition, there is no relevant capital shortfall in any of the Group's subsidiaries which are not included in its consolidation group for regulatory purpose.

2 Financial Risk Management *(continued)*

(d) Capital management *(continued)*

(i) Capital adequacy ratios *(continued)*

The capital base after deductions used in the calculation of capital adequacy ratios and reported to HKMA is analysed as follows:

	At 30 June 2011	At 30 June 2010	At 31 December 2010
Core capital:			
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
Supplementary capital:			
– 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

2 Financial Risk Management *(continued)*

(d) ***Capital management*** *(continued)*

(i) Capital adequacy ratios *(continued)*

	At 30 June 2011	*At 30 June 2010*	*At 31 December 2010*
Risk-weighted assets			
– 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			
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 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.

2 Financial Risk Management *(continued)*

(d) ***Capital management*** *(continued)*

(ii) Basis of consolidation

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 costs of these unconsolidated regulated financial entities are deducted from the capital base.

List of subsidiaries for financial reporting consolidation

Everlasting International Limited
Fulcher Enterprises Company Limited
Full Wealth Investment Limited
Hang Seng Asset Management Pte Ltd
Hang Seng Bank (Bahamas) Limited
Hang Seng Bank (China) Limited
* Hang Seng Bank (Trustee) Limited
* Hang Seng Bank Trustee International Limited
Hang Seng Bullion Company Limited
Hang Seng Credit Limited
Hang Seng Credit (Bahamas) Limited
Hang Seng Data Services Limited
Hang Seng Finance Limited
Hang Seng Finance (Bahamas) Limited
Hang Seng Financial Information Limited
* Hang Seng Futures Limited
* Hang Seng General Insurance (Hong Kong) Company Limited
* Hang Seng Insurance Company Limited
* Hang Seng Insurance (Bahamas) Limited
* Hang Seng Investment Management Limited
* Hang Seng Investment Services Limited
* Hang Seng Life Limited
* Hang Seng (Nominee) Limited
Hang Seng Real Estate Management Limited
Hang Seng Security Management Limited
* Hang Seng Securities Limited
Haseba Investment Company Limited
Hayden Lake Limited
High Time Investments Limited
HSI International Limited
Hang Seng Indexes Company Limited
Imenson Limited
Mightyway Investments Limited
Silver Jubilee Limited
Yan Nin Development Company Limited

* *"regulated financial entities" as defined by the Banking (Capital) Rules and excluded from the basis of consolidation for regulatory reporting purpose.*

2 Financial Risk Management *(continued)*

(d) Capital management (continued)

(ii) Basis of consolidation *(continued)*

The Group operates subsidiaries in a number of countries and territories where capital will be governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

(e) Equities exposure

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

(f) Operational risk

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, system failure or from external events. It is inherent to every business organisation and covers a wide spectrum of issues. The Group manages its operational risk through a controls-based environment in which the processes and controls are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by periodic independent review of the internal control systems by internal audit. The operational risk management framework comprises assignment of responsibilities at senior management level, assessment of risk factors inherent in each business and operations units, information systems to record operational losses and analysis of loss events.

Operational risk is mitigated by adequate insurance coverage on assets and business losses. To reduce the impact and interruptions to business activities caused by system failure or natural disaster, back-up systems and contingency business resumption plans are in place for all business and critical operations functions. Operational risk management is coordinated by the Chief Technology and Services Officer and monitored by the Operational Risk Management Committee.

(g) Reputational risk

Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. Standards are set and policies and procedures are established in all areas of reputational risk and are communicated to staff at all levels. These include treating customers fairly, conflicts of interest, money laundering deterrence, environmental impact and anti-corruption measures. The reputation downside to the Group is fully appraised before any strategic decision is taken.

3 Disclosure for selected exposures

(a) Holding of debt securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation

The table below shows the Group's exposures to the senior debt securities (AAA rated) issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

	Gross principal	*Fair value*
At 30 June 2011	**37**	**37**
At 30 June 2010	45	47
At 31 December 2010	37	38

The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

(b) Involvement with Special Purpose Entities (SPEs)

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

4 Analysis of gross advances to customers by categories based on internal classification used by the Group

Gross advances, impaired advances, individually assessed and collectively assessed loan impairment allowances in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

			Loan impairment allowances	
	Gross advances	*Impaired advances*	*Individually assessed*	*Collectively assessed*
At 30 June 2011				
Residential mortgages	**128,148**	**97**	**(1)**	**(45)**
Commercial, industrial and international trade	**144,893**	**1,280**	**(952)**	**(541)**
Other property-related lending	**96,265**	**82**	**(20)**	**(26)**
At 30 June 2010				
Residential mortgages	124,572	225	(5)	(68)
Commercial, industrial and international trade	79,701	1,525	(954)	(472)
Commercial real estate	36,932	–	–	(2)
Other property-related lending	78,468	264	(47)	(50)
At 31 December 2010				
Residential mortgages	135,515	149	–	(55)
Commercial, industrial and international trade	119,841	1,536	(1,086)	(506)
Other property-related lending	94,060	84	(23)	(36)

5 Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Disclosure Rules with reference to the HKMA return for non-bank Mainland exposures, which includes the Mainland exposures extended by the Bank and its overseas branches and overseas subsidiaries only.

	On-balance sheet exposure	*Off-balance sheet exposure*	*Total exposures*	*Individually assessed allowances*
At 30 June 2011				
Mainland entities	**28,851**	**7,190**	**36,041**	**–**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**10,075**	**1,677**	**11,752**	**43**
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	**327**	**–**	**327**	**–**
	39,253	**8,867**	**48,120**	**43**
Exposures incurred by the Bank's mainland subsidiary	**41,540**	**46,585**	**88,125**	**155**
	80,793	**55,452**	**136,245**	**198**
At 30 June 2010				
Mainland entities	10,759	2,321	13,080	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,628	2,456	9,084	47
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	53	–	53	–
	17,440	4,777	22,217	47
Exposures incurred by the Bank's mainland subsidiary	31,635	19,952	51,587	189
	49,075	24,729	73,804	236

5 Non-bank Mainland exposures *(continued)*

	On-balance sheet exposure	*Off-balance sheet exposure*	*Total exposures*	*Individually assessed allowances*
At 31 December 2010				
Mainland entities	20,940	6,036	26,976	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	9,177	2,278	11,455	31
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	738	28	766	–
	30,855	8,342	39,197	31
Exposures incurred by the Bank's mainland subsidiary	36,318	40,837	77,155	229
	67,173	49,179	116,352	260

6 Cross-border claims

Cross-border claims include receivables and loans and advances, and balances due from banks and holdings of certificates of deposit, bills, promissory notes, commercial paper and other negotiable debt instruments, as well as accrued interest and overdue interest on these assets. Claims are classified according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institutions, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10 per cent or more of the aggregate cross-border claims are shown as follows:

	Banks & other financial institutions	***Public sector entities***	***Sovereign & other***	***Total***
At 30 June 2011				
Asia-Pacific excluding Hong Kong:				
– China	**96,298**	**–**	**38,786**	**135,084**
– Japan	**5,218**	**–**	**471**	**5,689**
– Other	**33,722**	**1,940**	**10,514**	**46,176**
	135,238	**1,940**	**49,771**	**186,949**
The Americas:				
– United States	**23,716**	**37**	**4,542**	**28,295**
– Other	**2,076**	**1,605**	**12,661**	**16,342**
	25,792	**1,642**	**17,203**	**44,637**
Europe:				
– United Kingdom	**15,876**	**–**	**2,297**	**18,173**
– Other	**32,321**	**6,802**	**13,452**	**52,575**
	48,197	**6,802**	**15,749**	**70,748**
At 30 June 2010				
Asia-Pacific excluding Hong Kong:				
– China	43,014	–	18,405	61,419
– Japan	9,350	–	7,389	16,739
– Other	28,966	1,375	8,318	38,659
	81,330	1,375	34,112	116,817
The Americas:				
– United States	38,574	45	15,605	54,224
– Other	1,737	726	12,796	15,259
	40,311	771	28,401	69,483
Europe:				
– United Kingdom	31,438	–	2,292	33,730
– Other	45,984	6,386	8,871	61,241
	77,422	6,386	11,163	94,971

6 Cross-border claims *(continued)*

	Banks & other financial institutions	*Public sector entities*	*Sovereign & other*	*Total*
At 31 December 2010				
Asia-Pacific excluding Hong Kong:				
– China	75,515	–	23,467	98,982
– Japan	4,750	–	5,174	9,924
– Other	24,331	1,506	8,886	34,723
	104,596	1,506	37,527	143,629
The Americas:				
– United States	40,199	38	5,405	45,642
– Other	2,975	1,458	12,920	17,353
	43,174	1,496	18,325	62,995
Europe:				
– United Kingdom	24,954	–	1,523	26,477
– Other	41,492	6,671	9,949	58,112
	66,446	6,671	11,472	84,589

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2011.

Changes in Directors' Biographical Details

Changes in Directors' biographical details since the date of the Annual Report 2010 of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below.

Dr John CHAN Cho Chak GBS, JP

<u>New appointment</u>

- The Community Chest of Hong Kong (Board Member)

Dr Marvin CHEUNG Kin Tung GBS, OBE, JP

<u>Cessation of appointment</u>

- Hong Kong Exchanges and Clearing Limited (1) (Independent Non-executive Director)

Ms Sarah Catherine LEGG

<u>New appointment</u>

- HSBC Asia Holdings BV (Director)

Mrs Margaret LEUNG JP

<u>New appointment</u>

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

<u>Cessation of appointment</u>

- The Community Chest of Hong Kong (Chairman of Campaign Committee)

Dr Vincent LO Hong Sui GBS, JP

<u>Cessation of appointment</u>

- Shui On Land Limited (1) (Chief Executive Officer)

Mr Mark Seumas MCCOMBE OBE

New appointment

- The Community Chest of Hong Kong (Board Member)

Cessation of appointment

- HSBC Jintrust Fund Management Company Limited (Vice-Chairman and Director)

Mr Peter WONG Tung Shun JP

New appointment

- HSBC Bank (China) Company Limited (Chairman)

Cessation of appointment

- Hong Kong Institute for Monetary Research (Member of the Board of Directors)

Mr Michael WU Wei Kuo

New appointment

- The Hong Kong University of Science and Technology (Member of the Council)

Notes:

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

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

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

Directors' and Alternate Chief Executives' Interests

Interests in Shares

As at 30 June 2011, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) disclosed in accordance with the Listing Rules were detailed below.

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant issued share capital
Number of Ordinary Shares of HK$5 each in the Bank						
Directors:						
Mrs Margaret Leung	21,000	–	–	–	21,000	0.00
Dr John C C Chan	–	–	–	1,000[(1)]	1,000	0.00
Number of Ordinary Shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Dr Raymond K F Ch'ien	56,643	–	–	–	56,643	0.00
Mrs Margaret Leung	243,889	–	–	368,565[(5)]	612,454	0.00
Dr John C C Chan	20,234	–	–	4,371[(1)]	24,605	0.00
Ms L Y Chiang	12,000	–	6,000[(2)]	–	18,000	0.00
Mr Jenkin Hui	17,915	–	1,985,170[(3)]	–	2,003,085	0.01
Ms Sarah C Legg	37,270	2,008	–	56,646[(5)]	95,924	0.00
Mr William W Leung	55,567	–	–	17,675[(5)]	73,242	0.00
Dr Eric K C Li	–	40,258	–	–	40,258	0.00
Mr Mark S McCombe	137,028	–	–	238,690[(5)]	375,718	0.00
Mrs Dorothy K Y P Sit	57,343[(4)]	1,031	–	36,481[(5)]	94,855	0.00
Mr Peter T S Wong	402,946	17,599	–	399,782[(5)]	820,327	0.00
Alternate Chief Executives:						
Mr Nixon L S Chan	16,224	–	–	32,207[(5)]	48,431	0.00
Mr Andrew H C Fung	20,585	–	–	40,953[(5)]	61,538	0.00
Mr Christopher H N Ho	77,945	43,481	–	14,901[(5)]	136,327	0.00
Mr Andrew W L Leung	4,710	–	–	1,637[(5)]	6,347	0.00
Mr David W H Tam	22,171	9,014	–	14,906[(5)]	46,091	0.00

Notes:

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

(2) Ms L Y Chiang was entitled to fully control the voting power at general meetings of Happy Boom Enterprises Limited, a private company, which beneficially held all of those shares referred to above as her corporate interests.

(3) Mr Jenkin Hui was entitled to fully control the voting power at general meetings of Parc Palais Incorporated, a private company, which beneficially held all of those shares referred to above as his corporate interests.

(4) 8,046 shares were jointly held by Mrs Dorothy K Y P Sit and her husband.

(5) These represented interests in (i) options granted to Directors and Alternate Chief Executives under the HSBC Share Option Plans to acquire ordinary shares of US$0.50 each in HSBC Holdings plc and (ii) conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives, as set against their respective names below:

	Options (please refer to the options table below for details)	Conditional awards of shares under the HSBC Share Plans (please refer to the awards table below for further information)	Total
Directors:			
Mrs Margaret Leung	4,197	364,368	368,565
Ms Sarah C Legg	20,021	36,625	56,646
Mr William W Leung	8,051	9,624	17,675
Mr Mark S McCombe	–	238,690	238,690
Mrs Dorothy K Y P Sit	2,375	34,106	36,481
Mr Peter T S Wong	–	399,782	399,782
Alternate Chief Executives:			
Mr Nixon L S Chan	12,068	20,139	32,207
Mr Andrew H C Fung	4,197	36,756	40,953
Mr Christopher H N Ho	5,961	8,940	14,901
Mr Andrew W L Leung	–	1,637	1,637
Mr David W H Tam	13,770	1,136	14,906

Options

As at 30 June 2011, the Directors and Alternate Chief Executives mentioned below held unlisted physically settled options to acquire the number of ordinary shares of US$0.50 each in HSBC Holdings plc set against their respective names. These options were granted for nil consideration by HSBC Holdings plc.

	Options held as at 30 June 2011	Options exercised/ cancelled during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Exercise price per share	Date granted	Exercisable from	Exercisable until
Directors:						
Mrs Margaret Leung	4,197	–	HK$37.8797	29 Apr 2009	1 Aug 2014	31 Jan 2015
Ms Sarah C Legg	–	5,738	£7.5919	23 Apr 2001	23 Apr 2004	22 Apr 2011
	3,656	–	£7.3244	7 May 2002	7 May 2005	7 May 2012
	3,803	–	£7.3244	7 May 2002	7 May 2005	7 May 2012
	2,295	–	£6.0216	2 May 2003	2 May 2006	2 May 2013
	5,738	–	£7.2181	30 Apr 2004	30 Apr 2009	30 Apr 2014
	4,529	–	£3.6361	29 Apr 2009	1 Aug 2014	31 Jan 2015
	20,021					
Mr William W Leung	7,459	–	£7.2181	30 Apr 2004	30 Apr 2007	29 Apr 2014
	592	–	HK$62.977	21 Apr 2010	1 Aug 2011	31 Oct 2011
	8,051					
Mrs Dorothy K Y P Sit	–	3,443	£7.5919	23 Apr 2001	23 Apr 2004	22 Apr 2011
	2,375	–	HK$37.8797	29 Apr 2009	1 Aug 2012	31 Jan 2013
	2,375					
Alternate Chief Executives:						
Mr Nixon L S Chan	–	4,820	£7.5919	23 Apr 2001	23 Apr 2004	22 Apr 2011
	3,328	–	£7.3244	7 May 2002	7 May 2005	6 May 2012
	3,615	–	£6.0216	2 May 2003	2 May 2006	1 May 2013
	4,533	–	£7.2181	30 Apr 2004	30 Apr 2009	29 Apr 2014
	592	–	HK$62.977	21 Apr 2010	1 Aug 2011	31 Oct 2011
	12,068					
Mr Andrew H C Fung	4,197	–	HK$37.8797	29 Apr 2009	1 Aug 2014	31 Jan 2015
Mr Christopher H N Ho	3,443	–	£7.2181	30 Apr 2004	30 Apr 2009	29 Apr 2014
	2,518	–	HK$37.8797	29 Apr 2009	1 Aug 2012	31 Jan 2013
	5,961					
Mr David W H Tam	–	5,738	£7.5919	23 Apr 2001	23 Apr 2004	22 Apr 2011
	6,311	–	£7.3244	7 May 2002	7 May 2005	6 May 2012
	7,459	–	£7.2181	30 Apr 2004	30 Apr 2009	29 Apr 2014
	13,770					

Conditional Awards of Shares

As at 30 June 2011, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under the HSBC Share Plans were as follows:

	Awards held as at 1 January 2011	Awards made during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2011
Directors:				
Mrs Margaret Leung	396,274	110,657	150,534	364,368[(1)]
Ms Sarah C Legg	36,889[(2)]	12,557	13,351	36,625[(1)]
Mr William W Leung	24,884	1,231	16,978	9,624[(1)]
Mr Mark S McCombe	207,909[(3)]	77,226	49,026	238,690[(1)]
Mrs Dorothy K Y P Sit	42,602	11,819	21,217	34,106[(1)]
Mr Peter T S Wong	308,025	241,631	156,545	399,782[(1)]
Alternate Chief Executives:				
Mr Nixon L S Chan	17,608	4,924	5,263	20,139[(1)]
Mr Andrew H C Fung	38,776	13,665	16,521	36,756[(1)]
Mr Christopher H N Ho	8,153	1,723	1,101	8,940[(1)]
Mr Andrew W L Leung	848	1,046	282	1,637[(1)]
Mr David W H Tam	1,663	–	553	1,136[(1)]

Notes:

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

(2) This represents the awards held by Ms Sarah C Legg on 14 February 2011 when she was appointed a Director of the Bank.

(3) This represents the awards held by Mr Mark S McCombe on 14 February 2011 when he was appointed a Director of the Bank.

All the interests stated above represent long positions. As at 30 June 2011, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Other than those disclosed above, no right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2011.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2011, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares of HK$5 each in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings BV	1,188,057,371 (62.14%)
HSBC Asia Holdings (UK) Limited	1,188,057,371 (62.14%)
HSBC Holdings BV	1,188,057,371 (62.14%)
HSBC Finance (Netherlands)	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

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

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

All the interests stated above represent long positions. As at 30 June 2011, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Purchase, Sale or Redemption of the Bank's Securities

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$450,000,000 floating rate subordinated notes due 2016 at par on 6 July 2011.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2010 in respect of the remuneration of employees, remuneration policies and staff development.

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 Listing Rules 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.

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. 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 not later than 4:30 pm on Tuesday, 16 August 2011. The second interim dividend will be payable on Thursday, 1 September 2011 to shareholders 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.

Proposed Timetables for the Remaining Quarterly Dividends for 2011

Third interim dividend for 2011

Announcement date	7 November 2011
Book close and record date	23 November 2011
Payment date	8 December 2011

Fourth interim dividend for 2011

Announcement date	27 February 2012
Book close and record date	14 March 2012
Payment date	29 March 2012

Board of Directors

As 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 Zuliu 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*

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The Stock Exchange of Hong Kong Limited: 11

Registrar

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183 Queen's Road East, Wanchai, Hong Kong

Depositary *

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Website: www.bnymellon.com\shareowner
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* The Bank offers investors in the United States a Sponsored Level-1 American Depositary Receipts Programme through The Bank of New York Mellon.

Interim Report 2011

The Interim Report 2011 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited ("HKEX") (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2011 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2011 in either English or Chinese and wish to receive a printed copy in the other language version,

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

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

If shareholders who have chosen (or deemed to have chosen) to read this Interim Report 2011 on the Bank's website have difficulty in reading or gaining access to this Interim Report 2011 via the Bank's website for any reason, the Bank will promptly send this Interim Report 2011 in printed form free of charge upon the shareholders' request.

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

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