恒生銀行
HANG SENG BANK

Interim Report 2009

2009中期報告

The printed version of Hang Seng Bank's Interim Report 2009
will replace this version in late August 2009.

恒生銀行2009年中期報告之印刷本將於2009年8月下旬取代此版本。

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RESULTS IN BRIEF

	30 June 2009	30 June 2008	31 December 2008
For the half-year ended	**HK$m**	HK$m	HK$m
Operating profit excluding loan impairment charges and other credit risk provisions	**7,361**	9,300	7,201
Operating profit	**6,740**	9,112	4,613
Profit before tax	**7,618**	10,530	5,348
Profit attributable to shareholders	**6,451**	9,064	5,035
	HK$	HK$	HK$
Earnings per share	**3.37**	4.74	2.63
Dividends per share	**2.20**	2.20	4.10
At period-end	**HK$m**	HK$m	HK$m
Shareholders' funds	**53,261**	55,608	51,626
Total assets	**790,121**	747,916	762,168
Ratios	**%**	%	%
For the half-year ended			
Return on average shareholders' funds	**25.1**	32.8	18.7
Cost efficiency ratio	**30.4**	26.3	32.5
Average liquidity ratio	**47.5**	47.3	45.5
At period-end			
Capital adequacy ratio *	**16.6**	13.9	12.5
Core capital ratio *	**13.1**	11.3	9.5

* Capital ratios at 30 June 2009 were compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the Hong Kong Monetary Authority ("HKMA") under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II, which came into effect on 1 January 2007. 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 at 30 June 2009. The standardised (operational risk) approach and internal models approach were used to calculate its operational risk and market risk respectively. The capital adequacy ratio and core capital ratio at 31 December 2008 were calculated using the foundation internal ratings-based approach ("FIRB").

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

Against the backdrop of the global economic crisis, Hang Seng's key financial indicators for the first half of 2009 are generally down compared with the same period last year, but have improved substantially against the second half of 2008. This highlights the success of our actions to maintain broad-based business momentum in these challenging economic times.

We have been well-served by our continued emphasis on the long-held values behind Hang Seng's trusted brand – including financial prudence, long-term partnerships and professionalism. These operating principles have helped us deepen existing customer relationships and establish new ones. Customers continue to rely on Hang Seng to help them manage their financial needs, rewarding us with their loyalty and trust.

With strong roots in our local communities, we are working hard with customers to tackle today's economic challenges, to capitalise on opportunities for sustainable growth and to support economic recovery.

We are an active player in the Hong Kong government's efforts to aid the business sector and promote economic activity. In the tight credit environment, we are assisting customers by extending loans under government-backed schemes aimed at small and medium-sized enterprises.

We continue to work to join up our Commercial Banking teams in Hong Kong and mainland China as well as to introduce new initiatives such as our cross-border renminbi settlement services. In doing so, we are contributing to the infrastructure that facilitates trade activity and enhances Hong Kong's status as a leading international centre for finance and commerce.

We remain focused on increasing value for shareholders through careful risk management and cost control while investing in our business for future growth.

Financial Performance

Operating profit excluding loan impairment charges and other credit risk provisions was HK$7,361 million, down 20.8 per cent on the first half of 2008 but up 2.2 per cent on the second half. At HK$6,740 million, operating profit fell by 26 per cent compared with a year earlier, but increased by 46.1 per cent compared with the second half of last year, reflecting the improvement in loan impairment charges and other credit risk provisions.

Profit before tax recorded a decline of 27.7 per cent compared with a year earlier to HK$7,618 million, but was up 42.4 per cent on the second half of last year.

Profit attributable to shareholders was HK$6,451 million – a 28.8 per cent decline on the first half of 2008 but a 28.1 per cent increase on the second half. At HK$3.37, earnings per share were down HK$1.37, or 28.9 per cent, on the same time last year.

Net operating income before loan impairment charges and other credit risk provisions fell by 16.2 per cent to HK$10,576 million. Further emphasis on cost control saw us achieve a 3.2 per cent reduction in operating expenses to HK$3,215 million. Our cost efficiency ratio was 30.4 per cent.

Return on average shareholders' funds was 25.1 per cent, compared with 32.8 per cent and 18.7 per cent for the first and second halves of 2008 respectively. Return on average total assets was 1.7 per cent – down 0.7 percentage points compared with the first half of last year but up 0.4 percentage points on the second half.

On 30 June 2009, our capital adequacy ratio and core capital ratio were 16.6 per cent and 13.1 per cent respectively, as calculated using the 'advanced internal ratings-based approach' under Basel II, compared with 12.5 per cent and 9.5 per cent as calculated using the 'foundation internal ratings-based approach' under Basel II at the end of last year. The strengthening of these ratios largely reflects profit growth after accounting for dividends in the first half of the year, an improvement in the available-for-sale debt securities reserve due to the narrowing of credit spreads and the change in calculation methodology.

The Directors have declared a second interim dividend of HK$1.10 per share, payable on 2

September 2009. This brings the total distribution for the first half of 2009 to HK$2.20 per share, the same as in the first half of last year.

In another demonstration of Hang Seng's strong commitment to the Mainland, on 16 June we held a Board of Directors meeting in Yantai in Shandong province – the home city of one of our strategic partners, Yantai Bank.

Outlook

Following the implementation of large-scale fiscal and monetary stimulus programmes in many major economies, there are some early signs that the pace of global economic contraction has begun to moderate. However, operating conditions will remain challenging on the road to worldwide recovery.

The Mainland economy has shown itself to be more resilient than most. Demand for exports has declined sharply, but comprehensive government efforts to promote economic activity have helped support continued domestic consumption.

As a highly open economy, Hong Kong has seen contraction in both export and domestic sectors. Action by the government is offering important assistance to businesses, but given the city's significant dependence on external demand, economic recovery among its major trading partners will be a crucial factor in regaining growth momentum.

Hang Seng's solid financial fundamentals and strong brand will remain important stabilising forces in uncertain market conditions.

We will continue to uphold our core principles and further enhance our relationships with customers and other stakeholders as we work to achieve long-term growth.

Raymond Ch'ien
Chairman
Hong Kong, 3 August 2009

CHIEF EXECUTIVE'S REPORT

Hang Seng's well-respected brand, premium service, and prudent approach to business helped differentiate us from our peers in the challenging operating conditions experienced during the first half of 2009. Supported by our diverse portfolio of products, we adapted to the changing needs of customers – maintaining a strong position and achieving increased market share in both loans and deposits compared with the end of last year.

While working to protect our business against the effects of the global economic turbulence, we remained committed to developing wealth management, Commercial Banking and mainland China business as key drivers of long-term growth.

In the uncertain investment environment, we provided customers with yield enhancement opportunities through more defensive products. Our wide range of insurance solutions helped us increase our Hong Kong market share for life insurance (in terms of new business) to 16.3 per cent in the first quarter of the year. We strengthened wealth management growth prospects by expanding product offerings for commercial customers and on the Mainland.

Our cross-border Commercial Banking services and offering of government-guaranteed SME loans provided valuable support to new and existing customers in the difficult economic conditions.

In the changing credit conditions, Corporate Banking improved loan pricing, underpinning solid growth in net interest income.

Treasury moved forward with its strategy for enhancing the quality and performance of the balance sheet management portfolio and capitalised on increased customer interest in foreign exchange-linked investments.

Assisted by close collaboration between colleagues in Hong Kong and on the Mainland, Hang Seng Bank (China) Limited further enhanced service delivery and widened its product range. This helped drive a 45 per cent increase in the customer base compared with a year earlier.

Financial Highlights

Total assets increased by HK$28 billion, or 3.7 per cent, to HK$790.1 billion.

Despite a 4.2 per cent increase in average interest-earning assets, net interest income fell by 11.8 per cent to HK$7,275 million, with increased contributions from Treasury and fixed-income investments under the life insurance funds investment portfolio, as well as improved margins on corporate lending, more than offset by narrowing deposit spreads and a reduced contribution from net free funds. Net interest margin was down 0.37 percentage points at 2.06 per cent.

Net fee income dropped by 36.4 per cent to HK$1,926 million. Investors remained cautious in uncertain financial markets, with income from structured products, investment funds, and stockbroking and related services down by 98.3 per cent, 70.8 per cent and 14.7 per cent respectively. Poor investment sentiment saw Private Banking investment services income fall by 74 per cent. Insurance-related fee income increased by 90.7 per cent. Card services income increased by 5.8 per cent, supported by increases in the card base, spending and receivables.

Trading income rose by 36.4 per cent to HK$1,035 million. Foreign exchange income was up 73.8 per cent, due mainly to growth in net interest income from funding swaps and reduced losses on the revaluation of Hang Seng China's US dollar capital funds against the renminbi.

Increased emphasis on cost containment and lower performance-related pay expenses saw operating expenses drop by HK$105 million, or 3.2 per cent. Excluding our Mainland business, operating costs fell by 4.7 per cent.

With net operating income before loan impairment charges and other credit risk provisions down 16.2 per cent at HK$10,576 million, our cost efficiency ratio rose to 30.4 per cent. Loan impairment charges were HK$621 million – down significantly from HK$1,213 million for the second half of last year. Annualised impairment charges as a percentage of average advances to customers were 0.38 per cent, compared with 0.43 per cent for 2008.

Loans and Deposits

Gross advances to customers fell by HK$3.4 billion, or 1 per cent, to HK$327.7 billion.

Loans for use in Hong Kong increased by 0.4 per cent to HK$277.5 billion. Credit conditions remained challenging, but we reached out to support commercial customers through the government-initiated SME Loan Guarantee Scheme and Special Loan Guarantee Scheme.

Lending to individuals (excluding mortgages under the Government Home Ownership Scheme) was stable. In the competitive home loans market, we achieved a 2.2 per cent increase in residential mortgage lending. Other loans to individuals fell by 7.6 per cent, with close monitoring of credit risk resulting in a decline in unsecured lending.

Loans for use outside Hong Kong dropped by HK$4.4 billion, or 12.2 per cent, due mainly to reduced new lending on the Mainland, where we focused on quality loans over business growth.

Against the backdrop of the slowdown in global economic activity, trade finance fell by 0.8 per cent.

Gross impaired advances as a percentage of gross advances to customers were up 0.1 percentage point at 1.1 per cent.

Customer deposits, including certificates of deposit and other debt securities in issue, rose by 4.1 per cent to HK$629.2 billion. Current and savings account deposits increased, but there were drops in time deposits and certificates of deposit. In the low interest rate environment, we promoted higher-margin foreign currency deposits to help support income from deposits business while providing customers with enhanced yields.

Customer Groups

Personal Financial Services recorded a 34.4 per cent decline in profit before tax to HK$3,467 million, due mainly to the substantial fall in wealth management income compared with the same period last year in the adverse investment environment. Operating profit excluding loan impairment charges was down 30.4 per cent at HK$3,579 million. However, profit before tax and operating profit excluding loan impairment charges were up by 10.9 per cent and 7.6 per cent respectively compared with the second half of 2008.

Wealth management income was HK$2,176 million – down 31.7 per cent on the first half of last year, but up 35.8 per cent compared with the second half.

Our new Securities Select Customer Trading Centre capitalised on rising investor interest in securities during the second quarter and we achieved growth in the securities account base and market share. Income from securities broking and related services fell by 15 per cent but grew by 25.4 per cent compared with the first and second halves of 2008 respectively. We achieved record turnover in sales of foreign exchange-linked investment deposits.

Overall, investment-related income was up 3.3 per cent on the second half of last year, but down 52.7 per cent on the first half, due mainly to the significantly lower level of investor transactions. Private Banking was also affected by weak investment sentiment, with income down by 70.5 per cent.

Supported by our comprehensive range of life insurance products, we achieved a 12.7 per cent rise in policies in force and a 19.1 per cent increase in total annualised premiums to HK$13 billion. Life insurance income grew by 20.4 per cent compared with the first half of 2008 and 110.6 per cent compared with the second half.

Despite narrowing spreads on deposits and mortgage loans, net interest income declined only slightly by 6.5 per cent to HK$4,015 million, due to our successful strategy to improve investment returns on the life insurance portfolio.

A series of customer acquisition and card utilisation campaigns for credit cards helped us gain market share, and expand the card base and spending by 9.1 per cent and 5.3 per cent respectively.

In competitive conditions, we leveraged our online services to maintain a strong position in mortgage lending, ranking first for equitable mortgages and second for residential mortgages in Hong Kong during the first quarter of the year.

Commercial Banking's operating profit excluding loan impairment charges was HK$951 million – down 22 per cent and 16.2 per cent on the first and second halves of last year respectively.

Total operating income was down 12.9 per cent, due largely to an 18.5 per cent drop in net interest income. Average customer deposits grew by 3.1 per cent, but margin compression in the near-zero interest rate environment led to a 48.7 per cent decline in related net interest income. Reduced international trade flows resulted in a 4.9 per cent drop in average customer advances and a 23.4 per cent fall in trade finance. The repricing of loans to reflect prevailing credit conditions underpinned a 16.9 per cent increase in net interest income from advances.

Commercial Banking's non-interest income fell by a modest 5.4 per cent. We focused on structured deposits to serve customers looking for lower-risk yield enhancement. A strengthened product suite and coordinated marketing efforts drove the 230.3 per cent increase in corporate life insurance income. Corporate wealth management business contributed 12.9 per cent to Commercial Banking's total operating income, up from 10.4 per cent in 2008.

We continued to assist SMEs dealing with a tough operating environment. Since late 2008, we have approved over 3,400 government-guaranteed SME loans – totalling more than HK$10 billion.

Commercial Banking's profit before tax was down 36.6 per cent at HK$1,080 million, due mainly to higher loan impairment charges in the difficult economic conditions. With continued vigilance in risk management, asset quality overall remained within our expectations. Much improved market conditions in the first half of this year led to a 66.4 per cent reduction in loan impairment charges compared with the second half of 2008, reflected in the 40.8 per cent increase in profit before tax compared with the second half of last year.

Corporate Banking recorded an operating profit excluding loan impairment charges of HK$517 million – a 41.6 per cent increase compared with the first half of 2008 and a 14.9 per cent increase compared with the second half. At HK$449 million, profit before tax was up 23 per cent and 60.4 per cent compared with the first and second halves of last year respectively.

Total operating income grew by 31.4 per cent, driven largely by the 31.9 per cent increase in net interest income. Supported by a strong balance sheet and liquidity, we continued to provide customers with new and renewed facilities while adjusting pricing in line with the credit environment, achieving a 66.2 per cent rise in net interest income from advances. Net interest income from deposits was down 34.5 per cent, with the increase in low-cost current and savings account deposits only partly offsetting the fall in time deposits.

Treasury's operating profit excluding credit risk provisions grew by 6.2 per cent to HK$1,804 million. Compared with the second half of last year, operating profit excluding credit risk provisions increased by 34.7 per cent. We continued with our prudent risk management strategy – striving for stable revenue growth through investment in selected high-quality negotiable instruments.

In a challenging market, we maintained the momentum of customer-driven Treasury business by focusing on the increased demand for foreign exchange-linked products.

Treasury's profit before tax grew by 1.7 per cent to HK$2,017 million.

Mainland Business

As at 30 June 2009, Hang Seng China's network stood at 34 outlets across 11 cities.

Significant growth in the customer base – driven by the further development of wealth management offerings and growing Commercial Banking capabilities – helped support an increase in net interest income, with total operating income up 19.9 per cent.

Under our strategy to create a springboard for future deposits growth, we continued to target the affluent personal customer segment, achieving a 77 per cent rise in Prestige Banking customers compared with a year earlier.

In the uncertain economic conditions, we took a prudent approach towards lending – emphasising loan quality over business expansion – resulting in a 12.9 per cent decline in customer advances. We further strengthened the management of credit risk and operational risk. Loan impairment charges were higher compared with the first half of 2008, but significantly lower compared with the second half. Deposits rose by 1.2 per cent.

Profit before tax recorded steady growth. Higher total operating income and a reduction in losses on the revaluation of US dollar capital funds against the renminbi were partly offset by the cost of network expansion, investment in human resources and the rise in loan impairment charges.

We continued to work with Industrial Bank to good effect. Our dual-branded credit card is now one of the favoured cards on the Mainland among younger generations and we are stepping up collaboration in areas such as wealth management and trade services.

Our cooperation with new strategic partner Yantai Bank moved forward with the launch of its updated corporate image and tagline.

Including the share of profits from strategic partners, our Mainland business contributed 11.7 per cent to total profit before tax, compared with 9.4 per cent in the first half of 2008.

Technology

We continued to make use of a wide range of channels to improve cost efficiency and provide customers with more control over how, when and where they access banking services.

The number of Personal e-Banking customers grew by 13 per cent compared a year earlier to reach more than 920,000. Online transactions as a percentage of total personal banking transactions rose more than 5 percentage points to 50.4 per cent, including 86 per cent of foreign exchange trading and 73 per cent of securities trading.

In May, we launched Mobile Travelsure, which offers customers the convenience of enrolling for travel insurance via their mobile phone. We also enhanced our online foreign exchange and time deposit services to enable customers to enjoy preferential pricing offers.

As at 30 June 2009, more than 71,000 commercial customers had registered for Business e-Banking – up 22.7 per cent on a year earlier. The number of online business banking transactions grew by 13.9 per cent.

Corporate Responsibility

Our actions as a good corporate citizen reflect our emphasis on sustainable growth, lasting partnerships and sharing our success. We practise and promote the responsible use of natural resources. We champion staff development through training programmes and structured career guidance. We invest in the communities that support us through a variety of educational, environmental, social welfare and sports development programmes.

In partnership with The Conservancy Association, we have participated in the construction of 500 biogas toilets in Yunnan province that are saving 1,200 tons of firewood every year and reducing annual carbon dioxide emissions by 6,250 tons. We continue to take steps to reduce the environmental footprint of our own operations. We recently installed water-cooled chillers in the air-conditioning system at our headquarters building, which will cut our carbon emissions by over 1,700 tons a year.

Our encouragement of sporting excellence under the 'Hang Seng Athlete Incentive Awards Scheme' has seen us award nearly HK$8.6 million in partnership with the Hong Kong Sports Institute to recognise the outstanding achievements of local athletes. This support will continue with incentives for medal-winning performances at the 11^{th} National Games in October and the 2009 East Asian Games to be hosted by Hong Kong towards the end of the year. Through the Hang Seng Table Tennis Academy, we seek to identify and train future sporting heroes.

More details of our corporate responsibility beliefs and activities as well as our relationships with stakeholders can be found in our online corporate responsibility report: http://www.hangseng.com/e_about_us/corporate_responsibility/2008/index.html

Looking Ahead

The global financial crisis that broke out in 2008 continues to pose challenges for business. Although major economies across the world have introduced stimulus measures, it is too soon to tell how successful such measures will be in driving sustainable growth momentum.

With Hong Kong's economy heavily reliant on trade, the outlook for the rest of the year and into 2010 remains cloudy. New investment projects and solid domestic consumption are helping to revive economic growth on the Mainland, although the pace is likely to be slower than that achieved in the past decade.

We will further enhance our product and service offerings to drive the expansion of our customer base – particularly among segments such as the affluent and young people – and provide greater choice for investors.

In mid July, our attractive promotion on IPO margin financing received an excellent customer response, with Personal Financial Services achieving a new high for stagging finance and a new high in the amount of financing applied for online – which reached 74 per cent. Towards the end of the month, we became the first financial institution in Hong Kong to obtain permission from the Financial Supervisory Commission in Taiwan to make dual-listing applications with the Taiwan Stock Exchange for two of our exchange-traded funds (ETFs) – the Hang Seng Index ETF and the Hang Seng H-Share Index ETF.

Making full use of our distribution, product manufacturing and time-to-market strengths, we will continue to tailor financial services to meet customer needs in changing economic conditions.

Our strong cross-border capabilities and the expansion of our corporate wealth management proposition will help us deepen relationships with commercial customers and attract new business.

Treasury will continue to actively manage its portfolio to achieve an optimal mix of investments that strikes a good balance between risk and return.

We will further strengthen our profile on the Mainland through brand-building initiatives and strategic business collaboration with our local partners. Hang Seng China will open more outlets in high-potential cities, focusing particularly on the Pearl River Delta region to take advantage of the new opportunities for business expansion provided under CEPA VI.

Businesses across the board will continue to be tested in the second half of 2009. With its trusted brand and dedicated staff, Hang Seng is well positioned to overcome the obstacles that lie ahead and build on its competitive strengths to capture future opportunities for growth.

Margaret Leung
Vice-Chairman and Chief Executive
Hong Kong, 3 August 2009

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

Income Statement

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Total operating income	**17,054**	18,523	16,236
Total operating expenses	**3,215**	3,320	3,475
Operating profit after loan impairment charges and other credit risk provisions	**6,740**	9,112	4,613
Profit before tax	**7,618**	10,530	5,348
Profit attributable to shareholders	**6,451**	9,064	5,035
Earnings per share (in HK$)	**3.37**	4.74	2.63

Hang Seng Bank Limited ("the Bank") and its subsidiaries and associates ("the Group") reported an unaudited profit attributable to shareholders of HK$6,451 million for the first half of 2009, down 28.8 per cent compared with the first half of 2008. Despite the challenging macroeconomic environment and continuing difficulties in the financial markets, the Group achieved growth of 28.1 per cent against the second half of 2008, due mainly to the HK$1,967 million reduction in loan impairment charges and other credit risk provisions. Earnings per share were HK$3.37, down HK$1.37 compared with the same period last year.

Operating profit excluding loan impairment charges and other credit risk provisions fell by HK$1,939 million, or 20.8 per cent, to HK$7,361 million.

Affected by the worldwide economic downturn and deteriorating operating conditions, net interest income and non-interest income both recorded significant declines. Operating expenses were contained at a lower level than last year.

Despite average interest-earning assets increased by HK$28.5 billion, or 4.2 per cent, to HK$711.3 billion, net interest income fell by HK$977 million, or 11.8 per cent, to HK$7,275 million.

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Net interest income/(expense) arising from:			
- financial assets and liabilities that are not at fair value through profit and loss	**7,431**	8,717	8,560
- trading assets and liabilities	**(196)**	(551)	(660)
- financial instruments designated at fair value	**40**	86	80
	7,275	8,252	7,980
Average interest-earning assets	**711,253**	682,728	693,716
Net interest spread	**1.99%**	2.20%	2.10%
Net interest margin	**2.06%**	2.43%	2.29%

Net interest margin narrowed by 37 basis points to 2.06 per cent. Net interest spread declined by 21 basis points to 1.99 per cent, mainly caused by markedly reduced deposit spreads under the current low interest rate environment which offered little room for the reduction of interest rates paid to customers. Volume growth was also noted in average balance of mortgage lending, with strong volume growth offsetting the effect of tighter spreads on mortgages in an intensely competitive market. The increase in higher-yielding personal loans and credit cards also helped support net interest income revenue streams. Interest income from the life insurance fund investments portfolio grew by 51.6 per cent. Including the net increase of HK$471 million in funding swap net interest income – which was recognised as a foreign exchange gain under trading income – the decrease in net interest income was reduced from HK$977 million to HK$506 million, or 6.3 per cent. Net interest margin on this basis dropped by 23 basis points to 2.12 per cent. This was contributed by the improvement in yields from the Treasury's balance sheet management portfolio which benefited from the steepening interest rate yield curve and the successful strategy of investing in selective quality negotiable instruments.

The contribution from net free funds also dropped by 16 basis points to 0.07 per cent as a result of the decline in average market interest rates.

Compared with the second half of 2008, net interest income dropped by HK$705 million, or 8.8 per cent, with average interest-earning assets maintaining a stable growth of 2.5 per cent. Net interest margin was down by 23 basis points.

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading as "Net trading income" and arising from financial instruments designated at fair value through profit and loss 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 within the HSBC Group accounts:

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Net interest income	**7,421**	8,697	8,536
Average interest-earning assets	**653,655**	664,892	664,610
Net interest spread	**2.23 %**	2.33 %	2.34 %
Net interest margin	**2.29 %**	2.63 %	2.55 %

Net fees and commissions income dropped by HK$1,101 million, or 36.4 per cent, to HK$1,926 million, compared with the first half of 2008.

With the continuing unfavourable economic environment and subdued customer interest in investment products, income from retail investment funds and sales of structured investment products decreased substantially by 70.8 per cent and 98.3 per cent respectively. Against the backdrop of lower equity market turnover, income from stockbroking and related services decreased by 14.7 per cent. Private banking investment services fee income fell by 74.0 per cent, reflecting the reduced client appetite for trading and structured investment products.

Card services income was 5.8 per cent higher than for the same period last year and was broadly in line with the growth in average card balances. The Bank's customer loyalty scheme and card utilisation programmes helped to drive up card spending in the first half of 2009 to outperform the shrinking market. The increase in merchant income was supported by year-on-year increases of 9.1 per cent in the number of cards in circulation and 5.3 per cent in cardholder spending.

Insurance income rose by 90.7 per cent, due mainly to the successful sale of HSBC Jade Global Universal Life product.

Compared with the second half of 2008, net fee income remained broadly unchanged. Higher income from insurance and stockbroking and related services was offset by the decrease in income from retail investment funds, structured investment products and trade services.

Trading income rose significantly by HK$276 million, or 36.4 per cent, to HK$1,035 million, compared with the first half of 2008.

Foreign exchange income increased by 73.8 per cent, due mainly to the favourable increase in net interest income from funding swaps and the decrease in exchange losses on Hang Seng China's US dollar capital funds upon revaluation against the renminbi. Normal foreign exchange trading, however, fell by 32.2 per cent.

Income from securities, derivatives and other trading was down by HK$119 million, due largely to decreased customer appetite for equity-linked structured products.

Net loss from financial instruments designated at fair value improved by HK$829 million, or 81.0 per cent, compared with the first half of 2008, to reach HK$195 million, reflecting the more stable financial markets in the first half of 2009 and the swapping of the equity component of investment asset of the life insurance portfolios for high quality debt securities in the second half of 2008.

Net earned insurance premiums fell by HK$272 million, or 3.9 per cent while net insurance claims incurred and movement in policyholders' liabilities rose by HK$575 million, or 9.7 per cent.

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Investment income:			
- retail investment funds	**226**	773	311
- structured investment products[♦]	**204**	689	193
- private banking[♦♦]	**58**	187	61
- securities broking and related services	**689**	808	551
- margin trading and others	**76**	52	67
	1,253	2,509	1,183
Insurance income:			
- life insurance	**1,089**	862	521
- general insurance and others	**162**	147	167
	1,251	1,009	688
Total	**2,504**	3,518	1,871

♦ *Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. 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.*

Wealth management business remained muted during the first half of 2009, recording a 28.8 per cent decline in income. To cater for changing customer demands in the turbulent financial markets environment, the Group rapidly shifted its focus to highly defensive products including life insurance. This resulted in an encouraging growth of 24.0 per cent in insurance income which partly offset the 50.1 per cent decline in investment income.

Income from retail investment funds and structured products has been adversely affected by the unfavourable investment climate and volatility in equity markets since the second half of 2008. The Bank focused on offering a diverse variety of products with a focus on lower-risk yield enhancement but continuing investor caution saw investment funds turnover fall by 84.2 per cent and investment funds income decline by 70.8 per cent year on year. Structured investment products income dropped by 70.4 per cent compared with same period last year.

Following the stock market rebound in the second quarter of 2009, the Bank's securities business gained momentum and grew its market share. Securities broking and related services income recorded a rebound as compared to the second half of 2008 - rising by 25.0 per cent but was down 14.7 per cent year on year. Securities turnover declined by 5.3 per cent compared with the same period last year. The Bank also captured additional sales opportunities via its recently opened Securities Select Customer Trading Centre.

Private Banking was also adversely affected by the weak investment sentiment. This led to fewer customer transactions and a 69.0 per cent decline in wealth management income in the first half of the year.

Leveraging its strong customer relationships and flexible wealth management strategy, the Group was successful in sustaining business by focusing on defensive products that provided investors with stable returns in the uncertain market conditions. A comprehensive range of health and wealth insurance solutions for all life stages enabled life insurance sales to remain resilient. Despite the intensely competitive environment, the Group achieved an increase in life insurance market share to 16.3 per cent in terms of direct new business for the first quarter of 2009 and was the No. 2 provider in Hong Kong. Total policies in force grew by 12.7 per cent year-on-year and annualised premiums increased by 19.1 per cent. A mobile phone-based straight-through travel insurance enrolment service was launched during the first half of the year to supplement the Bank's proven e-channel. This pioneering service provides a timely and convenient way for customers to enrol for travel cover prior to departing on a trip.

General insurance income increased by 10.2 per cent to HK$162 million.

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Life insurance:			
- net interest income and fee income	**951**	601	799
- investment returns on life insurance funds	**(133)**	(1,030)	(35)
- net earned insurance premiums	**6,502**	6,774	5,249
- claims, benefits and surrenders paid	**(948)**	(300)	(376)
- movement in policyholders' liabilities[♦]	**(5,496)**	(5,555)	(5,148)
- reinsurers' share of claims incurred and movement in policyholders' liabilities	**11**	9	13
- movement in present value of in-force long-term insurance business	**202**	363	19
	1,089	862	521
General insurance and others	**162**	147	167
Total	**1,251**	1,009	688

[♦] *Including premium and investment reserves*

Operating expenses fell by HK$105 million, or 3.2 per cent, compared with the first half of 2008, reflecting the Bank's cost discipline in the difficult operating environment. Excluding Mainland business, operating expenses fell by 4.7 per cent.

Employee compensation and benefits decreased by HK$67 million, or 3.9 per cent. Salaries and other costs increased by 3.7 per cent, reflecting the increase in average headcount and other staff-related costs. Performance-related pay expenses declined substantially by 59.1 per cent while retirement benefit costs increased due to a reduction in the assumed investment return at the end of 2008. General and administrative expenses decreased by 5.5 per cent, attributable to close cost management in marketing and advertising, although this was partly offset by rising rental expenses and other premises and equipment costs. Rental expenses rose due to increased rents for branches in Hong Kong as well as new branches on the Mainland and the Bank's large office premises in Kowloon Bay. Depreciation charges rose by 11.9 per cent, reflecting the acquisition of equipment, fixtures and fittings for the Bank's Kowloon Bay office and Head Office in Central.

Staff numbers[ǂ] by region	**At 30 June 2009**	At 30 June 2008	At 31 December 2008
Hong Kong	**7,972**	8,240	8,256
Mainland	**1,411**	1,312	1,450
Others	**55**	58	58
Total	**9,438**	9,610	9,764

[ǂ] *Full-time equivalent*

The Group's number of full-time equivalent staff dropped by 326 compared with 2008 year-end – mainly from Hong Kong operations. The headcount number was closely monitored and gradually reduced through natural attrition. Headcount for Mainland operations remained static when compared with last year-end.

The cost efficiency ratio for the first half of 2009 was 30.4 per cent, compared with 26.3 per cent for the first half of 2008, due primarily to the reduction in net operating income before impairment charges and other credit risk provisions.

Operating profit was down by HK$2,372 million, or 26.0 per cent, to HK$6,740 million, after accounting for the HK$433 million increase in **loan impairment charges and other credit risk provisions** in the uncertain economic conditions. Compared with the second half of 2008, operating profit grew strongly by HK$2,127 million, or 46.1 per cent, due mainly to the substantial reduction in loan impairment charges and other credit risk provisions as a result of the more stable financial markets and credit environment in the first half of 2009.

Loan impairment charges and other credit risk provisions increased by HK$433 million, or 230.3 per cent, to HK$621 million year-on-year.

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Loan impairment charges:			
- individually assessed	**(288)**	(56)	(869)
- collectively assessed	**(333)**	(132)	(344)
	(621)	(188)	(1,213)
Of which:			
- new and additional	**(709)**	(278)	(1,245)
- releases	**61**	60	6
- recoveries	**27**	30	26
	(621)	(188)	(1,213)
Other credit risk provision	**-**	-	(1,375)
Loan impairment charges and other credit risk provisions	**(621)**	(188)	(2,588)

Loan impairment charges and other credit risk provisions increased by HK$433 million to HK$621 million year-on-year. As compared to the second half of 2008, loan impairment charges and other credit risk provisions decreased significantly by HK$1,967 million, or 76.0 per cent, due mainly to the HK$1,375 million reduction in other credit risk provisions as a result of the write down of the carrying value of certain available-for-sale debt securities in second half of 2008.

Individually assessed provisions rose by HK$232 million due mainly to the downgrade of certain corporate and commercial banking customers.

Collectively assessed provisions rose by HK$201 million due largely to the rise in credit card delinquencies against the background of higher card spending and the unfavourable credit environment. Impairment provision for personal loan portfolios increased in line with the rising bankruptcy trend and allowances for loans not individually identified as impaired also increased as a result of higher historical loss rates to reflect the turbulence of the global credit markets.

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

	At 30 June 2009	*At 30 June 2008*	*At 31 December 2008*
	%	%	%
Loan impairment allowances:			
- individually assessed	**0.46**	0.12	0.37
- collectively assessed	**0.26**	0.19	0.24
Total loan impairment allowances	**0.72**	0.31	0.61

Profit before tax was down by 27.7 per cent at HK$7,618 million in part reflecting a 77.6 per cent (or HK$191 million) fall in **gains less losses from financial investments and fixed assets**; a 73.8 per cent (or HK$169 million) decrease in **net surplus on property revaluation**; and a 19.1 per cent (or HK$180 million) drop in **share of profits from associates**, mainly Industrial Bank Co., Ltd. ("Industrial Bank") and a property investment associated company.

Gains less losses from financial investments and fixed assets amounted to HK$55 million, a decrease of HK$191 million compared with the first half of 2008.

Gains less losses from financial investments and fixed assets amounted to HK$55 million, a decrease of HK$191 million compared with the first half of 2008. As the Group disposed of the majority of its equity holdings in 2008, net gains from the disposal of available-for-sale equity securities decreased by HK$210 million, or 56.9 per cent. Impairment charges for certain available-for-sale equity securities also decreased by HK$114 million, or 96.6 per cent, as a result of the disposal in equity holdings.

Net surplus on property revaluation amounted to HK$60 million, a decrease of 73.8 per cent compared with the first half of 2008.

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Net surplus on property revaluation:			
- investment properties	93	190	(182)
- assets held for sale	-	-	-
(Revaluation deficit) / reversal of revaluation deficit on premises	(33)	39	32
	60	229	(150)

A revaluation of Hang Seng's premises and investment properties in Hong Kong was performed in June 2009 to reflect property market movements in the first half of 2009. The Group's premises and investment properties were revalued by DTZ Debenham Tie Leung Limited, an independent professional valuer, and 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$211 million of which HK$244 million was credited to premises revaluation reserve and HK$33 million was charged to the income statement. Revaluation gains of HK$93 million on investment properties were recognised through the income statement. The related deferred tax provisions for Group premises and investment properties were HK$35 million and HK$15 million respectively.

The revaluation exercise also covered business premises/investment properties reclassified as properties held for sale. In accordance with HKFRS 5, there was no revaluation gain/loss recognised through the income statement.

Customer Group Performance

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

Figures in HK$m	*Personal Financial Services*	*Commercial Banking*	*Corporate Banking*	*Treasury*	*Other*	*Total reportable segment*
Half-year ended 30 June 2009						
Profit before tax	**3,467**	**1,080**	**449**	**2,017**	**605**	**7,618**
Share of profit before tax	**45.5%**	**14.2%**	**5.9%**	**26.5%**	**7.9%**	**100.0%**
Half-year ended 30 June 2008						
Profit before tax	5,284	1,703	365	1,983	1,195	10,530
Share of profit before tax	50.2%	16.2%	3.5%	18.8%	11.3%	100.0%
Half-year ended 31 December 2008						
Profit before tax	3,126	767	280	296	879	5,348
Share of profit before tax	58.5%	14.4%	5.2%	5.5%	16.4%	100.0%

Personal Financial Services ("PFS") reported a profit before tax of HK$3,467 million for the first half of 2009, 34.4 per cent lower than same period last year but up 10.9 per cent on the second half, due mainly to the continuing impact of the unfavourable economic conditions and reduced customer appetite for wealth management investment services. Operating profit excluding loan impairment charges was down 30.4 per cent at HK$3,579 million but up 7.6 per cent compared with the second half of last year.

Despite lower interest spreads on deposits and secured lending in the low interest rate environment, net interest income was down only 6.5 per cent at HK$4,015 million, having benefited from improved investment returns on the insurance funds portfolio.

Unsecured lending business registered strong year-on-year growth of 16.5 per cent in operating income, due mainly to the expansion of credit cards in force as well as card spending and receivables. Working within closely monitored credit risk parameters, PFS grew its card base to 1.8 million, representing a year-on-year increase of 9.1 per cent. The Bank's customer loyalty scheme and card utilisation programmes drove up card spending by 5.3 per cent to HK$27.5 billion – outperforming the market which shrank.

In the active property loans market, the Bank maintained a leading position for total mortgage loans with a market share of 15.2 per cent as of June 2009.

Non-interest income was affected by weak investor sentiment at the start of 2009, falling by 43.8 per cent compared with the same period last year, but up 34.6 per cent on the second half. Fee income from the selling of investment products and private banking declined significantly compared with a year earlier. Nevertheless, securities turnover achieved robust growth, reaching a 17-month high of HK$52.3 billion in June 2009.

Life insurance recorded solid sales with year-on-year growth of 12.7 per cent in terms of policies in force. Total annualised premiums amounted to HK$13 billion – up 19.1 per cent compared with a year earlier. Against a backdrop of strong competition, life insurance products were revamped to include new embedded benefits, which helped drive an increase in market share to 16.3 per cent in terms of new business in the first quarter of the year.

PFS continued to expand the self-directed customer segment with innovative service propositions. Personal e-banking exceeded 920,000 registered customers in the first half of 2009 and enrolment for the e-Statement service grew by 23.2 per cent. In May, the Bank launched its pioneering mobile phone-based straight-through travel insurance application service.

Commercial Banking ("CMB") contributed 14.2 per cent to the Bank's total pre-tax profit in the first half of 2009, down 2.0 percentage points on a year earlier. Operating profit excluding loan impairment charges fell by 22.0 per cent to HK$951 million, due primarily to narrowing deposit spreads in the near-zero interest rate environment. With increased loan impairment charges in the poor economic environment and a lower contribution from associates, profit before tax dropped by 36.6 per cent to HK$1,080 million. In challenging market conditions, CMB managed to contain the upward trend in loan impairment charges by further refining its prudent credit policies to sharpen the focus on high-quality lending, reflected in the 40.8 per cent increase in profit before tax compared with the second half of last year.

Average customer advances fell by 4.9 per cent against the backdrop of the significant slowdown in global economic activity. Trade finance declined by 23.4 per cent, reflecting reduced export trade. In the changing credit environment, CMB actively managed its loans portfolio to improve pricing. However, falling deposit spreads dampened the positive effects of the 3.1 per cent rise in average customer deposits, leading to an overall decline of 18.5 per cent in net interest income.

CMB continued to leverage its strong customer relationships to expand corporate wealth management. Underpinned by a strengthened product suite and coordinated marketing efforts, CMB made good progress with growing corporate life insurance business, recording an encouraging 230.3 per cent rise in income. In response to the changing investment sentiment, CMB rapidly shifted its focus to "back-to-basic" investments such as structured products and securities trading. This helped cushion the adverse effects of the slow investment environment, resulting in a drop of 14.7 per cent in corporate wealth management revenue. Corporate wealth management contributed 12.9 per cent of CMB's total operating income.

In line with the increasingly strong economic linkages between Hong Kong and the Mainland, CMB continued to pursue a strategy of offering one-stop seamless financial solutions to middle-market enterprises ("MMEs") through its cross-border commercial banking teams in Hong Kong, the Mainland and Macau.

Recognising the crucial role that small and medium-sized enterprises ("SMEs") have to play in driving the economy, the HKSAR Government launched a package of relief measures to support SMEs, including the SME Loan Guarantee Scheme ("SGS") and Special Loan Guarantee Scheme ("SpGS"). In support of the schemes, CMB launched a series of marketing campaigns, including print and radio advertisements, that included preferential offers, a pre-approved direct mailing programme and customer seminars. The Bank has approved over 3,400 applications with a total loan amount of more than HK$10 billion.

CMB continued to encourage customers to switch to online and automated channels to enable the more efficient use of Bank resources. As at 30 June 2009, over 71,000 customers had registered for Business e-Banking services, up 22.7 per cent on a year earlier. During the same period, the number of online business transactions grew by 13.9 per cent and branch counter transactions fell by 17.4 per cent.

Corporate Banking ("CIB") achieved an increase of 41.6 per cent in operating profit excluding loan impairment charges, driven largely by satisfactory growth of 31.9 per cent in net interest income. Compared with the second half of last year, operating profit excluding loan impairment charges was up 14.9 per cent. Advances to customers decreased slightly by 3.6 per cent compared with the end of last year, mainly due to fewer advances to manufacturing and real estate companies and hotels and restaurants. Profit before tax rose by HK$84 million, or 23.0 per cent, to HK$449 million.

Throughout the first half of 2009, CIB supported customers with new or renewed facilities while adjusting pricing in line with the credit environment. Net interest income from advances grew by 66.2 per cent.

CIB continued to focus on better yield transactions and remained active in financing the Mainland projects of Hong Kong-based corporations as well as working to expand its customer base.

Treasury ("TRY") reported satisfactory year-on-year growth of 6.8 per cent in operating income, due mainly to stable interest margins on the balance sheet management portfolio under the Bank's strategy of investing in selected high quality securities. Operating income was up 32.4 per cent compared with the second half of last year. Net trading income for the first six months of 2009 doubled compared with the same period last year, providing momentum for operating income to outperform. The remarkable performance of net trading income was mainly attributable to the increase in trading net interest income from funding swaps and strong customer demand for foreign exchange-linked structured products.

Treasury's net interest income registered at HK$1,353 million for the first half of 2009, 11.9 per cent lower than same period last year. Including the net increase of HK$471 million in funding swap income - which were recognised as foreign exchange income - net interest income rose by HK$288 million, or 22.7 per cent. In the face of an uncertain operating environment, Treasury continued its prudent risk management strategy by striving to achieve an optimal mix of income sources from accrual investments.

Net operating income after credit risk provisions registered satisfactory growth of 6.7 per cent, or HK$121 million. The improvement in global credit markets noted from the second quarter of 2009 saved the Bank from suffering significant fair value losses and having to make further provisions for potential impairments.

Treasury also made good use of opportunities to dispose of higher-risk assets in the balance sheet management portfolio. This strategy significantly improved the credit quality and marked-to-market performance of the portfolio. However, with the accompanying disposal loss of HK$95 million, profit before tax recorded only modest growth of 1.7 per cent to HK$2,017 million - representing 26.5 per cent of the Group's total profit before tax.

Mainland Business

At 30 June 2009, Hang Seng Bank (China) Limited ("Hang Seng China") operated a network of 34 outlets in Beijing, Shanghai, Guangzhou, Dongguan, Shenzhen, Fuzhou, Nanjing, Hangzhou, Ningbo, Tianjin and Kunming. The Bank has a branch in Shenzhen for foreign currency wholesale business and a representative office in Xiamen.

In the uncertain credit environment, greater caution in extending new loans saw lending drop by 12.9 per cent compared to the end of 2008. Customer deposits rose slightly by 1.2 per cent, affected by customers' tightened liquidity and increased cautiousness towards foreign banks following the financial tsunami. Adverse market conditions notwithstanding, Hang Seng China was able to maintain solid growth in its customer base, which increased by 14 per cent compared with 31 December 2008. The total number of Prestige Banking customers grew by 21 per cent. Total operating income rose by 19.9 per cent, with encouraging growth in net interest income and the reduced exchange losses upon the revaluation of US dollar capital funds against the renminbi partly offset by the reduction in other non-interest income.

Hang Seng China continued to enrich and diversify its product offerings to cater for different market conditions and promote wealth management awareness among its target customers. Hang Seng China is the only locally incorporated foreign bank to have launched partially protected renminbi equity linked investment products, offering debit cards and joining the bankcard association of China UnionPay. The award-winning "Easy Touch" and the index-linked "Ping Pang Range" were launched in response to increased customer demand for capital protected investment products. Variations such as the transfer-in mortgage and guaranteed company mortgage loan were added to mortgage products to capture more business.

Hang Seng China strives to improve its network and business development efficiency by increasing its penetration in four key cities. Resources are also being redeployed to achieve greater management and operational efficiency. Management of credit risk and operational risk continues to be strengthened through proactive risk management practices.

The Bank remains firmly committed to developing its Mainland business, both through its own presence and long-term strategic relationships within strategic Mainland partners. The Bank's newest Mainland associate, Yantai Bank Co. Ltd, began to contribute profit during the first half of 2009. Including the Bank's share of profit from Industrial Bank, Mainland business contributed 11.7 per cent of total profit before tax, compared with 9.4 per cent for the first half of 2008.

Economic Profit

Economic profit is calculated from post-tax profit, adjusted for any surplus/deficit arising from property revaluation and depreciation attributable to the revaluation surplus, and takes into account the cost of capital invested by the Bank's shareholders.

For the first half of year 2009, economic profit was HK$3,915 million, a decrease of HK$2,355 million, or 37.6 per cent, compared with the same period last year. Return on invested capital (post-tax profit, adjusted for the property revaluation surplus net of deferred tax and depreciation attributable to the revaluation), fell by HK$2,471 million.

	Half-year ended 30 June 2009		*Half-year ended 30 June 2008*		*Half-year ended 31 December 2008*	
	HK$m	***%***	*HK$m*	*%*	*HK$m*	*%*
Average invested capital	**52,069**		53,286		54,535	
Return on invested capital[♦]	**6,442**	**24.9**	8,913	33.6	5,207	19.0
Cost of capital	**(2,527)**	**(9.8)**	(2,643)	(10.0)	(2,673)	(9.7)
Economic profit	**3,915**	**15.1**	6,270	23.6	2,534	9.3

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

Statement of Financial Position

Total assets increased by HK$28.0 billion, or 3.7 per cent, to HK$790.1 billion. In light of the weak global economy and the fact that financial markets were still recovering from the credit crisis, Treasury continued to take a highly prudent approach in managing its accrual investments. Surplus funds arising from trading assets that matured in the first half of 2009 were redeployed to interbank placements and available-for-sale debt securities to attain yield enhancement in light of the more stable financial market. As a result, financial investments rose by 24.4 per cent – primarily in high quality debt securities which included government guaranteed debt securities. Customer advances dropped slightly by 1.1 per cent, due mainly to the fall in Mainland lending as Hang Seng China refined loan risk criteria to emphasise lending quality over business expansion in the uncertain credit environment. In a highly competitive market, the Group was able to sustain a leading position in mortgage business, recording encouraging growth in its residential mortgage lending. Customer deposits rose by HK$24.7 billion, or 4.1 per cent, to HK$629.2 billion, reflecting customers' lukewarm attitude towards investment and a preference for liquidity in the uncertain market conditions. At 30 June 2009, the advances-to-deposits ratio was 51.7 per cent, compared with 54.4 per cent and 58.1 per cent at the end of December 2008 and June 2008 respectively.

Advances to customers

Gross advances to customers fell slightly by HK$3.4 billion, or 1.0 per cent, to HK$327.7 billion compared with the previous year-end.

Loans for use in Hong Kong increased by HK$1.1 billion, or 0.4 per cent. Lending to property development, property investment and financial concerns (including financial vehicles) declined, due mainly to the large repayment of certain existing loans. Lending to stockbrokers increased by HK$2.2 billion, reflecting IPO-related financing. In the face of the deepening global financial crisis last year, the Hong Kong Government launched two government-guaranteed schemes – the SME Loan Guarantee Scheme ("SGS") and the Special Loan Guarantee Scheme ("SpGS") – to facilitate financial institutions in supporting SMEs in challenging credit conditions. The Bank actively promoted these schemes to its existing clientele and potential new customers. This bolstered loan growth to wholesale and retail trade companies and partly offset the decline in lending to manufacturing companies that arose from large repayments of existing loans in the first half of the year. Growth in lending to "Other" was mainly pick-ups of certain new financing of large corporate customers.

Lending to individuals was maintained at broadly the same level as last year-end. Excluding the fall in Government Home Ownership Scheme ("GHOS") mortgages, lending to individuals grew by 0.9 per cent. Despite price competition, the Bank was able to sustain a leading position in the mortgage market by offering comprehensive mortgage consultancy and e-mortgage services. Residential mortgage lending to individuals recorded growth of 2.2 per cent. Credit card advances remained flat while other loans to individuals fell by 7.6 per cent, reflecting the decrease in unsecured lending as a result of the Bank's prudent management of credit risk.

Despite the significant contraction in global trade activity, trade finance only decreased by 0.8 per cent, reflecting the strength of our seamless financial services proposition that covers Hong Kong, the Mainland and Macau.

Loans for use outside Hong Kong decreased by HK$4.4 billion, or 12.2 per cent. In the uncertain credit environment, the Group was more cautious in embarking on new loan business on the Mainland, resulting in a reduction in Mainland lending. Trade finance on the Mainland also declined.

Customer deposits

Customer deposits and certificates of deposit and other debt securities in issue stood at HK$629.2 billion at 30 June 2009, a rise of 4.1 per cent over the end of 2008 and 8.5 per cent year on year. Higher growth was recorded in savings and current account balances, reflecting a shift from time deposits and customer preference for liquidity over other investments in the low interest rate environment. Structured deposits and other structured certificates of deposits and other debt securities in issue also fell, due primarily to reduced demand for investment-related products as a result of the negative market sentiment. Deposits with Hang Seng China rose slightly by 1.2 per cent.

CONSOLIDATED INCOME STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)

	note	**Half-year ended 30 June 2009**	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Interest income	4	**8,775**	13,665	12,507
Interest expense	5	**(1,500)**	(5,413)	(4,527)
Net interest income		**7,275**	8,252	7,980
Fee income		**2,327**	3,368	2,336
Fee expense		**(401)**	(341)	(394)
Net fee income	6	**1,926**	3,027	1,942
Trading income	7	**1,035**	759	696
Net loss from financial instruments designated at fair value	8	**(195)**	(1,024)	(7)
Dividend income	9	**5**	54	28
Net earned insurance premiums		**6,658**	6,930	5,421
Other operating income	10	**350**	525	176
Total operating income		**17,054**	18,523	16,236
Net insurance claims incurred and movement in policyholders' liabilities		**(6,478)**	(5,903)	(5,560)
Net operating income before loan impairment charges and other credit risk provisions		**10,576**	12,620	10,676
Loan impairment charges and other credit risk provisions	11	**(621)**	(188)	(2,588)
Net operating income		**9,955**	12,432	8,088
Employee compensation and benefits		**(1,669)**	(1,736)	(1,716)
General and administrative expenses		**(1,281)**	(1,356)	(1,495)
Depreciation of premises, plant and equipment		**(225)**	(201)	(231)
Amortisation of intangible assets		**(40)**	(27)	(33)
Total operating expenses	12	**(3,215)**	(3,320)	(3,475)
Operating profit		**6,740**	9,112	4,613
Gains less losses from financial investments and fixed assets	13	**55**	246	21
Net surplus/(deficit) on property revaluation		**60**	229	(150)
Share of profits from associates		**763**	943	864
Profit before tax		**7,618**	10,530	5,348
Tax expense	14	**(1,167)**	(1,466)	(313)
Profit for the period		**6,451**	9,064	5,035
Profit attributable to shareholders		**6,451**	9,064	5,035
(Figures in HK$)				
Earnings per share	15	**3.37**	4.74	2.63

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 25 to 58 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 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Profit for the period	**6,451**	9,064	5,035
Other comprehensive income			
Premises:			
- unrealised surplus/(deficit) on revaluation of premises	**244**	559	(388)
- deferred taxes	**(40)**	(90)	66
Available-for-sale investment reserve:			
- fair value changes taken to/(from) equity:			
-- on debt securities	**1,934**	(1,448)	(2,179)
-- on equity shares	**28**	(1,095)	(842)
- fair value changes transferred from/(to) income statement:			
-- on impairment	**4**	67	488
-- on hedged items	**114**	(22)	(474)
-- on disposal	**(64)**	(369)	(194)
- share of changes in equity of associates			
-- fair value changes	**73**	(56)	(7)
- deferred taxes	**(270)**	170	247
Cash flow hedging reserve:			
- fair value changes taken to equity	**194**	49	821
- fair value changes transferred to income statement	**(511)**	(234)	(142)
- deferred taxes	**48**	30	(106)
Defined benefit plans:			
Actuarial gains/(losses) on defined benefit plans	**1,520**	(506)	(2,510)
- deferred taxes	**(251)**	83	414
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	**(12)**	677	(55)
- others	**5**	5	-
Effect of decrease in tax rate on deferred tax balance at 1 January 2008	**-**	30	-
Other comprehensive income for the period, net of tax	**3,016**	(2,150)	(4,861)
Total comprehensive income for the period	**9,467**	6,914	174
Total comprehensive income for the period attributable to shareholders	**9,467**	6,914	174

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

(Expressed in millions of Hong Kong dollars)

	note	**At 30 June 2009**	At 30 June 2008	At 31 December 2008
ASSETS				
Cash and balances with banks and other financial institutions	19	**51,065**	19,755	24,822
Placings with and advances to banks and other financial institutions	20	**55,223**	136,534	69,579
Trading assets	21	**84,517**	13,689	108,389
Financial assets designated at fair value	22	**6,025**	12,607	7,798
Derivative financial instruments	23	**4,927**	6,043	7,104
Advances to customers	24	**325,371**	337,157	329,121
Financial investments	25	**225,338**	184,654	181,159
Investments in associates	26	**9,329**	7,149	8,870
Investment properties	27	**2,716**	2,776	2,593
Premises, plant and equipment	28	**6,887**	7,487	7,090
Interest in leasehold land held for own use under operating lease	29	**543**	558	551
Intangible assets	30	**3,621**	3,297	3,385
Other assets	31	**14,534**	16,205	11,506
Deferred tax assets		**25**	5	201
Total assets		**790,121**	747,916	762,168
LIABILITIES AND EQUITY				
Liabilities				
Current, savings and other deposit accounts	32	**591,267**	535,148	562,183
Deposits from banks		**4,603**	19,247	11,556
Trading liabilities	33	**53,387**	53,767	48,282
Financial liabilities designated at fair value		**1,452**	1,431	1,407
Derivative financial instruments	23	**8,778**	8,882	14,945
Certificates of deposit and other debt securities in issue	34	**2,294**	4,026	2,772
Other liabilities	35	**14,328**	17,629	15,448
Liabilities to customers under insurance contracts		**49,479**	38,737	43,835
Current tax liabilities		**739**	2,902	94
Deferred tax liabilities		**1,221**	1,184	711
Subordinated liabilities	36	**9,312**	9,355	9,309
Total liabilities		**736,860**	692,308	710,542
Equity				
Share capital		**9,559**	9,559	9,559
Retained profits		**36,082**	37,358	32,518
Other reserves		**5,517**	6,588	3,813
Proposed dividends		**2,103**	2,103	5,736
Shareholders' funds	37	**53,261**	55,608	51,626
Total equity and liabilities		**790,121**	747,916	762,168

The notes on pages 25 to 58 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 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Share capital			
At beginning and end of period	**9,559**	9,559	9,559
Retained profits (including proposed dividends)			
At beginning of period	**38,254**	38,609	39,461
Dividends to shareholders			
- dividends approved in respect of the previous year	**(5,736)**	(5,736)	-
- dividends declared in respect of the current period	**(2,103)**	(2,103)	(4,206)
Transfer	**45**	59	62
Total comprehensive income for the period	**7,725**	8,632	2,937
	38,185	39,461	38,254
Other reserves			
Premises revaluation reserve			
At beginning of period	**3,711**	3,639	4,094
Transfer	**(45)**	(59)	(62)
Total comprehensive income for the period	**204**	514	(321)
	3,870	4,094	3,711
Available-for-sale investment reserve			
At beginning of period	**(3,823)**	1,892	(862)
Total comprehensive income for the period	**1,819**	(2,754)	(2,961)
	(2,004)	(862)	(3,823)
Cash flow hedging reserve			
At beginning of period	**562**	144	(11)
Total comprehensive income for the period	**(269)**	(155)	573
	293	(11)	562
Foreign exchange reserve			
At beginning of period	**1,379**	757	1,434
Total comprehensive income for the period	**(12)**	677	(55)
	1,367	1,434	1,379
Other reserve			
At beginning of period	**1,984**	1,856	1,933
Costs of share-based payment arrangements	**7**	77	50
Total comprehensive income for the period	**-**	-	1
	1,991	1,933	1,984
Total equity			
At beginning of period	**51,626**	56,456	55,608
Dividends to shareholders	**(7,839)**	(7,839)	(4,206)
Cost of share-based payment arrangements	**7**	77	50
Total comprehensive income for the period	**9,467**	6,914	174
	53,261	55,608	51,626

CONSOLIDATED CASH FLOW STATEMENT

unaudited

(Expressed in millions of Hong Kong dollars)

	note	**Half-year ended 30 June 2009**	Half-year ended 30 June 2008
Net cash inflow/(outflow) from operating activities	38(a)	**102,831**	(44,918)
Cash flows from investing activities			
Dividends received from associates		**358**	258
Purchase of available-for-sale investments		**(35,448)**	(27,368)
Purchase of held-to-maturity debt securities		**(130)**	(134)
Proceeds from sale or redemption of available-for-sale investments		**26,397**	84,669
Proceeds from redemption of held-to-maturity debt securities		**132**	71
Purchase of fixed assets and intangible assets		**(157)**	(367)
Proceeds from sale of fixed assets and assets held for sale		**-**	233
Interest received from available-for-sale investments		**2,142**	5,218
Dividends received from available-for-sale investments		**4**	54
Net cash (outflow)/inflow from investing activities		**(6,702)**	62,634
Cash flows from financing activities			
Dividends paid		**(7,839)**	(7,839)
Interest paid for subordinated liabilities		**(86)**	(205)
Net cash outflow from financing activities		**(7,925)**	(8,044)
Increase in cash and cash equivalents		**88,204**	9,672
Cash and cash equivalents at 1 January		**76,116**	113,474
Effect of foreign exchange rate changes		**1,895**	988
Cash and cash equivalents at 30 June	38(b)	**166,215**	124,134

The notes on pages 25 to 58 form part of this interim financial report.

NOTES TO THE FINANCIAL STATEMENTS

(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").

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 59.

2 Accounting policies

This interim report has been prepared on a basis consistent with the accounting policies adopted in the 2008 accounts except for the following:

On 1 January 2009, the Group adopted HKFRS 8 "Operating Segments" (HKFRS 8), which replaced HKAS 14 "Segment Reporting". HKFRS 8 requires segment information to be reported using the same measure reported to the chief operating decision-maker for the purpose of making decisions about allocating resources to the segment and assessing its performance. The Group's HKFRS 8 operating segments are determined to be customer group segments because the chief operating decision-maker uses customer group information in order to make decisions about allocating resources and assessing performance. The five operating segments, or customer groups, are: Personal Financial Services, Commercial Banking, Corporate Banking, Treasury, and "Other". Segment information provided to the chief operating decision maker is on HKFRS basis.

On 1 January 2009, the Group adopted revised HKAS 1 'Presentation of Financial Statements' (HKAS 1). The revised standard aims to improve users' ability to analyse and compare information given in financial statements.

The adoption of the revised standard has no effect on the results reported in the Group's consolidated financial statements. It does, however, result in certain presentational changes in the Group's primary financial statements, including:

- the presentation of all items of income and expenditure in two financial statements, the "Income statement" and "Statement of comprehensive income";
- the presentation of the "Statement of changes in equity" as a financial statement, which replaces the "Reserves" note on the financial statements; and
- the adoption of revised title "Statement of financial position" for the "Balance sheet".

The Group also adopted a number of insignificant amendments to standards and interpretations. These are described under note 7 of the 2008 Annual Report and Accounts.

3 Basis of consolidation

This interim financial report covers the consolidated positions of Hang Seng Bank Limited and all its subsidiaries, unless otherwise stated, and include the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation are different from the basis of consolidation for accounting purposes. They are set out in note 39.

4 Interest income

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Interest income arising from:			
- financial assets that are not at fair value through profit and loss	**8,545**	13,376	12,223
- trading assets	**180**	183	180
- financial assets designated at fair value	**50**	106	104
	8,775	13,665	12,507
of which:			
- interest income from listed investments	**1,020**	1,841	1,363
- interest income from unlisted investments	**1,960**	3,312	2,389
- interest income from impaired financial assets	**19**	7	11

5 Interest expense

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Interest expense arising from:			
- financial liabilities that are not at fair value through profit and loss	**1,115**	4,659	3,663
- trading liabilities	**376**	734	840
- financial liabilities designated at fair value	**9**	20	24
	1,500	5,413	4,527
of which:			
- interest expense from debt securities in issue maturing after five years	**-**	9	2
- interest expense from customer accounts maturing after five years	**-**	-	1
- interest expense from subordinated liabilities	**86**	205	191

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6 Net fee income

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
- stockbroking and related services	**689**	808	551
- retail investment funds	**226**	773	311
- structured investment products	**5**	297	44
- insurance	**103**	54	44
- account services	**143**	141	141
- private banking	**46**	177	57
- remittances	**101**	107	105
- cards	**659**	623	681
- credit facilities	**67**	60	72
- trade services	**173**	199	210
- other	**115**	129	120
Fee income	**2,327**	3,368	2,336
Fee expense	**(401)**	(341)	(394)
	1,926	3,027	1,942
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	**774**	764	822
- fee income	**1,041**	1,022	1,102
- fee expense	**(267)**	(258)	(280)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**166**	403	217
- fee income	**235**	486	287
- fee expense	**(69)**	(83)	(70)

7 Trading income

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Foreign exchange	**930**	535	849
Gains/(losses) from hedging activities:			
- fair value hedge			
-- on hedging instruments	**116**	(25)	(490)
-- on the hedged items attributable to the hedged risk	**(114)**	22	474
- cash flow hedges			
-- net hedging income	**18**	-	1
Securities, derivatives and other trading activities	**85**	227	(138)
	1,035	759	696

8 Net loss from financial instruments designated at fair value

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Net loss on assets designated at fair value which back insurance and investment contracts	**(170)**	(1,030)	(15)
Net change in fair value of other financial instruments designated at fair value	**(25)**	6	8
	(195)	(1,024)	(7)
of which dividend income from:			
- listed investments	**-**	29	6
- unlisted investments	**-**	1	-
	-	30	6

9 Dividend income

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Dividend income:			
- listed investments	**1**	46	20
- unlisted investments	**4**	8	8
	5	54	28

10 Other operating income

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Rental income from investment properties	**73**	66	72
Movement in present value of in-force long-term insurance business	**202**	363	19
Other	**75**	96	85
	350	525	176

11 Loan impairment charges and other credit risk provisions

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Loan impairment charges (note 24(b)):			
- individually assessed	**(288)**	(56)	(869)
- collectively assessed	**(333)**	(132)	(344)
	(621)	(188)	(1,213)
of which:			
- new and additional	**(709)**	(278)	(1,245)
- releases	**61**	60	6
- recoveries	**27**	30	26
	(621)	(188)	(1,213)
Other credit risk provisions	**-**	-	(1,375)
	(621)	(188)	(2,588)

There was no impairment charge (nil for the first half of 2008 and HK$1,375 million for the second half of 2008) provided for available-for-sale debt securities of 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 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Employee compensation and benefits:			
- salaries and other costs	**1,401**	1,351	1,466
- performance-related pay	**123**	301	161
- retirement benefit costs			
-- defined benefit scheme	**107**	52	52
-- defined contribution scheme	**38**	32	37
	1,669	1,736	1,716
General and administrative expenses:			
- rental expenses	**210**	196	213
- amortisation of prepaid operating lease payment (note 29)	**8**	7	7
- other premises and equipment	**442**	422	504
- marketing and advertising expenses	**174**	242	274
- other operating expenses	**447**	489	497
	1,281	1,356	1,495
Depreciation of business premises and equipment (note 28)	**225**	201	231
Amortisation of intangible assets	**40**	27	33
	3,215	3,320	3,475

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13 Gains less losses from financial investments and fixed assets

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Net gains from disposal of available-for-sale equity securities	**159**	369	277
Net losses from disposal of available-for-sale debt securities	**(95)**	-	(83)
Impairment of available-for-sale equity securities	**(4)**	(118)	(166)
Gains less losses on disposal of investment properties	**-**	-	-
Gains less losses on disposal of fixed assets	**(5)**	(5)	(7)
	55	246	21

There were no impairment losses or gains less losses on disposal of held-to-maturity investments, 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 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Current tax - provision for Hong Kong profits tax			
Tax for the period	**977**	1,447	720
Adjustment in respect of prior periods	**(3)**	(13)	(337)
	974	1,434	383
Current tax - taxation outside Hong Kong			
Tax for the period	**3**	5	(26)
Deferred tax			
Origination and reversal of temporary differences	**190**	75	(44)
Effect of decrease in tax rate on deferred tax balances at 1 January 2008	**-**	(48)	-
	190	27	(44)
Total tax expenses	**1,167**	1,466	313

The current tax provision is based on the estimated assessable profit for the first half of 2009, 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 (2008: 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 2009 is based on earnings of HK$6,451 million (HK$9,064 million and HK$5,035 million for the first and second halves of 2008 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 2008).

16 Dividends per share

	Half-year ended 30 June 2009		Half-year ended 30 June 2008		Half-year ended 31 December 2008	
	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	**-**	**-**	-	-	3.00	5,736
	2.20	**4,206**	2.20	4,206	4.10	7,839

17 Segmental analysis

The Group’s business comprises five customer groups. On first-time adoption of HKFRS 8 "Operating segments" and in a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments.

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

(a) Segment result

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

17 Segmental analysis *(continued)*

(a) Segment result *(continued)*

	Personal Financial Services	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segment	Inter-segment elimination	Total
Half-year ended 30 June 2009								
Net interest income	4,015	987	583	1,353	337	7,275	-	7,275
Net fee income/(expense)	1,294	524	79	(19)	48	1,926	-	1,926
Trading income/(loss)	317	115	10	616	(23)	1,035	-	1,035
Net loss from financial instruments designated at fair value	(170)	-	-	(9)	(16)	(195)	-	(195)
Dividend income	1	-	-	-	4	5	-	5
Net earned insurance premiums	6,549	108	1	-	-	6,658	-	6,658
Other operating income	264	15	1	-	307	587	(237)	350
Total operating income	12,270	1,749	674	1,941	657	17,291	(237)	17,054
Net insurance claims incurred and movement in policyholders' liabilities	(6,413)	(65)	-	-	-	(6,478)	-	(6,478)
Net operating income before loan impairment charges and other credit risk provisions	5,857	1,684	674	1,941	657	10,813	(237)	10,576
Loan impairment charges and other credit risk provisions	(274)	(263)	(82)	(2)	-	(621)	-	(621)
Net operating income	5,583	1,421	592	1,939	657	10,192	(237)	9,955
Total operating expenses *	(2,278)	(733)	(157)	(137)	(147)	(3,452)	237	(3,215)
Operating profit	3,305	688	435	1,802	510	6,740	-	6,740
Gains less losses from financial investments and fixed assets	96	53	14	(95)	(13)	55	-	55
Net surplus on property revaluation	-	-	-	-	60	60	-	60
Share of profits from associates	66	339	-	310	48	763	-	763
Profit before tax	3,467	1,080	449	2,017	605	7,618	-	7,618
Share of profit before tax	45.5%	14.2%	5.9%	26.5%	7.9%	100.0%	-	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	3,579	951	517	1,804	510	7,361	-	7,361
** Depreciation/amortisation included in total operating expenses*	(82)	(15)	(4)	(2)	(162)	(265)	-	(265)
At 30 June 2009								
Total assets	218,251	84,180	90,115	366,245	31,330	790,121	-	790,121
Total liabilities	542,284	106,419	32,593	27,141	28,423	736,860	-	736,860
Investments in associates	683	3,608	-	2,666	2,372	9,329	-	9,329

17 Segmental analysis *(continued)*

(a) Segment result *(continued)*

	Personal Financial Services	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segment	Inter-segment elimination	Total
Half-year ended 30 June 2008								
Net interest income	4,295	1,211	442	1,536	768	8,252	-	8,252
Net fee income/(expense)	2,380	547	61	(17)	56	3,027	-	3,027
Trading income/(loss)	485	125	8	294	(153)	759	-	759
Net (loss)/income from financial instruments designated at fair value	(1,029)	(1)	-	6	-	(1,024)	-	(1,024)
Dividend income	17	5	-	-	32	54	-	54
Net earned insurance premiums	6,832	96	2	-	-	6,930	-	6,930
Other operating income/(loss)	435	24	-	(1)	300	758	(233)	525
Total operating income	13,415	2,007	513	1,818	1,003	18,756	(233)	18,523
Net insurance claims incurred and movement in policyholders' liabilities	(5,843)	(59)	(1)	-	-	(5,903)	-	(5,903)
Net operating income before loan impairment charges and other credit risk provisions	7,572	1,948	512	1,818	1,003	12,853	(233)	12,620
Loan impairment charges and other credit risk provisions	(86)	(71)	(31)	-	-	(188)	-	(188)
Net operating income	7,486	1,877	481	1,818	1,003	12,665	(233)	12,432
Total operating expenses *	(2,431)	(729)	(147)	(120)	(126)	(3,553)	233	(3,320)
Operating profit	5,055	1,148	334	1,698	877	9,112	-	9,112
Gains less losses from financial investments and fixed assets	175	96	31	-	(56)	246	-	246
Net surplus on property revaluation	-	-	-	-	229	229	-	229
Share of profits from associates	54	459	-	285	145	943	-	943
Profit before tax	5,284	1,703	365	1,983	1,195	10,530	-	10,530
Share of profit before tax	50.2%	16.2%	3.5%	18.8%	11.3%	100.0%	-	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	5,141	1,219	365	1,698	877	9,300	-	9,300
** Depreciation/amortisation included in total operating expenses*	(64)	(11)	(3)	(2)	(148)	(228)	-	(228)
At 30 June 2008								
Total assets	210,593	93,416	85,595	320,004	38,308	747,916	-	747,916
Total liabilities	473,224	96,559	46,288	37,937	38,300	692,308	-	692,308
Investments in associates	379	2,412	-	1,923	2,435	7,149	-	7,149

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17 Segmental analysis *(continued)*

(a) Segment result *(continued)*

	Personal Financial Services	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segment	Inter-segment elimination	Total
Half-year ended 31 December 2008								
Net interest income	4,405	1,200	546	1,146	683	7,980	-	7,980
Net fee income/(expense)	1,316	519	66	(16)	57	1,942	-	1,942
Trading income/(loss)	258	120	10	347	(39)	696	-	696
Net (loss)/income from financial instruments designated at fair value	(14)	(1)	-	(16)	24	(7)	-	(7)
Dividend income	8	5	-	-	15	28	-	28
Net earned insurance premiums	5,303	117	1	-	-	5,421	-	5,421
Other operating income	4	30	2	5	371	412	(236)	176
Total operating income	11,280	1,990	625	1,466	1,111	16,472	(236)	16,236
Net insurance claims incurred and movement in policyholders' liabilities	(5,506)	(54)	-	-	-	(5,560)	-	(5,560)
Net operating income before loan impairment charges and other credit risk provisions	5,774	1,936	625	1,466	1,111	10,912	(236)	10,676
Loan impairment charges and other credit risk provisions	(261)	(782)	(170)	(1,375)	-	(2,588)	-	(2,588)
Net operating income	5,513	1,154	455	91	1,111	8,324	(236)	8,088
Total operating expenses *	(2,448)	(801)	(175)	(127)	(160)	(3,711)	236	(3,475)
Operating profit	3,065	353	280	(36)	951	4,613	-	4,613
Gains less losses from financial investments and fixed assets	(19)	(11)	-	(84)	135	21	-	21
Net deficit on property revaluation	-	-	-	-	(150)	(150)	-	(150)
Share of profits/(losses) from associates	80	425	-	416	(57)	864	-	864
Profit before tax	3,126	767	280	296	879	5,348	-	5,348
Share of profit before tax	58.5%	14.4%	5.2%	5.5%	16.4%	100.0%	-	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	3,326	1,135	450	1,339	951	7,201	-	7,201
** Depreciation/amortisation included in total operating expenses*	(76)	(13)	(4)	(1)	(170)	(264)	-	(264)
At 31 December 2008								
Total assets	211,092	85,791	93,570	345,920	25,795	762,168	-	762,168
Total liabilities	508,596	96,905	41,981	34,575	28,485	710,542	-	710,542
Investments in associates	501	3,194	-	2,784	2,391	8,870	-	8,870

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 2009	**%**	Half-year ended 30 June 2008	%	Half-year ended 31 December 2008	%
Total operating income						
Hong Kong	**16,058**	**94**	16,789	91	14,592	90
Americas	**499**	**3**	1,296	7	1,082	7
Mainland and other	**497**	**3**	438	2	562	3
	17,054	**100**	18,523	100	16,236	100
Profit before tax						
Hong Kong	**6,391**	**84**	8,410	80	4,424	83
Americas	**449**	**6**	1,273	12	498	9
Mainland and other	**778**	**10**	847	8	426	8
	7,618	**100**	10,530	100	5,348	100

	At 30 June 2009	**%**	At 30 June 2008	%	At 31 December 2008	%
Total assets						
Hong Kong	**680,589**	**86**	620,326	83	656,411	86
Americas	**60,265**	**8**	74,177	10	55,365	7
Mainland and other	**49,267**	**6**	53,413	7	50,392	7
	790,121	**100**	747,916	100	762,168	100
Total liabilities						
Hong Kong	**707,734**	**96**	658,663	95	680,296	96
Americas	**1,169**	**-**	3,453	1	1,238	-
Mainland and other	**27,957**	**4**	30,192	4	29,008	4
	736,860	**100**	692,308	100	710,542	100
Contingent liabilities and commitments						
Hong Kong	**193,094**	**92**	207,082	94	196,778	94
Americas	**-**	**-**	-	-	-	-
Mainland and other	**15,786**	**8**	12,417	6	13,464	6
	208,880	**100**	219,499	100	210,242	100

18 Analysis of assets and liabilities by remaining maturity

The maturity analysis is based on the remaining period at the end of the reporting period to the contractual maturity 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	One month to three months	Three months to one year	One year to five years	Over five years	Trading	No contractual maturity	Total
Assets									
Cash and balances with banks and other financial institutions	**51,065**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51,065**
Placings with and advances to banks and other financial institutions	**12,529**	**15,928**	**26,160**	**606**	**-**	**-**	**-**	**-**	**55,223**
Trading assets	**-**	**-**	**-**	**-**	**-**	**-**	**84,517**	**-**	**84,517**
Financial assets designated at fair value	**-**	**458**	**150**	**683**	**4,283**	**54**	**-**	**397**	**6,025**
Derivative financial instruments	**-**	**234**	**-**	**271**	**219**	**-**	**4,203**	**-**	**4,927**
Advances to customers	**18,769**	**16,494**	**21,216**	**48,923**	**115,983**	**103,986**	**-**	**-**	**325,371**
Financial investments:									
- available-for-sale investments	**6,699**	**12,377**	**23,288**	**25,485**	**110,127**	**2,115**	**-**	**617**	**180,708**
- held-to-maturity debt securities	**-**	**148**	**82**	**1,089**	**17,914**	**25,397**	**-**	**-**	**44,630**
Investments in associates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,329**	**9,329**
Investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,716**	**2,716**
Premises, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,887**	**6,887**
Interest in leasehold land held for own use under operating lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**543**	**543**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,621**	**3,621**
Other assets	**7,217**	**2,671**	**2,482**	**1,567**	**70**	**36**	**-**	**491**	**14,534**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25**	**25**
At 30 June 2009	**96,279**	**48,310**	**73,378**	**78,624**	**248,596**	**131,588**	**88,720**	**24,626**	**790,121**
At 30 June 2008	77,503	104,561	81,864	104,429	195,308	137,959	19,170	27,122	747,916
At 31 December 2008	54,547	67,281	56,007	87,804	229,438	129,113	114,083	23,895	762,168
Liabilities									
Current, savings and other deposit accounts	**437,228**	**85,874**	**48,916**	**18,542**	**707**	**-**	**-**	**-**	**591,267**
Deposits from banks	**1,956**	**2,584**	**38**	**25**	**-**	**-**	**-**	**-**	**4,603**
Trading liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**53,387**	**-**	**53,387**
Financial liabilities designated at fair value	**2**	**-**	**-**	**1,000**	**-**	**-**	**-**	**450**	**1,452**
Derivative financial instruments	**-**	**-**	**-**	**14**	**426**	**166**	**8,172**	**-**	**8,778**
Certificates of deposit and other debt securities in issue:									
- certificates of deposit in issue	**-**	**-**	**419**	**949**	**926**	**-**	**-**	**-**	**2,294**
Other liabilities	**5,275**	**3,156**	**2,063**	**1,009**	**71**	**50**	**-**	**2,704**	**14,328**
Liabilities to customers under insurance contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**49,479**	**49,479**
Current tax liabilities	**-**	**-**	**1**	**738**	**-**	**-**	**-**	**-**	**739**
Deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,221**	**1,221**
Subordinated liabilities	**-**	**-**	**-**	**1,499**	**7,813**	**-**	**-**	**-**	**9,312**
At 30 June 2009	**444,461**	**91,614**	**51,437**	**23,776**	**9,943**	**216**	**61,559**	**53,854**	**736,860**
At 30 June 2008	341,937	155,459	55,561	20,796	13,702	354	62,393	42,106	692,308
At 31 December 2008	369,348	134,808	62,650	18,383	12,852	660	62,658	49,183	710,542

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

	Repayable on demand	One month or less but not on demand	One month to three months	Three months to one year	One year to five years	Over five years	Trading	No contractual maturity	Total
of which:									
Certificates of deposit included in:									
- trading assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- financial assets designated at fair value	**-**	**-**	**4**	**125**	**10**	**-**	**-**	**-**	**139**
- available-for-sale investments	**-**	**865**	**1,348**	**3,269**	**1,338**	**661**	**-**	**22**	**7,503**
- held-to-maturity debt securities	**-**	**26**	**7**	**173**	**949**	**811**	**-**	**-**	**1,966**
At 30 June 2009	**-**	**891**	**1,359**	**3,567**	**2,297**	**1,472**	**-**	**22**	**9,608**
At 30 June 2008	-	3,952	1,417	7,382	8,103	1,037	-	(7)	21,884
At 31 December 2008	-	400	1,712	4,406	5,010	1,471	-	35	13,034
Debt securities included in:									
- trading assets	**-**	**-**	**-**	**-**	**-**	**-**	**83,766**	**-**	**83,766**
- financial assets designated at fair value	**-**	**458**	**146**	**558**	**4,273**	**54**	**-**	**(8)**	**5,481**
- available-for-sale investments	**6,699**	**11,512**	**21,940**	**22,216**	**108,789**	**1,454**	**-**	**300**	**172,910**
- held-to-maturity debt securities	**-**	**122**	**75**	**916**	**16,965**	**24,586**	**-**	**-**	**42,664**
At 30 June 2009	**6,699**	**12,092**	**22,161**	**23,690**	**130,027**	**26,094**	**83,766**	**292**	**304,821**
At 30 June 2008	693	9,834	11,774	40,786	82,154	24,727	12,145	(182)	181,931
At 31 December 2008	5	9,556	14,097	24,687	102,506	24,138	108,371	138	283,498
Certificates of deposit in issue included in:									
- trading liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**912**	**-**	**912**
- financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- issue at amortised cost	**-**	**-**	**419**	**949**	**926**	**-**	**-**	**-**	**2,294**
At 30 June 2009	**-**	**-**	**419**	**949**	**926**	**-**	**912**	**-**	**3,206**
At 30 June 2008	-	190	162	1,506	2,168	-	634	-	4,660
At 31 December 2008	-	295	-	1,082	1,395	-	3,861	-	6,633

19 Cash and balances with banks and other financial institutions

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Cash in hand	**3,621**	3,099	3,696
Balances with central banks	**31,637**	2,049	2,426
Balances with banks and other financial institutions	**15,807**	14,607	18,700
	51,065	19,755	24,822

20 Placings with and advances to banks and other financial institutions

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Placings with and advances to banks and other financial institutions maturing within one month	**28,456**	99,200	47,025
Placings with and advances to banks and other financial institutions maturing after one month but less than one year	**26,767**	37,334	22,554
Placings with and advances to banks and other financial institutions maturing after one year	-	-	-
	55,223	136,534	69,579
of which:			
Placings with and advances to central banks	**7,218**	2,684	2,523

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

21 Trading assets

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Treasury bills	**79,426**	6,732	103,621
Certificates of deposit	**-**	-	-
Other debt securities	**4,340**	5,413	4,750
Debt securities	**83,766**	12,145	108,371
Equity shares	**1**	6	-
Total trading securities	**83,767**	12,151	108,371
Other*	**750**	1,538	18
Total trading assets	**84,517**	13,689	108,389
Debt securities:			
- listed in Hong Kong	**2,872**	4,454	3,631
- listed outside Hong Kong	**153**	431	269
	3,025	4,885	3,900
- unlisted	**80,741**	7,260	104,471
	83,766	12,145	108,371
Equity shares:			
- listed in Hong Kong	**1**	6	-
- unlisted	**-**	-	-
	1	6	-
Total trading securities	**83,767**	12,151	108,371
Debt securities			
Issued by public bodies:			
- central governments and central banks	**83,168**	11,049	107,428
- other public sector entities	**373**	379	378
	83,541	11,428	107,806
Issued by other bodies:			
- banks and other financial institutions	**80**	401	306
- corporate entities	**145**	316	259
	225	717	565
	83,766	12,145	108,371
Equity shares			
Issued by corporate entities	**1**	6	-
Total trading securities	**83,767**	12,151	108,371

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

22 Financial assets designated at fair value

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Certificates of deposit	**139**	190	163
Other debt securities	**5,481**	9,813	7,273
Debt securities	**5,620**	10,003	7,436
Equity shares	**405**	2,604	362
	6,025	12,607	7,798
Debt securities:			
- listed in Hong Kong	**559**	1,233	834
- listed outside Hong Kong	**271**	2,006	1,004
	830	3,239	1,838
- unlisted	**4,790**	6,764	5,598
	5,620	10,003	7,436
Equity shares:			
- listed in Hong Kong	**34**	1,759	26
- listed outside Hong Kong	**54**	115	57
	88	1,874	83
- unlisted	**317**	730	279
	405	2,604	362
	6,025	12,607	7,798
Debt securities			
Issued by public bodies:			
- central governments and central banks	**556**	2,298	924
- other public sector entities	**409**	623	564
	965	2,921	1,488
Issued by other bodies:			
- banks and other financial institutions	**4,441**	5,589	5,317
- corporate entities	**214**	1,493	631
	4,655	7,082	5,948
	5,620	10,003	7,436
Equity shares			
Issued by corporate entities	**405**	2,604	362
	6,025	12,607	7,798

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Derivative financial instruments

(a) Derivative financial instruments are held for trading, as financial instruments designated at fair value, or designated as either fair value hedge 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 of each class of derivatives.

	At 30 June 2009			At 30 June 2008			At 31 December 2008		
	Contract amounts	**Derivative assets**	**Derivative liabilities**	Contract amounts	Derivative assets	Derivative liabilities	Contract amounts	Derivative assets	Derivative liabilities
Derivatives held for trading									
Foreign exchange contracts:									
- spot and forward foreign exchange	**480,218**	**1,797**	**1,640**	582,492	2,420	2,175	570,950	2,676	5,144
- currency swaps	**17,550**	**254**	**143**	10,982	144	148	18,356	337	229
- currency options purchased	**18,839**	**78**	**-**	69,777	309	-	32,729	287	-
- currency options written	**27,895**	**-**	**155**	65,330	-	326	33,601	-	340
- other exchange rate contracts	**138**	**3**	**2**	-	-	-	141	-	4
	544,640	**2,132**	**1,940**	728,581	2,873	2,649	655,777	3,300	5,717
Interest rate contracts:									
- interest rate swaps	**156,373**	**1,780**	**1,838**	147,115	981	1,021	161,018	2,120	2,249
- interest rate options purchased	**142**	**-**	**-**	262	-	-	142	-	-
- interest rate options written	**142**	**-**	**-**	262	-	-	142	-	-
- other interest rate contracts	**4,689**	**-**	**3**	351	-	1	217	1	-
	161,346	**1,780**	**1,841**	147,990	981	1,022	161,519	2,121	2,249
Equity and other contracts:									
- equity swaps	**12,210**	**8**	**4,348**	14,003	1	3,984	13,025	1	6,271
- equity options purchased	**1,289**	**85**	**-**	15,711	944	-	2,680	113	-
- equity options written	**854**	**-**	**20**	15,694	-	922	2,770	-	100
- other equity contracts	**38**	**-**	**-**	30	-	-	8	-	-
- spot and forward contracts and other	**2,337**	**169**	**-**	4,016	453	18	2,685	128	9
	16,728	**262**	**4,368**	49,454	1,398	4,924	21,168	242	6,380
Total derivatives held for trading	**722,714**	**4,174**	**8,149**	926,025	5,252	8,595	838,464	5,663	14,346
Derivatives embedded in financial assets designated at fair value									
Exchange rate contracts:									
- spot and forward foreign exchange	**70**	**-**	**-**	-	-	-	-	-	-
Interest rate contracts:									
- interest rate swaps	**1,683**	**29**	**23**	1,929	6	19	1,797	31	30
Equity contracts:									
- other equity contracts	**-**	**-**	**-**	747	223	12	-	-	-
	1,753	**29**	**23**	2,676	229	31	1,797	31	30
Cash Flow hedges derivatives									
Interest rate contracts:									
- interest rate swaps	**44,931**	**696**	**14**	71,087	534	131	73,394	1,410	14
Fair value hedge derivatives									
Interest rate contracts:									
- interest rate swaps	**16,035**	**28**	**592**	6,146	28	125	12,548	-	555
Total derivatives	**785,433**	**4,927**	**8,778**	1,005,934	6,043	8,882	926,203	7,104	14,945

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs, as none of these contracts are subject to any bilateral netting arrangements.

24 Advances to customers

(a) Advances to customers

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Gross advances to customers	**327,731**	338,202	331,164
Less: loan impairment allowances			
- individually assessed	**(1,492)**	(415)	(1,241)
- collectively assessed	**(868)**	(630)	(802)
	325,371	337,157	329,121
Included in advances to customers are:			
- trade bills	**2,773**	3,676	2,899
Less: loan impairment allowances	**(39)**	(12)	(30)
	2,734	3,664	2,869

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

	At 30 June 2009 %	At 30 June 2008 %	At 31 December 2008 %
Loan impairment allowances:			
- individually assessed	**0.46**	0.12	0.37
- collectively assessed	**0.26**	0.19	0.24
Total loan impairment allowances	**0.72**	0.31	0.61

(b) Loan impairment allowances against advances to customers

	Individually assessed	**Collectively assessed**	**Total**
At 1 January 2009	**1,241**	**802**	**2,043**
Amounts written off	**(29)**	**(283)**	**(312)**
Recoveries of advances written off in previous years (note 11)	**9**	**18**	**27**
New impairment allowances charged to income statement (note 11)	**358**	**351**	**709**
Impairment allowances released to income statement (note 11)	**(70)**	**(18)**	**(88)**
Unwinding of discount of loan impairment allowances recognised as "interest income"	**(17)**	**(2)**	**(19)**
At 30 June 2009	**1,492**	**868**	**2,360**
At 1 January 2008	417	636	1,053
Amounts written off	(64)	(157)	(221)
Recoveries of advances written off in previous years (note 11)	11	19	30
New impairment allowances charged to income statement (note 11)	109	169	278
Impairment allowances released to income statement (note 11)	(53)	(37)	(90)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(5)	-	(5)
At 30 June 2008	415	630	1,045
At 1 July 2008	415	630	1,045
Amounts written off	(46)	(189)	(235)
Recoveries of advances written off in previous years (note 11)	9	17	26
New impairment allowances charged to income statement (note 11)	884	361	1,245
Impairment allowances released to income statement (note 11)	(15)	(17)	(32)
Unwinding of discount of loan impairment allowances recognised as "interest income"	(6)	-	(6)
At 31 December 2008	1,241	802	2,043

24 Advances to customers *(continued)*

(c) Impaired advances and allowances

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Gross impaired advances	**3,742**	1,391	3,404
Individually assessed allowances	**(1,492)**	(415)	(1,241)
	2,250	976	2,163
Individually assessed allowances as a percentage of gross impaired advances	**39.9%**	29.8%	36.5%
Gross impaired advances as a percentage of gross advances to customers	**1.1%**	0.4%	1.0%

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

	At 30 June 2009	At 30 June 2008	At 31 December 2008 *(restated)*
Gross individually assessed impaired advances	**3,650**	1,300	3,297
Individually assessed allowances	**(1,492)**	(415)	(1,241)
	2,158	885	2,056
Gross individually assessed impaired advances as a percentage of gross advances to customers	**1.1%**	0.4%	1.0%
Amount of collateral which has been taken into account in respect of individually assessed impaired advances to customers	**2,105**	848	1,927

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 was included.

To conform with current period presentation, the amount of collateral in respect of individually assessed impaired advances to customers at 31 December 2008 has been restated using the 10-grade scale Customer Risk Rating.

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 2009	**%**	At 30 June 2008	%	At 31 December 2008	%
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	**628**	**0.2**	217	0.1	340	0.1
- more than six months but not more than one year	**830**	**0.3**	164	-	419	0.1
- more than one year	**500**	**0.1**	336	0.1	311	0.1
	1,958	**0.6**	717	0.2	1,070	0.3
of which:						
- individually impaired allowances	**(1,268)**		(324)		(554)	
- covered portion of overdue loans and advances	**1,165**		260		574	
- uncovered portion of overdue loans and advances	**793**		457		496	
- current market value of collateral held against the covered portion of overdue loans and advances	**1,435**		596		697	

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at period-end. Advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at 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 2009	**%**	At 30 June 2008	%	At 31 December 2008	%
Rescheduled advances to customers	**666**	**0.2**	272	0.1	281	0.1

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. At 30 June 2009, over 90 per cent (over 90 per cent at 30 June 2008 and 31 December 2008) of the Group's advances to customers, including related impaired advances and overdue advances, were classified under Hong Kong. There was no geographical segment other than Hong Kong to which the Bank's advances to customers is not less than 10 per cent of the total loans and advances.

(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 2009		At 30 June 2008		At 31 December 2008	
		% of gross advances covered by collateral		% of gross advances covered by collateral		% of gross advances covered by collateral
Gross advances to customers for use in Hong Kong						
Industrial, commercial and financial sectors						
- property development	**22,865**	**34.6**	20,658	29.5	25,314	32.7
- property investment	**66,060**	**89.7**	62,251	85.6	66,179	87.4
- financial concerns	**2,130**	**35.4**	2,468	45.7	3,146	60.7
- stockbrokers	**2,736**	**13.1**	313	79.9	526	39.2
- wholesale and retail trade	**6,489**	**54.2**	6,875	48.7	6,183	54.3
- manufacturing	**11,350**	**31.5**	13,767	24.2	12,828	27.0
- transport and transport equipment	**8,031**	**77.4**	8,837	77.2	8,400	78.3
- recreational activities	**28**	**57.1**	235	0.9	26	64.6
- information technology	**1,265**	**3.8**	1,051	4.0	1,075	4.6
- other	**25,348**	**45.5**	20,380	43.1	21,553	41.7
	146,302	**63.7**	136,835	60.7	145,230	62.4
Individuals						
- advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**15,740**	**99.9**	17,934	99.9	16,739	99.9
- advances for the purchase of other residential properties	**91,656**	**99.7**	94,792	99.6	89,669	99.4
- credit card advances	**12,780**	**-**	11,685	-	12,841	-
- other	**10,992**	**34.6**	13,698	31.6	11,892	33.0
	131,168	**84.5**	138,109	84.5	131,141	83.7
Total gross advances for use in Hong Kong	**277,470**	**73.6**	274,944	72.7	276,371	72.5
Trade finance	**18,878**	**38.4**	25,206	31.8	19,039	41.5
Gross advances for use outside Hong Kong	**31,383**	**61.6**	38,052	42.1	35,754	59.4
Gross advances to customers	**327,731**	**70.4**	338,202	66.2	331,164	69.3

25 Financial investments

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Financial investments:			
- which may be repledged or resold by counterparties	**309**	-	1,260
- which may not be repledged or resold or are not subject to repledge or resale by counterparties	**225,029**	184,654	179,899
	225,338	184,654	181,159
Held-to-maturity debt securities at amortised cost	**44,630**	25,203	36,205
Available-for-sale at fair value:			
- debt securities	**180,413**	156,464	144,520
- equity shares	**295**	2,987	434
	225,338	184,654	181,159
Treasury bills	**35,778**	3,796	9,927
Certificates of deposit	**9,469**	21,694	12,871
Other debt securities	**179,796**	156,177	157,927
Debt securities	**225,043**	181,667	180,725
Equity shares	**295**	2,987	434
	225,338	184,654	181,159

(a) Held-to-maturity debt securities

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Listed in Hong Kong	**925**	423	1,227
Listed outside Hong Kong	**4,465**	2,109	3,301
	5,390	2,532	4,528
Unlisted	**39,240**	22,671	31,677
	44,630	25,203	36,205
Issued by public bodies:			
- central governments and central banks	**197**	233	240
- other public sector entities	**6,220**	1,178	2,343
	6,417	1,411	2,583
Issued by other bodies:			
- banks and other financial institutions	**31,179**	22,293	29,604
- corporate entities	**7,034**	1,499	4,018
	38,213	23,792	33,622
	44,630	25,203	36,205
Fair value of held-to-maturity debt securities:			
- listed	**5,359**	2,462	4,849
- unlisted	**39,464**	22,258	34,466
	44,823	24,720	39,315

There were no held-to-maturity debt securities determined to be impaired at 30 June 2009 and the comparative periods for the Group.

25 Financial investments *(continued)*

(b) Available-for-sale debt securities

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Listed in Hong Kong	**4,601**	4,661	4,377
Listed outside Hong Kong	**61,326**	58,273	63,717
	65,927	62,934	68,094
Unlisted	**114,486**	93,530	76,426
	180,413	156,464	144,520
Issued by public bodies:			
- central governments and central banks	**44,281**	8,384	16,403
- other public sector entities	**3,243**	2,724	2,010
	47,524	11,108	18,413
Issued by other bodies:			
- banks and other financial institutions	**123,461**	133,812	114,563
- corporate entities	**9,428**	11,544	11,544
	132,889	145,356	126,107
	180,413	156,464	144,520

As at 30 June 2009 and 31 December 2008, certain Group's available-for-sale debt securities were individually determined to be impaired on the basis that there was objective evidence of impairment in the value of the debt securities. Impairment losses on these investments were recognised in the income statement.

(c) Available-for-sale equity shares

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Listed in Hong Kong	**48**	2,273	37
Listed outside Hong Kong	**64**	128	68
	112	2,401	105
Unlisted	**183**	586	329
	295	2,987	434
Issued by corporate entities	**295**	2,987	434

For the periods indicated, certain Group's available-for-sale securities were individually determined to be impaired. Impairment losses on these investments were recognised in the income statement.

(d) The following table presents an analysis of debt securities by rating agency designation at the end of the reporting periods, 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 2009	At 30 June 2008	At 31 December 2008
AAA	**86,125**	14,753	40,775
AA- to AA+	**67,826**	91,449	71,511
A- to A+	**58,544**	62,230	56,296
B+ to BBB+	**7,978**	9,058	7,572
B and lower	**151**	-	160
Unrated	**4,419**	4,177	4,411
	225,043	181,667	180,725

26 Investments in associates

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Share of net assets	**8,782**	6,848	8,314
Goodwill	**428**	301	399
Intangible assets	**119**	-	157
	9,329	7,149	8,870

27 Investment properties

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Beginning of the period	**2,593**	2,581	2,776
Surplus/(deficit) on revaluation credited/(charged) to income statement	**93**	190	(182)
Transfer from assets held for sale	**17**	-	-
Transfer from/(to) premises (note 28)	**13**	5	(1)
End of the period	**2,716**	2,776	2,593

28 Premises, plant and equipment

Movement of premises, plant and equipment

	Premises	**Plant and equipment**	**Total**
Cost or valuation:			
At 1 January 2009	**6,161**	**3,421**	**9,582**
Exchange adjustments	**-**	**(1)**	**(1)**
Additions	**-**	**84**	**84**
Disposals	**-**	**(142)**	**(142)**
Elimination of accumulated depreciation on revalued premises	**(79)**	**-**	**(79)**
Surplus on revaluation:			
- credited to premises revaluation reserve	**244**	**-**	**244**
- charged to income statement	**(33)**	**-**	**(33)**
Transfer to assets held for sale	**(253)**	**-**	**(253)**
Transfer to investment properties (note 27)	**(13)**	**-**	**(13)**
At 30 June 2009	**6,027**	**3,362**	**9,389**
Accumulated depreciation:			
At 1 January 2009	**-**	**(2,492)**	**(2,492)**
Exchange adjustments	**-**	**(1)**	**(1)**
Charge for the period (note 12)	**(81)**	**(144)**	**(225)**
Written off on disposal	**-**	**137**	**137**
Elimination of accumulated depreciation on revalued premises	**79**	**-**	**79**
At 30 June 2009	**(2)**	**(2,500)**	**(2,502)**
Net book value at 30 June 2009	**6,025**	**862**	**6,887**

28 Premises, plant and equipment *(continued)*

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

	Premises	Plant and equipment	Total
Cost or valuation:			
At 1 January 2008	6,082	3,186	9,268
Exchange adjustments	7	18	25
Additions	-	294	294
Disposals	-	(205)	(205)
Elimination of accumulated depreciation on revalued premises	(76)	-	(76)
Surplus on revaluation:			
- credited to premises revaluation reserve	559	-	559
- credited to income statement	39	-	39
Transfer to investment properties (note 27)	(5)	-	(5)
At 30 June 2008	6,606	3,293	9,899
Accumulated depreciation:			
At 1 January 2008	-	(2,474)	(2,474)
Exchange adjustments	-	(7)	(7)
Charge for the period (note 12)	(78)	(123)	(201)
Written off on disposal	-	194	194
Elimination of accumulated depreciation on revalued premises	76	-	76
At 30 June 2008	(2)	(2,410)	(2,412)
Net book value at 30 June 2008	6,604	883	7,487
Cost or valuation:			
At 1 July 2008	6,606	3,293	9,899
Exchange adjustments	(1)	(2)	(3)
Additions	-	197	197
Disposals	-	(67)	(67)
Elimination of accumulated depreciation on revalued premises	(89)	-	(89)
(Deficit)/surplus on revaluation:			
- charged to premises revaluation reserve	(388)	-	(388)
- credited to income statement	32	-	32
Transfer from investment properties (note 27)	1	-	1
At 31 December 2008	6,161	3,421	9,582
Accumulated depreciation:			
At 1 July 2008	(2)	(2,410)	(2,412)
Exchange adjustments	-	1	1
Charge for the period (note 12)	(87)	(144)	(231)
Written off on disposal	-	60	60
Transfer to assets held for sale	-	1	1
Elimination of accumulated depreciation on revalued premises	89	-	89
At 31 December 2008	-	(2,492)	(2,492)
Net book value at 31 December 2008	6,161	929	7,090

29 Interest in leasehold land held for own use under operating lease

The Group's interest in leasehold land held for own use is accounted for as operating lease. The lease is a medium term lease with 10 to 50 years unexpired and the net book value is as follows:

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
Beginning of the period	**551**	565	558
Amortisation of prepaid operating lease payment (note 12)	**(8)**	(7)	(7)
End of the period	**543**	558	551

30 Intangible assets

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Present value of in-force long-term insurance business	**2,909**	2,688	2,707
Internally developed software	**357**	254	321
Acquired software	**26**	26	28
Goodwill	**329**	329	329
	3,621	3,297	3,385

31 Other assets

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Items in the course of collection from other banks	**7,059**	6,856	4,028
Prepayments and accrued income	**2,263**	3,072	2,711
Assets held for sale:			
- repossessed assets	**59**	99	136
- other assets held for sale	**254**	62	16
Acceptances and endorsements	**3,388**	3,834	3,090
Retirement benefit assets	**64**	88	30
Other accounts	**1,447**	2,194	1,495
	14,534	16,205	11,506

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

32 Current, savings and other deposit accounts

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Current, savings and other deposit accounts:			
- as stated in consolidated statement of financial position	**591,267**	535,148	562,183
- structured deposits reported as trading liabilities (note 33)	**28,306**	31,067	29,785
	619,573	566,215	591,968
By type:			
- demand and current accounts	**43,594**	37,674	36,321
- savings accounts	**380,090**	259,058	294,556
- time and other deposits	**195,889**	269,483	261,091
	619,573	566,215	591,968

33 Trading liabilities

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Structured certificates of deposit in issue (note 34)	**912**	634	3,861
Other debt securities in issue (note 34)	**6,417**	9,233	5,855
Structured deposits (note 32)	**28,306**	31,067	29,785
Short positions in securities and other	**17,752**	12,833	8,781
	53,387	53,767	48,282

34 Certificates of deposit and other debt securities in issue

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Certificates of deposit and other debt securities in issue:			
- as stated in consolidated statement of financial position	**2,294**	4,026	2,772
- structured certificates of deposit in issue reported as trading liabilities (note 33)	**912**	634	3,861
- other debt securities in issue reported as trading liabilities (note 33)	**6,417**	9,233	5,855
	9,623	13,893	12,488
By type:			
- certificates of deposit in issue	**3,206**	4,660	6,633
- other debt securities in issue	**6,417**	9,233	5,855
	9,623	13,893	12,488

35 Other liabilities

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Items in the course of transmission to other banks	**5,644**	7,951	4,583
Accruals	**2,106**	2,775	2,924
Acceptances and endorsements	**3,388**	3,834	3,090
Retirement benefit liabilities	**2,071**	1,098	3,532
Other	**1,119**	1,971	1,319
	14,328	17,629	15,448

36 Subordinated liabilities

Nominal value	Description	At 30 June 2009	At 30 June 2008	At 31 December 2008
Amount owed to third parties				
HK$1,500 million	Callable floating rate subordinated notes due June 2015 [1]	**1,499**	1,497	1,498
HK$1,000 million	4.125% callable fixed rate subordinated notes due June 2015 [2]	**1,017**	979	994
US$450 million	Callable floating rate subordinated notes due July 2016 [3]	**3,479**	3,498	3,478
US$300 million	Callable floating rate subordinated notes due July 2017 [4]	**2,319**	2,332	2,318
Amount owed to HSBC Group undertakings				
US$260 million	Callable floating rate subordinated loan debt due December 2015 [5]	**2,015**	2,028	2,015
		10,329	10,334	10,303
Representing:				
- measured at amortised cost		**9,312**	9,355	9,309
- designated at fair value		**1,017**	979	994
		10,329	10,334	10,303

The above subordinated notes and loan each carries a one-time call option exercisable by the Group on a day falling five years plus one day after the relevant date of issue/drawdown.

(1) Interest rate at three-month HIBOR plus 0.35 per cent, payable quarterly, to the call option date. Thereafter, it will be reset to three-month HIBOR plus 0.85 per cent, payable quarterly.

(2) Interest rate at 4.125 per cent per annum, payable semi-annually, to the call option date. Thereafter, it will be reset to three-month HIBOR plus 0.825 per cent, payable quarterly.

(3) Interest rate at three-month US dollar LIBOR plus 0.30 per cent, payable quarterly, to the call option date. Thereafter, it will be reset to three-month US dollar LIBOR plus 0.80 per cent, payable quarterly.

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

(5) Interest rate at three-month US dollar LIBOR plus 0.31 per cent, payable quarterly, to the call option date. Thereafter, it will be reset to three-month US dollar LIBOR plus 0.81 per cent, payable quarterly.

37 Shareholders' funds

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Share capital	**9,559**	9,559	9,559
Retained profits	**36,082**	37,358	32,518
Premises revaluation reserve	**3,870**	4,094	3,711
Cash flow hedging reserve	**293**	(11)	562
Available-for-sale investment reserve:			
- on debt securities	**(2,191)**	(2,214)	(4,137)
- on equity securities	**187**	1,352	314
Capital redemption reserve	**99**	99	99
Other reserves	**3,259**	3,268	3,264
Total reserves	**41,599**	43,946	36,331
	51,158	53,505	45,890
Proposed dividends	**2,103**	2,103	5,736
Shareholders' funds	**53,261**	55,608	51,626
Return on average shareholders' funds	**25.1%**	32.8%	18.7%

In accordance with the HKMA guideline, *Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting,* the Group has earmarked a “regulatory reserve” of HK$770 million (HK$1,061 million and HK$854 million at 30 June 2008 and 31 December 2008 respectively) from retained profits in order to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes in respect of losses which the Group will or may incur on loans and advances in addition to impairment losses recognised. Movements in the regulatory reserve are earmarked directly through retained profits and in consultation with the HKMA.

There was no purchase, sale or redemption of the Group’s securities by the Bank or any of its subsidiaries during the first half of 2009.

38 Reconciliation of cash flow statement

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

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
Operating profit	**6,740**	9,112
Net interest income	**(7,275)**	(8,252)
Dividend income	**(5)**	(54)
Loan impairment charges and other credit risk provisions	**621**	188
Impairment of available-for-sale equity securities	**4**	118
Depreciation	**225**	201
Amortisation of intangible assets	**40**	27
Amortisation of available-for-sale investments	**19**	(333)
Amortisation of held-to-maturity debt securities	**1**	-
Advances written off net of recoveries	**(285)**	(192)
Interest received	**6,132**	7,021
Interest paid	**(769)**	(4,818)
Operating profit before changes in working capital	**5,448**	3,018
Change in treasury bills and certificates of deposit with original maturity more than three months	**(10,310)**	9,223
Change in placings with and advances to banks maturing after one month	**(4,213)**	(17,675)
Change in trading assets	**92,246**	(2,881)
Change in financial assets designated at fair value	**37**	(125)
Change in derivative financial instruments	**(3,990)**	3,069
Change in advances to customers	**3,415**	(28,797)
Change in other assets	**(7,063)**	(3,354)
Change in financial liabilities designated at fair value	**22**	(10)
Change in current, savings and other deposit accounts	**29,084**	(11,505)
Change in deposits from banks	**(6,833)**	(1,101)
Change in trading liabilities	**5,105**	5,616
Change in certificates of deposit and other debt securities in issue	**(478)**	(1,659)
Change in other liabilities	**3,161**	4,724
Elimination of exchange differences and other non-cash items	**(2,489)**	(3,435)
Cash generated from/(used in) operating activities	**103,142**	(44,892)
Taxation paid	**(311)**	(26)
Net cash inflow/(outflow) from operating activities	**102,831**	(44,918)

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

	At 30 June 2009	At 30 June 2008
Cash and balances with banks and other financial institutions	**51,065**	19,755
Placings with and advances to banks and other financial institutions maturing within one month	**27,539**	96,126
Treasury bills	**87,611**	5,371
Certificates of deposit	**-**	2,882
	166,215	124,134

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$6,048 million at 30 June 2009 (HK$5,389 million at 30 June 2008).

39 Contingent liabilities, commitments and derivatives

The tables below give the contract amounts, credit equivalent amounts and risk-weighted amounts of off-balance transactions. The information is consistent with that in the "Capital Adequacy Ratio" return submitted to the Hong Kong Monetary Authority by the Group. The return is prepared on a consolidated basis as specified by the Hong Kong Monetary Authority 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 statement of financial position 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$3,388 million (HK$3,834 million and HK$3,090 million at 30 June 2008 and 31 December 2008 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 end of the reporting period; 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 assets for the capital adequacy ratio.

With the Capital Rules effective from 1 January 2007, the Group uses the approaches approved by the Hong Kong Monetary Authority to calculate the capital adequacy ratio in accordance with the Capital Rules. The risk-weighted assets at 30 June 2009 were calculated based on the "advanced internal ratings-based approach" and the risk-weighted assets for 2008 were calculated based on the "foundation internal ratings-based approach".

	Contract amount	Credit equivalent amount	Risk-weighted amount
At 30 June 2009			
Direct credit substitutes	**3,063**	**3,063**	**1,659**
Transaction-related contingencies	**570**	**347**	**161**
Trade-related contingencies	**8,905**	**2,195**	**1,415**
Forward asset purchases	**27**	**27**	**27**
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- not unconditionally cancellable *	**30,624**	**16,776**	**7,399**
- unconditionally cancellable	**149,008**	**51,948**	**12,208**
	192,197	**74,356**	**22,869**
Exchange rate contracts:			
- spot and forward foreign exchange	**408,031**	**5,633**	**597**
- currency swaps	**17,550**	**1,050**	**235**
- currency option purchased	**18,781**	**335**	**136**
- other exchange rate contracts	**138**	**5**	**-**
	444,500	**7,023**	**968**
Interest rate contracts:			
- interest rate swaps	**219,022**	**3,121**	**402**
- interest rate options purchased	**142**	**1**	**-**
	219,164	**3,122**	**402**
Equity contracts:			
- equity swaps	**12,210**	**768**	**39**
- equity options purchased	**880**	**84**	**47**
	13,090	**852**	**86**

* The contract amount 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 2009 were HK$16,748 million and HK$13,876 million respectively.

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

	Contract amount	Credit equivalent amount	Risk-weighted amount
At 30 June 2008			
Direct credit substitutes	3,554	3,554	1,775
Transaction-related contingencies	1,233	616	555
Trade-related contingencies	11,203	2,241	1,460
Forward asset purchases	196	196	196
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- not unconditionally cancellable	33,121	23,389	8,318
- unconditionally cancellable	147,070	28,786	5,527
	196,377	58,782	17,831
Exchange rate contracts:			
- spot and forward foreign exchange	487,800	7,351	1,852
- currency swaps	10,933	642	110
- currency option purchased	69,741	1,135	760
- other exchange rate contracts	-	-	-
	568,474	9,128	2,722
Interest rate contracts:			
- interest rate swaps	226,277	2,078	406
- interest rate options purchased	262	1	-
	226,539	2,079	406
Equity contracts:			
- equity swaps	14,003	1,060	167
- equity options purchased	15,711	1,888	1,511
	29,714	2,948	1,678
At 31 December 2008			
Direct credit substitutes	4,174	4,174	2,132
Transaction-related contingencies	1,016	507	418
Trade-related contingencies	7,046	1,409	922
Forward asset purchases	59	59	59
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- not unconditionally cancellable	23,708	15,992	6,389
- unconditionally cancellable	155,505	30,971	3,586
	191,508	53,112	13,506
Exchange rate contracts:			
- spot and forward foreign exchange	500,166	7,364	1,872
- currency swaps	18,356	1,185	324
- currency option purchased	32,729	649	454
- other exchange rate contracts	141	2	-
	551,392	9,200	2,650
Interest rate contracts:			
- interest rate swaps	248,758	4,144	1,117
- interest rate options purchased	142	1	-
	248,900	4,145	1,117
Equity contracts:			
- equity swaps	13,025	867	149
- equity options purchased	2,680	274	194
	15,705	1,141	343

40 Foreign currency positions

Foreign currency exposures include those arising from trading, non-trading and structural positions. Net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. At 30 June 2009, the US dollar (US$) was the currency in which the Group had non-structural foreign currency positions that were 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 percent 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	Other foreign currencies	Total foreign currencies
At 30 June 2009				
Non-structural position				
Spot assets	**220,606**	**36,442**	**152,879**	**409,927**
Spot liabilities	**(189,501)**	**(36,031)**	**(98,587)**	**(324,119)**
Forward purchases	**227,596**	**27,145**	**55,530**	**310,271**
Forward sales	**(251,599)**	**(27,633)**	**(109,867)**	**(389,099)**
Net option position	**2**	**-**	**(4)**	**(2)**
Net long/(short) non-structural position	**7,104**	**(77)**	**(49)**	**6,978**
Structural positions	**285**	**13,589**	**235**	**14,109**
At 30 June 2008				
Non-structural position				
Spot assets	211,580	41,181	121,551	374,312
Spot liabilities	(195,205)	(42,101)	(110,860)	(348,166)
Forward purchases	284,711	44,852	38,813	368,376
Forward sales	(298,470)	(45,877)	(49,751)	(394,098)
Net option position	(29)	-	32	3
Net long/(short) non-structural position	2,587	(1,945)	(215)	427
Structural positions	287	12,265	219	12,771
At 31 December 2008				
Non-structural position				
Spot assets	240,624	37,665	154,872	433,161
Spot liabilities	(200,971)	(37,568)	(89,134)	(327,673)
Forward purchases	269,935	26,549	44,434	340,918
Forward sales	(303,047)	(27,082)	(110,258)	(440,387)
Net option position	(1)	-	2	1
Net long/(short) non-structural position	6,540	(436)	(84)	6,020
Structural positions	285	13,343	202	13,830

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 2008, 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 2 March 2009. The Annual Report and Financial Statements for the year ended 31 December 2008, 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 application of HKAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform with the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

43 Property revaluation

A revaluation of Hang Seng’s premises and investment properties in Hong Kong was performed in June 2009 to reflect property market movements in the first half of 2009. The Group’s premises and investment properties were revalued by DTZ Debenham Tie Leung Limited, an independent professional valuer, and 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$211 million of which HK$244 million was credited to premises revaluation reserve and HK$33 million was charged to the income statement. Revaluation gains of HK$93 million on investment properties were recognised through the income statement. The related deferred tax provisions for Group premises and investment properties were HK$35 million and HK$15 million respectively.

The revaluation exercise also covered business premises/investment properties reclassified as properties held for sale. In accordance with HKFRS 5, there was no revaluation gain/loss recognised through the income statement.

44 Immediate and ultimate holding companies

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

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

Introduction

We have reviewed the interim financial report set out on pages 20 to 58 which comprises the consolidated statement of financial position of Hang Seng Bank Limited ("the Bank") as of 30 June 2009 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 2009 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

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

3 August 2009

SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS *(unaudited)*

These notes set out on pages 60 to 73 are supplementary to and should be read in conjunction with the consolidated financial statements set out on pages 20 to 58. The consolidated financial statement and these supplementary notes taken together comply with the Banking (Disclosure) Rules ("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 Rules to be prepared on a different basis. In such cases, the 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 2009 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"), Credit Committee and Risk Management Committee ("RMC") which was set up in July 2008 to centralise the risk management oversight function of the Bank and to review, analyse, evaluate, recognise and manage various risks of the Bank. RMC is constituted by the Board but reports to Executive Committee.

(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, treasury and leasing 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 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 an assessment of the adequacy of the established impairment provisions by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics against historical trends and undertaking an assessment of current economic conditions.

Risk rating framework

A more 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 new approach will allow a more granular analysis of risk and trends. The information generated from the risk rating framework is used but not limited 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 the properties, securities, investment funds and deposits;

- in the commercial and industrial sector, charges over business assets such as properties, stock, debtors, investment funds, deposits and machinery;

- in the commercial real estate sector, charges over the properties being financed.

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

Settlement risk

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

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

Concentration of credit risk

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

2 Financial risk management *(continued)*

(b) Liquidity risk

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

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

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

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

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;

- monitoring balance sheet liquidity ratios against internal and regulatory requirements;

- maintaining a diverse range of funding sources with adequate back-up facilities;

- managing debt financing plans;

- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and

- monitoring of depositor concentration contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises, while minimising adverse long-term implications for the business.

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

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

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	Half-year ended 31 December 2008
The Bank and its subsidiaries designated by the HKMA	**47.5%**	47.3%	45.5%

(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, proprietary position-taking and other marked-to-market positions with trading intent. 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. The Group has obtained approval from the HKMA to use its VAR model for calculation of market risk capital charge.

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

VAR is calculated daily. The Group validates the accuracy of its VAR models by back-testing the actual daily profit and loss results, 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 all interest rate risk and foreign exchange risk positions and on individual risk portfolios during the first halves of 2009 and 2008 are shown in the table below:

Value at risk

	At 30 June 2009	**Minimum during the period**	**Maximum during the period**	**Average for the period**
VAR for all interest rate risk and foreign exchange risk	**105**	**46**	**110**	**81**
VAR for foreign exchange risk (trading)	**9**	**4**	**14**	**9**
VAR for interest rate risk				
- trading	**8**	**5**	**13**	**7**
- non-trading	**95**	**46**	**105**	**79**

	At 30 June 2008 *(restated)*	Minimum during the period *(restated)*	Maximum during the period *(restated)*	Average for the period *(restated)*
VAR for all interest rate risk and foreign exchange risk	40	39	170	88
VAR for foreign exchange risk (trading)	5	3	9	6
VAR for interest rate risk				
- trading	4	1	7	4
- non-trading	41	38	164	85

The definition of trading VAR and interest rate trading VAR has been amended to apply trading intent VAR (excluding trading in accrual position). Therefore, the figures for the first half of 2008 have been amended to reflect this.

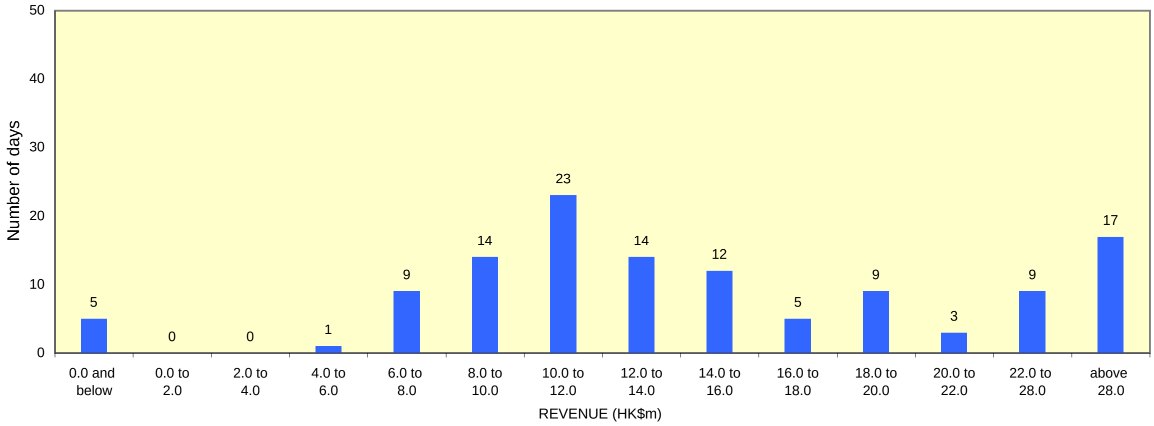
2 Financial risk management *(continued)*

(c) Market risk *(continued)*

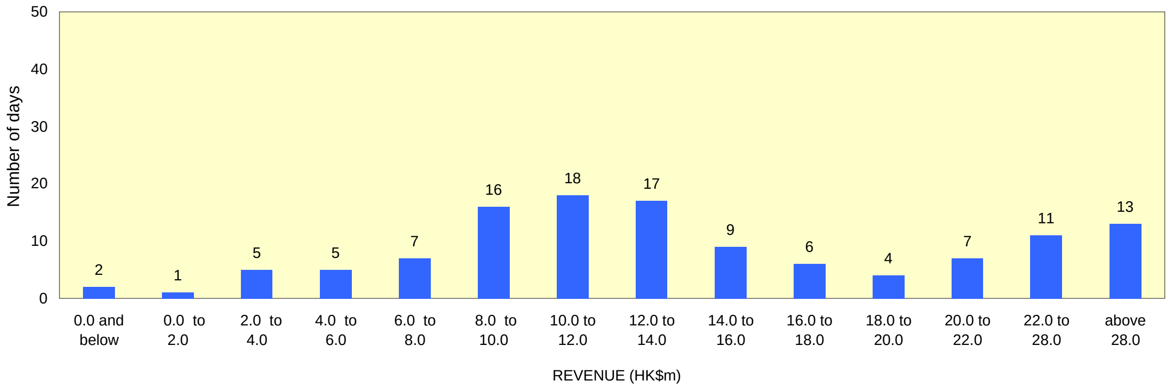
The average daily revenue earned from market risk-related treasury activities for the first half of 2009, including non-trading book net interest income and funding related to trading positions, was HK$15 million (HK$15 million for the first half of 2008). The standard deviation of these daily revenues was HK$16 million (HK$10 million for the first half of 2008).

An analysis of the frequency distribution of daily revenue shows that out of 121 trading days for the first half of 2009, losses were recorded on 5 days (2 days for the first half of 2008). The maximum daily loss was HK$113 million (HK$2 million for the first half of 2008). The most frequent result was a daily revenue of between HK$8 million and HK$16 million, with 63 occurrences. The highest daily revenue was HK$62 million (HK$52 million for the first half of 2008).

Daily distribution of market risk revenue for the first half of 2009



Daily distribution of market risk revenue for the first half of 2008



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 Board of Directors and under the monitoring of ALCO.

Trading

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

Non-trading

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

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

The transfer of market risk to books managed by Treasury or supervised by 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 monitor all such behavioural assumptions and interest rate risk positions, to ensure they comply with interest rate risk limits established by the Board.

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 Board of Directors. 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 associate, subsidiaries and branches outside Hong Kong, mainly in US dollar and Chinese renminbi, are managed by 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 statement of financial position: called up share capital, retained profits, other reserves and subordinated liabilities. Capital also includes the collective impairment allowances held in respect of loans and advances and the regulatory reserve.

Externally imposed capital requirements:

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

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

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

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

For credit risk, with the HKMA approval, the Group has adopted the Advanced Internal Ratings-Based Approach for the majority of its business with effect from 1 January 2009, with the remainder on 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 model approach, the CAD1 model and the Standardised Approach for different risk categories.

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

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

The Group has compiled with all of the externally imposed capital requirements by the Hong Kong Monetary Authority for all the periods preceded.

(i) Capital adequacy ratios

Capital ratios at 30 June 2009 were compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the HKMA under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II, which came into effect on 1 January 2007. 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 at 30 June 2009. The capital adequacy ratio and core capital ratio at 31 December 2008 were calculated using the "foundation internal ratings-based approach" ("FIRB").

In accordance with the HKMA guideline Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting, the Group has earmarked a "regulatory reserve" of HK$770 million from retained profits.

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 2009	At 30 June 2008	At 31 December 2008
Capital base			
Core capital:			
- share capital	**9,559**	9,559	9,559
- retained profits	**28,799**	33,262	24,290
- classified as regulatory reserve	**(770)**	(1,061)	(854)
- less: deduction from core capital	**(547)**	(301)	(557)
- less: 50 per cent of total unconsolidated investments and other deductions	**(6,709)**	(6,430)	(6,330)
- total core capital	**30,332**	35,029	26,108
Supplementary capital :			
- fair value gains on the revaluation of property	**3,608**	3,750	3,465
- fair value gains on the revaluation of available-for-sale investment and equity	**612**	507	649
- collectively assessed impairment allowances	**85**	68	78
- regulatory reserve	**85**	127	94
- surplus provision	**-**	-	101
- term subordinated debt	**10,367**	10,354	10,357
- less: 50 per cent of total unconsolidated investments and other deductions	**(6,709)**	(6,430)	(6,330)
- total supplementary capital	**8,048**	8,376	8,414
Total capital base after deductions	**38,380**	43,405	34,522
Risk-weighted assets			
- credit risk	**191,308**	272,701	235,576
- market risk	**1,476**	2,333	1,684
- operational risk	**38,863**	36,314	38,104
	231,647	311,348	275,364
Capital adequacy ratio	**16.6%**	13.9%	12.5%
Core capital ratio	**13.1%**	11.3%	9.5%

There are no relevant capital shortfalls in any of the Group's subsidiaries as at 30 June 2009 which are not included in its consolidation group for regulatory purposes.

2 Financial Risk Management *(continued)*

(d) Capital management *(continued)*

(ii) Basis of consolidation

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.

List of subsidiaries for financial reporting consolidation

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

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

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

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 Operating 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 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 2009	**46**	**48**
At 30 June 2008	142	142
At 31 December 2008	63	66

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 2009				
Residential mortgages	**110,438**	**605**	**(16)**	**(97)**
Commercial, industrial and international trade	**57,018**	**2,195**	**(1,309)**	**(495)**
Commercial real estate	**31,729**	**76**	**-**	**(4)**
Other property-related lending	**55,956**	**250**	**(93)**	**(92)**
At 30 June 2008				
Residential mortgages	112,555	431	(16)	(100)
Commercial, industrial and international trade	71,834	791	(370)	(361)
Commercial real estate	34,933	2	-	(4)
Other property-related lending	48,839	15	(4)	(33)
At 31 December 2008				
Residential mortgages	107,187	403	(33)	(104)
Commercial, industrial and international trade	62,464	2,030	(1,048)	(483)
Commercial real estate	34,354	2	-	(5)
Other property-related lending	57,979	265	(75)	(55)

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 Banking (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 2009				
Mainland entities	**10,221**	**1,440**	**11,661**	**-**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**6,873**	**2,701**	**9,574**	**378**
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	**19**	**-**	**19**	**-**
	17,113	**4,141**	**21,254**	**378**
Mainland exposures of HACN	**23,087**	**9,416**	**32,503**	**306**
	40,200	**13,557**	**53,757**	**684**
At 30 June 2008				
Mainland entities	9,325	3,257	12,582	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,670	4,807	11,477	150
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	29	18	47	-
	16,024	8,082	24,106	150
Mainland exposures of HACN	29,422	7,467	36,889	126
	45,446	15,549	60,995	276
At 31 December 2008				
Mainland entities	10,129	2,072	12,201	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	7,292	3,956	11,248	170
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	15	-	15	-
	17,436	6,028	23,464	170
Mainland exposures of HACN	26,537	7,900	34,437	290
	43,973	13,928	57,901	460

6 Cross-border claims

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

	Banks & other financial institutions	Public sector entities	Sovereign & other	Total
At 30 June 2009				
Asia-Pacific excluding Hong Kong:				
- Australia	**15,844**	**-**	**1,426**	**17,270**
- China	**7,936**	**-**	**12,219**	**20,155**
- Japan	**4,630**	**-**	**66,654**	**71,284**
- Other	**11,514**	**-**	**7,299**	**18,813**
	39,924	**-**	**87,598**	**127,522**
The Americas:				
- United States	**41,319**	**46**	**19,754**	**61,119**
- Canada	**8,036**	**-**	**10,530**	**18,566**
- Other	**13**	**-**	**2,821**	**2,834**
	49,368	**46**	**33,105**	**82,519**
Europe:				
- United Kingdom	**33,600**	**-**	**6,402**	**40,002**
- Other	**47,335**	**-**	**14,189**	**61,524**
	80,935	**-**	**20,591**	**101,526**
At 30 June 2008				
Asia-Pacific excluding Hong Kong:				
- Australia	28,348	-	464	28,812
- China	23,749	-	16,087	39,836
- Japan	12,389	-	113	12,502
- Other	37,805	-	6,256	44,061
	102,291	-	22,920	125,211
The Americas:				
- United States	27,399	263	8,114	35,776
- Canada	10,880	234	3,645	14,759
- Other	25	-	4,112	4,137
	38,304	497	15,871	54,672
Europe:				
- United Kingdom	31,848	-	6,299	38,147
- Other	99,616	-	2,753	102,369
	131,464	-	9,052	140,516
At 31 December 2008				
Asia-Pacific excluding Hong Kong:				
- Australia	21,088	-	431	21,519
- China	13,539	-	11,202	24,741
- Japan	8,933	-	74,127	83,060
- Other	16,212	-	6,054	22,266
	59,772	-	91,814	151,586
The Americas:				
- United States	34,673	25	34,206	68,904
- Canada	10,784	-	6,963	17,747
- Other	16	-	3,842	3,858
	45,473	25	45,011	90,509
Europe:				
- United Kingdom	36,069	-	5,825	41,894
- Other	46,939	-	6,407	53,346
	83,008	-	12,232	95,240

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 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 have ceased to be Directors or who has become Director during the first six months of 2009) who have confirmed that they complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2009.

Changes in Directors' biographical details

Changes in Directors' biographical details since the date of the Annual Report 2008 of the Bank or (as the case may be) the date of announcement for the appointment of Director issued by the Bank subsequent to the date of the Annual Report 2008, 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 Kuo Fung CH'IEN GBS, CBE, JP

Cessation of appointment

- Inchcape plc [(1)] (Independent Non-executive Director)

Mrs Margaret Leung JP

New appointment

- Barrowgate Limited (Director)
- The Community Chest of Hong Kong (Chairman of 2009-2010 Campaign Committee)
- Employers' Federation of Hong Kong (Elected Member of General Committee)
- Hang Seng Bank (China) Limited (Chairman)
- Hang Seng Insurance Company Limited (Chairman)
- Hang Seng Life Limited (Chairman)
- Hang Seng School of Commerce (Chairman of the Board)
- Haseba Investment Company Limited (Chairman)
- Ho Leung Ho Lee Foundation (Member of the Board of Trustees)
- The Hongkong and Shanghai Banking Corporation Limited (Director)
- Hong Kong Special Administrative Region Commission on Strategic Development (Member)
- Hong Kong Special Administrative Region The Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital (Member)
- Hutchison Whampoa Limited [(1)] (Independent Non-executive Director)
- Securities and Futures Commission (Member of Advisory Committee)

Cessation of appointment

- Hong Kong General Chamber of Commerce (Member of Real Estate/Infrastructure Committee)
- Hong Kong Special Administrative Region Task Force on Economic Challenges (Member)
- HSBC Global Asset Management (Hong Kong) Limited (Director)
- Sub-Committee on the Promotion of Corporate Volunteering of the Social Welfare Department (Member)

Mr CHAN Cho Chak John GBS, JP

Cessation of appointment

- Hong Kong Special Administrative Region Commission on Strategic Development (Non-Official Member)

Dr CHEUNG Kin Tung Marvin DBA(Hon), GBS, SBS, OBE, JP

Cessation of appointment

- The Open University of Hong Kong (Council Member)

Mr Peter LEE Ting Chang JP

Cessation of appointment

- Maersk China Limited (Non-executive Director)

Mr WONG Tung Shun Peter JP

New appointment

- Cathay Pacific Airways Limited [(1)] (Independent Non-executive Director)
- Guangdong Enping HSBC Rural Bank Company Limited (Chairman and Non-executive Director)
- Hang Seng School of Commerce (Director)
- The Hong Kong University of Science and Technology (Member of the Court)
- Junior Achievement Hong Kong (Member of Executive Committee)

Notes:

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

(2) China Central Properties Limited, of which Dr Vincent H S Lo is the Chairman, has ceased to be a company listed on the London Stock Exchange's Alternative Investment Market (AIM) during the period under review.

(3) Dr Eric K C Li has been re-designated as an Independent Non-executive Director (previously, Non-executive Director) of Sun Hung Kai Properties 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 2009, 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:						
Mr John C C Chan	-	-	-	1,000[(1)]	1,000	0.00
Mr Joseph C Y Poon	5,000	10,000	-	-	15,000	0.00
Alternate Chief Executive:						
Mr Patrick K W Chan	-	1,000	-	-	1,000	0.00
Number of Ordinary Shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Dr Raymond K F Ch'ien	54,286	-	-	-	54,286	0.00
Mrs Margaret Leung	72,278	-	-	300,239[(6)]	372,517	0.00
Mr Edgar D Ancona	394,397	-	-	629,296[(6)]	1,023,693	0.00
Mr John C C Chan	20,234	-	-	4,371[(1)]	24,605	0.00
Mr Alexander A Flockhart	266,332	-	-	868,425[(6)]	1,134,757	0.00
Mr Jenkin Hui	16,985	-	1,881,999[(2)]	-	1,898,984	0.01
Dr Eric K C Li	-	37,574	115,668[(3)]	-	153,242	0.00

	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
Mr Joseph C Y Poon	37,845[(4)]	96,866	-	79,068[(6)]	213,779	0.00
Mr Peter T S Wong	206,887	16,882	-	236,700[(6)]	460,469	0.00
<u>Alternate Chief Executives</u>:						
Mr Patrick K W Chan	14,991	8,126	-	65,902[(6)]	89,019	0.00
Mr Andrew H C Fung	-	-	-	21,916[(6)]	21,916	0.00
Mr William W Leung	26,647	-	-	45,025[(6)]	71,672	0.00
Mrs Dorothy K Y P Sit	29,412[(5)]	1,031	-	42,514[(6)]	72,957	0.00

Notes:

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

(2) 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.

(3) Dr Eric K C Li was managing director and one of the shareholders of Dragon Rise Enterprise Limited, a private company which beneficially held all of those shares referred to above as his corporate interests.

(4) 32,015 shares were jointly held by Mr and Mrs Joseph C Y Poon.

(5) 8,046 shares were jointly held by Mrs Dorothy K Y P Sit and her husband.

(6) These represented interests in (i) options granted to Directors and Alternate Chief Executives under the HSBC Share Option Plans/HSBC Finance 1996 Long-Term Executive Incentive Compensation Plan 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
<u>Directors</u>:			
Mrs Margaret Leung	1,738	298,501	300,239
Mr Edgar D Ancona	453,175	176,121	629,296
Mr Alexander A Flockhart	4,529	863,896	868,425
Mr Joseph C Y Poon	16,872	62,196	79,068
Mr Peter T S Wong	-	236,700	236,700
<u>Alternate Chief Executives</u>:			
Mr Patrick K W Chan	32,364	33,538	65,902
Mr Andrew H C Fung	-	21,916	21,916
Mr William W Leung	14,344	30,681	45,025
Mrs Dorothy K Y P Sit	5,818	36,696	42,514

Options

As at 30 June 2009, 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 2009	Options exercised/ cancelled during the Director's/ Alternate Chief Executive's term of office in the first half of the year (ordinary shares of US$0.50 each)	Exercise price per share	Date granted	Exercisable from	Exercisable until
Directors:						
Mrs Margaret Leung	1,738	-	£5.6399[1]	10 May 2004	1 Aug 2009	31 Jan 2010
Mr Edgar D Ancona	92,089[2]	-	US$14.7795[1]	8 Nov 1999	8 Nov 2000	8 Nov 2009
	98,229[2]	-	US$16.0344[1]	13 Nov 2000	13 Nov 2001	13 Nov 2010
	107,438[2]	-	US$18.6226[1]	12 Nov 2001	12 Nov 2002	12 Nov 2011
	38,371[2]	-	US$9.2895[1]	20 Nov 2002	20 Nov 2003	20 Nov 2012
	58,524	-	£7.9606[1]	3 Nov 2003	3 Nov 2006	3 Nov 2013
	58,524	-	£7.2181[1]	30 Apr 2004	30 Apr 2007	30 Apr 2014
	453,175					
Mr Alexander A Flockhart	-	1,528	£6.1760[1]	25 Apr 2007	1 Aug 2010	31 Jan 2011
	4,529	-	£3.3116	29 Apr 2009	1 Aug 2014	31 Jan 2015
	4,529					
Mr Joseph C Y Poon	3,156	-	£7.5919[1]	23 Apr 2001	23 Apr 2004	23 Apr 2011
	5,049	-	£7.3244[1]	7 May 2002	7 May 2005	7 May 2012
	5,795	-	£6.0216[1]	2 May 2003	2 May 2006	2 May 2013
	1,738	-	£5.6399[1]	10 May 2004	1 Aug 2009	31 Jan 2010
	1,134	-	£5.8205[1]	24 May 2005	1 Aug 2010	31 Jan 2011
	16,872					
Alternate Chief Executives:						
Mr Patrick K W Chan	7,459	-	£6.5009[1]	3 Apr 2000	3 Apr 2003	2 Apr 2010
	6,885	-	£7.5919[1]	23 Apr 2001	23 Apr 2004	22 Apr 2011
	7,459	-	£7.3244[1]	7 May 2002	7 May 2005	6 May 2012
	8,033	-	£6.0216[1]	2 May 2003	2 May 2006	1 May 2013
	2,528	-	HK$94.5057[1]	25 Apr 2007	1 Aug 2012	31 Jan 2013
	32,364					
Mr William W Leung	6,885	-	£6.0216[1]	2 May 2003	2 May 2006	1 May 2013
	7,459	-	£7.2181[1]	30 Apr 2004	30 Apr 2007	29 Apr 2014
	14,344					
Mrs Dorothy K Y P Sit	-	2,435	£6.6792	24 May 2005	1 Aug 2010	31 Jan 2011
	3,443	-	£7.5919[1]	23 Apr 2001	23 Apr 2004	22 Apr 2011
	2,375	-	HK$37.8797	29 Apr 2009	1 Aug 2012	31 Jan 2013
	5,818					

Notes:
(1) Due to HSBC Rights Issue completed in April 2009, the exercise price per share has been adjusted.

(2) These represented Mr Edgar D Ancona's interests in options under HSBC Finance 1996 Long-Term Executive Incentive Compensation Plan. These options arise from options he held over shares of Household International, Inc. (now HSBC Finance Corporation) before its acquisition, which were converted into options over HSBC Holdings plc ordinary shares in the same ratio as the offer for HSBC Finance Corporation and the exercise prices per share adjusted accordingly. These options were granted at nil consideration.

Conditional Awards of Shares

As at 30 June 2009, 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 2009	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 2009
Directors:				
Mrs Margaret Leung	331,233[(1)]	-	7,467	298,501[(2)&(3)]
Mr Edgar D Ancona	104,591	81,915	31,886	176,121[(2)]
Mr Alexander A Flockhart	384,644	420,528	16,291	863,896[(2)&(3)]
Mr Joseph C Y Poon	41,182	26,283	3,415	62,196[(2)&(3)]
Mr Peter T S Wong	142,171	120,902	14,390	236,700[(2) &(3)]
Alternate Chief Executives:				
Mr Patrick K W Chan	35,174	7,806	3,415	33,538[(2) &(3)]
Mr Andrew H C Fung	21,916[(4)]	-	-	21,916
Mr William W Leung	35,173	5,354	3,415	30,681[(2)&(3)]
Mrs Dorothy K Y P Sit	33,983	8,761	2,732	36,696[(2)&(3)]

Notes:
(1) This represented the awards held by Mrs Margaret Leung on 1 April 2009 when she was appointed a Director of the Bank.

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

(3) This takes into account the forfeiture of shares under the relevant Share Plan(s).

(4) This represented the awards held by Mr Andrew H C Fung on 3 June 2009 when he was appointed an Alternate Chief Executive of the Bank.

All the interests stated above represent long positions. As at 30 June 2009, 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 2009.

Substantial Interests In Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2009, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

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

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

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

All the interests stated above represent long positions. As at 30 June 2009, 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

During the six months ended 30 June 2009, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank’s securities.

Remuneration And Staff Development

There have been no material changes to the information disclosed in the Annual Report 2008 in respect of the remuneration of employees, remuneration policies and staff development.

Code On Corporate Governance Practices

The Bank is committed to high standards of corporate governance. The Bank has followed the module on ‘Corporate Governance of Locally Incorporated Authorised Institutions’ under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority and all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2009.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2009.

Register Of Shareholders

The Register of Shareholders of the Bank will be closed on Tuesday, 18 August 2009, during which no transfer of shares can be registered. To qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank’s Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 pm on Monday, 17 August 2009. The second interim dividend will be payable on Wednesday, 2 September 2009 to shareholders on the Register of Shareholders of the Bank on Tuesday, 18 August 2009. Shares of the Bank will be traded ex-dividend as from Friday, 14 August 2009.

Proposed Timetables For The Remaining Quarterly Dividends For 2009

Third interim dividend for 2009

Announcement date	2 November 2009
Book close and record date	17 November 2009

Payment date	2 December 2009

Fourth interim dividend for 2009

Announcement date	1 March 2010
Book close and record date	16 March 2010
Payment date	31 March 2010

Board Of Directors

As at 3 August 2009, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Mrs Margaret Leung (Vice-Chairman and Chief Executive), Mr Edgar D Ancona#, Mr John C C Chan*, Dr Marvin K T Cheung*, Mr Alexander A Flockhart#, Mr Jenkin Hui*, Mr Peter T C Lee*, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Joseph C Y Poon, Mr Richard Y S Tang* and Mr Peter T S Wong#.

* *Independent non-executive Directors*
\# *Non-executive Directors*

Registered Office
83 Des Voeux Road Central, Hong Kong
Telephone: (852) 2198 1111
Facsimile: (852) 2868 4047
Telex: 73311 73323
SWIFT: HASE HK HH
Website: www.hangseng.com

Stock Code
The Stock Exchange of Hong Kong Limited: 11

Registrars
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
BNY Mellon Shareowner Services
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 2009
The Interim Report 2009 in both English and Chinese is now available in printed form and on the Bank's website: www.hangseng.com.

Shareholders who:
A) receive this Interim Report 2009 by electronic means and wish to receive a printed copy; or
B) receive this Interim Report 2009 in either English or Chinese and wish to receive a printed copy of the other language version,

may send a notice in writing to the Bank's Registrars:

Computershare Hong Kong Investor Services Limited
Rooms 1806-7, 18th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Facsimile: (852) 2529 6087
Email: hangseng@computershare.com.hk

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