恒生銀行
HANG SENG BANK

Interim Report 2012

2012 中期報告

The printed version of Hang Seng Bank's Interim Report 2012 will replace this version in late August 2012.

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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 2012	30 June 2011 *(restated)*	31 December 2011 *(restated)*
For the half-year ended	**HK$m**	HK$m	HK$m
Operating profit excluding loan impairment charges	**8,283**	7,287	7,334
Operating profit	**8,034**	7,129	7,052
Profit before tax	**10,659**	9,354	9,901
Profit attributable to shareholders	**9,302**	8,160	8,725
	HK$	HK$	HK$
Earnings per share	**4.87**	4.27	4.56
Dividends per share	**2.20**	2.20	3.00
At period-end	**HK$m**	HK$m	HK$m
Shareholders' funds	**84,245**	74,452	79,634
Total assets	**1,005,868**	973,421	975,665
Ratios	**%**	%	%
For the half-year ended			
Return on average shareholders' funds	**22.9**	22.8	22.6
Cost efficiency ratio	**33.0**	34.6	35.3
Average liquidity ratio	**36.9**	33.3	33.8
At period-end			
Capital adequacy ratio *	**13.9**	13.8	14.3
Core capital ratio *	**11.7**	11.0	11.6

* Capital ratios at 30 June 2012 were compiled in accordance with the Banking (Capital) Rules (the "Capital Rules") under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II. The Bank used the advanced internal ratings-based 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 costs of these unconsolidated regulated financial entities are deducted from the capital base.

CHAIRMAN'S STATEMENT

Hang Seng's good results for the first half of 2012 reflect success with leveraging our strengths to maintain broad-based business momentum amid global economic instability.

Faced with an uncertain environment, customers continued to value our trusted brand. In line with our service-driven approach, we worked hard to anticipate their needs – helping them to achieve greater financial peace of mind and stay on track towards their wealth management goals. Our strong balance sheet enabled us to offer additional support through prudent expansion of lending.

Capitalising on our excellent time-to-market capabilities and extensive distribution network, we launched new products to penetrate under-tapped segments and attract new business, with a particular focus on increasing our share of mainland China customers.

Innovative service initiatives and strong connectivity between our Hong Kong and Mainland operations have been instrumental in winning us more cross-border and renminbi-related business and will serve us well as these important sectors continue to grow.

We expanded the scope and reach of our Mainland proposition through Hang Seng Bank (China) Limited, driving increases in the customer base and deposits that will provide valuable support for future business growth.

Profit attributable to shareholders rose to HK$9,302m – up 14% and 7% compared with the first and second halves of 2011 respectively. Earnings per share grew by 14% compared with a year earlier to reach HK$4.87.

Return on average shareholders' funds was 22.9%, compared with 22.8% and 22.6% for the first and second halves of last year respectively.

The Directors have declared a second interim dividend of HK$1.10 per share, bringing the total distribution for the first half of 2012 to HK$2.20 per share – the same as in the first half of 2011. We remain committed to a dividend policy that serves the interests of shareholders over the long term by striking a good balance between distributions and investing in future growth.

Economic Environment

Global economic activity remained subdued in the first half of 2012. The intensification of the eurozone's sovereign debt crisis and fears of further debt contagion weighed heavily on investor and consumer sentiment. Signs of recovery in the US economy at the start of the year were losing steam by the second quarter, compounded by the persistence of high unemployment and fragility in the housing market.

Weak external demand led to a marked deceleration in Hong Kong's outward-facing economy, with the fall in net exports dragging GDP growth down to just 0.4% in the first quarter of the year. Depressed global export activity will remain a constraining factor in the second half of 2012, although this will be partly offset by resilient domestic demand on the back of the tight employment market and continued investment in fixed capital formation – albeit at a slower pace. We expect Hong Kong's GDP growth for the year to decline to around 2%.

On the Mainland, economic real GDP growth was 7.8% in the first half of 2012 – its slowest rate in almost three years. While conditions in the external sector pose a significant challenge, recent monetary easing initiatives should help sustain domestic demand, with real GDP growth expected to moderate to about 8% for the year. Reduced inflationary pressures may provide room for further policy easing and supportive fiscal measures in the months ahead, although such steps are likely to be modest in nature given continuing concerns over speculation in the property sector.

With economic uncertainty in many major industrialised nations creating substantial downside risk, our operating environment will remain challenging in the second half of 2012.

At the same time, recent Central Government measures in support of Hong Kong's further development as a centre for offshore renminbi financial services and to promote closer economic integration with the Mainland will open up new opportunities for business growth.

Against this backdrop, we will continue to capitalise on the advantages offered by our well-respected brand to maintain our market share in key lines of banking. We will leverage our strong early-mover capabilities and strategic Greater China network to expand in sectors with good future growth potential. The deepening of relationships with new and existing customers will provide a stable pipeline for deposits acquisition. Service excellence will remain at the heart of our actions as we work to achieve increased value for shareholders.

Raymond Ch'ien
Chairman
Hong Kong, 30 July 2012

CHIEF EXECUTIVE'S REPORT

Hang Seng produced encouraging results in the first half of 2012. We achieved a 14% rise in both operating profit excluding loan impairment charges and attributable profit compared with a year earlier – recording increases in revenue and profit across all business segments, and growth in both net interest and non-interest income.

Our well-respected brand, extensive distribution network and solid financial fundamentals were effective in deepening existing customer relationships and building new ones. Customer deposits rose by 4% and we increased our market share.

Supported by the strength of our balance sheet and our industry expertise, we prudently expanded lending, growing our share of business in Hong Kong's competitive mortgage, credit card and corporate loan sectors.

Net interest margin improved to 1.85%, compared with 1.75% and 1.80% for the first and second halves of last year.

We increased efforts to further diversify income, with non-interest revenue contributing 33% to total operating income.

With our diverse portfolio of products and well-established reputation for service excellence, wealth management business remained a core revenue driver. In challenging operating conditions for investment services, we capitalised on our life insurance proposition to achieve a 15% increase in wealth management income.

We leveraged the strong connectivity between our Hong Kong and mainland China operations and fortified internal and external cross-referral channels to further enhance our position as a preferred bank for cross-border financial needs. The timely launch of innovative renminbi products and services reinforced our reputation as a market leader in this rapidly expanding sector.

We strategically deployed resources to extend our capabilities on the Mainland, including opening four new Hang Seng Bank (China) Limited outlets and establishing a joint venture securities investment advisory company under CEPA.

Operating profit grew by 13% to HK$8,034m compared with a year earlier.

Profit before tax was up 14% at HK$10,659m.

Operating expenses rose by 5% to HK$4,077m, driven mainly by the increase in staff-related costs that included performance-based remuneration. Excluding our Mainland business, operating costs were up 3%.

With the 10% growth in net operating income before loan impairment charges outpacing the rise in operating expenses, our cost efficiency ratio improved to 33% – down 1.6 percentage points compared with the first half of 2011.

Financial Performance

Total assets grew by HK$30bn, or 3%, compared with the end of 2011 to reach HK$1,006bn. Customer advances were up 5%, underpinned by increases in corporate and commercial lending, residential mortgage business and Mainland loans. The 4% rise in customer deposits, including certificates of deposit and other debt securities in issue, was supported in part by the 7% increase in deposits with Hang Seng China.

The return on average total assets was 1.9% – an increase of 0.2 percentage points on the first half of 2011 and 0.1 percentage point on the second half.

Net interest income rose by 8% compared with a year earlier to HK$8,286m, benefitting from the 2% rise in average interest-earning assets, improved loan and deposit spreads, and increased returns from the life insurance investment funds portfolio. Compared with the second half of 2011, net interest income was up 2%.

Non-interest income increased to HK$4,074m – up 13% on the first half of 2011 and 26% on the second half.

Net fee income was down 5% at HK$2,408m. Reduced fee income from stockbroking and related services and retail investment fund sales was partly offset by increased fees from credit card business, credit facilities and insurance agency activity. Compared with the second half of 2011, net fee income was up 5%.

Trading income grew by 26% to HK$1,170m. Foreign exchange income increased by 51%, reflecting strong customer demand for renminbi foreign exchange-linked structured products. Compared with the second half of 2011, trading income rose by 35%.

Our share of profits from associates grew by 32%, due mainly to the increase in contribution from Industrial Bank on the back of strong loan and fee income growth.

We continued to carefully manage credit risk and maintain a high level of asset quality. Loan impairment charges were HK$249m – up HK$91m compared with the first half of last year, but HK$33m lower compared with the second half.

Total loan impairment allowances as a percentage of gross advances to customers was 0.33% – the same as a year earlier and a 2-basis-point improvement on last year-end.

At 30 June 2012, our capital adequacy ratio was 13.9%, down 0.4 percentage points compared with the end of 2011, reflecting the net effect of growth in capital and in risk-weighted assets. Our core capital ratio was 11.7%, compared with 11.6% at last year-end.

Corporate Responsibility

Our actions as a good corporate citizen reflect our commitment to sustainable development. We share our success with the community, particularly the socially disadvantaged, by building long-term partnerships and participating in initiatives to improve well-being. We practice the responsible use of natural resources and encourage our customers and suppliers to do the same.

In line with our belief in investing today for a brighter tomorrow, our corporate responsibility activities place a strong emphasis on education and nurturing young people.

Through the 'Hang Seng Bank – Help the Police Fight Youth Crime Competition', we work with the Police to promote good life values and positive civic action. Over 260,000 youngsters took part in the 2012 competition – an all-time high for this biennial event – exploring ideas for combatting drug taking, theft and bullying under the theme 'Power of Friends'.

Hong Kong's top athletes contribute to community pride, provide valuable lessons on the importance of dedication, teamwork and fair play, and inspire future sporting stars. Since 1996, the 'Hang Seng Athlete Incentive Awards Scheme', a joint initiative with the Hong Kong Sports Institute, has awarded over HK$26.6m to recognise excellence at major sporting events. We will continue to reward local athletic achievers at the 2012 London Olympic and Paralympic Games.

Social well-being is closely linked to the health of the ecological systems upon which we all depend. The 'Hang Seng Yunnan Biogas Project' has provided about 9,000 people in rural areas of Yunnan province with a free and stable energy source through the construction of 2,200 biogas facilities. By reducing the need for firewood, the project is also helping to slow down soil erosion due to deforestation and cut annual carbon emissions. Organised in partnership with The Conservancy Association, this initiative earned us the Gold Award for community relations at this year's China Golden Awards for Excellence in Public Relations.

In a concrete reflection of our determination to lead by example in sustainability best practice, we recently became the first local bank in Hong Kong to attain an A+ – the highest rating available – in applying the internationally recognised Global Reporting Initiative sustainability reporting guidelines to information provided in our 2011 Corporate Responsibility Report. This Report can be found online at: http://bank.hangseng.com/1/2/about-us/corporate-responsibility/csr-2011.

Positioning For Future Growth

Challenging operating conditions look set to persist for the rest of the year, with global economic uncertainty leading to greater competition as banks work to maintain revenue and market share.

Our mission is to be the leading domestic bank in Hong Kong and the preferred choice of personal and corporate clients for wealth management and trade solutions in the Greater China region.

Building on our excellent Mainland-Hong Kong branch network, good customer loyalty, solid financials and trusted brand, we will maintain our strong position in core banking businesses, expand and diversify our deposit and income bases, and prudently expand lending. We will drive new customer acquisitions and deepen relationships with our existing Hong Kong customer base of more than 3 million people – over half the adult population. We will use our time-to-market capabilities and extensive range of service channels to capitalise on cross-border renminbi initiatives and further strengthen our wealth management proposition.

On the Mainland, we will continue with a focused and balanced growth strategy, reflected in our network expansion, targeted customer increase and investment in our people. Leveraging our strong Hong Kong franchise, we will differentiate our positioning via quality service delivery, premium wealth management capabilities and a prudent-but-progressive business approach. We will collaborate effectively with our strategic partners and capitalise on new business opportunities – focusing particularly on those that make good use of our cross-border connectivity competitive strength.

We will continue to champion our drivers for sustainable growth. With service excellence as a cornerstone principle, we will uphold our business integrity, enhance operational efficiency and strike a good balance between risk and reward. We will increase our Mainland-Hong Kong connectivity, maintain strong corporate governance and make further investments in growing the skills and knowledge of our people.

In working to achieve our goals, we will continue our long-standing commitment to community development and the promotion of well-being through active participation in and support for a broad range of educational, social welfare, sports development and environmental stewardship initiatives.

Backed by the support of our loyal customers and the dedication of our staff, we are well-positioned to achieve sustainable growth in Greater China to the benefit of our customers, shareholders and the wider community.

Rose Lee
Vice-Chairman and Chief Executive
Hong Kong, 30 July 2012

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

Income Statement

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2012***	*Half-year ended 30 June 2011 (restated)*	*Half-year ended 31 December 2011 (restated)*
Total operating income	**19,365**	18,198	16,009
Operating expenses	**4,077**	3,888	4,010
Operating profit after loan impairment charges	**8,034**	7,129	7,052
Profit before tax	**10,659**	9,354	9,901
Profit attributable to shareholders	**9,302**	8,160	8,725
Earnings per share (in HK$)	**4.87**	4.27	4.56

Hang Seng Bank Limited ("the Bank") and its subsidiaries ("the Group") reported an unaudited profit attributable to shareholders of HK$9,302m for the first half of 2012, up 14.0% compared with the first half of 2011. Earnings per share were up 14.1% at HK$4.87. Compared with the second half of 2011, attributable profit rose by 6.6%.

Operating profit excluding loan impairment charges delivered an encouraging growth of HK$996m, or 13.7%, to HK$8,283m.

The increase was driven by the growth in both net interest income and non-interest income partly offset by the rise in operating expenses. This result was achieved despite a challenging environment, including increased volatility in global markets amid the uncertainties arising from the eurozone debt crisis and the slowdown of economic growth.

Net interest income rose by HK$649m, or 8.5%, to HK$8,286m. The growth was driven by the 2.3% increase in average interest earning assets and higher net interest margin. The increase in average interest earning assets in Hang Seng China which earned a relatively higher yield also supported the growth in net interest income.

Figures in HK$m	***Half-year ended 30 June 2012***	*Half-year ended 30 June 2011*	*Half-year ended 31 December 2011*
Net interest income/(expense) arising from:			
- financial assets and liabilities that are not at fair value through profit and loss	**8,918**	7,905	8,620
- trading assets and liabilities	**(656)**	(300)	(548)
- financial instruments designated at fair value	**24**	32	27
	8,286	7,637	8,099
Average interest-earning assets	**898,862**	878,514	893,673
Net interest spread	**1.74%**	1.68%	1.69%
Net interest margin	**1.85%**	1.75%	1.80%

Despite competitive markets for both loans and deposits, the net interest margin rose by ten basis points to 1.85% and net interest spread was up six basis points to 1.74% compared with the same period last year. The increase in net interest spread was largely due to improvements in deposit and loan spreads, notably in corporate and commercial lending. The Group continued to grow its life insurance investment portfolio and increased its interest income by 8.0% compared with the same period last year.

The contribution from net free funds grew by four basis points to 0.11%, benefiting from the modest increase in average market interest rates.

Compared with the second half of 2011, net interest income grew slightly by HK$187m, or 2.3%, supported by the mild increase in average interest-earning assets, notwithstanding fewer days in the period. The net interest margin increased by five basis points, benefiting from improved loan spread.

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 2012***	*Half-year ended 30 June 2011*	*Half-year ended 31 December 2011*
Net interest income	**8,918**	7,905	8,620
Average interest-earning assets	**835,783**	836,753	843,321
Net interest spread	**2.06 %**	1.84 %	1.93 %
Net interest margin	**2.15 %**	1.91 %	2.03 %

Net fee income decreased by HK$128m, or 5.0%, to HK$2,408m compared with the first half of 2011, as demand for wealth management products was lower than the first half of 2011, reflecting weak investor sentiment in the volatile equity market and the uncertain economic outlook.

With the weak investment market sentiment in Hong Kong in the first half of 2012, stockbroking and related services income fell by 33.3%, reflecting the decline in equity market trading turnover. The Bank continued to launch a spectrum of retail investment funds to suit different investor risk appetite and launched the first renminbi denominated gold exchange traded fund (“ETF”) – Hang Seng RMB Gold ETF that caters for the growing demand for renminbi wealth management products. Under the volatile equity market, investors shifted to fixed rate and lower risk bond funds which led to a 10.2% decrease in the Bank’s retail investment funds income. Private banking service fee income fell by 31.6% under similar conditions that affected stockbroking and investment fund sales.

Card service fee income was 12.9% higher than the same period last year, attributable to the growth in average card balances. The Bank’s effective loyalty and enhanced rewards programme and card utilisation promotions led to increased card spending which grew by 12.9% year-on-year. The increase in card income was also supported by year-on-year increases of 5.3% in the number of cards in circulation. Credit facilities fee income rose by 84.8%, reflecting higher fees from increased corporate lending.

Compared with the second half of 2011, net fee income increased by 4.7%. The increase in retail investment funds and credit facilities fee income was offset by the fall in stockbroking and related services income.

Trading income grew by HK$239m, or 25.7%, to HK$1,170m compared with the first half of 2011.

Foreign exchange income increased by HK$405m, or 51.4%, to HK$1,193m driven by higher customer demand for foreign exchange-linked structured products, notably in renminbi foreign exchange-linked structured products in the first quarter of this year. Net interest income from funding swaps[♦] activities recorded a net income for the first half of 2012 compared with a net expense for the same period last year.

Income from securities, derivatives and other trading activities fell by HK$166m, primarily due to lower income from the sale of equity-linked structured products. The adverse fair value movement also impacted the interest rate derivatives and debt securities trading income.

[♦] *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 a 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 increased by HK$6m, or 6.3%, reflecting the fair value changes of assets supporting linked insurance contracts with offsetting movements in the value of those contracts reported under "net insurance claims incurred and movement in policyholders' liabilities".

Net earned insurance premiums rose by HK$421m, or 6.8% while net insurance claims incurred and movement in policyholders' liabilities rose by HK$60m, or 0.9%.

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2012***	*Half-year ended 30 June 2011*	*Half-year ended 31 December 2011*
Investment income:			
- retail investment funds	**495**	551	354
- structured investment products[♦]	**425**	308	353
- private banking service fee[♦♦]	**76**	100	72
- stockbroking and related services	**464**	696	589
- margin trading and others	**71**	56	78
	1,531	1,711	1,446
Insurance income:			
- life insurance	**1,697**	1,064	954
- general insurance and others	**178**	185	179
	1,875	1,249	1,133
Total	**3,406**	2,960	2,579

[♦] *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 income remained a key pillar, achieving growth of 15.1% compared with the first half of 2011. Investment income fell by 10.5%, affected by the decline in equity markets, particularly in the second quarter of 2012 which weakened investment sentiment. The higher wealth management business income was also driven by a strong performance in the insurance business, reflecting higher sales volumes and positive investment return.

The Bank has continued to provide a wide variety of investment funds to meet the various risk appetites of investors under the low interest rate environment. These included funds from Hang Seng Investment Management and other providers. The first renminbi denominated gold exchange traded fund ("ETF") – Hang Seng RMB Gold ETF which caters for the growing demand for renminbi wealth management products was launched in the first quarter of 2012. Under the volatile equity market, investors shifted to fixed rate and lower risk bond funds which led to a 10.2% decrease in the Bank's retail investment funds income. 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 38.0%, mainly from sales of equity-linked instruments. Stockbroking and related services income registered a decrease of 33.3% in the wake of lethargic equity markets in the second quarter of 2012. Private banking service fee income decreased by 24.0% compared with the first half of 2011.

Life insurance income rose by HK$633m, or 59.5%, to HK$1,697m. During the first half of 2012, the Bank continued to launch new products catering for customers' investment and protection needs. This included the launch of the "SavourLife Annuity Life Insurance Plan" which was well received. Total policies in-force increased by 9.6%.

Net interest income and fee income from the life insurance investment portfolio grew by 9.0%, as a result of the growth in the size of the portfolio. Investment returns on life insurance funds improved strongly, reflecting changes in the fair value of assets supporting linked insurance contracts and reported under "trading income" and "net income from financial instruments designated at fair value", with offsetting movements in policyholders' liabilities, benefited from the positive movements of equity market and the upward commercial property market at end June 2012.

The movement in present value of in-force long-term insurance business ("PVIF") was broadly the same as last year. PVIF rose as a result of the higher new business written in the first half of 2012 and favourable market conditions updates impacting the costs of options and guarantees. Compared with the second half of 2011, PVIF recorded a gain of HK$614m compared with a loss of HK$44m, being the combined effect of the revised assumptions mainly reflecting the low interest rate environment and the change in lapse rate in the second half of 2011, as well as higher life insurance sales in first half of 2012 and the favourable market conditions update.

General insurance income decreased by 3.8% to HK$178m. On 7 March 2012, the Bank announced the disposal of its wholly owned subsidiary, Hang Seng General Insurance (Hong Kong) Company Limited to QBE Insurance Group for a cash consideration of approximately US$200 million which was duly completed on 9 July 2012. The disposal gain of about HK$350m will be recognised in the Bank's results in the second half of 2012.

Figures in HK$m	***Half-year ended 30 June 2012***	*Half-year ended 30 June 2011*	*Half-year ended 31 December 2011*
Life insurance:			
- net interest income and fee income	**1,381**	1,267	1,309
- investment returns on life insurance funds/ share of associate's profit	**210**	35	(396)
- net earned insurance premiums	**6,446**	6,022	4,701
- net insurance claims incurred and movement in policyholders' liabilities*	**(6,954)**	(6,899)	(4,616)
- movement in present value of in-force long-term insurance business	**614**	639	(44)
	1,697	1,064	954
General insurance and others	**178**	185	179
Total	**1,875**	1,249	1,133

* *Including premium and investment reserves*

Operating expenses rose by HK$189m, or 4.9%, compared with the first half of 2011, reflecting the Bank's continued investments to support business growth and capture business opportunities while continuing carefully to manage costs. Excluding the Mainland business, operating expenses rose by 2.9%. Compared with the second half of 2011, operating expenses increased slightly by 1.7%.

Employee compensation and benefits increased by HK$138m, or 7.3%. Salaries and other costs rose by 7.4%, reflecting the annual salary increment as a result of wage inflation. General and administrative expenses remained broadly at the same level as the first half of 2011. Depreciation charges were up 9.8%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation in Hong Kong.

Full-time equivalent staff numbers by region	***At 30 June 2012***	*At 30 June 2011*	*At 31 December 2011*
Hong Kong	**7,800**	8,145	7,993
Mainland	**1,791**	1,662	1,784
Others	**57**	58	57
Total	**9,648**	9,865	9,834

At 30 June 2012, the Group's number of full-time equivalent staff fell by 186 compared with the 2011 year-end.

With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio for the first half of 2012 lowered by 1.6 percentage points to 33.0%, compared with 34.6% for the first half of 2011. Compared with the second half of 2011, the cost efficiency ratio fell by 2.3 percentage points.

Operating profit grew by HK$905m, or 12.7%, to HK$8,034m after accounting for the increase in **loan impairment charges.**

Loan impairment charges rose by HK$91m, or 57.6%, year-on-year to HK$249m. Overall credit quality was relatively stable and the Bank will remain cautious on the credit outlook.

Figures in HK$m	***Half-year ended 30 June 2012***	*Half-year ended 30 June 2011*	*Half-year ended 31 December 2011*
Loan impairment charges:			
- individually assessed	**(128)**	(18)	(85)
- collectively assessed	**(121)**	(140)	(197)
	(249)	(158)	(282)
Of which:			
- new and additional	**(467)**	(396)	(490)
- releases	**189**	204	164
- recoveries	**29**	34	44
	(249)	(158)	(282)

Individually assessed impairment charges increased from a low base to HK$128m, due to the downgrade of a few corporate and commercial customers and lower releases and recoveries from corporate and commercial customers in the first half of 2012.

Collectively assessed charges fell by HK$19m, due largely to the decrease in impairment allowances for loans not individually identified as impaired as a results of improved average historical loss rate. Impairment charges for credit card portfolios were higher, reflecting the growth in credit card balances.

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

	At 30 June 2012	*At 30 June 2011*	*At 31 December 2011*
	%	%	%
Loan impairment allowances:			
- individually assessed	**0.19**	0.19	0.19
- collectively assessed	**0.14**	0.14	0.16
Total loan impairment allowances	**0.33**	0.33	0.35

Profit before tax increased by 14.0% to HK$10,659m after taking into account a decrease of HK$173m (or 42.1%) in **net surplus on property revaluation**; and an increase of HK$582m (or 32.2%) in **share of profits from associates**, mainly from Industrial Bank. On 6 March 2012, Industrial Bank announced a proposal for the private placement of additional share capital which would dilute the Bank's interest in Industrial Bank. As at 30 June 2012, the proposal is subject to regulatory approvals and, if it proceeds, will lead to a reassessment of the Bank's current accounting treatment of the investment.

Net surplus on property revaluation amounted to HK$238m, a decrease of 42.1% compared with the first half of 2011.

Figures in HK$m	***Half-year ended 30 June 2012***	*Half-year ended 30 June 2011*	*Half-year ended 31 December 2011*
Surplus of revaluation on investment properties	**238**	409	573
Surplus/(deficit) of revaluation on assets held for sale	**-**	11	(3)
(Revaluation deficit)/reversal of revaluation deficit on premises	**-**	(9)	11
	238	411	581

The Group's premises and investment properties were revalued at 30 June 2012 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$839m was credited to the premises revaluation reserve. Revaluation gains of HK$238m on investment properties were recognised through the income statement. The related deferred tax provision for Group premises was HK$128m.

Segmental Analysis

The table below sets out the profit before tax contributed by the business segments for the periods stated.

Figures in HK$m	*Hong Kong & other businesses*						
	Retail Banking and Wealth Management	***Corporate and Commercial Banking***	***Treasury***	***Other***	***Total***	***Mainland China Business***	***Total (restated)***
Half-year ended 30 June 2012							
Profit before tax	**3,986**	**2,728**	**1,313**	**167**	**8,194**	**2,465**	**10,659**
Share of profit before tax	**37.4%**	**25.6%**	**12.3%**	**1.6%**	**76.9%**	**23.1%**	**100.0%**
Share of profit before tax as a % of Hong Kong & other businesses	**48.7%**	**33.3%**	**16.0%**	**2.0%**	**100.0%**		
Half-year ended 30 June 2011							
Profit before tax	3,443	2,290	1,226	685	7,644	1,710	9,354
Share of profit before tax	36.8%	24.5%	13.1%	7.3%	81.7%	18.3%	100.0%
Share of profit before tax as a % of Hong Kong & other businesses	45.0%	30.0%	16.0%	9.0%	100.0%		
Half-year ended 31 December 2011							
Profit before tax	3,066	2,326	1,286	748	7,426	2,475	9,901
Share of profit before tax	31.0%	23.5%	13.0%	7.5%	75.0%	25.0%	100.0%
Share of profit before tax as a % of Hong Kong & other businesses	41.3%	31.3%	17.3%	10.1%	100.0%		

Retail Banking and Wealth Management ("RBWM") reported profit before tax of HK$3,986m in the first half of 2012, representing a 15.8% year-on-year increase, and contributed to 48.7% of the Hong Kong and other businesses segment. Operating profit excluding loan impairment charges reached HK$4,056m, up 14.1% from the same period last year.

Total net interest income was up 9.5% year-on-year and reached HK$4,276m in the first half of 2012. As the pressure on deposit costs lessened, net interest income from deposits achieved a 32.6% year-on-year growth, largely driven by expansion in the affluent customer base and higher deposit balances. Unsecured lending and insurance were also able to achieve solid growth in their respective net interest income.

The mortgage business regained momentum in the first half of 2012 as we positioned ourselves as a preferred mortgage bank, providing comprehensive mortgage services to our customers while competitors also rationalised their mortgage pricing. Amidst a very competitive environment, we maintained our ranking, with the second largest market share in terms of new mortgage registrations which rebounded to around 19.7% for the first half of 2012. In March 2012, we introduced Hang Seng Renminbi / Hong Kong Dollar Mortgage-Link, the first dual-currency mortgage plan in Hong Kong which enables customers to enjoy attractive returns on both renminbi and Hong Kong dollar deposits to offset in part their mortgage interest expenses.

With a quality credit card customer base and effective marketing campaigns, unsecured lending continued to contribute a good share of income with total operating income recorded a robust year-on-year growth of 11.1% in the first half of 2012. We remained as the second and third largest card issuer on VISA and MasterCard respectively. As of 30 June 2012, total cards in force was 2.3 million, representing a year-on-year growth of 4.9%. Card spending and card receivables grew strongly by 12.5% and 12.3% year-on-year respectively. Compared with the end of 2011, the personal loans portfolio grew 5.3% to HK$5.6bn.

Insurance, another key income driver of RBWM, recorded promising performance in the first half of 2012 with income increasing by 57.5% year-on-year. We expanded our whole-of-life insurance proposition, launching the SavourLife Annuity Life Insurance Plan designed for retirees, as part of our strategic move to expand our customer base as well as sources of income. As a result, annualised life insurance new premiums grew 13.9% and total life insurance policies in-force rose by 9.6%, underpinned by our effective distribution and timely promotion efforts. The improvement in income was also attributed to proactive management of investment assets.

Investor sentiment was impacted by intensified global market uncertainties, particularly in the second quarter. As a result, income from investment business, in particular securities brokerage, declined 24.7% compared with the same period last year.

Committed to developing the renminbi business, Hang Seng Bank launched the world's first gold exchange-traded fund ("ETF") denominated in renminbi, Hang Seng Renminbi Gold ETF, which was listed on The Stock Exchange of Hong Kong in February 2012 and offers investors a new investment choice combining gold, renminbi and ETF features.

Providing excellent service has always been our first priority and the Bank continued to receive recognition in the industry. For the third consecutive year, the Bank was named "Best Local Private Bank in Hong Kong" in the Euromoney Private Banking Survey 2012 based on the assessment of business performance and peer nominations.

Corporate and Commercial Banking ("CNC") achieved a 19.1% growth in profit before tax to HK$2,728m. Operating profit excluding impairment charges was up by 16.2% to HK$2,694m. CNC contributed 33.3% to the profit before tax of Hong Kong and other businesses segment, up 3.3 percentage points from the same period of 2011.

Fee income reported a growth of 17.6%, which was driven by solid growth in treasury and Keyperson insurance products which demonstrated sustainable growth from the corporate wealth management business.

Renminbi business remained one of our key strategic priorities. Up to June 2012, our renminbi lending has grown by 3.5 times compared with the end of 2011.

Our focus on structured finance and syndicated loans also contributed to our success. According to Thomson Reuters LPC data, we ranked the first in terms of number of deals in the Mandated Arranger League Table for Hong Kong and Macau Syndicated Loans in the first half of 2012.

Ties with Mainland professional bodies and trade associations have been further strengthened. The momentum of commercial customer acquisition has accelerated in the first half of 2012 and the number of commercial customers has grown by 6.3% from last year-end.

For the seventh consecutive year, the Bank has also received the SME's Best Partner Award from the Hong Kong General Chamber of Small and Medium Business.

Enhancing service channel capabilities continues to be one of our key objectives. Different service hotlines have been consolidated into one 24-hour Business Partner Direct hotline so as to provide a one-stop service to our customers. A China toll-free direct line has also been set up which supports both mobile and fixed line access. Year-on-year, our Business e-Banking customer base at end of June 2012 has grown by 13.4%, with a 9.8% increase in online business transactions.

Treasury ("TRY") recorded a 7.1% increase in profit before tax to HK$1,313m. The growth was mainly driven by an increase in trading income.

Trading income increased by HK$228m, or 59.8%, to HK$609m. Currency option trading income recorded encouraging growth, boosted in part by rising demand for renminbi-denominated products following further liberalisation of renminbi business in Hong Kong. The increase was partly offset by the decline in income from foreign exchange and bond trading. The increase in gross interest income from funding swaps also contributed to the increase in trading income.

The low interest rate environment affected returns on financial investments and net interest income dropped by 12.2% to HK$852m. However, this was outweighed by the increase in income from funding swap activities as reported under trading income.

Mainland China business

Hang Seng Bank (China) Limited ("Hang Seng China") opened Xiamen Branch in March 2012 and Shunde Sub-branch, the fourth cross-city sub-branch under CEPA VI, in April 2012. Supported by further network expansion in Beijing (with the opening of Beijing Kerry Centre Sub-branch) and Tianjin (with the opening of Tianjin Binhai Sub-branch) in the first half of 2012, Hang Seng China now operates through 43 outlets, covering 15 cities across mainland China. The applications for opening three additional sub-branches in Zhuhai, Jiangmen and Tianjin were approved by CBRC. The expansion of our foothold in the first half of 2012 further demonstrated Hang Seng Bank's long term commitment to the Mainland market.

In the first half of 2012, concerns over slower domestic economic growth, weakened external and internal demand and increased uncertainties in international financial markets triggered a series of monetary easing policies from the Central Government on the Mainland. Deposit reserve ratios were reduced by 50 basis points each in February and May 2012 respectively. For the first time since December 2008, the People's Bank of China cut base interest rates by 25 basis points on 8 June 2012, followed by a further cut on 6 July 2012. At the same time, the adjustment ranges of interest rates for both loans and deposits were widened.

Despite all the challenges, Hang Seng China has been focusing on growing business both in scale and value through expansion of network, portfolio and customer base as well as diversification of revenue sources. Progressive measures were taken to acquire target customer segments with innovative products and differentiated services.

Hang Seng China maintained growth momentum and achieved encouraging results in the first half of 2012. At 30 June 2012, the total number of Corporate and Commercial Banking customers increased by 6.3% while the total number of Retail Banking and Wealth Management customers grew by 15.6% (the number of Prestige Banking customers increased by 19.6%) over June 2011.

Driven by the expanded customer base, advances to customers rose by 6.1% whereas total deposits increased by 6.8% over the end of 2011. Total operating income was 29.5% higher than the first half of 2011, boosted by growth in both net interest income and other operating income. Operating profit grew by 30.9% compared with the same period last year.

	As reported	*Constant currency*[ф]
Half year ended 30 June 2012 compared with 30 June 2011		
Total operating income	**29.5%**	**25.2%**
Operating profit	**30.9%**	**26.4%**
At 30 June 2012 compared with 31 December 2011		
Gross advances to customers	**6.1%**	**6.7%**
Customer deposits	**6.8%**	**7.4%**

As a strategic business partner of Industrial Bank, Hang Seng Bank has continued to cooperate closely with Industrial Bank in various areas, such as trade services and retail banking businesses. Business collaboration between Hang Seng China and Industrial Bank has also been stepped up.

Hang Seng Bank's wholly owned subsidiary, Hang Seng Securities Limited, partnered with Guangzhou Securities Company Limited to establish the first joint venture securities investment advisory company under CEPA VI in Guangdong province. The joint venture will become a showcase for cooperation in this area under CEPA.

Including the share of profit from Mainland associates, our Mainland business contributed 23.1% of total profit before tax, compared with 18.3% in the first half of 2011.

[Φ] When reference is made to "constant currency" in tables or commentaries, comparative data reported in the functional currency of Hang Seng's mainland China business have been translated at the appropriate exchange rates applied in the current period in respect of the income statement or balance sheet. Constant currency comparatives for the half years to 30 June 2011 and 31 December 2011 used in the 2012 commentaries are computed by translating into Hong Kong dollars:

- the income statements for the half years to 30 June 2011 and 31 December 2011 for renminbi at the average rates of exchange for the half year to 30 June 2012 ; and

- the balance sheet at 30 June 2011 and 31 December 2011 for renminbi at the prevailing rates of exchange at 30 June 2012.

Balance Sheet

Total assets reached HK$1,005.9bn, up HK$30.2bn, or 3.1%, against last year end. Customer advances grew by HK$24.3bn, or 5.1%, to HK$504.9bn due to higher demand for corporate and commercial lending and Mainland lending. Our residential mortgage business increased as the Bank regained momentum in the first half of 2012 and positioned itself as a preferred mortgage bank. Customer deposits rose by HK$28.6bn, or 3.8%, to HK$771.8bn as the Group proactively grew its customer deposits to support loan growth. At 30 June 2012, the advances-to-deposits ratio was 65.4%, broadly the same as last year end.

Advances to customers

Gross advances to customers grew by HK$24.3bn, or 5.0%, to HK$506.6bn compared with the end of 2011. Gross advances to customers declined in the second half of 2011 but picked up again during the first half of 2012, notably in property investment, wholesale and retail trade and residential mortgage lending.

Loans for use in Hong Kong increased by HK$16.3bn, or 4.8%. Lending to the industrial, commercial and financial sectors grew by 4.7%. Lending to the property development and investment sectors remained active and grew by 3.1% and 1.0% respectively, supported by a buoyant commercial property market during the first half of the year. With strong customer relationships, active participation in Hong Kong Government-organised schemes, and enhanced service capabilities, the Bank continued to support the customers in growing their businesses, saw 38.6% growth in the wholesale and retail trade sector and 1.6% in manufacturing sector.

Lending to individuals increased by 4.9% compared with the last year-end. As the property market remained active, residential mortgage lending to individuals rose by 7.6%, as a result of the Bank's aim to be a preferred mortgage bank that provides comprehensive mortgage services despite intense market competition. Credit card advances were in line with the previous year end, as seasonal factors offset a year-on-year rise of 5.3% in the number of cards in circulation and a 12.9% increase in cardholder spending.

Trade finance declined by 13.4% against last year end as certain cross border documentary credit loans matured during the first half of 2012, partly offset by the growth in other trade finance loan products.

Loans for use outside Hong Kong rose by 16.1%, compared with the end of 2011, driven largely by lending on the Mainland. The Mainland loan portfolio increased by 6.1% to HK$47.4bn, 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, including current, savings and other deposits accounts and certificates of deposit and other debt securities in issue stood at HK$771.8bn at 30 June 2012 – a rise of 3.8% from the end of 2011. Higher growth was recorded in Hong Kong dollar currency deposits. Structured deposits and certificates of deposit and other debt securities in issue increased as instruments with yield enhancement features gained popularity. Deposits with Hang Seng China also rose by 6.8%, driven mainly by renminbi deposits.

CONSOLIDATED INCOME STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)

	note	**Half-year ended 30 June 2012**	Half-year ended 30 June 2011 *(restated)*	Half-year ended 31 December 2011 *(restated)*
Interest income	4	**10,780**	9,298	10,547
Interest expense	5	**(2,494)**	(1,661)	(2,448)
Net interest income		**8,286**	7,637	8,099
Fee income		**2,977**	3,042	2,881
Fee expense		**(569)**	(506)	(581)
Net fee income	6	**2,408**	2,536	2,300
Trading income	7	**1,170**	931	865
Net income/(loss) from financial instruments designated at fair value	8	**102**	96	(256)
Dividend income	9	**4**	6	11
Net earned insurance premiums		**6,611**	6,190	4,871
Other operating income	10	**784**	802	119
Total operating income		**19,365**	18,198	16,009
Net insurance claims incurred and movement in policyholders' liabilities		**(7,005)**	(6,945)	(4,665)
Net operating income before loan impairment charges		**12,360**	11,253	11,344
Loan impairment charges	11	**(249)**	(158)	(282)
Net operating income		**12,111**	11,095	11,062
Employee compensation and benefits		**(2,039)**	(1,901)	(1,987)
General and administrative expenses		**(1,596)**	(1,582)	(1,609)
Depreciation of premises, plant and equipment		**(381)**	(347)	(353)
Amortisation of intangible assets		**(61)**	(58)	(61)
Operating expenses	12	**(4,077)**	(3,888)	(4,010)
Impairment loss on intangible assets		**-**	(78)	-
Operating profit		**8,034**	7,129	7,052
Gains less losses from financial investments and fixed assets	13	**-**	9	41
Net surplus on property revaluation		**238**	411	581
Share of profits from associates		**2,387**	1,805	2,227
Profit before tax		**10,659**	9,354	9,901
Tax expense	14	**(1,357)**	(1,194)	(1,176)
Profit for the period		**9,302**	8,160	8,725
Profit attributable to shareholders		**9,302**	8,160	8,725
(Figures in HK$)				
Earnings per share	15	**4.87**	4.27	4.56

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 22 to 56 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 2012	Half-year ended 30 June 2011 *(restated)*	Half-year ended 31 December 2011 *(restated)*
Profit for the period	**9,302**	8,160	8,725
Other comprehensive income			
Premises:			
- unrealised surplus on revaluation of premises	**839**	1,720	2,009
- deferred taxes	**(128)**	(284)	(326)
- exchange difference	**(1)**	1	2
Available-for-sale investment reserve:			
- fair value changes taken to equity:			
-- on debt securities	**326**	342	(87)
-- on equity shares	**54**	16	(8)
- fair value changes transferred to income statement:			
-- on hedged items	**(62)**	(173)	(365)
-- on disposal	**(1)**	(10)	(43)
- share of changes in equity of associates:			
-- fair value changes	**471**	(411)	(235)
- deferred taxes	**(156)**	95	126
- exchange difference	**-**	(14)	9
Cash flow hedging reserve:			
- fair value changes taken to equity	**33**	119	-
- fair value changes transferred to income statement	**(30)**	(119)	(78)
- deferred taxes	**-**	-	13
- exchange difference	**-**	-	(1)
Defined benefit plans:			
- actuarial losses on defined benefit plans	**(196)**	(483)	(1,117)
- deferred taxes	**32**	80	184
Share-based payments	**(7)**	9	-
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	**(136)**	435	539
- exchange difference on retained profits	**1**	-	(1)
Others	**(25)**	-	-
Other comprehensive income for the period, net of tax	**1,014**	1,323	621
Total comprehensive income for the period	**10,316**	9,483	9,346
Total comprehensive income for the period attributable to shareholders	**10,316**	9,483	9,346

CONSOLIDATED BALANCE SHEET

unaudited

(Expressed in millions of Hong Kong dollars)

	note	**At 30 June 2012**	At 30 June 2011 *(restated)*	At 31 December 2011 *(restated)*
ASSETS				
Cash and balances with banks	19	**18,272**	42,644	39,533
Placings with and advances to banks	20	**137,948**	114,507	107,742
Trading assets	21	**41,037**	27,621	64,171
Financial assets designated at fair value	22	**7,708**	8,006	8,096
Derivative financial instruments	23	**4,063**	5,678	4,710
Advances to customers	24	**504,902**	503,645	480,574
Financial investments	25	**224,385**	210,456	209,190
Interest in associates	26	**21,597**	17,200	19,627
Investment properties	27	**4,583**	3,660	4,314
Premises, plant and equipment	28	**18,250**	16,065	17,983
Intangible assets	29	**6,603**	5,966	5,962
Other assets	30	**16,520**	17,973	13,763
Total assets		**1,005,868**	973,421	975,665
LIABILITIES AND EQUITY				
Liabilities				
Current, savings and other deposit accounts	31	**720,397**	703,321	699,857
Deposits from banks		**11,284**	19,452	14,004
Trading liabilities	32	**57,364**	59,425	59,712
Financial liabilities designated at fair value		**443**	456	434
Derivative financial instruments	23	**4,759**	4,877	4,848
Certificates of deposit and other debt securities in issue	33	**12,662**	8,146	9,284
Other liabilities	34	**20,469**	17,925	20,138
Liabilities to customers under insurance contracts		**77,347**	69,081	72,225
Current tax liabilities		**1,420**	1,329	305
Deferred tax liabilities		**3,651**	3,092	3,378
Subordinated liabilities	35	**11,827**	11,865	11,846
Total liabilities		**921,623**	898,969	896,031
Equity				
Share capital		**9,559**	9,559	9,559
Retained profits		**54,623**	47,328	49,519
Other reserves		**17,960**	15,462	16,923
Proposed dividends		**2,103**	2,103	3,633
Shareholders' funds	36	**84,245**	74,452	79,634
Total equity and liabilities		**1,005,868**	973,421	975,665

The notes on pages 22 to 56 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 2012	Half-year ended 30 June 2011 *(restated)*	Half-year ended 31 December 2011 *(restated)*
Share capital			
At beginning and end of period	**9,559**	9,559	9,559
Retained profits (including proposed dividends)			
At beginning of period	**53,152**	47,273	49,431
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	**178**	128	136
Total comprehensive income for the period	**9,132**	7,766	7,791
	56,726	49,431	53,152
Other reserves			
Premises revaluation reserve			
At beginning of period	**12,280**	9,426	10,732
Transfer	**(179)**	(131)	(137)
Total comprehensive income for the period	**710**	1,437	1,685
	12,811	10,732	12,280
Available-for-sale investment reserve			
At beginning of period	**(561)**	202	43
Transfer	**-**	(4)	(1)
Total comprehensive income for the period	**632**	(155)	(603)
	71	43	(561)
Cash flow hedging reserve			
At beginning of period	**6**	72	72
Total comprehensive income for the period	**3**	-	(66)
	9	72	6
Foreign exchange reserve			
At beginning of period	**3,043**	2,069	2,504
Total comprehensive income for the period	**(136)**	435	539
	2,907	2,504	3,043
Other reserves			
At beginning of period	**2,155**	2,085	2,111
Cost of share-based payment arrangements	**31**	19	42
Transfer	**1**	7	2
Total comprehensive income for the period	**(25)**	-	-
	2,162	2,111	2,155
Total equity			
At beginning of period	**79,634**	70,686	74,452
Dividends to shareholders	**(5,736)**	(5,736)	(4,206)
Cost of share-based payment arrangements	**31**	19	42
Total comprehensive income for the period	**10,316**	9,483	9,346
	84,245	74,452	79,634

CONSOLIDATED CASH FLOW STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)

	note	**Half-year ended 30 June 2012**	Half-year ended 30 June 2011
Net cash inflow/(outflow) from operating activities	37(a)	**3,078**	(8,739)
Cash flows from investing activities			
Dividends received from associates		**660**	456
Purchase of an interest in an associate		**(18)**	-
Purchase of available-for-sale investments		**(20,545)**	(28,293)
Purchase of held-to-maturity debt securities		**(502)**	(205)
Proceeds from sale or redemption of available-for-sale investments		**40,153**	34,732
Proceeds from redemption of held-to-maturity debt securities		**305**	234
Proceeds from sale of loan portfolio		**-**	4,670
Purchase of fixed assets and intangible assets		**(178)**	(192)
Proceeds from sale of fixed assets and assets held for sale		**26**	1
Interest received from available-for-sale investments		**1,272**	893
Dividends received from available-for-sale investments		**4**	3
Net cash inflow from investing activities		**21,177**	12,299
Cash flows from financing activities			
Dividends paid		**(5,736)**	(5,736)
Interest paid for subordinated liabilities		**(126)**	(82)
Net cash outflow from financing activities		**(5,862)**	(5,818)
Increase/(decrease) in cash and cash equivalents		**18,393**	(2,258)
Cash and cash equivalents at 1 January		**120,469**	118,560
Effect of foreign exchange rate changes		**(784)**	1,868
Cash and cash equivalents at 30 June	37(b)	**138,078**	118,170

The notes on pages 22 to 56 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 30 July 2012.

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 57.

2 Accounting policies

Except as described below, 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 2011, as disclosed in the Annual Report and Financial Statements for 2011.

Following the adoption of the amendments to HKAS 12 "Income Taxes", the Group has remeasured the deferred tax relating to investment properties according to the tax consequence on the presumption that they are recovered entirely through sale retrospectively. The corresponding comparatives for prior year have been adjusted accordingly.

The major lines of the financial statements that have been affected are as follows:

	As reported	Adjustment	Restated
Half-year ended 30 June 2011			
Share of profits from associates	1,771	34	1,805
Tax expense	1,263	(69)	1,194
Profit attributable to shareholders	8,057	103	8,160
Total comprehensive income	9,380	103	9,483
Earning per share *(HK$)*	4.21	0.06	4.27
As at 30 June 2011			
Interest in associates	16,988	212	17,200
Deferred tax liabilities	3,657	(565)	3,092
Retained profits	46,551	777	47,328
As at 31 December 2011			
Interest in associates	19,407	220	19,627
Deferred tax liabilities	4,037	(659)	3,378
Retained profits	48,640	879	49,519

Certain key ratios for comparative periods have also been restated to conform with the current period presentation.

3 Basis of consolidation

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

4 Interest income

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Interest income arising from:			
- financial assets that are not at fair value through profit and loss	**10,602**	9,159	10,376
- trading assets	**154**	107	144
- financial assets designated at fair value	**24**	32	27
	10,780	9,298	10,547
of which:			
- interest income from listed investments	**710**	809	776
- interest income from unlisted investments	**1,766**	1,601	1,786
- interest income from impaired financial assets	**7**	10	8

5 Interest expense

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Interest expense arising from:			
- financial liabilities that are not at fair value through profit and loss	**1,684**	1,254	1,756
- trading liabilities	**810**	407	692
- financial liabilities designated at fair value	**-**	-	-
	2,494	1,661	2,448
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	**126**	82	115

6 Net fee income

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
- stockbroking and related services	**464**	696	589
- retail investment funds	**495**	551	354
- structured investment products	**4**	8	5
- insurance agency	**135**	123	119
- account services	**177**	181	190
- private banking service fee	**54**	79	50
- remittances	**144**	132	141
- cards	**894**	792	884
- credit facilities	**194**	105	148
- trade services	**245**	249	212
- other	**171**	126	189
Fee income	**2,977**	3,042	2,881
Fee expense	**(569)**	(506)	(581)
	2,408	2,536	2,300
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	**1,061**	962	1,005
- fee income	**1,510**	1,327	1,434
- fee expense	**(449)**	(365)	(429)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**303**	371	314
- fee income	**376**	438	385
- fee expense	**(73)**	(67)	(71)

7 Trading income

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Foreign exchange	**1,193**	788	1,055
(Losses)/gains from hedging activities:			
- fair value hedge			
-- on hedging instruments	**(95)**	(199)	(404)
-- on the hedged items attributable to the hedged risk	**62**	173	365
- cash flow hedge			
-- net hedging income	**-**	-	-
Securities, derivatives and other trading activities	**10**	169	(151)
	1,170	931	865

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

8 Net income/(loss) from financial instruments designated at fair value

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Net income/(loss) on assets designated at fair value which back insurance and investment contracts	**102**	96	(256)
of which dividend income from:			
- listed investments	**30**	9	7
- unlisted investments	**-**	-	1
	30	9	8

9 Dividend income

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Dividend income:			
- listed investments	**-**	3	1
- unlisted investments	**4**	3	10
	4	6	11

10 Other operating income

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Rental income from investment properties	**94**	84	90
Movement in present value of in-force long-term insurance business	**614**	639	(44)
Other	**76**	79	73
	784	802	119

11 Loan impairment charges

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Loan impairment charges (note 24(b)):			
- individually assessed	**(128)**	(18)	(85)
- collectively assessed	**(121)**	(140)	(197)
	(249)	(158)	(282)
of which:			
- new and additional	**(467)**	(396)	(490)
- releases	**189**	204	164
- recoveries	**29**	34	44
	(249)	(158)	(282)

There was no impairment charge (nil for the first and second halves of 2011) 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 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Employee compensation and benefits:			
- salaries and other costs	**1,871**	1,742	1,824
- retirement benefit costs			
- defined benefit scheme	**120**	116	114
- defined contribution scheme	**48**	43	49
	2,039	1,901	1,987
General and administrative expenses:			
- rental expenses	**275**	245	252
- other premises and equipment	**449**	458	501
- marketing and advertising expenses	**272**	266	293
- other operating expenses	**600**	613	563
	1,596	1,582	1,609
Depreciation of premises, plant and equipment (note 28)	**381**	347	353
Amortisation of intangible assets	**61**	58	61
	4,077	3,888	4,010

13 Gains less losses from financial investments and fixed assets

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Net gains from disposal of available-for-sale equity securities	**1**	8	34
Net gains from disposal of available-for-sale debt securities	**-**	2	9
Impairment of available-for-sale equity securities	**-**	-	-
Losses on disposal of fixed assets	**(1)**	(1)	(2)
	-	9	41

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 2012	Half-year ended 30 June 2011 *(restated)*	Half-year ended 31 December 2011 *(restated)*
Current tax - provision for Hong Kong profits tax			
Tax for the period	**1,104**	995	947
Adjustment in respect of prior periods	**18**	-	(14)
	1,122	995	933
Current tax - taxation outside Hong Kong			
Tax for the period	**92**	57	19
Deferred tax			
Origination and reversal of temporary differences	**143**	142	224
Total tax expense	**1,357**	1,194	1,176

The current tax provision is based on the estimated assessable profit for the first half of 2012, 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 (2011: 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 2012 is based on earnings of HK$9,302 million (HK$8,160 million and HK$8,725 million for the first and second halves of 2011 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 2011).

16 Dividends per share

	Half-year ended 30 June 2012		Half-year ended 30 June 2011		Half-year ended 31 December 2011	
	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

Hong Kong Financial Reporting Standard 8 requires segmental disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purpose of assessing segment performance and making decisions about operating matters. To align with the information reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following five reportable segments which has resulted in additional reportable segments being identified, merged and presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

Hong Kong and other business segment

Retail Banking and Wealth Management activities offer a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance and wealth management. **Corporate and Commercial Banking** activities include the provision of financial services, payments and cash management, international trade finance, insurance, wealth management and tailored financial solutions to corporate and commercial customers. **Treasury** activities are mainly the provision of treasury operation services in credit, rates, foreign exchange, money markets and securities services. 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, equity shares and subordinated debt funding.

Mainland China business segment

Mainland China business segment comprises the business of Hang Seng Bank (China) Limited and our share of profit from Mainland associates.

Consolidation adjustments made in preparing the Group’s financial statements and inter-segment elimination of income or expenses upon consolidation are included in the “Inter-segment eliminations”. All such transactions are undertaken on an arm’s length terms.

(a) Segmental result

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

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

17 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Hong Kong & other businesses							
	Retail Banking and Wealth Management	Corporate and Commercial Banking	Treasury	Other	Total	Mainland China business	Inter-segment elimination	Total
Half-year ended 30 June 2012								
Net interest income	4,276	2,435	852	(105)	7,458	828	-	8,286
Net fee income/(expense)	1,545	770	(15)	59	2,359	49	-	2,408
Trading income	216	278	609	4	1,107	63	-	1,170
Net income/(loss) from financial instruments designated at fair value	106	(4)	-	-	102	-	-	102
Dividend income	-	-	-	4	4	-	-	4
Net earned insurance premiums	6,488	123	-	-	6,611	-	-	6,611
Other operating income/(loss)	683	12	-	113	808	-	(24)	784
Total operating income	13,314	3,614	1,446	75	18,449	940	(24)	19,365
Net insurance claims incurred and movement in policyholders' liabilities	(6,931)	(74)	-	-	(7,005)	-	-	(7,005)
Net operating income before loan impairment charges	6,383	3,540	1,446	75	11,444	940	(24)	12,360
Loan impairment (charges)/releases	(189)	33	-	-	(156)	(93)	-	(249)
Net operating income	6,194	3,573	1,446	75	11,288	847	(24)	12,111
Operating expenses *	(2,327)	(846)	(133)	(147)	(3,453)	(648)	24	(4,077)
Impairment loss on intangible assets	-	-	-	-	-	-	-	-
Operating profit	3,867	2,727	1,313	(72)	7,835	199	-	8,034
Gains less losses from financial investments and fixed assets	-	-	-	1	1	(1)	-	-
Net surplus on property revaluation	-	-	-	238	238	-	-	238
Share of profits from associates	119	1	-	-	120	2,267	-	2,387
Profit before tax	3,986	2,728	1,313	167	8,194	2,465	-	10,659
Share of profit before tax	37.4%	25.6%	12.3%	1.6%	76.9%	23.1%	-	100.0%
Share of profit before tax as a percentage of Hong Kong & other businesses	48.7%	33.3%	16.0%	2.0%	100.0%			
Operating profit excluding loan impairment charges	4,056	2,694	1,313	(72)	7,991	292	-	8,283
** Depreciation/amortisation included in operating expenses*	(24)	(13)	(2)	(347)	(386)	(56)	-	(442)
At 30 June 2012								
Total assets	270,962	273,431	303,616	42,193	890,202	115,666	-	1,005,868
Total liabilities	579,005	193,794	41,060	34,536	848,395	73,228	-	921,623
Interest in associates	1,499	7	-	-	1,506	20,091	-	21,597

NOTES TO THE FINANCIAL STATEMENTS *(unaudited)* *(continued)*

17 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Hong Kong & other businesses							
	Retail Banking and Wealth Management	Corporate and Commercial Banking	Treasury	Other	Total	Mainland China business	Inter-segment elimination	Total *(restated)*
Half-year ended 30 June 2011								
Net interest income	3,904	2,176	970	(32)	7,018	619	-	7,637
Net fee income/(expense)	1,777	655	(11)	57	2,478	58	-	2,536
Trading income/(loss)	245	268	381	(14)	880	51	-	931
Net income/(loss) from financial instruments designated at fair value	96	(1)	-	1	96	-	-	96
Dividend income	-	-	-	6	6	-	-	6
Net earned insurance premiums	6,068	122	-	-	6,190	-	-	6,190
Other operating income/(loss)	704	14	-	110	828	(2)	(24)	802
Total operating income	12,794	3,234	1,340	128	17,496	726	(24)	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	5,919	3,164	1,340	128	10,551	726	(24)	11,253
Loan impairment (charges)/releases	(113)	(29)	1	-	(141)	(17)	-	(158)
Net operating income	5,806	3,135	1,341	128	10,410	709	(24)	11,095
Operating expenses *	(2,288)	(842)	(117)	(108)	(3,355)	(557)	24	(3,888)
Impairment loss on intangible assets	(75)	(3)	-	-	(78)	-	-	(78)
Operating profit	3,443	2,290	1,224	20	6,977	152	-	7,129
Gains less losses from financial investments and fixed assets	-	-	2	8	10	(1)	-	9
Net surplus on property revaluation	-	-	-	421	421	(10)	-	411
Share of profits from associates	-	-	-	236	236	1,569	-	1,805
Profit before tax	3,443	2,290	1,226	685	7,644	1,710	-	9,354
Share of profit before tax	36.8%	24.5%	13.1%	7.3%	81.7%	18.3%	-	100.0%
Share of profit before tax as a percentage of Hong Kong & other businesses	45.0%	30.0%	16.0%	9.0%	100.0%			
Operating profit excluding loan impairment charges	3,556	2,319	1,223	20	7,118	169	-	7,287
** Depreciation/amortisation included in operating expenses*	(64)	(14)	(2)	(276)	(356)	(49)	-	(405)
At 30 June 2011								
Total assets	255,150	289,143	272,354	42,410	859,057	114,364	-	973,421
Total liabilities	559,513	178,200	57,798	33,987	829,498	69,471	-	898,969
Interest in associates	-	-	-	1,368	1,368	15,832	-	17,200

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

17 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Hong Kong & other businesses							
	Retail Banking and Wealth Management	Corporate and Commercial Banking	Treasury	Other	Total	Mainland China business	Inter-segment elimination	Total *(restated)*
Half-year ended 31 December 2011								
Net interest income	4,019	2,401	920	(45)	7,295	804	-	8,099
Net fee income/(expense)	1,508	666	(10)	82	2,246	54	-	2,300
Trading income/(loss)	77	243	497	(5)	812	53	-	865
Net (loss)/income from financial instruments designated at fair value	(242)	5	(1)	(18)	(256)	-	-	(256)
Dividend income	-	7	-	4	11	-	-	11
Net earned insurance premiums	4,752	119	-	-	4,871	-	-	4,871
Other operating income/(loss)	15	3	-	123	141	(2)	(20)	119
Total operating income	10,129	3,444	1,406	141	15,120	909	(20)	16,009
Net insurance claims incurred and movement in policyholders' liabilities	(4,612)	(53)	-	-	(4,665)	-	-	(4,665)
Net operating income before loan impairment charges	5,517	3,391	1,406	141	10,455	909	(20)	11,344
Loan impairment (charges)/releases	(139)	(190)	-	-	(329)	47	-	(282)
Net operating income	5,378	3,201	1,406	141	10,126	956	(20)	11,062
Operating expenses*	(2,332)	(889)	(130)	(43)	(3,394)	(636)	20	(4,010)
Impairment loss on intangible assets	-	-	-	-	-	-	-	-
Operating profit	3,046	2,312	1,276	98	6,732	320	-	7,052
Gains less losses from financial investments and fixed assets	20	14	10	(3)	41	-	-	41
Net surplus on property revaluation	-	-	-	571	571	10	-	581
Share of profits from associates	-	-	-	82	82	2,145	-	2,227
Profit before tax	3,066	2,326	1,286	748	7,426	2,475	-	9,901
Share of profit before tax	31.0%	23.5%	13.0%	7.5%	75.0%	25.0%	-	100.0%
Share of profit before tax as a percentage of Hong Kong & other businesses	41.3%	31.3%	17.3%	10.1%	100.0%			
Operating profit excluding loan impairment charges	3,185	2,502	1,276	98	7,061	273	-	7,334
** Depreciation/amortisation included in total operating expenses*	(61)	(15)	(3)	(280)	(359)	(55)	-	(414)
At 31 December 2011								
Total assets	259,484	255,762	302,763	39,066	857,075	118,590	-	975,665
Total liabilities	566,563	175,040	49,242	32,157	823,002	73,029	-	896,031
Interest in associates	-	-	-	1,418	1,418	18,209	-	19,627

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 2012	**%**	Half-year ended 30 June 2011	% *(restated)*	Half-year ended 31 December 2011	% *(restated)*
Total operating income						
Hong Kong	**17,758**	**92**	16,757	92	14,349	90
Mainland	**940**	**5**	726	4	909	6
Americas	**595**	**3**	656	4	683	4
Others	**72**	**-**	59	-	68	-
	19,365	**100**	18,198	100	16,009	100
Profit before tax						
Hong Kong	**7,566**	**71**	6,962	74	6,709	68
Mainland	**2,465**	**23**	1,710	18	2,475	25
Americas	**579**	**5**	641	7	666	6
Others	**49**	**1**	41	1	51	1
	10,659	**100**	9,354	100	9,901	100

	At 30 June 2012	**%**	At 30 June 2011	% *(restated)*	At 31 December 2011	% *(restated)*
Total assets						
Hong Kong	**819,998**	**82**	786,024	81	790,208	81
Mainland	**115,666**	**11**	114,364	12	118,590	12
Americas	**60,094**	**6**	64,145	6	58,506	6
Others	**10,110**	**1**	8,888	1	8,361	1
	1,005,868	**100**	973,421	100	975,665	100
Total liabilities						
Hong Kong	**842,760**	**91**	823,058	92	818,307	91
Mainland	**73,228**	**8**	69,471	7	73,029	8
Americas	**1,683**	**-**	1,860	-	1,085	-
Others	**3,952**	**1**	4,580	1	3,610	1
	921,623	**100**	898,969	100	896,031	100
Interest in associates						
Hong Kong	**1,506**	**7**	1,368	8	1,418	7
Mainland	**20,091**	**93**	15,832	92	18,209	93
Americas	**-**	**-**	-	-	-	-
Others	**-**	**-**	-	-	-	-
	21,597	**100**	17,200	100	19,627	100
Non-current assets*						
Hong Kong	**28,384**	**96**	24,721	96	27,258	96
Mainland	**1,051**	**4**	969	4	1,000	4
Americas	**-**	**-**	-	-	-	-
Others	**1**	**-**	1	-	1	-
	29,436	**100**	25,691	100	28,259	100
Contingent liabilities and commitments						
Hong Kong	**273,806**	**85**	223,578	81	246,655	83
Mainland	**45,834**	**14**	49,038	18	46,049	16
Americas	**-**	**-**	-	-	-	-
Others	**4,121**	**1**	3,251	1	4,027	1
	323,761	**100**	275,867	100	296,731	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	**18,272**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,272**
Placings with and advances to banks	**15,596**	**48,131**	**67,469**	**5,089**	**-**	**1,663**	**-**	**-**	**137,948**
Trading assets	**-**	**-**	**-**	**-**	**-**	**-**	**41,037**	**-**	**41,037**
Financial assets designated at fair value	**-**	**2**	**-**	**289**	**3,491**	**50**	**-**	**3,876**	**7,708**
Derivative financial instruments	**-**	**-**	**12**	**58**	**42**	**4**	**3,947**	**-**	**4,063**
Advances to customers	**11,997**	**36,617**	**50,139**	**88,676**	**175,172**	**142,301**	**-**	**-**	**504,902**
Financial investments:									
- available-for-sale investments	**-**	**10,986**	**48,306**	**44,511**	**52,218**	**2,210**	**-**	**1,297**	**159,528**
- held-to-maturity debt securities	**-**	**89**	**130**	**3,087**	**23,344**	**38,207**	**-**	**-**	**64,857**
Interest in associates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,597**	**21,597**
Investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,583**	**4,583**
Premises, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,250**	**18,250**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,603**	**6,603**
Other assets	**5,988**	**4,409**	**3,946**	**1,759**	**58**	**2**	**-**	**358**	**16,520**
At 30 June 2012	**51,853**	**100,234**	**170,002**	**143,469**	**254,325**	**184,437**	**44,984**	**56,564**	**1,005,868**
At 30 June 2011 *(restated)*	69,856	124,386	100,395	190,362	238,792	168,578	32,903	48,149	973,421
At 31 December 2011 *(restated)*	64,938	101,924	110,770	168,007	237,390	170,466	68,702	53,468	975,665
Liabilities									
Current, savings and other deposit accounts	**540,548**	**89,914**	**62,783**	**26,703**	**449**	**-**	**-**	**-**	**720,397**
Deposits from banks	**5,941**	**4,061**	**1,166**	**116**	**-**	**-**	**-**	**-**	**11,284**
Trading liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**57,364**	**-**	**57,364**
Financial liabilities designated at fair value	**2**	**-**	**-**	**-**	**-**	**441**	**-**	**-**	**443**
Derivative financial instruments	**-**	**5**	**6**	**42**	**1,151**	**247**	**3,308**	**-**	**4,759**
Certificates of deposit and other debt securities in issue:									
- certificates of deposit in issue	**-**	**-**	**459**	**5,939**	**6,264**	**-**	**-**	**-**	**12,662**
Other liabilities	**6,570**	**4,857**	**2,961**	**1,525**	**219**	**19**	**-**	**4,318**	**20,469**
Liabilities to customers under insurance contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**77,347**	**77,347**
Current tax liabilities	**-**	**-**	**-**	**1,420**	**-**	**-**	**-**	**-**	**1,420**
Deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,651**	**3,651**
Subordinated liabilities	**-**	**2,326**	**-**	**-**	**-**	**9,501**	**-**	**-**	**11,827**
At 30 June 2012	**553,061**	**101,163**	**67,375**	**35,745**	**8,083**	**10,208**	**60,672**	**85,316**	**921,623**
At 30 June 2011 *(restated)*	525,236	103,721	72,614	40,175	12,291	6,566	63,176	75,190	898,969
At 31 December 2011 *(restated)*	512,239	108,573	74,807	39,008	8,347	10,173	63,220	79,664	896,031

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

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	**-**	**-**	**-**	**-**	**-**	**-**	**430**	**-**	**430**
- financial assets designated at fair value	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
- available-for-sale investments	**-**	**270**	**2,081**	**5,023**	**669**	**-**	**-**	**38**	**8,081**
- held-to-maturity debt securities	**-**	**-**	**-**	**371**	**970**	**3,003**	**-**	**-**	**4,344**
At 30 June 2012	**-**	**270**	**2,081**	**5,394**	**1,640**	**3,003**	**430**	**38**	**12,856**
At 30 June 2011	-	1,920	260	1,826	1,829	2,270	435	46	8,586
At 31 December 2011	-	2,650	1,544	1,355	1,527	2,272	432	39	9,819
Debt securities included in:									
- trading assets	**-**	**-**	**-**	**-**	**-**	**-**	**39,787**	**-**	**39,787**
- financial assets designated at fair value	**-**	**2**	**-**	**289**	**3,490**	**50**	**-**	**-**	**3,831**
- available-for-sale investments	**-**	**10,716**	**46,225**	**39,488**	**51,549**	**2,210**	**-**	**962**	**151,150**
- held-to-maturity debt securities	**-**	**89**	**130**	**2,716**	**22,374**	**35,204**	**-**	**-**	**60,513**
At 30 June 2012	**-**	**10,807**	**46,355**	**42,493**	**77,413**	**37,464**	**39,787**	**962**	**255,281**
At 30 June 2011	241	5,882	12,792	80,677	73,964	31,923	26,822	631	232,932
At 31 December 2011	-	9,098	19,269	69,716	71,333	33,293	63,226	834	266,769
Certificates of deposit in issue included in:									
- trading liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- issued at amortised cost	**-**	**-**	**459**	**5,939**	**6,264**	**-**	**-**	**-**	**12,662**
At 30 June 2012	**-**	**-**	**459**	**5,939**	**6,264**	**-**	**-**	**-**	**12,662**
At 30 June 2011	-	-	794	127	7,225	-	-	-	8,146
At 31 December 2011	-	1,596	-	1,475	6,213	-	2,641	-	11,925

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

19 Cash and balances with banks

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Cash in hand	**9,933**	7,190	9,491
Balances with central banks	**1,523**	7,835	7,102
Balances with banks	**6,816**	27,619	22,940
	18,272	42,644	39,533

20 Placings with and advances to banks

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Placings with and advances to banks maturing within one month	**63,727**	74,083	56,787
Placings with and advances to banks maturing after one month but less than one year	**72,558**	38,829	49,326
Placings with and advances to banks maturing after one year	**1,663**	1,595	1,629
	137,948	114,507	107,742
of which:			
Placings with and advances to central banks	**11,042**	10,054	10,544

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

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

21 Trading assets

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Treasury bills	**33,972**	20,143	54,220
Certificates of deposit	**430**	435	432
Other debt securities	**5,815**	6,679	9,006
Debt securities	**40,217**	27,257	63,658
Equity shares	**22**	15	7
Total trading securities	**40,239**	27,272	63,665
Other*	**798**	349	506
Total trading assets	**41,037**	27,621	64,171
Debt securities:			
- listed in Hong Kong	**3,330**	4,099	4,550
- listed outside Hong Kong	**262**	107	717
	3,592	4,206	5,267
- unlisted	**36,625**	23,051	58,391
	40,217	27,257	63,658
Equity shares:			
- listed in Hong Kong	**22**	15	7
Total trading securities	**40,239**	27,272	63,665
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**38,016**	24,554	60,800
- other public sector entities	**81**	99	82
	38,097	24,653	60,882
Issued by other bodies:			
- banks	**909**	1,003	963
- corporate entities	**1,211**	1,601	1,813
	2,120	2,604	2,776
	40,217	27,257	63,658
Equity shares:			
Issued by corporate entities	**22**	15	7
Total trading securities	**40,239**	27,272	63,665

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

22 Financial assets designated at fair value

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Certificates of deposit	**1**	1	1
Other debt securities	**3,831**	4,104	3,998
Debt securities	**3,832**	4,105	3,999
Equity shares	**1,356**	559	473
Investment funds	**2,520**	3,342	3,624
	7,708	8,006	8,096
Debt securities:			
- listed in Hong Kong	**15**	11	15
- listed outside Hong Kong	**44**	181	182
	59	192	197
- unlisted	**3,773**	3,913	3,802
	3,832	4,105	3,999
Equity shares:			
- listed in Hong Kong	**1,356**	559	473
Investment funds:			
- listed in Hong Kong	**24**	23	23
- listed outside Hong Kong	**476**	80	150
	500	103	173
- unlisted	**2,020**	3,239	3,451
	2,520	3,342	3,624
	7,708	8,006	8,096
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**-**	145	140
- other public sector entities	**4**	54	53
	4	199	193
Issued by other bodies:			
- banks	**3,745**	3,831	3,725
- corporate entities	**83**	75	81
	3,828	3,906	3,806
	3,832	4,105	3,999
Equity shares:			
Issued by banks	**265**	66	109
Issued by public sector entities	**-**	15	5
Issued by corporate entities	**1,091**	478	359
	1,356	559	473
Investment funds:			
Issued by banks	**341**	2,094	1,869
Issued by corporate entities	**2,179**	1,248	1,755
	2,520	3,342	3,624
	7,708	8,006	8,096

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

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 2012			At 30 June 2011			At 31 December 2011		
	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	**657,397**	**1,585**	**1,114**	595,593	2,396	1,480	533,604	1,760	1,090
- currency swaps	**3,461**	**43**	**41**	11,327	116	91	4,827	82	76
- currency options purchased	**129,404**	**466**	**-**	76,611	251	-	81,173	401	-
- currency options written	**136,658**	**-**	**490**	83,091	-	279	86,786	-	415
- other exchange rate contracts	**94**	**1**	**2**	132	-	3	131	3	1
	927,014	**2,095**	**1,647**	766,754	2,763	1,853	706,521	2,246	1,582
Interest rate contracts:									
- interest rate swaps	**211,899**	**1,688**	**1,525**	286,934	2,091	1,602	267,229	2,042	1,590
- interest rate options purchased	**-**	**-**	**-**	-	-	-	-	-	-
- interest rate options written	**-**	**-**	**-**	-	-	-	-	-	-
- other interest rate contracts	**-**	**-**	**-**	837	-	-	8,547	1	-
	211,899	**1,688**	**1,525**	287,771	2,091	1,602	275,776	2,043	1,590
Equity and other contracts:									
- equity swaps	**3,829**	**12**	**108**	8,783	30	279	4,557	5	290
- equity options purchased	**11,395**	**109**	**-**	12,159	246	-	11,436	117	-
- equity options written	**1,661**	**-**	**27**	2,372	-	10	1,673	-	29
- other equity contracts	**-**	**-**	**-**	12	-	-	7	-	-
- spot and forward contracts and others	**1,169**	**43**	**1**	1,754	152	-	3,359	120	14
	18,054	**164**	**136**	25,080	428	289	21,032	242	333
Total derivatives held for trading	**1,156,967**	**3,947**	**3,308**	1,079,605	5,282	3,744	1,003,329	4,531	3,505
Derivatives managed in conjunction with financial assets designated at fair value									
Interest rate contracts:									
- interest rate swaps	**-**	**-**	**-**	140	-	7	140	-	3
Cash flow hedge derivatives									
Exchange rate contracts:									
- currency swaps	**3,276**	**-**	**3**	-	-	-	-	-	-
Interest rate contracts:									
- interest rate swaps	**27,286**	**41**	**5**	41,842	148	10	48,385	66	21
	30,562	**41**	**8**	41,842	148	10	48,385	66	21
Fair value hedge derivatives									
Interest rate contracts:									
- interest rate swaps	**28,550**	**75**	**1,443**	32,496	248	1,116	27,046	113	1,319
Total derivatives	**1,216,079**	**4,063**	**4,759**	1,154,083	5,678	4,877	1,078,900	4,710	4,848

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 2012	At 30 June 2011	At 31 December 2011
Gross advances to customers	**506,583**	505,346	482,241
Less: loan impairment allowances			
- individually assessed	**(966)**	(979)	(896)
- collectively assessed	**(715)**	(722)	(771)
	504,902	503,645	480,574

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

	At 30 June 2012 %	At 30 June 2011 %	At 31 December 2011 %
Loan impairment allowances:			
- individually assessed	**0.19**	0.19	0.19
- collectively assessed	**0.14**	0.14	0.16
Total loan impairment allowances	**0.33**	0.33	0.35

(b) Loan impairment allowances against advances to customers

	Individually assessed	**Collectively assessed**	**Total**
At 1 January 2012	**896**	**771**	**1,667**
Amounts written off	**(58)**	**(199)**	**(257)**
Recoveries of advances written off in previous years (note 11)	**4**	**25**	**29**
New impairment allowances charged to income statement (note 11)	**213**	**254**	**467**
Impairment allowances released to income statement (note 11)	**(85)**	**(133)**	**(218)**
Unwinding of discount of loan impairment allowances recognised as "interest income"	**(3)**	**(2)**	**(5)**
Exchange	**(1)**	**(1)**	**(2)**
At 30 June 2012	**966**	**715**	**1,681**
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 July 2011	979	722	1,701
Amounts written off	(185)	(173)	(358)
Recoveries of advances written off in previous years (note 11)	22	22	44
New impairment allowances charged to income statement (note 11)	214	276	490
Impairment allowances released to income statement (note 11)	(129)	(79)	(208)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(6)	(1)	(7)
Exchange	1	4	5
At 31 December 2011	896	771	1,667

24 Advances to customers *(continued)*

(c) Impaired advances and allowances

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Gross impaired advances	**1,691**	1,639	1,584
Individually assessed allowances	**(966)**	(979)	(896)
Net impaired advances	**725**	660	688
Individually assessed allowances as a percentage of gross impaired advances	**57.1%**	59.7%	56.6%
Gross impaired advances as a percentage of gross advances to customers	**0.33%**	0.32%	0.33%

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

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Gross individually assessed impaired advances	**1,568**	1,549	1,493
Individually assessed allowances	**(966)**	(979)	(896)
	602	570	597
Gross individually assessed impaired advances as a percentage of gross advances to customers	**0.31%**	0.31%	0.31%
Amount of collateral which has been taken into account in respect of individually assessed impaired advances to customers	**569**	422	423

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 2012	**%**	At 30 June 2011	%	At 31 December 2011	%
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	**200**	**-**	120	-	228	-
- more than six months but not more than one year	**252**	**0.1**	131	-	72	-
- more than one year	**700**	**0.1**	871	0.2	756	0.2
	1,152	**0.2**	1,122	0.2	1,056	0.2
of which:						
- individually impaired allowances	**(845)**		(861)		(822)	
- covered portion of overdue loans and advances	**296**		205		172	
- uncovered portion of overdue loans and advances	**856**		917		884	
- current market value held against the covered portion of overdue loans and advances	**456**		434		368	

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.

(e) Rescheduled advances

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

	At 30 June 2012	**%**	At 30 June 2011	%	At 31 December 2011	%
Rescheduled advances to customers	**161**	**-**	169	-	180	-

Rescheduled advances are those advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of 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).

24 Advances to customers *(continued)*

(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 2012					
Hong Kong	**428,752**	**1,292**	**973**	**752**	**560**
Rest of Asia-Pacific	**70,255**	**252**	**133**	**211**	**138**
Others	**7,576**	**24**	**46**	**3**	**17**
	506,583	**1,568**	**1,152**	**966**	**715**
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 31 December 2011					
Hong Kong	404,889	1,315	929	779	603
Rest of Asia-Pacific	70,099	158	127	115	150
Others	7,253	20	-	2	18
	482,241	1,493	1,056	896	771

(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 2012		At 30 June 2011		At 31 December 2011	
		% 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	**27,927**	**49.3**	30,626	45.7	27,090	50.0
- property investment	**103,178**	**88.2**	104,058	82.2	102,144	88.2
- financial concerns	**3,944**	**30.5**	3,347	30.4	2,648	24.7
- stockbrokers	**227**	**22.7**	180	52.8	1,227	5.9
- wholesale and retail trade	**15,952**	**34.9**	13,129	40.5	11,511	44.5
- manufacturing	**13,792**	**34.1**	13,377	38.5	13,573	33.8
- transport and transport equipment	**6,082**	**63.9**	6,889	63.9	6,309	64.0
- recreational activities	**233**	**35.7**	829	94.5	62	24.9
- information technology	**1,680**	**2.0**	1,851	0.9	899	2.0
- other	**23,102**	**52.5**	22,022	54.1	21,859	52.5
	196,117	**67.5**	196,308	65.4	187,322	69.2
Individuals						
- advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**13,962**	**100.0**	14,471	100.0	14,405	99.7
- advances for the purchase of other residential properties	**115,731**	**100.0**	105,841	100.0	107,563	100.0
- credit card advances	**18,392**	**-**	16,362	-	18,547	-
- other	**13,814**	**27.3**	14,610	31.7	13,887	29.4
	161,899	**82.4**	151,284	82.6	154,402	81.5
Total gross advances for use in Hong Kong	**358,016**	**74.3**	347,592	72.9	341,724	74.8
Trade finance	**42,917**	**23.1**	80,223	19.4	49,552	27.8
Gross advances for use outside Hong Kong	**105,650**	**27.5**	77,531	28.7	90,965	25.4
Gross advances to customers	**506,583**	**60.2**	505,346	57.6	482,241	60.6

25 Financial investments

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Financial investments:			
- which may be repledged or resold by counterparties	**164**	380	156
- which may not be repledged or resold or are not subject to repledge or resale by counterparties	**224,221**	210,076	209,034
	224,385	210,456	209,190
Held-to-maturity debt securities at amortised cost	**64,857**	58,305	59,911
Available-for-sale at fair value:			
- debt securities	**159,231**	151,851	149,020
- equity shares	**297**	300	259
	224,385	210,456	209,190
Treasury bills	**72,101**	30,533	43,296
Certificates of deposit	**12,425**	8,150	9,386
Other debt securities	**139,562**	171,473	156,249
Debt securities	**224,088**	210,156	208,931
Equity shares	**297**	300	259
	224,385	210,456	209,190

There were no overdue debt securities at 30 June 2012 and the comparative periods for the Group.

(a) Held-to-maturity debt securities

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Listed in Hong Kong	**1,367**	991	977
Listed outside Hong Kong	**12,004**	10,086	10,234
	13,371	11,077	11,211
Unlisted	**51,486**	47,228	48,700
	64,857	58,305	59,911
Issued by public bodies:			
- central governments and central banks	**500**	370	309
- other public sector entities	**8,529**	8,053	8,273
	9,029	8,423	8,582
Issued by other bodies:			
- banks	**37,401**	37,027	36,304
- corporate entities	**18,427**	12,855	15,025
	55,828	49,882	51,329
	64,857	58,305	59,911
Fair value of held-to-maturity debt securities:			
- listed	**14,426**	11,728	11,879
- unlisted	**54,505**	50,248	51,517
	68,931	61,976	63,396

There were no held-to-maturity debt securities determined to be impaired at 30 June 2012 and the comparative periods for the Group.

25 Financial investments *(continued)*

(b) Available-for-sale debt securities

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Listed in Hong Kong	**17,760**	16,256	20,164
Listed outside Hong Kong	**25,862**	48,287	29,793
	43,622	64,543	49,957
Unlisted	**115,609**	87,308	99,063
	159,231	151,851	149,020
Issued by public bodies:			
- central governments and central banks	**102,007**	62,765	78,350
- other public sector entities	**13,628**	19,539	17,748
	115,635	82,304	96,098
Issued by other bodies:			
- banks	**40,032**	64,428	48,947
- corporate entities	**3,564**	5,119	3,975
	43,596	69,547	52,922
	159,231	151,851	149,020

For the periods indicated, there were 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 2012	At 30 June 2011	At 31 December 2011
Listed in Hong Kong	**52**	53	48
Listed outside Hong Kong	**5**	23	18
	57	76	66
Unlisted	**240**	224	193
	297	300	259
Issued by corporate entities	**297**	300	259

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

(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 2012	At 30 June 2011	At 31 December 2011
AA- to AAA	**170,992**	154,353	165,370
A- to A+	**43,052**	50,869	35,167
B+ to BBB+	**7,571**	3,930	6,680
Unrated	**2,473**	1,004	1,714
	224,088	210,156	208,931

26 Interest in associates

	At 30 June 2012	At 30 June 2011 *(restated)*	At 31 December 2011 *(restated)*
Share of net assets	**21,082**	16,666	19,095
Intangible assets	**43**	70	57
Goodwill	**472**	464	475
	21,597	17,200	19,627

On 6 March 2012, Industrial Bank Co., Ltd. ("Industrial Bank") announced a proposal for the private placement of additional share capital which would dilute the Bank's interest in Industrial Bank. As at 30 June 2012, the proposal is subject to regulatory approvals and, if it proceeds, will lead to a reassessment of the Bank's current accounting treatment of the investment.

Our partnership with Guangzhou Securities Company Limited to set up the joint venture securities investment advisory company – Guangzhou GuangZheng Hang Seng Securities Investment Advisory Company Limited was incorporated in May 2012. The Group has a 33% stake in the joint venture.

27 Investment properties

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
Beginning of the period	**4,314**	3,251	3,660
Surplus on revaluation credited to income statement	**238**	409	573
Transfer to assets held for sale	**-**	-	77
Transfer from premises (note 28)	**31**	-	4
End of the period	**4,583**	3,660	4,314

28 Premises, plant and equipment

Movement of premises, plant and equipment

	Premises	**Plant and equipment**	**Total**
Cost or valuation:			
At 1 January 2012	**17,377**	**3,686**	**21,063**
Exchange adjustments	**(5)**	**(2)**	**(7)**
Additions	**-**	**100**	**100**
Disposals	**-**	**(53)**	**(53)**
Elimination of accumulated depreciation on revalued premises	**(237)**	**-**	**(237)**
Surplus on revaluation:			
- credited to premises revaluation reserve	**839**	**-**	**839**
Transfer to assets held for sale	**(241)**	**-**	**(241)**
Transfer to investment property (note 27)	**(31)**	**-**	**(31)**
Other	**-**	**(17)**	**(17)**
At 30 June 2012	**17,702**	**3,714**	**21,416**
Accumulated depreciation:			
At 1 January 2012	**(7)**	**(3,073)**	**(3,080)**
Exchange adjustments	**-**	**1**	**1**
Charge for the period (note 12)	**(242)**	**(139)**	**(381)**
Written off on disposal	**-**	**49**	**49**
Transfer to assets held for sale	**2**	**-**	**2**
Elimination of accumulated depreciation on revalued premises	**237**	**-**	**237**
Other	**-**	**6**	**6**
At 30 June 2012	**(10)**	**(3,156)**	**(3,166)**
Net book value at 30 June 2012	**17,692**	**558**	**18,250**

28 Premises, plant and equipment *(continued)*

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

	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
Cost or valuation:			
At 1 July 2011	15,444	3,593	19,037
Exchange adjustments	16	11	27
Additions	-	132	132
Disposals	-	(50)	(50)
Elimination of accumulated depreciation on revalued premises	(203)	-	(203)
Surplus on revaluation:			
- credited to premises revaluation reserve	2,009	-	2,009
- debited to income statement	11	-	11
Transfer from assets held for sale	102	-	102
Transfer to investment property (note 27)	(4)	-	(4)
Other	2	-	2
At 31 December 2011	17,377	3,686	21,063
Accumulated depreciation:			
At 1 July 2011	(4)	(2,968)	(2,972)
Exchange adjustments	-	(7)	(7)
Charge for the period (note 12)	(206)	(147)	(353)
Written off on disposal	-	49	49
Elimination of accumulated depreciation on revalued premises	203	-	203
At 31 December 2011	(7)	(3,073)	(3,080)
Net book value at 31 December 2011	17,370	613	17,983

29 Intangible assets

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Present value of in-force long-term insurance business	**5,802**	5,232	5,188
Internally developed software	**426**	363	399
Acquired software	**46**	42	46
Goodwill	**329**	329	329
	6,603	5,966	5,962

30 Other assets

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Items in the course of collection from other banks	**5,333**	8,865	4,513
Prepayments and accrued income	**2,975**	2,675	2,844
Assets held for sale			
- repossessed assets	**23**	12	3
- assets of disposal groups held for sale	**686**	-	-
- other assets held for sale	**250**	217	35
Acceptances and endorsements	**5,076**	4,393	4,697
Retirement benefit assets	**30**	89	34
Other accounts	**2,147**	1,722	1,637
	16,520	17,973	13,763

At 30 June 2012, HK$686 million of "Assets of disposal groups held for sale" related to the sale of assets of the Bank's general insurance business, Hang Seng General Insurance (Hong Kong) Limited. The amount mainly comprised financial investments (HK$457 million) and other assets (HK$228 million). Hang Seng General Insurance (Hong Kong) Limited also has deposits placed with the Bank amounting to HK$1 billion which are eliminated at the consolidated level. The transaction was completed on 9 July 2012. The disposal gain will be reflected in the Bank’s results in the second half of 2012.

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

31 Current, savings and other deposit accounts

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Current, savings and other deposit accounts:			
- as stated in consolidated balance sheet	**720,397**	703,321	699,857
- structured deposits reported as trading liabilities (note 32)	**37,764**	25,393	30,923
	758,161	728,714	730,780
By type:			
- demand and current accounts	**59,187**	56,315	57,977
- savings accounts	**453,716**	452,158	431,863
- time and other deposits	**245,258**	220,241	240,940
	758,161	728,714	730,780

32 Trading liabilities

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Structured certificates of deposit in issue (note 33)	**-**	-	2,641
Other debt securities in issue (note 33)	**1,009**	3,903	542
Structured deposits (note 31)	**37,764**	25,393	30,923
Short positions in securities and others	**18,591**	30,129	25,606
	57,364	59,425	59,712

33 Certificates of deposit and other debt securities in issue

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Certificates of deposit and other debt securities in issue:			
- as stated in consolidated balance sheet	**12,662**	8,146	9,284
- structured certificates of deposit in issue reported as trading liabilities (note 32)	**-**	-	2,641
- other structured debt securities in issue reported as trading liabilities (note 32)	**1,009**	3,903	542
	13,671	12,049	12,467
By type:			
- certificates of deposit in issue	**12,662**	8,146	11,925
- other debt securities in issue	**1,009**	3,903	542
	13,671	12,049	12,467

34 Other liabilities

	At 30 June 2012	At 30 June 2011	At 31 December 2011
Items in the course of transmission to other banks	**6,538**	6,622	7,027
Accruals	**2,404**	2,409	2,956
Acceptances and endorsements	**5,076**	4,393	4,697
Retirement benefit liabilities	**3,494**	2,232	3,260
Liabilities of disposal groups held for sale	**646**	-	-
Other	**2,311**	2,269	2,198
	20,469	17,925	20,138

At 30 June 2012, the "Liabilities of disposal groups held for sale" related to the sale of Hang Seng General Insurance (Hong Kong) Limited and comprised liabilities to customers under insurance contracts (HK$540 million) and other liabilities (HK$106 million).

35 Subordinated liabilities

Nominal value	Description	**At 30 June 2012**	At 30 June 2011	At 31 December 2011
Amount owed to third parties				
US$450 million	Callable floating rate subordinated notes due July 2016 [(1)]	**-**	3,501	-
US$300 million	Callable floating rate subordinated notes due July 2017 [(2)]	**2,326**	2,333	2,328
Amount owed to HSBC Group undertakings				
US$775 million	Floating rate subordinated loan debt due December 2020	**6,011**	6,031	6,022
US$450 million	Floating rate subordinated loan debt due July 2021 [(1)]	**3,490**	-	3,496
		11,827	11,865	11,846
Representing:				
- measured at amortised cost		**11,827**	11,865	11,846

The above subordinated notes (excluding the subordinated loan debt due December 2020 and July 2021) carry 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) The Bank exercised its option to redeem these subordinated notes at par of US$450 million and replenished them with a new issue of US$450 million subordinated loan debt in July 2011.

(2) After the period under review, the Bank redeemed all the US$300 million floating rate subordinated notes due 2017 at par on 6 July 2012.

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

36 Shareholders' funds

	At 30 June 2012	At 30 June 2011 *(restated)*	At 31 December 2011 *(restated)*
Share capital	**9,559**	9,559	9,559
Retained profits	**54,623**	47,328	49,519
Premises revaluation reserve	**12,811**	10,732	12,280
Cash flow hedging reserve	**9**	72	6
Available-for-sale investment reserve	**71**	43	(561)
Capital redemption reserve	**99**	99	99
Other reserves	**4,970**	4,516	5,099
Total reserves	**72,583**	62,790	66,442
	82,142	72,349	76,001
Proposed dividends	**2,103**	2,103	3,633
Shareholders' funds	**84,245**	74,452	79,634
Return on average shareholders' funds	**22.9%**	22.8%	22.6%

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 2012, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$4,639 million (HK$2,889 million and HK$4,226 million at 30 June 2011 and 31 December 2011 respectively).

37 Reconciliation of cash flow statement

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

	Half-year ended 30 June 2012	Half-year ended 30 June 2011
Operating profit	**8,034**	7,129
Net interest income	**(8,286)**	(7,637)
Dividend income	**(4)**	(6)
Loan impairment charges	**249**	158
Impairment loss of intangible assets	**-**	78
Depreciation	**381**	347
Amortisation of intangible assets	**61**	58
Amortisation of available-for-sale investments	**(23)**	(15)
Amortisation of held-to-maturity debt securities	**-**	2
Advances written off net of recoveries	**(228)**	(293)
Interest received	**9,553**	8,784
Interest paid	**(2,128)**	(1,772)
Operating profit before changes in working capital	**7,609**	6,833
Change in treasury bills and certificates of deposit with original maturity more than three months	**8,317**	(13,198)
Change in placings with and advances to banks maturing after one month	**(23,232)**	15,298
Change in trading assets	**15,510**	(18,327)
Change in financial assets designated at fair value	**140**	106
Change in derivative financial instruments	**558**	109
Change in advances to customers	**(24,345)**	(35,547)
Change in other assets	**(6,197)**	(10,422)
Change in current, savings and other deposit accounts	**20,540**	19,693
Change in deposits from banks	**(3,123)**	3,866
Change in trading liabilities	**(2,348)**	16,844
Change in certificates of deposit and other debt securities in issue	**3,378**	5,051
Change in other liabilities	**5,109**	5,300
Elimination of exchange differences and other non-cash items	**1,235**	(4,290)
Cash generated from/(used in) operating activities	**3,151**	(8,684)
Taxation paid	**(73)**	(55)
Net cash inflow/(outflow) from operating activities	**3,078**	(8,739)

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

	At 30 June 2012	At 30 June 2011
Cash and balances with banks	**18,272**	42,644
Placings with and advances to banks maturing within one month	**61,347**	71,528
Treasury bills	**57,494**	3,998
Certificates of deposit	**965**	-
	138,078	118,170

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$18,705 million at 30 June 2012 (HK$21,488 million at 30 June 2011).

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$5,076 million (HK$4,393 million and HK$4,697 million at 30 June 2011 and 31 December 2011 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 mark-to-market assets with any negative mark-to-market liabilities with the same customer. These offsets are recognised by the HKMA in the calculation of risk-weighted assets for the capital adequacy ratio.

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

	Contract amounts	Credit equivalent amounts	Risk-weighted amounts
At 30 June 2012			
Direct credit substitutes	**6,548**	**6,390**	**3,858**
Transaction-related contingencies	**1,402**	**140**	**57**
Trade-related contingencies	**11,339**	**1,136**	**677**
Forward asset purchases	**27**	**27**	**27**
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- not unconditionally cancellable *	**36,652**	**16,448**	**7,233**
- unconditionally cancellable	**251,487**	**81,094**	**25,160**
	307,455	**105,235**	**37,012**
Exchange rate contracts:			
- forward foreign exchange	**565,496**	**2,376**	**651**
- currency swaps	**6,738**	**299**	**51**
- currency options purchased	**129,388**	**3,001**	**2,525**
- other exchange rate contracts	**94**	**3**	**-**
	701,716	**5,679**	**3,227**
Interest rate contracts:			
- interest rate swaps	**267,734**	**2,378**	**529**
- interest rate options purchased	**-**	**-**	**-**
	267,734	**2,378**	**529**
Equity and other contracts:			
- equity swaps	**3,829**	**248**	**34**
- equity options purchased	**1,659**	**127**	**87**
- others	**-**	**-**	**-**
	5,488	**375**	**121**

** 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 2012 were HK$12,957 million and HK$23,695 million respectively (30 June 2011: HK$11,109 million and HK$19,225 million, 31 December 2011: HK$11,487 million and HK$19,824 million).*

The total fair value of the derivatives at 30 June 2012 was HK$2,008 million (30 June 2011: HK$2,747 million, 31 December 2011: HK$2,411 million) after taking into account the effect of valid bilateral netting agreement amounting to HK$1,650 million (30 June 2011: HK$1,870 million, 31 December 2011: HK$1,664 million).

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:			
- 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
At 31 December 2011			
Direct credit substitutes	5,438	5,308	3,426
Transaction-related contingencies	1,220	138	72
Trade-related contingencies	9,807	979	532
Forward asset purchases	35	35	35
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- not unconditionally cancellable *	31,311	15,081	5,384
- unconditionally cancellable	232,469	76,890	23,420
	280,280	98,431	32,869
Exchange rate contracts:			
- forward foreign exchange	493,588	2,441	1,169
- currency swaps	4,827	155	17
- currency options purchased	87,005	2,316	1,749
- other exchange rate contracts	131	4	-
	585,551	4,916	2,935
Interest rate contracts:			
- interest rate swaps	342,801	2,624	950
- interest rate options purchased	-	-	-
	342,801	2,624	950
Equity and other contracts:			
- equity swaps	4,386	276	39
- equity options purchased	1,087	95	75
- others	-	-	-
	5,473	371	114

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 2012, the US dollar ("US$") and Chinese renminbi ("RMB") were 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	EUR	Other foreign currencies	Total foreign currencies
At 30 June 2012					
Non-structural position					
Spot assets	**169,003**	**102,668**	**11,325**	**134,170**	**417,166**
Spot liabilities	**(136,120)**	**(104,599)**	**(10,718)**	**(104,885)**	**(356,322)**
Forward purchases	**319,178**	**87,915**	**5,013**	**41,528**	**453,634**
Forward sales	**(351,333)**	**(84,961)**	**(5,759)**	**(70,578)**	**(512,631)**
Net options position	**142**	**(114)**	**-**	**(31)**	**(3)**
Net long/(short) non-structural position	**870**	**909**	**(139)**	**204**	**1,844**
Structural position	**205**	**26,935**	**-**	**387**	**27,527**
At 30 June 2011					
Non-structural position					
Spot assets	202,504	117,668	10,972	93,301	424,445
Spot liabilities	(138,668)	(116,524)	(11,831)	(98,213)	(365,236)
Forward purchases	272,831	109,050	7,088	44,341	433,310
Forward sales	(335,242)	(110,238)	(6,268)	(39,502)	(491,250)
Net options position	67	(44)	(6)	(11)	6
Net long/(short) non-structural position	1,492	(88)	(45)	(84)	1,275
Structural position	206	21,827	-	273	22,306
At 31 December 2011					
Non-structural position					
Spot assets	149,152	123,061	9,119	118,208	399,540
Spot liabilities	(128,778)	(124,005)	(11,097)	(99,929)	(363,809)
Forward purchases	265,328	87,981	4,699	30,929	388,937
Forward sales	(284,172)	(85,934)	(3,061)	(49,305)	(422,472)
Net options position	147	(124)	(24)	4	3
Net long/(short) non-structural position	1,677	979	(364)	(93)	2,199
Structural position	206	24,850	-	305	25,361

The above US Dollars foreign currency exposure included certain US Dollars currency loans with embedded US Dollars forward contract granted to customers under the bank negotiation with the underlying documentary credit denominated in RMB currency amounted to HK$1,477 million at 30 June 2012 (30 June 2011: HK$45,015 million, 31 December 2011: HK$19,128 million).

NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

40 Fair value of financial instruments

Determination of fair value

	Valuation techniques: quoted market price Level 1	Valuation techniques: using observable inputs Level 2	Valuation techniques: with significant non-observable inputs Level 3	Third party total	Amounts with HSBC entities *	Total
At 30 June 2012						
Assets						
Trading assets	**38,113**	**2,924**	**-**	**41,037**	**-**	**41,037**
Financial assets designated at fair value	**1,968**	**1,652**	**497**	**4,117**	**3,591**	**7,708**
Derivative financial instruments	**500**	**3,182**	**67**	**3,749**	**314**	**4,063**
Available-for-sale financial investments	**88,043**	**71,287**	**198**	**159,528**	**-**	**159,528**
Liabilities						
Trading liabilities	**18,591**	**38,480**	**293**	**57,364**	**-**	**57,364**
Financial liabilities designated at fair value	**-**	**443**	**-**	**443**	**-**	**443**
Derivative financial instruments	**42**	**3,804**	**-**	**3,846**	**913**	**4,759**
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 31 December 2011						
Assets						
Trading assets	59,866	4,305	-	64,171	-	64,171
Financial assets designated at fair value	758	3,165	634	4,557	3,539	8,096
Derivative financial instruments	541	3,814	71	4,426	284	4,710
Available-for-sale financial investments	59,411	89,718	150	149,279	-	149,279
Liabilities						
Trading liabilities	25,605	33,584	523	59,712	-	59,712
Financial liabilities designated at fair value	-	434	-	434	-	434
Derivative financial instruments	48	4,153	-	4,201	647	4,848

* *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 2012, the amounts of financial assets transferred in and out of Level 3 in the fair value hierarchy were nil and HK$41 million respectively (HK$22 million and HK$151 million respectively for the first half of 2011, HK$5 million and HK$163 million respectively for the second half of 2011). The total amounts of financial liabilities transferred in and out of Level 3 were nil and HK$98 million respectively (HK$122 million and HK$52 million respectively for the first half of 2011, nil and HK$108 million respectively for the second half of 2011). 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 2011, 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 27 February 2012. The Annual Report and Financial Statements for the year ended 31 December 2011, 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

As a result of the adoption of the amendment to HKAS 12 "Income Taxes", certain comparative figures have been adjusted to conform with the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2012.

43 Property revaluation

The Group’s premises and investment properties were revalued at 30 June 2012 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$839 million was credited to the premises revaluation reserve. Revaluation gains of HK$238 million on investment properties were recognised through the income statement. The related deferred tax provision for Group premises was HK$128 million.

The revaluation exercise also covered business premises/investment properties reclassified as properties held for sale. There was no revaluation gain recognised through the income statement during the period.

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.

Review report to the Board of Directors of Hang Seng Bank Limited

Introduction

We have reviewed the interim financial report set out on pages 17 to 56 which comprises the consolidated balance sheet of Hang Seng Bank Limited ("the Bank") as of 30 June 2012 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 2012 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

30 July 2012

SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS *(unaudited)*

These notes set out on pages 58 to 71 are supplementary to and should be read in conjunction with the consolidated financial statements set out on pages 17 to 56. 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 2012 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 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.

(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.

2 Financial Risk Management *(continued)*

(a) Credit risk *(continued)*

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 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.

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 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.

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 demographic, 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 the concentration and profile of debt maturities;

- managing contingent liquidity commitment exposures within pre-determined limits;

- 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 2012	Half-year ended 30 June 2011	Half-year ended 31 December 2011
The Bank and its subsidiaries designated by the Hong Kong Monetary Authority ("HKMA")	**36.9%**	33.3%	33.8%

(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.

2 Financial Risk Management *(continued)*

(c) Market risk *(continued)*

Value at risk ("VAR")

One of the principal tools used by the Group to monitor and limit market risk exposure is VAR.

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.

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 of interest rate risk and foreign exchange risk positions and on individual risk portfolios during the first halves of 2012 and 2011 are shown in the table below:

Value at risk

	At 30 June 2012	**Minimum during the period**	**Maximum during the period**	**Average for the period**
Total VAR	**55**	**40**	**92**	**56**
Total trading VAR	**23**	**5**	**23**	**11**
VAR for foreign exchange risk (trading)	**4**	**2**	**8**	**5**
VAR for interest rate risk:				
- trading	**23**	**4**	**23**	**10**
- non-trading	**23**	**19**	**29**	**24**

	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

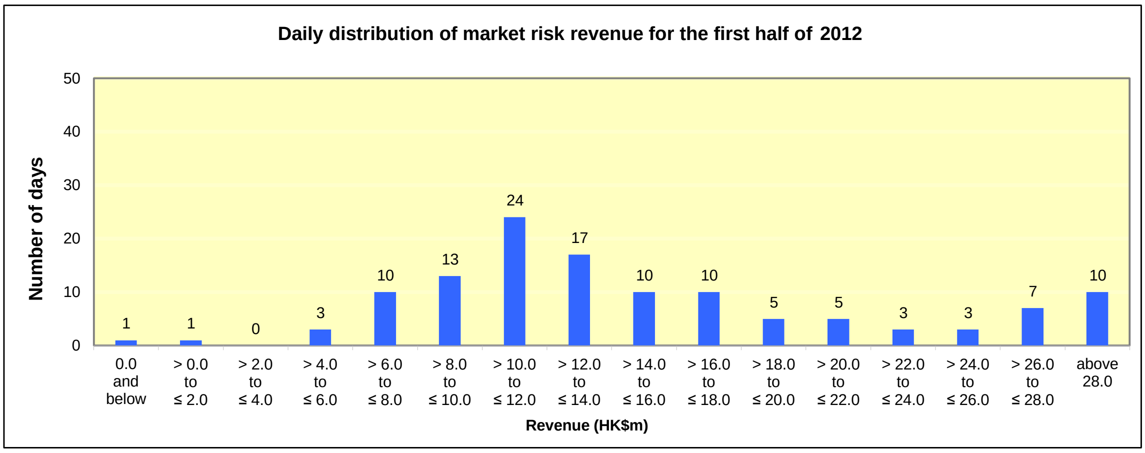
SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS *(unaudited) (continued)*

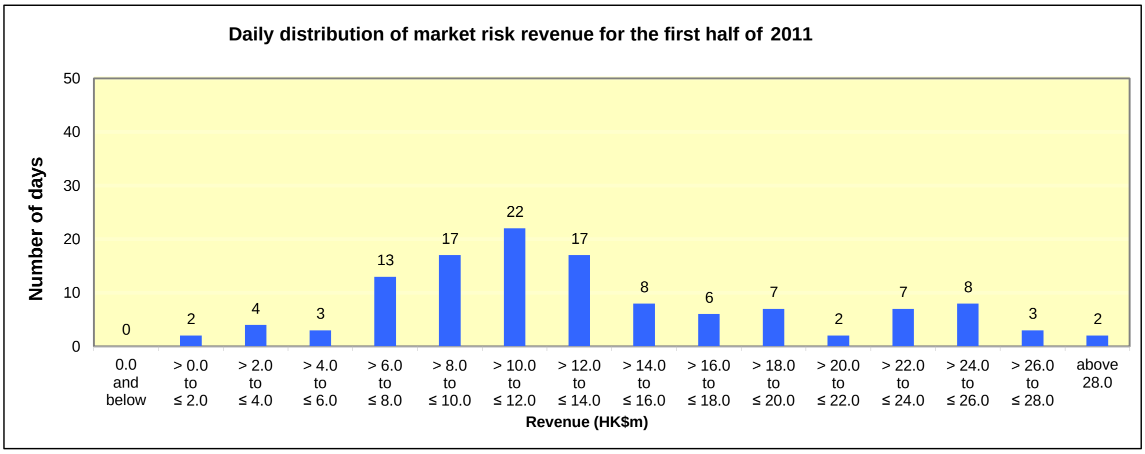
2 Financial risk management *(continued)*

(c) Market risk *(continued)*

The average daily revenue earned from market risk-related treasury activities for the first half of 2012, including non-trading book net interest income and funding related to trading positions, was HK$16 million (HK$14 million for the first half of 2011). The standard deviation of these daily revenues was HK$10 million (HK$7 million for the first half of 2011).

An analysis of the frequency distribution of daily revenue shows that out of 122 trading days for the first half of 2012, 1 day with daily loss of HK$3 million was recorded (no loss was recorded for the first half of 2011). The most frequent result was a daily revenue of between HK$6 million and HK$18 million, with 84 occurrences (83 occurrences for the first half of 2011). The highest daily revenue was HK$69 million (HK$34 million for the first half of 2011).





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 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 arises from the different 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 capital adequacy framework "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 ("the Capital Rules") made under the Banking Ordinances. The 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 ("LGD") estimates 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 PD but also the quantification of EAD and LGD.

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 non-securitisation business with effect from 1 January 2009, with the remainder on standardised approach.

2 Financial Risk Management *(continued)*

(d) Capital management *(continued)*

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.

For market risk, the Group is required to use a variety of approaches to calculate its market risk capital requirement, including the internal models 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 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.

The Basel Committee on Banking Supervision has issued the final rules in two documents "A global regulatory framework for more resilient banks and banking systems" and "International framework for liquidity risk measurement, standards and monitoring" in December 2010, widely referred to as Basel III rules, on the areas of capital and liquidity respectively. The HKMA has then issued a consultation paper in January 2012 on the implementation of Basel III capital standards in Hong Kong. The paper set out, amongst other things, the requirements relating the revised definitions of capital. The revised definitions are proposed to take effect from 2013, with phase-in arrangement from 2013 to 2019 for certain items.

The banking industry is meanwhile negotiating with the HKMA with an aim to reaching consensus on a few implementation issues so as to enable the rules to be introduced into the Legislative Council for negative vetting later in the year before they may come into effect on 1 January 2013.

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 2012 were compiled in accordance with the Capital Rules 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 were no changes in the approaches used in 30 June 2012. In addition, there was no relevant capital shortfall in any of the Group's subsidiaries which were 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 2012	At 30 June 2011	At 31 December 2011
Core capital:			
Paid-up ordinary share capital	**9,559**	9,559	9,559
- Reserves per balance sheet	**72,583**	62,013	65,563
- Unconsolidated subsidiaries	**(8,359)**	(6,882)	(7,234)
- Cash flow hedging reserve	**(9)**	(72)	(6)
- Regulatory reserve	**(4,639)**	(2,889)	(4,226)
- Reserves arising from revaluation of property and unrealised gains on available-for-sale equities and debt securities	**(17,347)**	(15,136)	(15,860)
Total reserves included in core capital	**42,229**	37,034	38,237
- Goodwill and intangible assets	**(987)**	(939)	(977)
- 50% of unconsolidated investments	**(12,395)**	(10,693)	(11,304)
- 50% of securitisation positions and other deductions	**(158)**	(158)	(158)
Deductions	**(13,540)**	(11,790)	(12,439)
Total core capital	**38,248**	34,803	35,357
Supplementary capital:			
- Term subordinated debt	**11,827**	11,865	11,846
- Property revaluation reserves [1]	**5,894**	5,894	5,894
- Available-for-sale investments revaluation reserves [2]	**155**	226	117
- Regulatory reserve [3]	**325**	318	296
- Collective impairment allowances [3]	**50**	77	54
- Excess impairment allowances over expected losses [4]	**1,651**	1,373	1,522
Supplementary capital before deductions	**19,902**	19,753	19,729
- 50% of unconsolidated investments	**(12,395)**	(10,693)	(11,304)
- 50% of securitisation positions and other deductions	**(158)**	(158)	(158)
Deductions	**(12,553)**	(10,851)	(11,462)
Total supplementary capital	**7,349**	8,902	8,267
Capital base	**45,597**	43,705	43,624
Risk-weighted assets			
- credit risk	**286,786**	279,207	266,567
- market risk	**4,003**	2,099	2,054
- operational risk	**36,502**	36,137	35,649
	327,291	317,443	304,270
- Capital adequacy ratio	**13.9%**	13.8%	14.3%
- Core capital ratio	**11.7%**	11.0%	11.6%
Reserves and deductible items			
Published reserves	**38,275**	34,309	31,640
Profit and loss account	**3,954**	2,725	6,597
Total reserves included in core capital	**42,229**	37,034	38,237
Total of items deductible 50% from core capital and 50% from supplementary capital	**25,106**	21,702	22,924

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

2 *Includes adjustments made in accordance with the Capital Rules.*

3 *Total regulatory reserve and collective impairment allowances are apportioned between the standardised approach and internal ratings-based approach in accordance with the 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.*

The capital ratios at 31 December 2011 and 30 June 2011 have not been restated as a results of the adoption of Hong Kong Accounting Standard 12 "Income Taxes". Accordingly, the amount of "reserves per balance sheet" under the core capital would not correspond with the total reserves in the Group's financial statements.

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 specified in a notice from the HKMA in accordance with section 98(2) of the Banking Ordinance. 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 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 Capital Rules and excluded from the basis of consolidation for regulatory reporting purpose.*

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

2 Financial Risk Management *(continued)*

(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 2012	**-**	**-**
At 30 June 2011	37	37
At 31 December 2011	-	-

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 2012				
Residential mortgages	**139,017**	**120**	**(1)**	**(23)**
Commercial, industrial and international trade	**123,317**	**1,309**	**(942)**	**(538)**
Commercial real estate	**60,840**	**11**	**-**	**(4)**
Other property-related lending	**92,851**	**66**	**(6)**	**(18)**
At 30 June 2011				
Residential mortgages	128,148	97	(1)	(45)
Commercial, industrial and international trade	144,893	1,280	(952)	(541)
Commercial real estate	49,005	2	-	(1)
Other property-related lending	96,265	82	(20)	(26)
At 31 December 2011				
Residential mortgages	129,751	108	(2)	(34)
Commercial, industrial and international trade	114,661	1,272	(884)	(594)
Commercial real estate	52,745	4	-	(4)
Other property-related lending	95,236	42	(4)	(22)

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 2012				
Mainland entities	**39,909**	**4,273**	**44,182**	**-**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**21,800**	**4,424**	**26,224**	**312**
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	**137**	**-**	**137**	**-**
	61,846	**8,697**	**70,543**	**312**
Exposures incurred by the Bank's mainland subsidiary	**48,501**	**6,492**	**54,993**	**200**
	110,347	**15,189**	**125,536**	**512**
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	135
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	327	-	327	-
	39,253	8,867	48,120	135
Exposures incurred by the Bank's mainland subsidiary	41,540	16,045	57,585	155
	80,793	24,912	105,705	290
At 31 December 2011				
Mainland entities	30,082	6,789	36,871	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	11,850	1,813	13,663	282
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	341	-	341	-
	42,273	8,602	50,875	282
Exposures incurred by the Bank's mainland subsidiary	46,342	10,208	56,550	105
	88,615	18,810	107,425	387

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, 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 2012				
Asia-Pacific excluding Hong Kong:				
- China	**81,362**	**-**	**41,592**	**122,954**
- Japan	**14,210**	**-**	**38,170**	**52,380**
- Other	**44,250**	**2,061**	**13,897**	**60,208**
	139,822	**2,061**	**93,659**	**235,542**
The Americas:				
- United States	**5,240**	**-**	**4,263**	**9,503**
- Other	**8,634**	**1,652**	**13,329**	**23,615**
	13,874	**1,652**	**17,592**	**33,118**
Europe:				
- United Kingdom	**10,849**	**-**	**1,933**	**12,782**
- Other	**17,772**	**3,552**	**7,963**	**29,287**
	28,621	**3,552**	**9,896**	**42,069**
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 31 December 2011				
Asia-Pacific excluding Hong Kong:				
- China	92,136	-	43,076	135,212
- Japan	10,358	-	29,052	39,410
- Other	34,558	2,223	10,328	47,109
	137,052	2,223	82,456	221,731
The Americas:				
- United States	19,388	-	4,116	23,504
- Other	3,827	1,958	12,177	17,962
	23,215	1,958	16,293	41,466
Europe:				
- United Kingdom	10,525	199	3,016	13,740
- Other	19,081	6,732	9,984	35,797
	29,606	6,931	13,000	49,537

ADDITIONAL INFORMATION

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 (including those who has ceased to be a Director or who has become a Director during the first six months of 2012) who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2012.

Changes in Directors' Biographical Details

Changes in Directors' biographical details since the date of the Annual Report 2011 of the Bank or (as the case may be) the date of announcement for the appointment of Director issued by the Bank on or subsequent to the date of the Annual Report 2011, 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 Raymond CH'IEN Kuo Fung GBS, CBE, JP

New appointments

- Hang Seng Bank Limited[1] (Chairman of Nomination Committee)
- Swiss Re Limited[1] (Independent Non-executive Director)

Ms Rose LEE Wai Mun

New appointments

- Barrowgate Limited (Director)
- Hang Seng Bank Limited[1] (Vice-Chairman and Chief Executive, Chairman of Executive Committee and Member of Nomination Committee)
- Hang Seng Bank (China) Limited (Chairman)
- Hang Seng Insurance Company Limited (Chairman)
- Hang Seng Life Limited (Chairman)
- Hang Seng Securities Limited (Non-executive Chairman)
- Haseba Investment Company Limited (Chairman)
- Hang Seng Indexes Company Limited (Chairman of Hang Seng Index Advisory Committee)
- Ho Leung Ho Lee Foundation (Member of Board of Trustees)
- Swire Pacific Limited[1] (Independent Non-executive Director)
- The Hongkong and Shanghai Banking Corporation Limited (Director)

Cessation of appointments

- Bank of Shanghai (Director)
- The Hongkong and Shanghai Banking Corporation Limited (Advisor, China and Hong Kong)

Dr John CHAN Cho Chak GBS, JP

New appointment

- Hang Seng Bank Limited[1] (Member of Nomination Committee)

Dr Marvin CHEUNG Kin Tung GBS, OBE, JP

Cessation of appointments

- Barristers Disciplinary Tribunal (Member)
- Executive Council of HKSAR Government (Non-official Member)

Ms CHIANG Lai Yuen, JP

Cessation of appointment
- The Open University of Hong Kong (Member of the Council)

Mr Andrew FUNG Hau Chung JP

New appointment
- Labour Department (Member of the Protection of Wages on Insolvency Fund Board)

Ms Anita FUNG Yuen Mei

New appointment
- Treasury Markets Association (Member of the Council)

Mr Jenkin HUI

New appointment
- Hang Seng Bank Limited(1) (Member of Nomination Committee)

Ms Sarah Catherine LEGG

New appointment
- The Hong Kong Association of Banks (Chairman of the Basel Implementation Committee)

Mr Richard TANG Yat Sun BBS, JP

New appointments
- Fight Crime Committee (Member)
- Hong Kong Institute of Certified Public Accountants (Member of Investigation Panel A)

Cessation of appointments
- Correctional Services Children's Education Trust (Chairman of the Investment Advisory Board)
- Hong Kong Institute of Certified Public Accountants (Member of Disciplinary Panel A)

Mr Peter WONG Tung Shun JP

New appointment
- Hang Seng Bank Limited(1) (Member of Nomination Committee)

Mr Michael WU Wei Kuo

New appointment
- The University of Hong Kong (Member of the Court)

Cessation of appointment
- Hong Kong Retail Management Association (Executive Committee Member)

Notes:

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

(2) Swiss Reinsurance Company Limited, of which Dr Raymond K F Ch'ien is an Independent Non-executive Director, has ceased to be a company listed on the SIX Swiss Exchange since 8 December 2011.

(3) Dr John C C Chan has been re-designated as Deputy Chairman and Independent Non-executive Director (previously Independent Non-executive Director) of Transport International Holdings Limited during the period under review.

(4) 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 2012, 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:						
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	57,237	-	-	-	57,237	0.00
Ms Rose W M Lee	145,603	1,357	-	104,552[(2)(5)]	251,512	0.00
Dr John C C Chan	24,605[(1)]	-	-	-	24,605	0.00
Mr Andrew H C Fung	41,943	-	-	37,515[(5)]	79,458	0.00
Ms Anita Y M Fung	1,021,235	-	-	445,896[(5)]	1,467,131	0.00
Mr Jenkin Hui	18,132	-	2,009,241[(3)]	-	2,027,373	0.01
Ms Sarah C Legg	60,845	2,008	-	66,361[(5)]	129,214	0.00
Dr Eric K C Li	-	42,175	-	-	42,175	0.00
Mrs Dorothy K Y P Sit	78,478[(4)]	1,031	-	33,978[(5)]	113,487	0.00
Mr Peter T S Wong	697,690	17,869	-	530,954[(5)]	1,246,513	0.00
Alternate Chief Executives:						
Mr Nixon L S Chan	32,122	-	-	21,433[(5)]	53,555	0.00
Mr Christopher H N Ho	88,612	45,549	-	10,450[(5)]	144,611	0.00
Mr Donald Y S Lam	30,504	-	-	17,903[(5)]	48,407	0.00
Mr Andrew W L Leung	5,369	-	-	2,903[(5)]	8,272	0.00

Notes:

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

(2) 96,800 shares in HSBC Holdings plc were held by a trust of which Ms Rose W M Lee was a beneficiary.

(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 in HSBC Holdings plc 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:			
Ms Rose W M Lee	-	7,752	7,752
Mr Andrew H C Fung	4,197	33,318	37,515
Ms Anita Y M Fung	4,197	441,699	445,896
Ms Sarah C Legg	12,562	53,799	66,361
Mrs Dorothy K Y P Sit	2,375	31,603	33,978
Mr Peter T S Wong	-	530,954	530,954
Alternate Chief Executives:			
Mr Nixon L S Chan	8,148	13,285	21,433
Mr Christopher H N Ho	5,961	4,489	10,450
Mr Donald Y S Lam	11,082	6,821	17,903
Mr Andrew W L Leung	-	2,903	2,903

Options

As at 30 June 2012, 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 2012	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:						
Mr Andrew H C Fung	4,197	-	HK$37.8797	29 Apr 2009	1 Aug 2014	31 Jan 2015
Ms Anita Y M Fung	4,197	-	HK$37.8797	29 Apr 2009	1 Aug 2014	31 Jan 2015

	Options held as at 30 June 2012	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
Ms Sarah C	-	3,656	£7.3244	7 May 2002	7 May 2005	7 May 2012
Legg	-	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
	12,562					
Mrs Dorothy K Y P Sit	2,375	-	HK$37.8797	29 Apr 2009	1 Aug 2012	31 Jan 2013
Alternate Chief Executives:						
Mr Nixon L S	-	3,328	£7.3244	7 May 2002	7 May 2005	6 May 2012
Chan	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
	8,148					
Mr Christopher	3,443	-	£7.2181	30 Apr 2004	30 Apr 2009	29 Apr 2014
H N Ho	2,518	-	HK$37.8797	29 Apr 2009	1 Aug 2012	31 Jan 2013
	5,961					
Mr Donald Y	6,885	-	£7.2181	30 Apr 2004	30 Apr 2009	30 Apr 2014
S Lam	4,197	-	HK$37.8797	29 Apr 2009	1 Aug 2014	31 Jan 2015
	11,082					

Conditional Awards of Shares

As at 30 June 2012, 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 2012	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 2012
Directors:				
Ms Rose W M Lee	7,752[(2)]	-	-	7,752
Mr Andrew H C Fung	37,471	16,247	21,358	33,318[(1)]
Ms Anita Y M Fung	1,295,532	145,013	1,021,235	441,699[(1)]
Ms Sarah C Legg	37,338	38,770	23,575	53,799[(1)]
Mrs Dorothy K Y P Sit	34,768	17,069	21,135	31,603[(1)]
Mr Peter T S Wong	406,683	398,753	287,444	530,954[(1)]
Alternate Chief Executives:				
Mr Nixon L S Chan	20,531	7,611	15,306	13,285[(1)]
Mr Christopher H N Ho	9,114	2,049	6,852	4,489[(1)]
Mr Donald Y S Lam	9,722	4,683	7,805	6,821[(1)]
Mr Andrew W L Leung	1,668	1,829	659	2,903[(1)]

Notes:

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

(2) This represents the awards held by Ms Rose W M Lee on 22 March 2012 when she was appointed a Director of the Bank.

All the interests stated above represent long positions. As at 30 June 2012, 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 2012.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2012, 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 wholly-owned 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 2012, 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 2012.

After the period under review, the Bank redeemed all the US$300,000,000 floating rate subordinated notes due 2017 at par on 6 July 2012.

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2011 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 with a view to safeguarding the interests of shareholders, customers, staff and other stakeholders. The Bank has followed the module on ‘Corporate Governance of Locally Incorporated Authorised Institutions’ under the Supervisory Policy Manual issued by the 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 Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2012.

Register of Shareholders

The Register of Shareholders of the Bank will be closed on Wednesday, 15 August 2012, 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 Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 pm on Tuesday, 14 August 2012. The second interim dividend will be payable on Thursday, 30 August 2012 to shareholders on the Register of Shareholders of the Bank on Wednesday, 15 August 2012. Shares of the Bank will be traded ex-dividend as from Monday, 13 August 2012.

Proposed Timetables for the Remaining Quarterly Dividends for 2012

Third interim dividend for 2012

Announcement date	9 October 2012
Book close and record date	26 October 2012
Payment date	13 November 2012

Fourth interim dividend for 2012

Announcement date	4 March 2013
Book close and record date	20 March 2013
Payment date	3 April 2013

Board and Committees

Board

Independent Non-executive Chairman
Raymond CH'IEN Kuo Fung

Executive Directors
Rose LEE Wai Mun[(1)] (Vice-Chairman and Chief Executive)
Andrew FUNG Hau Chung

Non-executive Directors
Anita FUNG Yuen Mei
Sarah Catherine LEGG
Vincent LO Hong Sui
Dorothy SIT KWAN Yin Ping
Peter WONG Tung Shun

Independent Non-executive Directors
John CHAN Cho Chak
Marvin CHEUNG Kin Tung
CHIANG Lai Yuen
HU Zuliu, Fred
Jenkin HUI
Eric LI Ka Cheung
Richard TANG Yat Sun
Michael WU Wei Kuo

Committees

Executive Committee
Rose LEE Wai Mun (Chairman)
Andrew FUNG Hau Chung
Nixon CHAN Lik Sang
Christopher HO Hing Nin
Donald LAM Yin Shing
Andrew LEUNG Wing Lok
TANG Nai Pan

Audit Committee
Eric LI Ka Cheung (Chairman)
Marvin CHEUNG Kin Tung
Richard TANG Yat Sun

Remuneration Committee
John CHAN Cho Chak (Chairman)
Raymond CH'IEN Kuo Fung
Jenkin HUI

Nomination Committee[(2)]
Raymond CH'IEN Kuo Fung (Chairman)
Rose LEE Wai Mun
John CHAN Cho Chak
Jenkin HUI
Peter WONG Tung Shun

Notes:

(1) Appointment as Vice-Chairman and Chief Executive of the Bank took effect from 11 May 2012.

(2) Nomination Committee was established in March 2012.

(3) Terms of Reference of the Bank's Audit Committee, Remuneration Committee and Nomination Committee are available on the websites of the Bank and Hong Kong Exchanges and Clearing Limited ("HKEX").

(4) List of Directors identifying their role and function is available on the websites of the Bank and HKEX.

(5) The Bank makes available to Directors monthly updates during the months where there are no physical Board meetings, in order to keep the Directors abreast of the Bank's performance and operations. In addition, Directors also receive regular updates from time to time on changes to and developments in the legislative and regulatory environments in which the Bank operates.

(6) All Directors participate in continuous professional development to develop and refresh their knowledge and skills and to ensure that their contribution to the Board remains informed and relevant. The Bank keeps records of the trainings received by Directors.

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Stock Code
The Stock Exchange of Hong Kong Limited: 11

Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Depositary *

The Bank of New York Mellon
PO Box 358516
Pittsburgh, PA 15252-8516, USA
Telephone: 1-201-680-6825
Toll free (domestic): 1-888-BNY-ADRS
Website: www.bnymellon.com\shareowner
Email: shrrelations@bnymellon.com

* 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 2012

The Interim Report 2012 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of HKEX (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2012 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2012 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
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