

30 July 2007

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2007 INTERIM CONSOLIDATED RESULTS - HIGHLIGHTS

- Net operating income before loan impairment charges and other credit risk provisions up 35.7 per cent to HK\$60,177 million (HK\$44,353 million in the first half of 2006).
- Pre-tax profit up 52.9 per cent to HK\$39,003 million (HK\$25,516 million in the first half of 2006).
- Pre-tax profit excluding dilution gains up 34.7 per cent to HK\$34,371 million.
- Attributable profit up 56.9 per cent to HK\$28,987 million (HK\$18,471 million in the first half of 2006).
- Return on average shareholders' funds of 38.0 per cent (34.9 per cent in the first half of 2006).
- Assets up 13.3 per cent to HK\$3,569 billion (HK\$3,151 billion at the end of 2006).
- Cost efficiency ratio of 34.1 per cent (39.4 per cent for the first half of 2006).

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

Comment by Vincent Cheng, Chairman

For the six months ended 30 June 2007, The Hongkong and Shanghai Banking Corporation Limited reported the best set of interim results, in terms of profit growth, for more than a decade. Profit before tax increased an impressive 52.9 per cent to HK\$39,003 million. The profit figure includes a HK\$4,632 million gain on the dilution of investments in associates in mainland China, comprising Bank of Communications and Industrial Bank. Excluding these one-off gains, the group's profit before tax in the period still rose strongly by 34.7 per cent.

Our growth strategy is paying off. We continue to invest in our businesses, particularly Personal Financial Services. Operating conditions were the best for more than a decade, distinguished by record global stock market activity and buoyant regional economies, most notably in mainland China. Credit quality in Asia remained good with loan impairment charges and other risk provisions, as a result, largely unchanged at HK\$2,635 million.

In Hong Kong, our businesses put in an outstanding performance with profit before tax up a significant 26.4 per cent to HK\$24,482 million, supported by an exceptionally strong economy and the bull market in equities. Hong Kong is benefiting from the further integration of its economy into the wider Pearl River Delta economic zone. The group's results in the territory were achieved through deposit growth, widening deposit spreads and strong wealth management earnings in the face of fierce price competition for residential mortgages and rising cost pressures in rents and salaries.

Amid these buoyant economic conditions, the group's operations in the rest of the Asia-Pacific region grew at a record pace with profit before tax up 136.3 per cent, including the one-off dilution gain, to HK\$14,521 million. Excluding the one-off gain, profit before tax rose 60.9 per cent, reflecting strong growth in the underlying businesses. All of our major sites in the region reported profit growth, including mainland China, India, Indonesia, Korea, Singapore and Taiwan.

In March, our mainland China operation was one of the first foreign banks to successfully incorporate locally, creating HSBC Bank (China) Company Limited. We have the largest foreign bank presence in the country with a branch and sub-branch network of 40 outlets. In June, we announced the bank will take up new headquarters in 'HSBC Building – Shanghai IFC' at the heart of the Lujiazui financial centre. Our partnerships in mainland China are performing strongly. Bank of Communications credit cards in issue reached 2.4 million in the period.

In Vietnam, we received approval to raise our holding in Vietnam Technological and Commercial Joint-Stock Bank (Techcombank) from 10 per cent to 15 per cent – becoming one of the first foreign banks allowed to raise their holding in a partner bank.

Comment by Vincent Cheng, Chairman (continued)

Personal Financial Services reported profit before tax of HK\$15,163 million, up 43.6 per cent on rising deposits, widening deposit spreads and increased fee income from wealth management and stockbroking on the back of strong equity market conditions. The re-launch of HSBC Premier in the period also supported business growth, particularly in wealth management. Insurance income rose 39.1 per cent with continued focus on retirement planning services. Our personal internet banking service in Hong Kong goes from strength to strength with 1.3 million customers registered online. By the end of June about 60 per cent of customer bill payments and over 80 per cent of share trading transactions were being executed through this channel. HSBC Direct in Taiwan and Korea, which were launched in September 2006 and February this year respectively, continued to make good progress in acquiring customers and deposits. Our new consumer finance operations in Australia, India and Indonesia are also doing well as we continue to invest in their development.

Strong regional cash payments and trade flows, combined with rising deposits and widening deposit spreads, contributed to Commercial Banking increasing profit before tax by 29.7 per cent to HK\$8,701 million. We continue to exploit cross-border business growth, especially between mainland China, Hong Kong, Korea, Taiwan and Vietnam. Trade balances in all these countries and territories grew during the period. The business was further strengthened by the acquisition of Chailease Credit Services Co. Ltd, a Taiwanese factoring company, in May this year.

Corporate, Investment Banking and Markets reported an excellent profit before tax of HK\$11,253 million, up 45.4 per cent, demonstrating the success of our emerging markets-led and financing-focused strategy. Higher net interest income in Global Markets and strong trading profits across Asia helped achieve this outstanding result.

Our 'joining-up' strategy is going well. The group's leadership position in the distribution of structured products in Hong Kong is an example of this. We are able to source products from our structured equity derivatives teams in Hong Kong and Paris and distribute these offerings to our personal and private banking clients in the territory. The recent HSBC China Dragon Fund launch was the result of the close cooperation of our asset management and investment banking teams and effective distribution through our branch network and internet banking service. The HK\$3.6 billion fund was the first authorised actively-managed Chinese equity fund to be listed on the Stock Exchange of Hong Kong.

HSBC in Asia continues to invest in its successful organic growth strategy. We remain alert to opportunities to make acquisitions, where the price is right and the fit with HSBC strategy, culture and operations is good. The group remains alert to any change in the current benign credit environment. We are confident we have the right platform and risk management in place to manage any changes in these conditions. We will continue to invest in our businesses in the region and work to capture the opportunities we see, both now and over the medium to long term.

<i>Figures in HK\$m</i>	<i>Personal Financial Services</i>	<i>Commercial Banking</i>	<i>Corporate, Investment Banking and Markets</i>	<i>Private Banking</i>	<i>Other</i>	<i>Intra- segment elimination</i>	<i>Total</i>
Half-year ended 30 June 2007							
Net interest income/(expense)	17,040	7,985	6,519	24	(2,165)	(152)	29,251
Net fee income	7,976	2,830	4,131	67	79	-	15,083
Net trading income/(expense)	719	494	5,838	15	(10)	(102)	6,954
Net income/(loss) from financial instruments designated at fair value	2,563	(253)	45	-	(322)	254	2,287
Gains less losses from financial investments	18	-	151	-	251	-	420
Gains arising from dilution of investments in associates	-	-	-	-	4,632	-	4,632
Dividend income	6	3	57	-	280	-	346
Net earned insurance premiums	11,458	534	66	-	-	-	12,058
Other operating income	846	121	320	7	3,233	(2,451)	2,076
Total operating income	40,626	11,714	17,127	113	5,978	(2,451)	73,107
Net insurance claims incurred and movement in policyholders' liabilities	(12,584)	(296)	(50)	-	-	-	(12,930)
Net operating income before loan impairment charges and other credit risk provisions	28,042	11,418	17,077	113	5,978	(2,451)	60,177
Loan impairment charges and other credit risk provisions	(2,198)	(375)	(61)	-	(1)	-	(2,635)
Net operating income	25,844	11,043	17,016	113	5,977	(2,451)	57,542
Operating expenses	(10,900)	(3,492)	(6,283)	(103)	(2,213)	2,451	(20,540)
Operating profit	14,944	7,551	10,733	10	3,764	-	37,002
Share of profit in associates and joint venture	219	1,150	520	-	112	-	2,001
Profit before tax	15,163	8,701	11,253	10	3,876	-	39,003
Share of profit before tax	38.9%	22.3%	28.9%	-	9.9%	-	100.0%

<i>Figures in HK\$m</i>	<i>Personal Financial Services</i>	<i>Commercial Banking</i>	<i>Corporate, Investment Banking and Markets</i>	<i>Private Banking</i>	<i>Other</i>	<i>Intra- segment elimination</i>	<i>Total</i>
Half-year ended 30 June 2006							
Net interest income/(expense)	14,403	6,458	4,017	39	(2,395)	1,068	23,590
Net fee income/(expense)	5,177	2,445	3,511	33	(252)	-	10,914
Net trading income	459	386	4,587	6	215	(1,191)	4,462
Net income/(loss) from financial instruments designated at fair value	63	(319)	18	-	143	123	28
Gains less losses from financial investments	84	(1)	195	-	872	-	1,150
Gains arising from dilution of investments in associates	-	-	-	-	-	-	-
Dividend income	3	2	23	-	563	-	591
Net earned insurance premiums	10,413	437	62	-	-	-	10,912
Other operating income	836	71	148	7	3,481	(2,093)	2,450
Total operating income	31,438	9,479	12,561	85	2,627	(2,093)	54,097
Net insurance claims incurred and movement in policyholders' liabilities	(9,471)	(225)	(48)	-	-	-	(9,744)
Net operating income before loan impairment charges and other credit risk provisions	21,967	9,254	12,513	85	2,627	(2,093)	44,353
Loan impairment charges and other credit risk provisions	(2,480)	(258)	155	-	-	-	(2,583)
Net operating income	19,487	8,996	12,668	85	2,627	(2,093)	41,770
Operating expenses	(9,046)	(3,011)	(5,222)	(81)	(2,222)	2,093	(17,489)
Operating profit	10,441	5,985	7,446	4	405	-	24,281
Share of profit in associates and joint venture	116	723	296	-	100	-	1,235
Profit before tax	10,557	6,708	7,742	4	505	-	25,516
Share of profit before tax	41.4%	26.3%	30.3%	-	2.0%	-	100.0%

Personal Financial Services reported profit before tax of HK\$15,163 million, an increase of 43.6 per cent over the first half of 2006. This was driven by strong growth in operating income, partly offset by higher operating expenses as a result of continued business expansion in the rest of the Asia-Pacific region.

Net interest income increased by HK\$2,637 million, or 18.3 per cent, compared with the first half of 2006. In Hong Kong, net interest income rose by HK\$1,658 million, or 15.5 per cent, as average customer account balances grew following a series of deposit campaigns and rate offers to address customers' demand for short-term products amid the buoyant stock market and during IPO subscription periods. In addition, the relaunch of HSBC Premier attracted new funds, and spreads improved as a result of tactical deposit pricing and higher foreign currency interest rates. Activity in the local property market increased, but customer appetite for higher mortgage borrowing remained muted and intense competition continued to drive down mortgage pricing.

In the rest of Asia-Pacific, net interest income rose by HK\$979 million, or 26.7 per cent, driven by strong deposit growth across the region. As a result of the group's focus on growing the mass-affluent HSBC Premier customer base, deposits increased in a number of countries, particularly Singapore, mainland China, Australia and India, and deposit spreads improved on the back of higher interest rates. Several Mainland branches were granted approval to offer certain renminbi deposit products to local residents in late 2006 and, since local incorporation in March 2007, are now able to offer a full range of renminbi services. In addition, HSBC Direct was launched in Taiwan in the third quarter of 2006 and in Korea in February 2007, and both countries have progressed well, generating deposits of more than HK\$7 billion since launch. Interest earned on credit cards was higher in the Philippines, India and Australia, reflecting growth in the number of cards in circulation and higher levels of receivables as the relationships mature. Income from consumer lending also rose, notably from personal instalment loans in India, Korea and Indonesia, and spreads widened as a result of higher pricing. Net interest income from mortgage lending fell due to the sale of the broker-originated portfolio in Australia in the fourth quarter of 2006, although growth in Singapore was strong.

Net fee income of HK\$7,976 million was 54.1 per cent higher than the first half of 2006, driven by strong business growth and favourable investment market sentiment in Hong Kong. Fee income from stockbroking and custody services rose by 98.0 per cent, as transaction volumes were significantly higher, reflecting buoyant stock market conditions and a large number of IPOs in Hong Kong in the first half of 2007. Sales of unit trusts and structured investment products increased significantly as investors were encouraged by informative and targeted campaigns to boost investment awareness, and by the launch of new funds, particularly those comprising China stocks.

Net fee income from credit cards was HK\$230 million, or 15.8 per cent, higher than the first half of 2006. The group maintained its leadership position in Hong Kong with a successful mass acquisition campaign launched in April, and now has more than 4.8 million cards in circulation throughout the territory. In the rest of Asia-Pacific, expansion of the cards business continued, particularly in India and the Philippines. The number of cards in issue rose by 25.3 per cent to a total of 6.2 million, and reward programmes helped drive a 30.4 per cent increase in cardholder spending.

Insurance income rose by 39.1 per cent, with continued focus on retirement planning services. The launch of new investment-linked insurance products contributed to growth in life assurance premium income. Sales of general insurance products also grew, supported by more efficient usage of alternative distribution channels such as the internet.

The charge for loan impairment fell by HK\$282 million to HK\$2,198 million, as conditions improved in Taiwan and Indonesia. In Hong Kong, higher charges, mainly against credit card lending, were largely volume-driven. Although the credit environment remained generally robust, the number of personal bankruptcies rose slightly which also contributed to the increased charges. In the rest of Asia-Pacific, impairment charges rose in line with volume growth in cards and personal loans in India, Thailand and Australia. Delinquency rates also rose in Thailand as a result of higher minimum repayment rules for cards, coupled with a deterioration in credit conditions.

In Taiwan, charges against credit card lending were lower on account of improved delinquency rates whereas prior year impairment levels were severely affected by the imposition of a mandatory government debt negotiation scheme which led to market-wide credit losses. However, conditions continue to be monitored closely in light of proposed legislation in respect of personal bankruptcy arrangements due to be introduced in 2008. Conditions in Indonesia improved compared with the prior year which was impacted by higher minimum repayment rules and reductions in the government subsidy of fuel prices. The reduction in the current year charge also benefited from greater collection efforts.

Operating expenses were HK\$1,854 million, or 20.5 per cent, higher than in the first half of 2006, principally driven by continued investment in organic growth across the rest of the Asia-Pacific region. In Hong Kong, operating expenses rose by 13.2 per cent. Staff costs were higher primarily as a result of sales incentives and other performance-related pay, in addition to salary rises. Premises costs were higher, comprising branch refurbishments along with rises in commercial rentals. Marketing expenses rose as a result of campaigns to boost business activities, particularly for wealth management products and credit cards. In the rest of Asia-Pacific, costs increased by HK\$1,183 million, or 29.8 per cent, notably in India, mainland China, Korea, Indonesia and the Philippines. Headcount rose by 26.5 per cent as sales and support functions were strengthened to support business growth, premises costs rose as new outlets were opened in Indonesia, India, and mainland China, and higher marketing costs were incurred to drive sales and promote the HSBC brand. Following the launch of the consumer finance business in the region last year, India and Indonesia continued to incur investment costs to strengthen their market presence. Korea saw increased staff, infrastructure and marketing expenditure related to the launch of HSBC Direct.

Income from associates of HK\$219 million includes improved results from Bank of Communications and Industrial Bank.

HSBC was the recipient of four major awards from The Asian Banker this year: Best Retail Bank in Hong Kong, Best Regional Retail Business in Asia, Excellence in Bancassurance and Excellence in Internet Banking (Channel), affirming the group's leading position in personal banking in the region.

Commercial Banking reported profit before tax of HK\$8,701 million, an increase of 29.7 per cent over the first half of 2006, driven by strong balance sheet growth and improved deposit spreads.

Net interest income increased by HK\$1,527 million, or 23.6 per cent, compared with the first half of 2006, reflecting growth in advances and deposits resulting from product development and active marketing efforts, coupled with improvements in deposit spreads. In Hong Kong, net interest income rose by HK\$823 million, or 17.1 per cent. Although local interest rates remained stable following rises in 2006, Hong Kong dollar deposits increased substantially, driven by strong economic growth and stock market gains. Foreign currency deposits achieved significant growth on the back of rises in global interest rates. Spreads improved, particularly on foreign currency savings accounts, attributable to active management of savings rates offered to customers. Promotional activities and continued emphasis on the SME segment contributed to the growth of 'BusinessVantage' accounts. Non-trade lending balances increased as the economy continued to grow and demand for credit remained strong. Cross-border lending to manufacturers with operations in mainland China continued to be strong as intra-Asia trade accelerated. However, asset spreads were generally tighter as a result of market competition, particularly for corporate and mid-market business customers.

In the rest of Asia-Pacific, net interest income grew by 43.1 per cent, with the opening of new branches delivering deposit and loan growth, coupled with the widening of spreads, notably in India and mainland China. Efforts were made to increase liability balances by conducting various deposit garnering campaigns in Taiwan, mainland China and Australia. Trade balances grew in Korea, mainland China, Vietnam and India, and the business was strengthened by the acquisition of Chailease Credit Services Co., Ltd., a Taiwanese factoring company, in May 2007. The group continued to develop its cross-border capabilities and its cross-border referral system linked up business opportunities across different geographical boundaries. Country desks were established by Korea and Taiwan in mainland China, and a new commercial banking unit was set up in South Africa.

Net fee income rose by HK\$385 million, or 15.7 per cent, and was largely attributable to higher cash management, remittance and trade fees, particularly in Hong Kong and India, driven by increased trade flows and enhancements to customer service. Fees from sales of unit trusts and structured investment products rose as the robust Hong Kong stock market boosted investment appetite and demand for investment products. Earnings from customer foreign exchange trades also increased, reflecting an increase in cross-border payments.

Insurance revenues, particularly from life insurance, continued to grow as the sales force was realigned to capture cross-selling opportunities within the existing client base, supported by marketing campaigns and new product launches. Income increased by 15.2 per cent as a result.

The net charge for loan impairment was HK\$117 million higher than in the first half of 2006 primarily due to fewer releases, coupled with new specific charges against a number of customers in Thailand, Sri Lanka and Bangladesh. However, credit quality generally remained stable in Hong Kong and elsewhere in the region, and there were releases in Mauritius.

Operating expenses increased by 16.0 per cent over the first half of 2006, largely attributable to higher staff costs as the number of staff increased in Hong Kong, India and mainland China to support SME initiatives, insurance business expansion and product development. Performance-related costs also rose significantly, in line with the improved results. The group continued to place strong emphasis in leveraging its direct channel capabilities, and the number of internet-based transactions increased, contributing to efficiencies that mitigated the increased cost of processing higher volumes. In the rest of the Asia-Pacific region, higher costs reflected the increased sales force to support initiatives and business expansion, notably in India and mainland China. Higher IT and infrastructure costs and marketing expenditure were incurred in these countries as a result of branch expansion.

Income from associates of HK\$1,150 million includes improved results from Bank of Communications and Industrial Bank.

HSBC's position as a leading commercial bank has earned it the recognition of various awards including The Best Trade Finance Bank by FinanceAsia for ten consecutive years, Best Bank for Cash Management in Asia for five consecutive years by Global Finance, and was the recipient of the SME's Best Partner Award in 2007 by the Hong Kong Chamber of Small and Medium Business Ltd.

Corporate, Investment Banking and Markets reported profit before tax of HK\$11,253 million, 45.4 per cent higher than the first half of 2006 largely on account of higher net interest income in Global Markets and strong trading profits.

Net interest income increased by HK\$2,502 million, or 62.3 per cent, compared with the first half of 2006. In Global Markets, balance sheet management revenues rose significantly, reflecting the replacement of maturing low-yield assets at higher yields, as well as a slightly steeper yield curve. Net interest income in Global Transaction Banking increased by 32.2 per cent, notably in mainland China, India, Hong Kong and Taiwan, as deposit spreads improved as a result of interest rate rises across the region, coupled with business growth in the payments and cash management and securities services businesses. Net interest income from corporate lending fell by 10.3 per cent, primarily due to continued margin compression in Hong Kong which was affected by surplus liquidity in the corporate sector, although there was strong growth in income in India and mainland China.

Net fee income increased by HK\$620 million, or 17.7 per cent. In Hong Kong, higher revenues in the securities and fund services business reflected increased client volumes, driven by continuing investor confidence in the local stock markets and high IPO activity. In addition, there were strong performances from Korea, Australia, India and Singapore, and capabilities in the region were strengthened by the acquisition of Westpac's sub-custody business in Australia and New Zealand last year. Investment banking benefited from strong capital markets, and underwriting revenues from IPO activities in Hong Kong grew significantly. Fee income from the asset management business grew modestly, as higher revenues from funds under management were partly offset by lower fund performance fees. Structured finance reported lower fees, reflecting lower transaction volumes over the same period last year.

Net trading income rose by 27.3 per cent to HK\$5,838 million. Foreign exchange and interest rate derivatives profits were higher as rate volatility provided good trading opportunities and higher sales volumes, particularly in India and Thailand, reflecting a growing requirement from customers for risk management products. The equities and equity derivatives business in Hong Kong, which has been built up significantly over the past two years, capitalised on the strong regional stock market performances and returned excellent results. In particular, there was significant growth in structured equity derivatives, attributable to cross-sales to personal and private banking customers.

There was a net charge for loan impairment of HK\$61 million compared with a net release of HK\$155 million in the first half of 2006. Although the corporate credit environment throughout the region generally remained benign, there were lower releases, and a new specific allowance was made against a mainland China exposure.

Operating expenses increased by 20.3 per cent compared with the first half of 2006, reflecting headcount increases to support business expansion in all areas and higher performance-related remuneration. IT costs also rose to support business growth.

Income from associates of HK\$520 million includes improved results from Bank of Communications and Industrial Bank.

Other includes income and expenses relating to certain funding, investment, property and other activities that are not allocated to other customer groups.

Gains of HK\$4,632 million were made on the dilution of the group's interests in Bank of Communications and Industrial Bank. Both of these associates raised new capital in the first half of 2007, but the group did not subscribe for any additional shares issued under these offers and, as a result, its percentage shareholdings decreased. However, the assets of Bank of Communications and Industrial Bank increased substantially as a result of the new issues, and consequently the group's share of the associates' underlying net assets increased by HK\$4,632 million. This one-off increase was regarded as a gain arising from deemed disposals of part of the group's interests in associates, and has been recognised in the income statement.

These gains were slightly offset by lower gains from financial investments as the first half of 2006 included profit on the disposal of part of the group's stake in UTI Bank. In addition, there were lower profits made on property sales in the first half of 2007 compared with the first half of 2006.

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Interest income	67,550	53,745
Interest expense	<u>(38,299)</u>	<u>(30,155)</u>
Net interest income	29,251	23,590
Fee income	17,396	13,185
Fee expense	<u>(2,313)</u>	<u>(2,271)</u>
Net fee income	15,083	10,914
Net trading income	6,954	4,462
Net income from financial instruments designated at fair value	2,287	28
Gains less losses from financial investments	420	1,150
Gains arising from dilution of investments in associates	4,632	-
Dividend income	346	591
Net earned insurance premiums	12,058	10,912
Other operating income	<u>2,076</u>	<u>2,450</u>
Total operating income	73,107	54,097
Net insurance claims incurred and movement in policyholders' liabilities	<u>(12,930)</u>	<u>(9,744)</u>
Net operating income before loan impairment charges and other credit risk provisions	60,177	44,353
Loan impairment charges and other credit risk provisions	<u>(2,635)</u>	<u>(2,583)</u>
Net operating income	57,542	41,770
Employee compensation and benefits	(12,111)	(10,109)
General and administrative expenses	(7,157)	(6,317)
Depreciation of property, plant and equipment	(1,005)	(934)
Amortisation of intangible assets	(267)	(129)
Total operating expenses	<u>(20,540)</u>	<u>(17,489)</u>
Operating profit	37,002	24,281
Share of profit in associates and joint venture	<u>2,001</u>	<u>1,235</u>
Profit before tax	39,003	25,516
Tax expense	<u>(6,404)</u>	<u>(4,569)</u>
Profit for the period	32,599	20,947
Profit attributable to shareholders	28,987	18,471
Profit attributable to minority interests	3,612	2,476

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
ASSETS		
Cash and short-term funds	744,586	518,022
Items in the course of collection from other banks	117,403	46,519
Placings with banks maturing after one month but less than one year	77,598	99,332
Placings with banks maturing after one year	3,124	4,705
Certificates of deposit	69,485	73,200
Hong Kong SAR Government certificates of indebtedness	101,214	102,374
Trading assets	301,371	338,792
Financial assets designated at fair value	56,686	50,514
Derivatives	128,096	99,167
Advances to customers	1,154,991	1,043,782
Financial investments	527,245	484,841
Amounts due from group companies	142,804	161,118
Investments in associates and joint venture	32,840	25,534
Goodwill and intangible assets	11,594	10,428
Property, plant and equipment	29,904	29,159
Deferred tax assets	1,130	1,245
Retirement benefit assets	3,307	2,191
Other assets	65,453	59,917
Total assets	<u>3,568,831</u>	<u>3,150,840</u>
LIABILITIES		
Hong Kong SAR currency notes in circulation	101,214	102,374
Items in the course of transmission to other banks	114,015	57,226
Deposits by banks	183,967	108,125
Customer accounts	2,163,224	1,989,467
Trading liabilities	276,991	272,545
Financial liabilities designated at fair value	37,811	36,554
Derivatives	122,724	98,659
Debt securities in issue	73,993	69,195
Retirement benefit liabilities	340	465
Amounts due to group companies	47,131	31,356
Other liabilities and provisions	61,043	56,478
Liabilities under insurance contracts issued	73,792	61,350
Current tax liabilities	7,137	4,500
Deferred tax liabilities	4,899	4,284
Subordinated liabilities	18,920	16,353
Preference shares	78,823	76,464
Total liabilities	<u>3,366,024</u>	<u>2,985,395</u>

<i>Figures in HK\$m</i>	<u>At 30 June 2007</u>	<u>At 31 December 2006</u>
EQUITY		
Share capital	22,494	22,494
Other reserves	56,662	35,514
Retained profits	95,645	80,942
Proposed dividend	5,500	6,500
Total shareholders' equity	<u>180,301</u>	<u>145,450</u>
Minority interests	<u>22,506</u>	<u>19,995</u>
	<u>202,807</u>	<u>165,445</u>
Total equity and liabilities	<u>3,568,831</u>	<u>3,150,840</u>

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Available-for-sale investments:		
- fair value changes taken to equity	13,483	5,481
- fair value changes transferred to the income statement on disposal or impairment	(469)	(1,119)
- fair value changes transferred to the income statement on hedged items due to hedged risks	402	670
Cash flow hedges:		
- fair value changes taken to equity	(547)	12
- fair value changes transferred to the income statement	260	884
Property revaluation:		
- fair value changes taken to equity	1,285	1,468
Share of changes in equity of associates and joint venture	21	164
Exchange differences	3,118	914
Actuarial gains/(losses) on post-employment benefits	959	(279)
	18,512	8,195
Net deferred tax on items taken directly to equity	(241)	(47)
Total income and expense taken to equity during the period	18,271	8,148
Profit for the period	32,599	20,947
Total recognised income and expense for the period	50,870	29,095
Total recognised income and expense for the period attributable to:		
- shareholders	46,179	26,381
- minority interests	4,691	2,714
	50,870	29,095

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Operating activities		
Cash generated from operations	230,682	118,945
Interest received on financial investments	10,268	9,095
Dividends received on financial investments	234	206
Dividends received from associates	221	33
Taxation paid	(3,151)	(2,019)
Net cash inflow from operating activities	<u>238,254</u>	<u>126,260</u>
Investing activities		
Purchase of financial investments	(226,576)	(201,753)
Proceeds from sale or redemption of financial investments	214,046	174,201
Purchase of property, plant and equipment	(1,076)	(568)
Purchase of other intangible assets	(587)	(532)
Proceeds from sale of property, plant and equipment	187	707
Net cash outflow in respect of the acquisition of a subsidiary company	(134)	-
Net cash inflow in respect of the purchase of interests in business portfolios	1,999	-
Net cash outflow in respect of the purchase of interest in an associate	(74)	-
Proceeds from the sale of interest in an associate	230	-
Net cash outflow from investing activities	<u>(11,985)</u>	<u>(27,945)</u>
Net cash inflow before financing	<u>226,269</u>	<u>98,315</u>
Financing		
Issue of preference shares	1,953	-
Change in minority interests	(17)	322
Issue of subordinated liabilities	2,345	4,485
Ordinary dividends paid	(11,500)	(8,257)
Dividends paid to minority interests	(2,968)	(3,043)
Interest paid on preference shares	(2,405)	(1,856)
Interest paid on subordinated liabilities	(577)	(383)
Net cash outflow from financing	<u>(13,169)</u>	<u>(8,732)</u>
Increase in cash and cash equivalents	<u>213,100</u>	<u>89,583</u>

1. Net interest income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Net interest income	29,251	23,590
Average interest-earning assets	2,498,886	2,179,207
Net interest spread	2.02 %	1.76 %
Net interest margin	2.36 %	2.18 %

Net interest income of HK\$29,251 million was HK\$5,661 million, or 24.0 per cent, higher than the first half of 2006. Higher income was attributable to strong balance sheet growth and improved deposit spreads throughout the region, coupled with higher balance sheet management income.

Net interest income in Personal Financial Services rose by HK\$2,637 million, or 18.3 per cent, partly due to strong growth in the deposit base in Hong Kong and in the region. Lending growth also contributed to the increase in interest income, particularly personal loans in India, Korea and at Hang Seng Bank, and credit cards in the Philippines, India, Australia and at Hang Seng Bank. In addition, strong returns were generated on investments held by the group's insurance companies, benefiting from higher yields and growth in portfolio size. Net interest income in Commercial Banking was HK\$1,527 million, or 23.6 per cent, higher than the first half of 2006 mainly due to balance sheet growth, notably in Hong Kong, India, mainland China and Singapore, and the widening of deposit spreads. In Corporate, Investment Banking and Markets, net interest income increased significantly as a result of strong balance sheet management income, reflecting the replacement of maturing assets at higher yields. This was coupled with business growth in the payments and cash management and securities services businesses and improved deposits spreads, notably in mainland China, India, Hong Kong and Taiwan.

Average interest-earning assets rose by HK\$319.7 billion, or 14.7 per cent, to HK\$2,498.9 billion. Average advances to customers grew by HK\$77.9 billion, or 7.6 per cent, with strong increases in corporate loans in mainland China and India, and a small rise in average mortgage balances in Hong Kong coupled with stronger growth in India and Singapore, partly offset by the disposal of the broker-originated mortgage business in Australia and the reclassification of part of the mortgage book in New Zealand as 'held for sale' which is in the 'Other assets' category. Average credit card balances rose in most areas, notably Hong Kong, Australia, India, the Philippines and Thailand, and personal instalment loans grew, most significantly in India and Korea. Average placements with banks were HK\$151.9 billion higher, and holdings of available-for-sale securities rose by HK\$82.0 billion, reflecting the deployment of the commercial surplus.

The group's **net interest margin** of 2.36 per cent for the first half of 2007 was 18 basis points higher than the comparable period in 2006. Net interest spread improved by 26 basis points, while the contribution from net free funds declined by eight basis points reflecting the deployment of funds into trading assets.

1. Net interest income *(continued)*

For the bank in Hong Kong, net interest margin increased by 19 basis points to 2.27 per cent for the first half of 2007. Spread rose by 29 basis points, benefiting from higher yields on money market placements and debt securities, and improved deposit spreads, particularly on US dollar current and savings accounts as US dollar interest rates rose. This was partly offset by lower spreads on mortgages and term lending as Hong Kong dollar lending rates decreased. The contribution from net free funds decreased by 10 basis points primarily due to the reduction of free funds as a result of redeployment of surplus funds into trading assets.

At Hang Seng Bank, net interest margin improved by nine basis points to 2.46 per cent, benefiting from wider deposit spreads and the better yields on the balance sheet management portfolio. Balance sheet management income improved as lower-yielding securities gradually matured and were replaced by higher-yielding assets. Net interest spread rose by five basis points to 1.87 per cent while the contribution from net free funds increased by four basis points, benefiting from the rise in market interest rates and from interest-free customer balances. Notwithstanding the benefit from higher interest rates, the pricing of residential mortgages and corporate lending was still under pressure due to intense market competition.

In the rest of Asia-Pacific, net interest margin at 2.30 per cent was 15 basis points higher than the first half of 2006, and spread increased by 33 basis points to 2.09 per cent. In mainland China, spread improved as the increase in lending rates outweighed the increase in deposit rates, coupled with a better funding structure comprising a higher proportion of low cost customer deposits. Spread improved in Indonesia as funding costs decreased following interest rate cuts. In the Philippines, local interest rates dropped but strong growth in high-yielding credit card receivables more than offset the decline in yields for other lending products. India benefited from higher margins on customer accounts in a rising interest rate environment as savings rates were contained, and yields improved on the back of strong growth in credit card advances and personal loans. The contribution from net free funds dropped by 18 basis points mainly due to an increase in net trading assets in Korea, mainland China and Australia.

2. Net fee income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Account services	778	709
Credit facilities	689	640
Import/export	1,582	1,400
Remittances	817	684
Securities/stockbroking	4,261	2,572
Cards	2,025	2,348
Insurance	277	154
Unit trusts	2,227	1,227
Funds under management	1,781	1,658
Other	<u>2,959</u>	<u>1,793</u>
Fee income	17,396	13,185
Fee expense	<u>(2,313)</u>	<u>(2,271)</u>
	<u>15,083</u>	<u>10,914</u>

Net fee income was HK\$4,169 million, or 38.2 per cent, higher than the first half of 2006.

Securities broking and custody fees rose by 65.7 per cent, reflecting significantly higher stock market turnover and IPO activity in Hong Kong. The buoyant stock markets also stimulated demand for unit trusts and fee income increased by 81.5 per cent.

Trade finance income was 13.0 per cent higher, notably in India, Hong Kong and mainland China, and in part due to the transfer into the group of HSBC's South African operations in the second quarter of 2007. Remittance and other account fees grew, reflecting the group's strong transactional capabilities.

Gross fee income from credit cards was impacted by a loss of revenues in Taiwan as credit card activity fell in the wake of the country's curbs on consumer credit growth, and by the transfer in August 2006 of the majority of the merchant acquiring business to the joint venture company set up with Global Payments Inc. However, there was strong growth in issuing fees elsewhere in the region, notably India, Hong Kong and the Philippines, due to an increase in the number of cards in circulation and higher cardholder spending.

'Other' includes investment banking fees which were higher as several IPO mandates in Hong Kong were won, and an increase in commissions received from fellow HSBC Group companies in respect of treasury business.

3. Gains less losses from financial investments

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Available-for-sale financial investments	<u>420</u>	<u>1,150</u>
	<u>420</u>	<u>1,150</u>

The profit on the disposal of available-for-sale securities in 2007 largely comprises gains on the sale of equity shares and further disposals of Philippine government securities. Prior year gains include the profits made on the sale of part of the group's stake in UTI Bank, and also on Philippine government securities.

4. Other operating income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Rental income from investment properties	77	109
Movement in present value of in-force insurance business	629	632
Profit on disposal of property, plant and equipment, and assets held for sale	16	337
Profit on disposal of subsidiaries, associates and business portfolios	35	-
Net gains or losses from the disposal or revaluation of investment properties	275	477
Other	<u>1,044</u>	<u>895</u>
	<u>2,076</u>	<u>2,450</u>

Profit on the disposal of property, plant and equipment was lower than in 2006 due to the non-recurrence of gains made on the sale of a commercial property in Hong Kong.

Gains on investment properties decreased reflecting lower property sales and due to a lower revaluation surplus as property price rises in Hong Kong slowed.

'Other' largely comprises recoveries of IT and other operating costs from fellow HSBC Group companies which were incurred on their behalf.

5. Gains arising from dilution of investments in associates

During the period, two associates of the group, Bank of Communications Limited and Industrial Bank Co., Ltd., issued new shares. The group did not subscribe for any additional shares issued under these offers and, as a result, its interests in the associates' equity decreased from 19.90 per cent to 18.60 per cent and from 15.98 per cent to 12.78 per cent, respectively.

The net assets of both Bank of Communications and Industrial Bank increased substantially when they received the proceeds from the new share issues. After the new issues, the group's share of the net assets of both associates increased by HK\$4,632 million compared to the share of the net assets immediately prior. This increase in the group's share of net assets was regarded as a gain arising from deemed disposals of part of its interests in the associates and has been presented in the consolidated income statement.

The gains resulting from the dilution of the group's investments in the associates were HK\$3,167 million and HK\$1,465 million in respect of Bank of Communications and Industrial Bank respectively.

The dilution of the interests does not affect the classification of the group's investments as investments in associates.

6. Loan impairment charges and other credit risk provisions

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Net charge for impairment of customer advances		
- Individually assessed impairment allowances:		
New allowances	983	815
Releases	(323)	(556)
Recoveries	(93)	(133)
	567	126
- Net charge for collectively assessed impairment allowances	2,084	2,434
	2,651	2,560
Net (release)/charge for other credit risk provisions	(16)	23
	2,635	2,583

The net charge for loan impairment and other credit risk provisions was HK\$52 million higher than in the first half of 2006.

The charge for new individually assessed allowances was higher, largely attributable to the downgrading of certain corporate customers with activities in Thailand and mainland China. Releases and recoveries were lower, mainly relating to corporates in Hong Kong and mainland China.

The net charge for collectively assessed allowances decreased, due to lower charges in Taiwan and Indonesia where delinquency rates for personal unsecured lending have improved. Charges rose in other parts of the region, reflecting higher credit card and other personal lending volumes, particularly in India, Hong Kong, Thailand and Australia. Delinquency levels rose in Thailand due to a deterioration in economic conditions, coupled with a rise in the minimum monthly repayment amount on credit cards.

Included in the net release of other credit risk provisions is an impairment charge of HK\$8 million against an available-for-sale investment (half-year ended 30 June 2006: nil).

7. Employee compensation and benefits

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Wages and salaries	7,832	6,852
Performance-related pay	3,602	2,655
Social security costs	141	143
Retirement benefit costs	536	459
	<u>12,111</u>	<u>10,109</u>

Staff numbers by region[‡]

	<i>At 30 June 2007</i>	<i>At 30 June 2006</i>
Hong Kong	25,786	25,655
Rest of Asia-Pacific	30,826	29,069
Total	<u>56,612</u>	<u>54,724</u>

[‡] Full-time equivalent

Staff costs increased by HK\$2,002 million, or 19.8 per cent, compared with the first half of 2006. Salaries rose by 14.3 per cent, in line with increases in headcount throughout the region, and due to annual salary rises. Staff numbers rose significantly in India and Indonesia reflecting the establishment of the consumer finance business and expansion of the sales force, and in mainland China to support new branch openings. Ownership of the group service centre in Guangdong was transferred to another HSBC Group entity in August 2006 with a resultant decrease in headcount of approximately 4,000 in the rest of the Asia-Pacific region. Performance-related pay increased in line with improved operating revenues, higher dealing income and the increase in headcount.

8. General and administrative expenses

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Premises and equipment		
- Rental expenses	903	727
- Amortisation of prepaid operating lease payments	29	29
- Other premises and equipment	1,155	1,124
	2,087	1,880
Marketing and advertising expenses	1,675	1,395
Other administrative expenses	3,845	3,039
Litigation and other provisions	(450)	3
	7,157	6,317

The increase in general and administrative expenses of HK\$840 million, or 13.3 per cent, reflected additional costs incurred in business expansion throughout the region. Premises and equipment costs rose due to new branch openings and rent increases. Marketing expenditure was higher, with higher credit card bonus point redemption costs, brand advertising at airports in mainland China, campaigns to support the launch of HSBC Direct in Korea, and retail banking promotions at Hang Seng Bank. Technology costs also increased as the group continued to improve its customer relationship management systems and internet banking capabilities.

9. Tax expense

The tax expense in the consolidated income statement comprises:

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2007</i>	<i>Half-year ended 30 June 2006</i>
Current income tax		
- Hong Kong profits tax	3,609	2,797
- Overseas taxation	2,211	1,709
Deferred taxation	584	63
	<u>6,404</u>	<u>4,569</u>

The effective rate of tax for the first half of 2007 was 16.4 per cent, compared with 17.9 per cent for the first half of 2006. The decrease was attributable to the dilution gains on investments in associates being tax-exempt.

10. Dividends

	<i>Half-year ended 30 June 2007</i>		<i>Half-year ended 30 June 2006</i>	
	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>
Dividends paid on ordinary share capital				
- Paid	0.56	5,000	0.42	3,757
- Proposed	0.61	5,500	0.61	5,500
	<u>1.17</u>	<u>10,500</u>	<u>1.03</u>	<u>9,257</u>

11. Advances to customers

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Gross advances to customers	1,161,956	1,050,625
Impairment allowances:		
- Individually assessed	(2,284)	(2,118)
- Collectively assessed	(4,681)	(4,725)
	(6,965)	(6,843)
	1,154,991	1,043,782
Allowances as a percentage of gross advances to customers:		
- Individually assessed	0.20 %	0.20 %
- Collectively assessed	0.40 %	0.45 %
Total allowances	0.60 %	0.65 %

12. Impairment allowances against advances to customers

<i>Figures in HK\$m</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>	<i>Total</i>
At 1 January 2007	2,118	4,725	6,843
Amounts written off	(485)	(2,425)	(2,910)
Recoveries of advances written off in previous years	92	329	421
Net charge to income statement	567	2,084	2,651
Unwinding of discount of loan impairment	(50)	(112)	(162)
Exchange and other adjustments	42	80	122
At 30 June 2007	2,284	4,681	6,965

13. Impaired advances to customers and allowances

The geographical information shown below, and in note 14, has been classified by location of the principal operations of the subsidiary company or, in the case of the bank, by location of the branch responsible for advancing the funds.

<i>Figures in HK\$m</i>	<u><i>Hong Kong</i></u>	<u><i>Rest of Asia-Pacific</i></u>	<u><i>Total</i></u>
Half-year ended 30 June 2007			
Impairment charge	<u>641</u>	<u>2,010</u>	<u>2,651</u>
Half-year ended 30 June 2006			
Impairment charge	<u>514</u>	<u>2,046</u>	<u>2,560</u>
At 30 June 2007			
Advances to customers which are considered to be impaired are as follows:			
Gross impaired advances	3,649	5,587	9,236
Individually assessed allowances	<u>(924)</u>	<u>(1,360)</u>	<u>(2,284)</u>
	<u>2,725</u>	<u>4,227</u>	<u>6,952</u>
Individually assessed allowances as a percentage of gross impaired advances	<u>25.3%</u>	<u>24.3%</u>	<u>24.7%</u>
Gross impaired advances as a percentage of gross advances to customers	<u>0.5%</u>	<u>1.1%</u>	<u>0.8%</u>

13. Impaired advances to customers and allowances (continued)

<i>Figures in HK\$m</i>	<u>Hong Kong</u>	<u>Rest of Asia-Pacific</u>	<u>Total</u>
At 31 December 2006			
Advances to customers which are considered to be impaired are as follows:			
Gross impaired advances	3,530	5,071	8,601
Individually assessed allowances	<u>(1,016)</u>	<u>(1,102)</u>	<u>(2,118)</u>
	<u>2,514</u>	<u>3,969</u>	<u>6,483</u>
Individually assessed allowances as a percentage of gross impaired advances	<u>28.8%</u>	<u>21.7%</u>	<u>24.6%</u>
Gross impaired advances as a percentage of gross advances to customers	<u>0.6%</u>	<u>1.2%</u>	<u>0.8%</u>

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

Individually assessed allowances are made after taking into account the value of collateral held in respect of such advances.

14. Analysis of advances to customers based on categories used by the HSBC Group

The following analysis of advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries, for risk management purposes.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 30 June 2007			
Residential mortgages	188,455	122,593	311,048
Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages	31,050	-	31,050
Credit card advances	30,543	22,996	53,539
Other personal	65,483	39,123	104,606
Total personal	<u>315,531</u>	<u>184,712</u>	<u>500,243</u>
Commercial, industrial and international trade	130,546	165,056	295,602
Commercial real estate	89,298	45,366	134,664
Other property-related lending	59,292	16,921	76,213
Government	2,785	5,016	7,801
Other commercial	41,758	46,940	88,698
Total corporate and commercial	<u>323,679</u>	<u>279,299</u>	<u>602,978</u>
Non-bank financial institutions	28,700	25,784	54,484
Settlement accounts	3,935	316	4,251
Total financial	<u>32,635</u>	<u>26,100</u>	<u>58,735</u>
Gross advances to customers	671,845	490,111	1,161,956
Individually assessed impairment allowances	(924)	(1,360)	(2,284)
Collectively assessed impairment allowances	(1,699)	(2,982)	(4,681)
Net advances to customers	<u><u>669,222</u></u>	<u><u>485,769</u></u>	<u><u>1,154,991</u></u>

14. Analysis of advances to customers based on categories used by the HSBC Group (continued)

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Total</i>
At 31 December 2006			
Residential mortgages	191,522	112,905	304,427
Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages	31,708	-	31,708
Credit card advances	31,315	19,999	51,314
Other personal	30,778	35,909	66,687
Total personal	<u>285,323</u>	<u>168,813</u>	<u>454,136</u>
Commercial, industrial and international trade	130,994	133,560	264,554
Commercial real estate	94,706	36,052	130,758
Other property-related lending	53,832	15,627	69,459
Government	4,283	6,727	11,010
Other commercial	43,186	38,781	81,967
Total corporate and commercial	<u>327,001</u>	<u>230,747</u>	<u>557,748</u>
Non-bank financial institutions	18,138	16,471	34,609
Settlement accounts	3,774	358	4,132
Total financial	<u>21,912</u>	<u>16,829</u>	<u>38,741</u>
Gross advances to customers	634,236	416,389	1,050,625
Individually assessed impairment allowances	(1,016)	(1,102)	(2,118)
Collectively assessed impairment allowances	<u>(1,822)</u>	<u>(2,903)</u>	<u>(4,725)</u>
Net advances to customers	<u>631,398</u>	<u>412,384</u>	<u>1,043,782</u>

14. Analysis of advances to customers based on categories used by the HSBC Group (continued)

Net advances to customers increased by HK\$111.2 billion, or 10.7 per cent, since the end of 2006.

Net advances in Hong Kong grew by HK\$37.8 billion, or 6.0 per cent, since the end of 2006. This was primarily attributable to IPO financing loans, mainly to personal customers, reflecting the significant IPO activity in the first half of 2007. Mortgage balances were marginally lower due to muted demand and intense price competition. Corporate and commercial balances fell slightly although advances to smaller businesses grew, particularly to manufacturers with operations in mainland China.

In the rest of Asia-Pacific, net advances rose by HK\$73.4 billion, or 17.8 per cent, since the end of 2006. Mortgage balances grew by 8.6 per cent with increases in Australia, India and Singapore. Credit card advances rose by 15.0 per cent, notably in Australia, India, Thailand and the Philippines, and the growth in other personal lending was largely attributable to business expansion in India. Lending to corporate and commercial customers rose by HK\$48.6 billion, notably in mainland China, Singapore, India and Mauritius.

15. Customer accounts

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Current accounts	346,060	292,450
Savings accounts	839,011	785,659
Other deposit accounts	978,153	911,358
	<u>2,163,224</u>	<u>1,989,467</u>

Customer accounts increased by HK\$173.8 billion, or 8.7 per cent, since the end of 2006.

In Hong Kong, customer accounts rose by HK\$71.6 billion, or 5.0 per cent, in the first half of 2007 following successful deposit campaigns. Deposits from personal customers increased by HK\$23.9 billion, or 2.6 per cent, and in Commercial Banking and Corporate, Investment Banking and Markets, customer account balances grew by HK\$47.7 billion, or 9.2 per cent.

In the rest of Asia-Pacific, customer accounts increased by HK\$102.2 billion, or 18.5 per cent, as the group continued to expand the deposit base throughout the region, with particular focus on attracting high net worth accounts through HSBC Premier and increasing corporate balances by growing the payments and cash management and securities services businesses. Deposits from personal customers increased by HK\$30.8 billion, or 15.2 per cent, notably in mainland China, Singapore, India and Australia. Customer account balances held by corporate customers rose by HK\$71.4 billion, or 20.3 per cent, largely in Singapore, mainland China, Australia and Taiwan.

The group's advances-to-deposits ratio increased to 53.4 per cent at 30 June 2007, from 52.5 per cent at 31 December 2006.

16. Reserves

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Other reserves		
- Property revaluation reserve	5,785	4,798
- Available-for-sale investment reserve	38,409	25,812
- Cash flow hedge reserve	(416)	(166)
- Foreign exchange reserve	5,795	2,805
- Other	7,089	2,265
	56,662	35,514
Retained profits	95,645	80,942
Total reserves	152,307	116,456

The bank and its banking subsidiary companies operate under regulatory jurisdictions which require the maintenance of minimum impairment allowances in excess of those required under Hong Kong Financial Reporting Standards. At 30 June 2007, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$3,093 million (31 December 2006: HK\$1,689 million).

The property revaluation reserve includes an amount of HK\$206 million in relation to properties classified as assets held for sale (31 December 2006: HK\$62 million).

An amount of HK\$4,632 million, being the amount of the gains arising from the dilution of investments in associates, has been transferred from retained profits to other reserves.

17. Contingent liabilities and commitments

<i>Figures in HK\$m</i>	<i>At 30 June 2007</i>	<i>At 31 December 2006</i>
Contract amount		
Contingent liabilities	119,489	100,999
Commitments	1,143,308	1,039,819
	1,262,797	1,140,818

18. Segmental analysis

The allocation of earnings reflects the benefits of shareholders' funds to the extent that these are actually allocated to businesses in the segment by way of intra-group capital and funding structures. Common costs are included in segments on the basis of the actual recharges made. Geographical information has been classified by the location of the principal operations of the subsidiary company or, in the case of the bank, by the location of the branch responsible for reporting the results or advancing the funds. Due to the nature of the group structure, the analysis of profits shown below includes intra-group items between geographical regions.

Consolidated income statement

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Intra- segment elimination</i>	<i>Total</i>
Half-year ended 30 June 2007				
Interest income	45,937	25,425	(3,812)	67,550
Interest expense	(26,335)	(15,785)	3,821	(38,299)
Net interest income	19,602	9,640	9	29,251
Fee income	11,779	6,040	(423)	17,396
Fee expense	(1,670)	(1,066)	423	(2,313)
Net trading income	2,574	4,386	(6)	6,954
Net income from financial instruments designated at fair value	1,661	629	(3)	2,287
Gains less losses from financial investments	256	164	-	420
Gains arising from dilution of investments in associates	-	4,632	-	4,632
Dividend income	181	165	-	346
Net earned insurance premiums	11,208	850	-	12,058
Other operating income	3,260	280	(1,464)	2,076
Total operating income	48,851	25,720	(1,464)	73,107
Net insurance claims incurred and movement in policyholders' liabilities	(11,824)	(1,106)	-	(12,930)
Net operating income before loan impairment charges and other credit risk provisions	37,027	24,614	(1,464)	60,177
Loan impairment charges and other credit risk provisions	(629)	(2,006)	-	(2,635)
Net operating income	36,398	22,608	(1,464)	57,542
Operating expenses	(12,019)	(9,985)	1,464	(20,540)
Operating profit	24,379	12,623	-	37,002
Share of profit in associates and joint venture	103	1,898	-	2,001
Profit before tax	24,482	14,521	-	39,003
Tax expense	(3,941)	(2,463)	-	(6,404)
Profit for the period	20,541	12,058	-	32,599
Profit attributable to shareholders	17,628	11,359	-	28,987
Profit attributable to minority interests	2,913	699	-	3,612

18. Segmental analysis (continued)

Consolidated income statement

Figures in HK\$m

	<i>Hong Kong</i>	<i>Rest of Asia-Pacific</i>	<i>Intra- segment elimination</i>	<i>Total</i>
Half-year ended 30 June 2006				
Interest income	38,238	19,254	(3,747)	53,745
Interest expense	(22,167)	(11,735)	3,747	(30,155)
Net interest income	16,071	7,519	-	23,590
Fee income	8,491	4,998	(304)	13,185
Fee expense	(1,518)	(1,057)	304	(2,271)
Net trading income	1,816	2,646	-	4,462
Net income from financial instruments designated at fair value	64	(36)	-	28
Gains less losses from financial investments	945	205	-	1,150
Gains arising from dilution of investments in associates	-	-	-	-
Dividend income	579	12	-	591
Net earned insurance premiums	10,218	694	-	10,912
Other operating income	3,183	523	(1,256)	2,450
Total operating income	39,849	15,504	(1,256)	54,097
Net insurance claims incurred and movement in policyholders' liabilities	(9,253)	(491)	-	(9,744)
Net operating income before loan impairment charges and other credit risk provisions	30,596	15,013	(1,256)	44,353
Loan impairment charges and other credit risk provisions	(544)	(2,039)	-	(2,583)
Net operating income	30,052	12,974	(1,256)	41,770
Operating expenses	(10,762)	(7,983)	1,256	(17,489)
Operating profit	19,290	4,991	-	24,281
Share of profit in associates	81	1,154	-	1,235
Profit before tax	19,371	6,145	-	25,516
Tax expense	(2,968)	(1,601)	-	(4,569)
Profit for the period	16,403	4,544	-	20,947
Profit attributable to shareholders	14,006	4,465	-	18,471
Profit attributable to minority interests	2,397	79	-	2,476

19. Accounting policies

The accounting policies applied in preparing this news release are the same as those applied in preparing the accounts for the year ended 31 December 2006, as disclosed in the Annual Report and Accounts for 2006.

20. Additional information

Additional financial information, including the group's capital ratios, relating to the period ended 30 June 2007, prepared in accordance with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance, will be made available on our website: www.hsbc.com.hk. A further press release will be issued to announce the availability of this information.

21. Statutory accounts

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

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2006 which have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditors expressed an unqualified opinion on those statutory accounts in their report dated 5 March 2007. The Annual Report and Accounts for the year ended 31 December 2006, which include the statutory accounts, can be obtained on request from Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: www.hsbc.com.hk.

22. Ultimate holding company

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

23. Statement of compliance

The information in this news release for the half-year ended 30 June 2007 complies with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

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