

2 August 2010

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2010 INTERIM CONSOLIDATED RESULTS - HIGHLIGHTS

- Net operating income before loan impairment charges and other credit risk provisions up 6.7 per cent to HK\$62,827 million (HK\$58,860 million in the first half of 2009).
- Pre-tax profit up 26.4 per cent to HK\$38,575 million (HK\$30,509 million in the first half of 2009).
- Attributable profit up 28.9 per cent to HK\$28,675 million (HK\$22,246 million in the first half of 2009).
- Return on average shareholders' funds of 22.8 per cent (21.0 per cent in the first half of 2009).
- Assets up 6.3 per cent to HK\$4,635 billion (HK\$4,361 billion at the end of 2009).
- Cost efficiency ratio of 44.0 per cent (43.3 per cent for the first half of 2009).

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

Comment by Michael Geoghegan, Chairman

While the upturn in the West struggled to gain momentum during the first half of 2010, Asian economies remained at the forefront of the world's emerging markets-led recovery. The pick-up in world trade continued to improve, and as emerging nations increasingly trade with each other, Asia's role in keeping the global economy on track looks more important than ever.

Against these sound fundamentals, The Hongkong and Shanghai Banking Corporation Limited delivered a strong and improved performance. Profits of HK\$38,575 million were well ahead of the first half of 2009, increasing by 26.4 per cent. Profits outside Hong Kong contributed 45.5 per cent of the total, nearly double the level of four years ago. Growth was well spread across the region, driven by improving economic conditions, higher trade flows, increasing customer confidence, improved sales productivity and our relentless focus on developing the products and services that our customers need.

We continue to explore both organic and inorganic opportunities for growth in Hong Kong and the region. Outside Hong Kong, our focus is on the six key regional markets of mainland China, India, Indonesia, Singapore, Malaysia and Australia where we see the greatest opportunity to support the growing local and international needs of our customers.

In July, we announced our third investment in India in the space of three years. Subject to regulatory approvals, our purchase of the retail and commercial banking business of the Royal Bank of Scotland will allow us to increase our scale in the region's third largest economy and will give us access to 1.1 million new customer relationships. We underlined our commitment to the future of the market in mainland China by subscribing for our full entitlement of H-Shares in the Bank of Communications rights issue, for a consideration of US\$921 million. We incorporated locally in Taiwan in May, and in Vietnam, we increased our holding in Bao Viet Holdings to 18 per cent in January.

As a deposit-rich bank, we continued to feel the impact of low interest rates on our deposit spreads. Competition remained fierce across the region and asset spreads narrowed, but this is "business as usual" for us, and we maintained market share in key segments and grew our balance sheet. Revenue growth in payments and cash management, insurance and debt and equity capital markets in our key target segments more than offset the effect of low interest rates on net interest income.

We grew gross loans and advances to customers by 14.7 per cent, responding to higher demand for mortgages and commercial lending, which resulted in lending growth across a number of key markets including Hong Kong, mainland China, Malaysia, Singapore and Indonesia. We are now growing lending at a faster rate than deposits, and our Advances to Deposits ratio increased from 45.9 per cent at the start of the year to 51.9 per cent.

Keeping a strong liquidity position remains fundamental to our banking philosophy and we will continue to maintain a significant surplus of deposits over loans. However, we expect to see further opportunities to grow our asset portfolios and are encouraged by the quality of the assets we are winning. Loan impairment charges were significantly lower across the retail portfolio compared with the first and second halves of 2009 as credit quality improved, particularly in India.

We maintained tight control of operating expenses, while investing for the future. We increased marketing spend to win new customers in our target segments and continued to build the branch network across the region. As a result, our cost efficiency ratio rose slightly from 43.3 per cent to 44.0 percent. In mainland China, we opened a new China head office in Shanghai in June and opened our 100th branch. We also added new branches in India, Malaysia, Australia, Taiwan, Bangladesh and Sri Lanka.

In Personal Financial Services, while our business in Hong Kong continued to contribute significant profits, the Rest of Asia Pacific returned to profitability during the period as loan impairments moderated and loan momentum increased. In Premier, we passed a new milestone of one million customers, and we are targeting two million across the region within the next two years. Our new Advance proposition for the next generation of Premier customers was also rolled out in seven markets.

Commercial Banking benefited from increased business confidence across the region. Loans and advances to customers increased by 24.6 per cent during the period. The pipeline of new business remains very strong. Reflecting our strategic objective to be the Leading International Business Bank, we saw a significant rise in cross-border business. Referrals into the region grew 62 per cent, while those from Asia into other regions were 75 per cent higher, compared with the first half of 2009. Championing offshore renminbi (RMB) developments, HSBC established RMB trade settlement capability in 23 markets globally.

Global Banking and Markets successfully maintained revenue momentum across a number of business lines, despite strong competition and the reduction in Balance Sheet Management revenues that we had signalled at year-end 2009. During the period, we made considerable progress in growing our equities platform, investing in both technology and people, and broadening our coverage, particularly in Hong Kong and mainland China. Adding to our credentials, we won a number of prestigious awards, including FinanceAsia's Best Investment Bank and Best Equity House in Hong Kong, and Euromoney's Best Debt House and Best at Risk Management in Asia.

Supported by our strong brand and integrated bancassurance model, our Insurance business performed very strongly, generating increased growth in premium income and profits. We gained market share across the region and boosted our number one position in Hong Kong. We grew our joint ventures, particularly in mainland China and India. Canara HSBC Oriental Bank of Commerce Life Insurance in India ranked 12th among 22 private providers within only its second year of operation, while within nine months of launch, HSBC Life Insurance Company has risen to rank third in bancassurance business among 18 foreign or jointly owned insurance companies in Shanghai.

Although the outlook for the global economy remains uncertain, the prospects for Asia remain strong, both in the short and long-term. The fast pace of economic change will bring its own challenges, and the financial needs of households and businesses across the region will grow. However, our strong footprint, our global connectivity, our unrivalled brand, our distinctive liquidity and our recognised capital strength means we are perfectly placed for the future.

Finally, on behalf of the Board, I would like to say thank you to all of our 70,400 staff. My past six months in Asia have only reaffirmed that their commitment and customer focus is second to none.

Geographical Regions

| <i>Figures in HK\$m</i> | <i>Hong Kong</i> | <i>Rest of Asia-Pacific</i> | <i>Intra- segment elimination</i> | <i>Total</i> |
|---|----------------------|---------------------------------|---|----------------------|
| Period ended 30 June 2010 | | | | |
| Net interest income | 14,964 | 14,316 | 29 | 29,309 |
| Net fee income | 9,882 | 6,811 | - | 16,693 |
| Net trading income | 4,380 | 5,803 | (29) | 10,154 |
| Net income from financial instruments designated at fair value | 4 | 9 | - | 13 |
| Gains less losses from financial investments | 979 | 305 | - | 1,284 |
| Dividend income | 110 | 218 | - | 328 |
| Net earned insurance premiums | 17,494 | 1,538 | - | 19,032 |
| Other operating income | <u>5,159</u> | <u>1,141</u> | <u>(2,254)</u> | <u>4,046</u> |
| Total operating income | 52,972 | 30,141 | (2,254) | 80,859 |
| Net insurance claims incurred and movements in policyholders' liabilities | <u>(16,858)</u> | <u>(1,174)</u> | <u>-</u> | <u>(18,032)</u> |
| Net operating income before loan impairment charges and other credit risk provisions | 36,114 | 28,967 | (2,254) | 62,827 |
| Loan impairment charges and other credit risk provisions | <u>(487)</u> | <u>(1,467)</u> | <u>-</u> | <u>(1,954)</u> |
| Net operating income | 35,627 | 27,500 | (2,254) | 60,873 |
| Operating expenses | <u>(14,695)</u> | <u>(15,183)</u> | <u>2,254</u> | <u>(27,624)</u> |
| Operating profit | 20,932 | 12,317 | - | 33,249 |
| Share of profit in associates and joint ventures | <u>89</u> | <u>5,237</u> | <u>-</u> | <u>5,326</u> |
| Profit before tax | <u>21,021</u> | <u>17,554</u> | <u>-</u> | <u>38,575</u> |
| Share of profit before tax | 54.5% | 45.5% | - | 100.0% |
| Net advances to customers | 854,435 | 698,129 | - | 1,552,564 |
| Customer accounts | 1,990,074 | 998,986 | - | 2,989,060 |

Geographical Regions

| <i>Figures in HK\$m</i> | <i>Hong Kong</i> | <i>Rest of Asia-Pacific</i> | <i>Intra- segment elimination</i> | <i>Total</i> |
|---|----------------------|---------------------------------|---|-----------------|
| Period ended 30 June 2009 (restated¹) | | | | |
| Net interest income | 16,367 | 13,736 | 8 | 30,111 |
| Net fee income | 8,692 | 5,198 | - | 13,890 |
| Net trading income | 4,802 | 6,870 | (8) | 11,664 |
| Net income from financial instruments designated at fair value | 2,650 | 235 | - | 2,885 |
| Gains less losses from financial investments | (17) | (225) | - | (242) |
| Dividend income | 127 | 5 | - | 132 |
| Net earned insurance premiums | 14,261 | 1,178 | - | 15,439 |
| Other operating income | <u>3,956</u> | <u>872</u> | <u>(2,119)</u> | <u>2,709</u> |
| Total operating income | 50,838 | 27,869 | (2,119) | 76,588 |
| Net insurance claims incurred and movements in policyholders' liabilities | <u>(16,517)</u> | <u>(1,211)</u> | <u>-</u> | <u>(17,728)</u> |
| Net operating income before loan impairment charges and other credit risk provisions | 34,321 | 26,658 | (2,119) | 58,860 |
| Loan impairment charges and other credit risk provisions | <u>(2,115)</u> | <u>(4,289)</u> | <u>-</u> | <u>(6,404)</u> |
| Net operating income | 32,206 | 22,369 | (2,119) | 52,456 |
| Operating expenses | <u>(14,244)</u> | <u>(13,349)</u> | <u>2,119</u> | <u>(25,474)</u> |
| Operating profit | 17,962 | 9,020 | - | 26,982 |
| Share of profit in associates and joint ventures | <u>(40)</u> | <u>3,567</u> | <u>-</u> | <u>3,527</u> |
| Profit before tax | <u>17,922</u> | <u>12,587</u> | <u>-</u> | <u>30,509</u> |
| Share of profit before tax | 58.7% | 41.3% | - | 100% |
| Net advances to customers | 731,860 | 558,750 | - | 1,290,610 |
| Customer accounts | 1,919,022 | 898,410 | - | 2,817,432 |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

The Hongkong and Shanghai Banking Corporation Limited **Results by Geographic Customer Group**

Hong Kong

| <i>Figures in HK\$m</i> | <i>Personal Financial Services</i> | <i>Commercial Banking</i> | <i>Global Banking and Markets</i> | <i>Private Banking</i> | <i>Other</i> | <i>Intra- segment elimination</i> | <i>Total</i> |
|---|--|-------------------------------|---|----------------------------|---------------------|---|----------------------|
| Period ended 30 June 2010 | | | | | | | |
| Net interest income/(expense) | 10,005 | 3,920 | 3,396 | - | (1,924) | (433) | 14,964 |
| Net fee income | 5,425 | 2,367 | 2,022 | - | 68 | - | 9,882 |
| Net trading income | 425 | 410 | 3,076 | - | 36 | 433 | 4,380 |
| Net income/(loss) from financial instruments designated at fair value | (505) | 178 | 323 | - | 8 | - | 4 |
| Gains less losses from financial investments | (1) | - | 495 | - | 485 | - | 979 |
| Dividend income | - | 3 | 1 | - | 106 | - | 110 |
| Net earned insurance premiums | 14,574 | 2,855 | 65 | - | - | - | 17,494 |
| Other operating income | <u>1,720</u> | <u>208</u> | <u>231</u> | <u>-</u> | <u>3,937</u> | <u>(937)</u> | <u>5,159</u> |
| Total operating income | 31,643 | 9,941 | 9,609 | - | 2,716 | (937) | 52,972 |
| Net insurance claims incurred and movement in policyholders' liabilities | <u>(14,400)</u> | <u>(2,407)</u> | <u>(51)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(16,858)</u> |
| Net operating income before loan impairment charges and other credit risk provisions | 17,243 | 7,534 | 9,558 | - | 2,716 | (937) | 36,114 |
| Loan impairment charges and other credit risk provisions | <u>(324)</u> | <u>(13)</u> | <u>(152)</u> | <u>-</u> | <u>2</u> | <u>-</u> | <u>(487)</u> |
| Net operating income | 16,919 | 7,521 | 9,406 | - | 2,718 | (937) | 35,627 |
| Operating expenses | <u>(5,889)</u> | <u>(2,299)</u> | <u>(3,968)</u> | <u>-</u> | <u>(3,476)</u> | <u>937</u> | <u>(14,695)</u> |
| Operating profit/(loss) | 11,030 | 5,222 | 5,438 | - | (758) | - | 20,932 |
| Share of profit/(loss) in associates and joint ventures | <u>18</u> | <u>(5)</u> | <u>-</u> | <u>-</u> | <u>76</u> | <u>-</u> | <u>89</u> |
| Profit/(loss) before tax | <u>11,048</u> | <u>5,217</u> | <u>5,438</u> | <u>-</u> | <u>(682)</u> | <u>-</u> | <u>21,021</u> |
| Share of profit/(loss) before tax | 28.6% | 13.5% | 14.1% | - | (1.7)% | - | 54.5% |
| Net advances to customers | 351,372 | 289,563 | 198,587 | - | 14,913 | - | 854,435 |
| Customer accounts | 1,286,761 | 494,979 | 203,573 | - | 4,761 | - | 1,990,074 |

The Hongkong and Shanghai Banking Corporation Limited **Results by Geographic Customer Group**
(continued)

| Hong Kong | | | | | | | <i>Total</i> |
|---|--|-------------------------------|---|----------------------------|----------------|---|-----------------|
| <i>Figures in HK\$m</i> | <i>Personal Financial Services</i> | <i>Commercial Banking</i> | <i>Global Banking and Markets</i> | <i>Private Banking</i> | <i>Other</i> | <i>Intra- segment elimination</i> | <i>Total</i> |
| Period ended 30 June 2009 (restated¹) | | | | | | | |
| Net interest income/(expense) | 10,036 | 3,716 | 5,539 | 1 | (2,458) | (467) | 16,367 |
| Net fee income | 4,988 | 1,891 | 1,615 | - | 198 | - | 8,692 |
| Net trading income | 550 | 316 | 3,995 | - | (525) | 466 | 4,802 |
| Net income/(loss) from financial instruments designated at fair value | 2,469 | (170) | 232 | - | 118 | 1 | 2,650 |
| Gains less losses from financial investments | 623 | 135 | (515) | - | (260) | - | (17) |
| Dividend income | 30 | 4 | 3 | - | 90 | - | 127 |
| Net earned insurance premiums | 12,579 | 1,616 | 66 | - | - | - | 14,261 |
| Other operating income | <u>1,128</u> | <u>303</u> | <u>135</u> | <u>-</u> | <u>3,384</u> | <u>(994)</u> | <u>3,956</u> |
| Total operating income | 32,403 | 7,811 | 11,070 | 1 | 547 | (994) | 50,838 |
| Net insurance claims incurred and movement in policyholders' liabilities | <u>(15,162)</u> | <u>(1,307)</u> | <u>(48)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(16,517)</u> |
| Net operating income before loan impairment charges and other credit risk provisions | 17,241 | 6,504 | 11,022 | 1 | 547 | (994) | 34,321 |
| Loan impairment charges and other credit risk provisions | <u>(946)</u> | <u>(1,063)</u> | <u>(105)</u> | <u>-</u> | <u>(1)</u> | <u>-</u> | <u>(2,115)</u> |
| Net operating income | 16,295 | 5,441 | 10,917 | 1 | 546 | (994) | 32,206 |
| Operating expenses | <u>(5,963)</u> | <u>(2,152)</u> | <u>(4,059)</u> | <u>-</u> | <u>(3,064)</u> | <u>994</u> | <u>(14,244)</u> |
| Operating profit/(loss) | 10,332 | 3,289 | 6,858 | 1 | (2,518) | - | 17,962 |
| Share of (loss)/profit in associates and joint ventures | <u>17</u> | <u>-</u> | <u>4</u> | <u>-</u> | <u>(61)</u> | <u>-</u> | <u>(40)</u> |
| Profit/(loss) before tax | <u>10,349</u> | <u>3,289</u> | <u>6,862</u> | <u>1</u> | <u>(2,579)</u> | <u>-</u> | <u>17,922</u> |
| Share of profit/(loss) before tax | 33.9% | 10.8% | 22.5% | - | (8.5)% | - | 58.7% |
| Net advances to customers | 330,662 | 206,786 | 179,664 | - | 14,748 | - | 731,860 |
| Customer accounts | 1,220,152 | 424,163 | 270,282 | - | 4,425 | - | 1,919,022 |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

Rest of Asia-Pacific

| <i>Figures in HK\$m</i> | <i>Personal Financial Services</i> | <i>Commercial Banking</i> | <i>Global Banking and Markets</i> | <i>Private Banking</i> | <i>Other</i> | <i>Intra- segment elimination</i> | <i>Total</i> |
|---|--|-------------------------------|---|----------------------------|--------------|---|---------------|
| Period ended 30 June 2010 | | | | | | | |
| Net interest income/(expense) | 5,864 | 3,347 | 5,577 | 56 | 214 | (742) | 14,316 |
| Net fee income | 2,486 | 1,586 | 2,702 | 75 | (38) | - | 6,811 |
| Net trading income | 275 | 478 | 4,351 | 21 | (64) | 742 | 5,803 |
| Net income/(loss) from financial instruments designated at fair value | 18 | 8 | (3) | - | (14) | - | 9 |
| Gains less losses from financial investments | 7 | 26 | 238 | - | 34 | - | 305 |
| Dividend income | - | - | - | - | 218 | - | 218 |
| Net earned insurance premiums | 1,335 | 203 | - | - | - | - | 1,538 |
| Other operating income | 408 | 411 | 130 | 5 | 416 | (229) | 1,141 |
| Total operating income | 10,393 | 6,059 | 12,995 | 157 | 766 | (229) | 30,141 |
| Net insurance claims incurred and movement in policyholders' liabilities | (1,028) | (146) | - | - | - | - | (1,174) |
| Net operating income before loan impairment charges and other credit risk provisions | 9,365 | 5,913 | 12,995 | 157 | 766 | (229) | 28,967 |
| Loan impairment charges and other credit risk provisions | (1,364) | 80 | (183) | - | - | - | (1,467) |
| Net operating income | 8,001 | 5,993 | 12,812 | 157 | 766 | (229) | 27,500 |
| Operating expenses | (7,749) | (2,920) | (4,166) | (171) | (406) | 229 | (15,183) |
| Operating profit/(loss) | 252 | 3,073 | 8,646 | (14) | 360 | - | 12,317 |
| Share of profit in associates and joint ventures | 693 | 2,753 | 1,397 | - | 394 | - | 5,237 |
| Profit/(loss) before tax | 945 | 5,826 | 10,043 | (14) | 754 | - | 17,554 |
| Share of profit/(loss) before tax | 2.4% | 15.1% | 26.0% | - | 2.0% | - | 45.5% |
| Net advances to customers | 243,877 | 204,743 | 241,792 | 6,388 | 1,329 | - | 698,129 |
| Customer accounts | 381,200 | 242,215 | 360,972 | 13,667 | 932 | - | 998,986 |

Rest of Asia-Pacific

| <i>Figures in HK\$m</i> | <i>Personal Financial Services</i> | <i>Commercial Banking</i> | <i>Global Banking and Markets</i> | <i>Private Banking</i> | <i>Other</i> | <i>Intra- segment elimination</i> | <i>Total</i> |
|---|--|-------------------------------|---|----------------------------|--------------|---|--------------|
| Period ended 30 June 2009 (restated¹) | | | | | | | |
| Net interest income/(expense) | 5,644 | 2,939 | 5,483 | (23) | 361 | (668) | 13,736 |
| Net fee income | 1,975 | 1,193 | 2,073 | 18 | (61) | - | 5,198 |
| Net trading income | 305 | 553 | 5,325 | 129 | (110) | 668 | 6,870 |
| Net income/(loss) from financial instruments designated at fair value | 258 | 1 | (21) | - | (3) | - | 235 |
| Gains less losses from financial investments | 44 | 20 | (116) | - | (173) | - | (225) |
| Dividend income | 1 | - | 2 | - | 2 | - | 5 |
| Net earned insurance premiums | 1,050 | 128 | - | - | - | - | 1,178 |
| Other operating income | 282 | 218 | 119 | 8 | 344 | (99) | 872 |
| Total operating income | 9,559 | 5,052 | 12,865 | 132 | 360 | (99) | 27,869 |
| Net insurance claims incurred and movement in policyholders' liabilities | (1,129) | (82) | - | - | - | - | (1,211) |
| Net operating income before loan impairment charges and other credit risk provisions | 8,430 | 4,970 | 12,865 | 132 | 360 | (99) | 26,658 |
| Loan impairment charges and other credit risk provisions | (2,909) | (1,342) | (37) | - | (1) | - | (4,289) |
| Net operating income | 5,521 | 3,628 | 12,828 | 132 | 359 | (99) | 22,369 |
| Operating expenses | (6,752) | (2,259) | (3,824) | (183) | (430) | 99 | (13,349) |
| Operating profit/(loss) | (1,231) | 1,369 | 9,004 | (51) | (71) | - | 9,020 |
| Share of profit in associates and joint ventures | 510 | 2,013 | 1,048 | - | (4) | - | 3,567 |
| Profit/(loss) before tax | (721) | 3,382 | 10,052 | (51) | (75) | - | 12,587 |
| Share of profit/(loss) before tax | (2.4)% | 11.1% | 33.0% | (0.2)% | (0.2)% | - | 41.3% |
| Net advances to customers | 215,296 | 168,518 | 168,157 | 5,478 | 1,301 | - | 558,750 |
| Customer accounts | 350,578 | 202,298 | 331,699 | 12,690 | 1,145 | - | 898,410 |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

Hong Kong reported profit before tax of HK\$21,021 million, an increase of 17.3 per cent, compared to the first six months of 2009, primarily due to an increase in non-interest income and a fall in loan impairment charges along with effective cost management.

Net interest income decreased by HK\$1,403 million, or 8.6 per cent, compared to the same period in 2009 as the low interest rate environment continued to impact both asset and liability spreads. Strong growth in the loan book across all customer groups helped mitigate the impact of reduced margins.

HSBC continued to be a market leader in deposits, mortgages, life insurance and credit cards. Premier customers increased to 438,000 and HSBC Advance was successfully launched in February to capture the mid-market customer segment. Commercial Banking cross-border referrals increased in line with the strategy to capitalise on international connectivity to grow the business. Commercial Banking continued to develop the renminbi business and was the first international bank to launch a number of new RMB related products in the first half of 2010, such as a RMB trade finance standard rate and current account.

In Personal Financial Services, the launch of a new HIBOR mortgage contributed to HSBC (including Hang Seng Bank) maintaining the number one position in Hong Kong for new business in the first half of 2010. The average loan-to-value ratio for the mortgage book was 37.9 per cent at 30 June 2010, with the ratio on new lending at 55.6 per cent, and continues to remain well secured. In Commercial Banking, net customer loans and advances increased by 40.0 per cent since 30 June 2009, reflecting a recovery in business activity as a result of an improved economy and our continuing support to customers. HSBC continued to actively participate in the Hong Kong Government Special Loan Guarantee Scheme.

Deposit balances increased by 3.7 per cent over 30 June 2009 against a back-drop of low interest rates and reflects HSBC's brand leadership. This was particularly evident in Commercial Banking where deposits increased by 16.7 per cent, supported by a rise in customer numbers of 8.1 per cent.

Global Banking and Markets, net interest income decreased as higher yielding assets in Balance Sheet Management continued to roll off and funds were reinvested at lower market rates.

Net fee income increased by HK\$1,190 million, or 13.7 per cent, over the first half of 2009 as the equity markets rose in the second half of last year and investor sentiment improved. There was a significant increase in demand for wealth management and insurance products from both personal and commercial customers. Fee income from investment products such as unit trusts and funds under management increased by 18.7 per cent over the same period in 2009. Commercial Banking also recognised an increase in remittances and trade related fee income as trade flows and international business volumes increased.

In Global Banking and Markets, revenues in Debt Capital Markets and Equity Capital Markets increased, demonstrating the continuing benefit of HSBC's emerging markets-led and financing focused strategy. In addition to registering an increase in equities broking income, significant fees were recorded in Securities Services and Asset Management where increases were reflected in assets under custody and assets under management.

Trading income decreased by HK\$422 million, or 8.8 per cent, compared to prior year as a result of reduced customer margins as competition intensified in the Global Markets business. The comparable period in 2009 was particularly strong due to highly volatile market movements and tightening credit spreads from distressed levels.

Income from the insurance business (which is recognised across the following income statement lines '*Net interest income*', '*Net fee income*', '*Net income from financial instruments designated at fair value*', '*Net earned insurance premiums*', *the change in present value of in-force business within* '*Other operating income*', and after deducting '*Net insurance claims incurred and movement in policyholders' liabilities*') increased by 46.0 per cent compared with the first six months of 2009. The insurance business benefited from the improvement in customer sentiment towards the end of 2009 and the first half of 2010 with strong business growth and positive investment returns. However, *Net income from financial investments designated at fair value* decreased by HK\$2,627 million reflecting lower revaluation gains on unit-linked funds held in the insurance business. This was offset by a corresponding movement in '*Net insurance claims incurred and movement in policyholder liabilities*' to reflect the extent to which unit-linked policyholders participated in the performance experienced on the linked investment portfolio.

Insurance premiums increased by 22.7 per cent due to strong sales of unit-linked and deferred annuity products. HSBC (including Hang Seng Bank) continued to be the market leader in the life industry with a market share of 26.3 per cent in new business annualised premium at the end of the first quarter 2010.

Loan impairment charges and other credit risk provisions decreased significantly by HK\$1,628 million, or 77.0 per cent, compared to the first six months of 2009. The fall was a result of improving market conditions and effective credit management. In Personal Financial Services, loan impairment charges decreased by HK\$622 million, but caution still remains on the unsecured lending book as the credit environment continues to recover. In Commercial Banking, loan impairment charges were significantly down by HK\$1,050 million due to the non-recurrence of a number of specific impairment charges as credit conditions improved. In Global Banking and Markets the impairment charge increased but continued to remain at a very low level, at only HK\$152 million.

Operating expenses were higher by HK\$451 million, or 3.2 per cent. Employee compensation and benefits were broadly in line with those in the same period in 2009. However, there was an increase in non-staff related costs as the business returned to more normal levels of activity. There was an increase in marketing expenses as new campaigns were launched in 2010. In addition, there was an increase in recruitment costs and business travel as customer demand improved. The move of more operations to the Global Resourcing Centres resulted in an increase in inter-company processing costs. This was offset by tight cost control measures and higher utilisation of cost efficient electronic channels.

Rest of Asia-Pacific reported profit before tax of HK\$17,554 million, an increase of HK\$4,967 million, or 39.5 per cent, compared to the same period last year as a result of improved fee income and lower loan impairment charges, partly offset by reduced trading income and increased expenses.

Net interest income increased slightly by HK\$580 million, or 4.2 per cent, as a result of growth in the loan portfolio.

Net advances to customers increased by HK\$139,379 million since 30 June 2009. In Personal Financial Services, growth in the loan book was particularly strong in Australia, Malaysia, Singapore and mainland China as customer demand returned. This was partly offset by a fall in unsecured lending balances particularly in India. In Commercial Banking, customer confidence started to return and HSBC continued to build on its international network with mainland China and Indonesia. In particular, trade financing increased in the Greater China region and Singapore. Global Banking and Markets registered promising growth in the loan portfolio with an increase of 43.8 per cent over the same period last year.

Liability spreads continued to be constrained as interest rates remained at low levels in many countries across the region. However, this effect was partly offset by Australia, Malaysia, mainland China and India where rates were increased. Balance Sheet Management income decreased as higher yielding assets matured and were rolled over at lower rates mainly in Singapore and Japan, while in mainland China, the reserve ratio rises increased funding costs and reduced spreads.

Net fee income increased significantly by HK\$1,613 million, or 31.0 per cent, compared with the same period last year as the economic environment continued to improve and confidence returned to the markets. Sales of wealth management and insurance products were strong as the equity markets started to stabilise and sales activities increased. In Commercial Banking, transactional banking fee income increased as regional trade started to improve, remittance volumes increased and re-pricing initiatives were implemented in late 2009.

In Global Banking and Markets, the rebound in assets under custody and assets under management in Securities Services and Asset Management led to an increase in revenue in Japan, South Korea and Singapore. The region also recorded higher advisory revenues earned from the Project and Export Finance business and the completion of a number of cross-border advisory transactions in India and South East Asia.

Net trading income decreased by HK\$1,067 million, or 15.5 per cent, compared to the first half of 2009 due to fewer opportunities arising as a result of lower market volatility in India, mainland China, Singapore and South Korea. However, HSBC's cross-border sales platform served to sustain revenue in spite of competitive pricing.

Net income from financial investments designated at fair value decreased by HK\$226 million, or 96.2 per cent, reflecting lower revaluation gains on unit-linked funds held in the insurance business. To the extent that these losses were attributable to policyholders, there was a corresponding decrease in *net insurance claims incurred and movement in liabilities to policyholders*.

Gains less losses from financial investments were HK\$305 million compared to a loss of HK\$225 million in the first half of 2009 as a result of gains on sales of available-for-sale investments and the non-recurrence of impairments reported in the first half of 2009.

Net earned insurance premiums increased by HK\$360 million, or 30.6 per cent, as sales of insurance products strengthened, primarily in Taiwan and Malaysia, on the back of increased confidence in the market with a corresponding increase in *net insurance claims incurred and movement in liabilities to policyholders*.

Loan impairment charges decreased significantly by HK\$2,822 million, or 65.8 per cent over the same period last year as the economic environment in the region started to improve. In Personal Financial Services, the credit quality of the portfolio strengthened relative to the second half of 2009. The reduction in loan impairment charges was particularly notable in India as credit issues associated with the unsecured portfolio were largely resolved. In Commercial Banking, loan impairment charges were also significantly reduced due to the non-recurrence of losses taken in 2009 against a number of customers, most notably in India. Whilst loan impairment charges are down, we remain cautious and will continue to closely monitor the portfolio.

Operating expenses increased as HSBC continued to show its commitment to the region through the addition of new branches in India, Malaysia, Australia, mainland China, Taiwan, Bangladesh and Sri Lanka. In mainland China, a new head office building was opened in Shanghai along with the 100th HSBC branded outlet. This consolidated HSBC's position as the leading foreign bank in the country. Across the region, marketing costs and IT spend increased as the business started to position itself for the recovery.

Profit from associates increased 46.8 per cent as a result of a higher revenues, particularly net interest income, from Bank of Communications Co., Ltd and lower loan impairment charges in Industrial Bank Co., Ltd ('Industrial Bank'). In addition, HSBC increased its holding in Bao Viet to 18 per cent at the beginning of the year and accounted for it as an associate from then. Following Industrial Bank's rights issue in May 2010, the bank took up its full share entitlement in June 2010 and increased its equity interest from 12.78 per cent to 12.80 per cent at 30 June 2010.

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|---|---|--|
| Interest income | 40,108 | 43,390 |
| Interest expense | (10,799) | (13,279) |
| Net interest income | 29,309 | 30,111 |
| Fee income | 19,605 | 16,220 |
| Fee expense | (2,912) | (2,330) |
| Net fee income | 16,693 | 13,890 |
| Net trading income | 10,154 | 11,664 |
| Net income from financial instruments designated at fair value | 13 | 2,885 |
| Gains less losses from financial investments | 1,284 | (242) |
| Dividend income | 328 | 132 |
| Net earned insurance premiums | 19,032 | 15,439 |
| Other operating income | 4,046 | 2,709 |
| Total operating income | 80,859 | 76,588 |
| Net insurance claims incurred and movement in policyholders' liabilities | (18,032) | (17,728) |
| Net operating income before loan impairment charges and other credit risk provisions | 62,827 | 58,860 |
| Loan impairment charges and other credit risk provisions | (1,954) | (6,404) |
| Net operating income | 60,873 | 52,456 |
| Employee compensation and benefits | (15,496) | (14,550) |
| General and administrative expenses | (9,794) | (8,827) |
| Depreciation of property, plant and equipment | (1,620) | (1,551) |
| Amortisation of intangible assets | (714) | (546) |
| Total operating expenses | (27,624) | (25,474) |
| Operating profit | 33,249 | 26,982 |
| Share of profit in associates and joint ventures | 5,326 | 3,527 |
| Profit before tax | 38,575 | 30,509 |
| Tax expense | (7,207) | (6,119) |
| Profit for the period | 31,368 | 24,390 |
| Profit attributable to shareholders | 28,675 | 22,246 |
| Profit attributable to minority interests | 2,693 | 2,144 |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|--|---|--|
| Profit for the period | 31,368 | 24,390 |
| Available-for-sale investments: | | |
| - fair value changes taken to equity | 1,992 | 20,102 |
| - fair value changes transferred to the income statement on disposal | (1,168) | (863) |
| - fair value changes transferred to the income statement on impairment | - | 123 |
| - fair value changes transferred to the income statement on hedged items due to hedged risks | (1,043) | 622 |
| - income taxes | 112 | (877) |
| Cash flow hedges: | | |
| - fair value changes taken to equity | 242 | 618 |
| - fair value changes transferred to the income statement | (1,041) | (1,740) |
| - income taxes | 136 | 173 |
| Property revaluation: | | |
| - fair value changes taken to equity | 2,358 | 1,658 |
| - income taxes | (418) | (275) |
| Share of changes in equity of associates and joint ventures | (31) | 356 |
| Exchange differences | 964 | 1,629 |
| Actuarial (losses)/gains on post-employment benefits | | |
| - before income taxes | (784) | 3,115 |
| - income taxes | 126 | (499) |
| Total comprehensive income for the period, net of tax | <u>32,813</u> | <u>48,532</u> |
| Total comprehensive income for the period attributable to: | | |
| - shareholders | 29,461 | 45,071 |
| - minority interests | 3,352 | 3,461 |
| | <u>32,813</u> | <u>48,532</u> |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

| <i>Figures in HK\$m</i> | <i>At 30 June 2010</i> | <i>At 31 December 2009 (restated¹)</i> |
|--|----------------------------|---|
| ASSETS | | |
| Cash and short-term funds | 860,597 | 892,175 |
| Items in the course of collection from other banks | 50,560 | 15,528 |
| Placings with banks maturing after one month | 124,607 | 107,070 |
| Certificates of deposit | 55,346 | 37,388 |
| Hong Kong SAR Government certificates of indebtedness | 143,004 | 135,414 |
| Trading assets | 360,681 | 322,731 |
| Financial assets designated at fair value | 48,379 | 48,087 |
| Derivatives | 264,345 | 235,171 |
| Advances to customers | 1,552,564 | 1,350,644 |
| Financial investments | 826,002 | 882,689 |
| Amounts due from Group companies | 128,133 | 134,511 |
| Investments in associates and joint ventures | 69,308 | 53,683 |
| Goodwill and intangible assets | 26,977 | 25,069 |
| Property, plant and equipment | 60,543 | 58,810 |
| Deferred tax assets | 2,373 | 2,668 |
| Retirement benefit assets | 302 | 292 |
| Other assets | 61,108 | 58,818 |
| Total assets | 4,634,829 | 4,360,748 |
| LIABILITIES | | |
| Hong Kong SAR currency notes in circulation | 143,004 | 135,414 |
| Items in the course of transmission to other banks | 71,640 | 22,960 |
| Deposits by banks | 199,884 | 111,206 |
| Customer accounts | 2,989,060 | 2,944,539 |
| Trading liabilities | 157,355 | 154,366 |
| Financial liabilities designated at fair value | 37,587 | 36,709 |
| Derivatives | 262,886 | 232,846 |
| Debt securities in issue | 38,512 | 43,396 |
| Retirement benefit liabilities | 4,764 | 3,922 |
| Amounts due to Group companies | 61,264 | 50,842 |
| Other liabilities and provisions | 67,099 | 55,982 |
| Liabilities under insurance contracts issued | 160,249 | 144,928 |
| Current tax liabilities | 5,932 | 4,119 |
| Deferred tax liabilities | 11,434 | 10,503 |
| Subordinated liabilities | 19,727 | 21,181 |
| Preference shares | 101,638 | 101,208 |
| Total liabilities | 4,332,035 | 4,074,121 |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

| <i>Figures in HK\$m</i> | <i>At 30 June 2010</i> | <i>At 31 December 2009 (restated¹)</i> |
|-------------------------------------|----------------------------|---|
| EQUITY | | |
| Share capital | 22,494 | 22,494 |
| Other reserves | 91,808 | 89,603 |
| Retained profits | 154,818 | 139,255 |
| Proposed dividend | 6,000 | 8,850 |
| Total shareholders' equity | 275,120 | 260,202 |
| Minority interests | 27,674 | 26,425 |
| | <u>302,794</u> | <u>286,627</u> |
| Total equity and liabilities | <u>4,634,829</u> | <u>4,360,748</u> |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

| | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 31 December 2009 (restated¹)</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|---|---|--|--|
| <i>Figures in HK\$m</i> | | | |
| Share Capital | | | |
| At beginning and end of period | <u>22,494</u> | <u>22,494</u> | <u>22,494</u> |
| Retained profits | | | |
| As previously reported | | | 123,085 |
| Restatement for HKAS 17 | | | 5 |
| At beginning of period | <u>139,255</u> | <u>135,855</u> | <u>123,090</u> |
| Dividends to shareholders | (12,000) | (14,740) | (11,780) |
| Other movements | 154 | 54 | 203 |
| Transfers | (1,228) | (6,935) | (1,142) |
| Total comprehensive income for the period | <u>28,637</u> | <u>25,021</u> | <u>25,484</u> |
| | <u>154,818</u> | <u>139,255</u> | <u>135,855</u> |
| Other reserves | | | |
| Property revaluation reserve | | | |
| As previously reported | | | 8,578 |
| Restatement for HKAS 17 | | | 11,864 |
| At beginning of period | <u>22,983</u> | <u>21,425</u> | <u>20,442</u> |
| Other movements | 1 | (16) | - |
| Transfers | (306) | (723) | (281) |
| Total comprehensive income for the period | <u>1,777</u> | <u>2,297</u> | <u>1,264</u> |
| | <u>24,455</u> | <u>22,983</u> | <u>21,425</u> |
| Available-for-sale investment reserve | | | |
| At beginning of period | <u>43,385</u> | <u>33,759</u> | <u>15,103</u> |
| Other movements | 1 | (3) | (8) |
| Transfers | (42) | 17 | 56 |
| Total comprehensive (expense)/income for the period | <u>(436)</u> | <u>9,612</u> | <u>18,608</u> |
| | <u>42,908</u> | <u>43,385</u> | <u>33,759</u> |
| Cash flow hedging reserve | | | |
| At beginning of period | <u>848</u> | <u>1,015</u> | <u>1,833</u> |
| Transfers | (2) | 4 | 3 |
| Total comprehensive expense for the period | <u>(617)</u> | <u>(171)</u> | <u>(821)</u> |
| | <u>229</u> | <u>848</u> | <u>1,015</u> |
| Foreign exchange reserve | | | |
| At beginning of period | <u>6,998</u> | <u>3,303</u> | <u>1,666</u> |
| Transfers | 818 | 1,585 | 1,088 |
| Total comprehensive income for the period | <u>77</u> | <u>2,110</u> | <u>549</u> |
| | <u>7,893</u> | <u>6,998</u> | <u>3,303</u> |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

| | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 31 December 2009 (restated¹)</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|---|---|--|--|
| <i>Figures in HK\$m</i> | | | |
| Other reserves | | | |
| At beginning of period | 15,389 | 9,271 | 9,683 |
| Movement in respect of share-based payment arrangements | 603 | 482 | 104 |
| Transfers | 760 | 6,052 | 276 |
| Other movements | (452) | (609) | (779) |
| Total comprehensive income/(expense) for the period | <u>23</u> | <u>193</u> | <u>(13)</u> |
| | <u>16,323</u> | <u>15,389</u> | <u>9,271</u> |
| Total shareholders equity | | | |
| As previously reported | | | 182,442 |
| Restatement for HKAS 17 | | | <u>11,869</u> |
| At beginning of period | <u>251,352</u> | 227,122 | 194,311 |
| Dividends to shareholders | (12,000) | (14,740) | (11,780) |
| Movement in respect of share-based payment arrangements | 603 | 482 | 104 |
| Other movements | (296) | (574) | (584) |
| Total comprehensive income for the period | <u>29,461</u> | <u>39,062</u> | <u>45,071</u> |
| | <u>269,120</u> | <u>251,352</u> | <u>227,122</u> |
| Minority interests | | | |
| As previously reported | | | 22,874 |
| Restatement for HKAS 17 | | | <u>1,265</u> |
| At beginning of period | <u>26,425</u> | 24,496 | 24,139 |
| Dividends to shareholders | (2,192) | (1,713) | (3,117) |
| Movement in respect of share-based payment arrangements | 16 | 34 | 3 |
| Other movements | 73 | (178) | 10 |
| Total comprehensive income for the period | <u>3,352</u> | <u>3,786</u> | <u>3,461</u> |
| | <u>27,674</u> | <u>26,425</u> | <u>24,496</u> |
| Total equity | | | |
| As previously reported | | | 205,316 |
| Restatement for HKAS 17 | | | <u>13,134</u> |
| At beginning of period | <u>277,777</u> | 251,618 | 218,450 |
| Dividends to shareholders | (14,192) | (16,453) | (14,897) |
| Movement in respect of share-based payment arrangements | 619 | 516 | 107 |
| Other movements | (223) | (752) | (574) |
| Total comprehensive income for the period | <u>32,813</u> | <u>42,848</u> | <u>48,532</u> |
| | <u>296,794</u> | <u>277,777</u> | <u>251,618</u> |

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|---|---|---|
| Operating activities | | |
| Cash (used in)/generated from operations | (87,338) | 298,653 |
| Interest received on financial investments | 6,759 | 7,560 |
| Dividends received on financial investments | 74 | 77 |
| Dividends received from associates | 1,500 | 1,469 |
| Taxation paid | (4,560) | (3,539) |
| Net cash (outflow)/inflow from operating activities | <u>(83,565)</u> | <u>304,220</u> |
| Investing activities | | |
| Purchase of financial investments | (251,793) | (333,119) |
| Proceeds from sale or redemption of financial investments | 307,806 | 203,910 |
| Purchase of property, plant and equipment | (749) | (524) |
| Proceeds from sale of property, plant and equipment | 52 | 79 |
| Purchase of other intangible assets | (629) | (600) |
| Net cash (outflow)/inflow in respect of the acquisition of and increased holdings in subsidiaries | (105) | 15,245 |
| Net cash outflow in respect of the purchase of interests in associates and joint ventures | (3,452) | - |
| Net cash inflow from the sale of interests in associates | 95 | - |
| Net cash inflow from sale of interest in a business portfolio | - | 251 |
| Net cash inflow/(outflow) from investing activities | <u>51,225</u> | <u>(114,758)</u> |
| Net cash (outflow)/inflow before financing | <u>(32,340)</u> | <u>189,462</u> |
| Financing | | |
| Issue of preference shares | - | 8,226 |
| Change in minority interests | 60 | (131) |
| Repayment of subordinated liabilities | (1,580) | - |
| Ordinary dividends paid | (14,850) | (17,060) |
| Dividends paid to minority interests | (2,192) | (3,117) |
| Interest paid on preference shares | (1,850) | (1,838) |
| Interest paid on subordinated liabilities | (277) | (389) |
| Net cash outflow from financing | <u>(20,689)</u> | <u>(14,309)</u> |
| (Decrease)/increase in cash and cash equivalents | <u>(53,029)</u> | <u>175,153</u> |

1. Net interest income

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|---------------------------------|---|---|
| Net interest income | 29,309 | 30,111 |
| Average interest-earning assets | 3,259,261 | 2,969,847 |
| Net interest spread | 1.74 % | 1.99 % |
| Net interest margin | 1.81 % | 2.04 % |

Included in the above is interest income accrued on impaired financial assets of HK\$168 million (2009: HK\$227 million), including unwinding of discounts on loan impairment losses of HK\$153 million (2009: HK\$152 million).

Net interest income declined slightly by HK\$802 million or 2.7 per cent compared to the first half of 2009 as the low interest rate environment in many countries in Asia continued to impact both deposit and liability spreads. Despite the repricing of assets off a lower yield curve and continuous margin compression, the adverse impact on net interest income was largely mitigated by strong growth in the loan book and the benefit from lower cost of funds.

Average interest-earning assets increased by HK\$289,414 million or 9.7 per cent compared to the half-year ended 30 June 2009. Average customer lending increased 11 per cent with notable growth in corporate and commercial lending, and mortgages. Financial investments also increased as the commercial surplus was deployed in treasury bills, government bonds and debt securities.

Net interest margin decreased by 23 basis points to 1.81 per cent compared to the first half of 2009 despite an increase in average interest-earning assets. Liability spreads continued to be constrained as interest rates remained at low levels in many countries across the region. Net interest spread declined by 25 basis points to 1.74 per cent, whilst the contribution from net free funds increased by two basis points to seven basis points.

In **Hong Kong**, the bank recorded a drop in net interest margin of 32 basis points to 1.35 per cent. Net interest spread decreased by 35 basis points to 1.34 per cent. Net interest income decreased as the low interest rate environment continued to impact both asset and liability spreads. Assets in Balance Sheet Management continued to mature and funds were reinvested at lower market rates.

At **Hang Seng Bank**, the net interest margin declined by 36 basis points to 1.93 per cent while the net interest spread declined by 34 basis points to 1.89 per cent. Net interest spread declined due to narrowing deposit spreads and the repricing of assets off a lower yield curve. This adverse impact was moderated by growth in mortgages, on the back of an active property market, and other personal and commercial lending. The benefit of net free funds decreased by two basis points to four basis points as a consequence of the low interest rate environment.

In the **Rest of Asia-Pacific**, the net interest margin was 2.09 per cent, 14 basis points lower than the first half of 2009 with a general low interest rate environment in most countries across the region. Notable growth in the loan book was recorded in mainland China, Singapore and Malaysia.

2. Net fee income

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|-------------------------|---|---|
| Account services | 1,149 | 1,063 |
| Credit facilities | 1,350 | 925 |
| Import/export | 1,941 | 1,822 |
| Remittances | 1,149 | 948 |
| Securities/stockbroking | 4,048 | 3,887 |
| Cards | 2,901 | 2,699 |
| Insurance | 313 | 208 |
| Unit trusts | 1,432 | 580 |
| Funds under management | 2,186 | 1,374 |
| Other | <u>3,136</u> | <u>2,714</u> |
| Fee income | 19,605 | 16,220 |
| Fee expense | <u>(2,912)</u> | <u>(2,330)</u> |
| | <u>16,693</u> | <u>13,890</u> |

Net fee income was HK\$2,803 million, or 20.2 per cent higher than the first half of 2009.

Fees from unit trusts increased 146.9 per cent with higher subscription fees and commissions driven by higher demand for investment-based products, notably in Hong Kong, India and Taiwan. The trend correlated with improving sentiment as global equity markets gradually recovered since late 2009.

Income from funds under management was 59.1 per cent higher, attributable to improved sales of new funds, together with a more stable investment environment in 2010. It also reflected the ongoing growth in the value of assets under management. Securities and stockbroking income also rose by 4.1 per cent as a result of the improved investment environment.

Fees from credit facilities increased 45.9 per cent, which mainly reflected higher fees for arranging syndicated loans in 2010, notably in Hong Kong, Australia, New Zealand and India.

'Other' fee income grew primarily through higher fees earned from mandatory provident funds. In addition, the completion of several large advisory transactions in Hong Kong, Japan and Singapore led to increased corporate finance fees, while higher underwriting income benefited from a participation in a number of equity capital market underwriting deals in Hong Kong in the first half of 2010.

3. Gains less losses from financial investments

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|---|---|---|
| Gains less losses on available-for-sale financial investments | 1,312 | 905 |
| Impairment of available-for-sale equity investments | (28) | (1,147) |
| | <u>1,284</u> | <u>(242)</u> |

During the first half of 2010, the group recognised gains on disposals of debt securities and also a gain on the reclassification of its investment in Bao Viet Holdings to an associate company following the purchase of additional shares in January 2010. Prior year gains included profit arising from the disposal of Visa shares.

Impairment of available-for-sale equity investments in 2009 related to write-downs of strategic investments.

4. Other operating income

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|--|---|--|
| Rental income from investment properties | 155 | 83 |
| Movement in present value of in-force insurance business | 1,845 | 1,189 |
| Profit/(loss) on disposal of property, plant and equipment, and assets held for sale | 2 | (18) |
| Net gains from the disposal or revaluation of investment properties | 153 | 98 |
| Other | 1,891 | 1,357 |
| | <u>4,046</u> | <u>2,709</u> |

‘Other’ largely comprises recoveries of IT and other operating costs from shared services that were incurred on behalf of fellow Group companies. It also included gains on acquired loans from The Chinese Bank and PT Bank Ekonomi Raharja Tbk (‘Bank Ekonomi’).

The present value of in-force insurance business rose by 55.2 per cent, or HK\$656 million, as a result of more new business written in the first half of 2010.

¹ Restated for the adoption of HKAS 17 ‘Leases’. See Note 18 for further information.

5. Insurance income

Included in the consolidated income statement are the following revenues earned by the insurance business:

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|---|---|---|
| Net interest income | 2,748 | 2,191 |
| Net fee income | 545 | 341 |
| Net trading (loss)/income | (9) | 60 |
| Net (loss)/income from financial instruments designated at fair value | (301) | 2,558 |
| Gains less losses from financial investments | 385 | (5) |
| Dividend income | - | 27 |
| Net earned insurance premiums | 19,032 | 15,439 |
| Movement in present value of in-force business | 1,845 | 1,189 |
| Other operating income/(expense) | 27 | (15) |
| | <u>24,272</u> | <u>21,785</u> |
| Net insurance claims incurred and movement in policyholders' liabilities | <u>(18,032)</u> | <u>(17,728)</u> |
| Net operating income | <u>6,240</u> | <u>4,057</u> |

The decline in net income from financial instruments designated at fair value was primarily attributable to equity market-related losses on unit-linked contracts, with offsetting movements in the value of those contracts in 'Net insurance claims incurred and movement in policyholders' liabilities'.

Net earned insurance premiums increased 23.3 per cent as a result of higher sales in high-net-worth business, unit-linked insurance products and deferred annuity products in the first half of 2010.

The increase in net insurance claims incurred and movement in policyholder liabilities was driven by business growth, partly offset by the movement in fair value change from unit-linked contracts.

6. Loan impairment charges and other credit risk provisions

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|--|---|---|
| Net charge for impairment of customer advances | | |
| - Individually assessed impairment allowances: | | |
| New allowances | 1,342 | 2,882 |
| Releases | (625) | (422) |
| Recoveries | (117) | (64) |
| | 600 | 2,396 |
| - Net charge for collectively assessed impairment allowances | 1,355 | 3,917 |
| | 1,955 | 6,313 |
| Net (release)/charge for other credit risk provisions | (1) | 91 |
| | 1,954 | 6,404 |

The net charge for loan impairment and other credit risk provisions decreased by HK\$4,450 million, or 69.5 per cent over the first half of 2009.

The net charge for individually assessed allowances decreased notably in Hong Kong, India and Malaysia, representing a reduction in the number of customer credit downgrades in the first half of 2010 as economic conditions improved.

The net charge for collectively assessed impairment allowances also decreased in Hong Kong, India and Taiwan. Hong Kong reported lower net impairment charges on credit cards, together with an improved economic factor and lower loss rates inherent in the corporate portfolio. A lower net impairment charge in India resulted primarily from improving delinquencies and a reduction in the overall credit card and unsecured lending portfolios.

Included in the net charge for other credit risk provisions was an impairment release of HK\$3 million against available-for-sale debt securities (2009: a charge of HK\$17 million). There were no impairment losses or provisions against held-to-maturity investments.

7. Employee compensation and benefits

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009</i> |
|--------------------------------------|---|---|
| Wages and salaries | 10,699 | 10,148 |
| Performance-related pay | 3,631 | 3,399 |
| Social security costs | 352 | 355 |
| Retirement benefit costs | 814 | 648 |
| | <u>15,496</u> | <u>14,550</u> |
| <i>Staff numbers by region</i> † | | |
| | <i>At 30 June 2010</i> | <i>At 30 June 2009</i> |
| Hong Kong | 26,936 | 26,865 |
| Rest of Asia-Pacific | 43,468 | 43,175 |
| Total | <u>70,404</u> | <u>70,040</u> |

† *Full-time equivalent*

Total employee compensation and benefits increased by HK\$946 million, or 6.5 per cent. Wages and salaries were HK\$551 million higher, reflecting annual salary increments and higher average staff numbers over the period as a result of the acquisition of Bank Ekonomi in the first half of 2009, the expansion of the rural bank network in mainland China, and the growth of the business in Taiwan.

8. General and administrative expenses

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|--|---|--|
| Premises and equipment | | |
| - Rental expenses | 1,459 | 1,324 |
| - Amortisation of prepaid operating lease payments | 9 | 8 |
| - Other premises and equipment | 1,514 | 1,454 |
| | 2,982 | 2,786 |
| Marketing and advertising expenses | 1,604 | 1,366 |
| Other administrative expenses | 5,216 | 4,732 |
| Litigation and other provisions | (8) | (57) |
| | 9,794 | 8,827 |

General and administrative expenses increased by HK\$967 million, or 11.0 per cent.

Other administrative expenses rose 10.2 per cent, or HK\$484 million, mainly in Hong Kong with increasing expenditure on recruitment, consultancy, travel and intercompany processing. In the Rest of Asia-Pacific, higher expenses in mainland China were consistent with the growth in local operations, while increases in Taiwan reflected the migration of operations from a branch to a locally incorporated subsidiary in 2010. Marketing and advertising costs also increased by HK\$238 million due to more branding and promotional activities carried out in 2010 in order to meet increasing competition across the region.

Charges in respect of premises and equipment were HK\$196 million, or 7.0 per cent, higher in 2010. This was as a result of higher costs in mainland China due to an expanding branch network and the opening of the new Head Office building in Shanghai, along with a full six months reporting of Bank Ekonomi after the acquisition in May 2009.

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

9. Tax expense

The tax expense in the consolidated income statement comprises:

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2010</i> | <i>Half-year ended 30 June 2009 (restated¹)</i> |
|-------------------------|---|--|
| Current income tax | | |
| - Hong Kong profits tax | 3,050 | 3,146 |
| - Overseas taxation | 2,954 | 2,752 |
| Deferred taxation | 1,203 | 221 |
| | 7,207 | 6,119 |

The effective rate of tax for the first half of 2010 was 18.7 per cent, compared with 20.1 per cent for the first half of 2009.

10. Dividends

| | <i>Half-year ended 30 June 2010</i> | | <i>Half-year ended 30 June 2009</i> | |
|---|---|---------------|---|--------------|
| | <i>HK\$ per share</i> | <i>HK\$m</i> | <i>HK\$ per share</i> | <i>HK\$m</i> |
| Dividends paid on ordinary share capital | | | | |
| - fourth interim dividend in respect of the previous financial year | 0.98 | 8,850 | 1.24 | 11,170 |
| - first interim dividend paid | 0.67 | 6,000 | 0.65 | 5,890 |
| | 1.65 | 14,850 | 1.89 | 17,060 |

The Directors have declared a second interim dividend in respect of the half-year ended 30 June 2010 of HK\$6,000 million (HK\$0.67 per ordinary share).

¹ Restated for the adoption of HKAS 17 'Leases'. See Note 18 for further information.

11. Advances to customers

| <i>Figures in HK\$m</i> | <i>At 30 June 2010</i> | <i>At 31 December 2009</i> |
|--|----------------------------|--------------------------------|
| Gross advances to customers | 1,565,575 | 1,364,924 |
| Impairment allowances: | | |
| - Individually assessed | (7,827) | (8,088) |
| - Collectively assessed | (5,184) | (6,192) |
| | (13,011) | (14,280) |
| | <u>1,552,564</u> | <u>1,350,644</u> |
| Allowances as a percentage of gross advances to customers: | | |
| - Individually assessed | 0.50% | 0.59% |
| - Collectively assessed | 0.33% | 0.46% |
| Total allowances | <u>0.83%</u> | <u>1.05%</u> |

12. Impairment allowances against advances to customers

| <i>Figures in HK\$m</i> | <i>Individually assessed allowances</i> | <i>Collectively assessed allowances</i> | <i>Total</i> |
|---|---|---|---------------|
| At 1 January 2010 | 8,088 | 6,192 | 14,280 |
| Amounts written off | (892) | (2,983) | (3,875) |
| Recoveries of advances written off in previous years | 117 | 699 | 816 |
| Net charge to income statement | 600 | 1,355 | 1,955 |
| Unwinding of discount of loan impairment | (34) | (119) | (153) |
| Exchange and other adjustments | (52) | 40 | (12) |
| At 30 June 2010 | <u>7,827</u> | <u>5,184</u> | <u>13,011</u> |

13. Impaired advances to customers and allowances

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

| <i>Figures in HK\$m</i> | <u><i>Hong Kong</i></u> | <u><i>Rest of Asia-Pacific</i></u> | <u><i>Total</i></u> |
|---|-------------------------|--|---------------------|
| Half-year ended 30 June 2010 | | | |
| Impairment charge | <u>491</u> | <u>1,464</u> | <u>1,955</u> |
| Half-year ended 30 June 2009 | | | |
| Impairment charge | <u>2,090</u> | <u>4,223</u> | <u>6,313</u> |
| At 30 June 2010 | | | |
| Advances to customers that are considered to be impaired are as follows: | | | |
| Gross impaired advances | 6,189 | 9,974 | 16,163 |
| Individually assessed allowances | <u>(3,390)</u> | <u>(4,437)</u> | <u>(7,827)</u> |
| | <u>2,799</u> | <u>5,537</u> | <u>8,336</u> |
| Individually assessed allowances as a percentage of gross impaired advances | <u>54.8%</u> | <u>44.5%</u> | <u>48.4%</u> |
| Gross impaired advances as a percentage of gross advances to customers | <u>0.7%</u> | <u>1.4%</u> | <u>1.0%</u> |

13. Impaired advances to customers and allowances (continued)

| <i>Figures in HK\$m</i> | <u>Hong Kong</u> | <u>Rest of Asia-Pacific</u> | <u>Total</u> |
|--|------------------|---------------------------------|----------------|
| At 31 December 2009 | | | |
| Advances to customers that are considered to be impaired are as follows: | | | |
| Gross impaired advances | 6,358 | 9,838 | 16,196 |
| Individually assessed allowances | <u>(3,724)</u> | <u>(4,364)</u> | <u>(8,088)</u> |
| | <u>2,634</u> | <u>5,474</u> | <u>8,108</u> |
| Individually assessed allowances as a percentage of gross impaired advances | <u>58.6%</u> | <u>44.4%</u> | <u>49.9%</u> |
| Gross impaired advances as a percentage of gross advances to customers | <u>0.8%</u> | <u>1.6%</u> | <u>1.2%</u> |

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

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

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

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

| <i>Figures in HK\$m</i> | <i>Hong Kong</i> | <i>Rest of Asia-Pacific</i> | <i>Total</i> |
|--|------------------|---------------------------------|------------------|
| At 30 June 2010 | | | |
| Residential mortgages | 261,696 | 179,861 | 441,557 |
| Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages | 26,181 | - | 26,181 |
| Credit card advances | 33,350 | 30,086 | 63,436 |
| Other personal | 44,237 | 34,528 | 78,765 |
| Total personal | <u>365,464</u> | <u>244,475</u> | <u>609,939</u> |
| Commercial, industrial and international trade | 181,936 | 273,659 | 455,595 |
| Commercial real estate | 128,341 | 55,634 | 183,975 |
| Other property-related lending | 94,838 | 32,651 | 127,489 |
| Government | 2,777 | 7,504 | 10,281 |
| Other commercial | 63,143 | 73,416 | 136,559 |
| Total corporate and commercial | <u>471,035</u> | <u>442,864</u> | <u>913,899</u> |
| Non-bank financial institutions | 19,646 | 17,627 | 37,273 |
| Settlement accounts | 3,889 | 575 | 4,464 |
| Total financial | <u>23,535</u> | <u>18,202</u> | <u>41,737</u> |
| Gross advances to customers | 860,034 | 705,541 | 1,565,575 |
| Impairment allowances | <u>(5,599)</u> | <u>(7,412)</u> | <u>(13,011)</u> |
| Net advances to customers | <u>854,435</u> | <u>698,129</u> | <u>1,552,564</u> |

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

| <i>Figures in HK\$m</i> | <i>Hong Kong</i> | <i>Rest of Asia-Pacific</i> | <i>Total</i> |
|--|-----------------------|---------------------------------|-------------------------|
| At 31 December 2009 | | | |
| Residential mortgages | 244,328 | 169,016 | 413,344 |
| Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages | 26,801 | - | 26,801 |
| Credit card advances | 35,545 | 31,654 | 67,199 |
| Other personal | 41,384 | 35,550 | 76,934 |
| Total personal | <u>348,058</u> | <u>236,220</u> | <u>584,278</u> |
| Commercial, industrial and international trade | 137,461 | 219,631 | 357,092 |
| Commercial real estate | 105,404 | 50,131 | 155,535 |
| Other property-related lending | 78,028 | 30,030 | 108,058 |
| Government | 3,416 | 4,615 | 8,031 |
| Other commercial | 56,821 | 55,312 | 112,133 |
| Total corporate and commercial | <u>381,130</u> | <u>359,719</u> | <u>740,849</u> |
| Non-bank financial institutions | 19,088 | 17,976 | 37,064 |
| Settlement accounts | 2,437 | 296 | 2,733 |
| Total financial | <u>21,525</u> | <u>18,272</u> | <u>39,797</u> |
| Gross advances to customers | 750,713 | 614,211 | 1,364,924 |
| Impairment allowances | <u>(6,136)</u> | <u>(8,144)</u> | <u>(14,280)</u> |
| Net advances to customers | <u><u>744,577</u></u> | <u><u>606,067</u></u> | <u><u>1,350,644</u></u> |

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

Net advances in Hong Kong increased by HK\$109.9 billion, or 14.8 per cent, since the end of 2009. The increase was largely attributable to significant growth in corporate and commercial lending (up HK\$89.9 billion), with increases particularly in the commercial real estate and other property-related sectors and commercial, industrial and international trade. Residential mortgages increased by HK\$17.4 billion, as the property market became more active in the first half of 2010.

In the Rest of Asia-Pacific, net advances to customers increased by HK\$92.1 billion, or 15.2 per cent. The increase was mainly from corporate and commercial lending (up HK\$83.1 billion) with notable growth across all sectors, reflecting higher demand due to a general improvement in economic conditions. Advances to personal customers increased by HK\$8.3 billion, or 3.5 per cent, of which residential mortgages increased by HK\$10.8 billion, with notable growth in Malaysia, Australia, mainland China and Singapore.

15. Customer accounts

| <i>Figures in HK\$m</i> | <i>At 30 June 2010</i> | <i>At 31 December 2009</i> |
|-------------------------|----------------------------|--------------------------------|
| Current accounts | 535,437 | 536,350 |
| Savings accounts | 1,588,971 | 1,591,351 |
| Other deposit accounts | 864,652 | 816,838 |
| | <u>2,989,060</u> | <u>2,944,539</u> |

Customer accounts increased by HK\$44.5 billion, or 1.5 per cent, since the end of 2009.

In Hong Kong, customer accounts increased by HK\$5.2 billion, or 0.3 per cent, with increased money market deposits placed by institutional investors, partially offset by decreases in current accounts, saving accounts and time deposits. The drop in current accounts, saving accounts and time deposits reflected customers' preference for investment opportunities in the current low interest rate environment.

In the Rest of Asia-Pacific, customer accounts increased by HK\$39.3 billion, or 4.1 per cent, as compared to the end of 2009. Strong underlying growth was noted in Singapore, Mauritius, Australia, Taiwan and Indonesia. Malaysia also recorded an increase, largely attributable to an appreciation in the underlying currency.

The group's advances-to-deposits ratio increased to 51.9 per cent at 30 June 2010, from 45.9 per cent at 31 December 2009.

16. Disclosure for selected exposures

a Holdings of asset-backed securities

The group has holdings of asset-backed securities (ABSs), including those represented by mortgage-backed securities (MBSs) and by collateralised debt obligations (CDOs). The table below shows the group's exposure to ABSs issued by entities which are not consolidated by any HSBC Group entities. The carrying amounts of these exposures are measured at fair value.

| <i>Figures in HK\$m</i> | <i>Gross principal[†]</i> | <i>CDS Gross protection^{††}</i> | <i>Net principal exposure^{†††}</i> | <i>Carrying amount^{††††}</i> |
|---|--|--|---|---|
| At 30 June 2010 | | | | |
| Sub-prime residential mortgage-related assets: | | | | |
| MBSs and MBS CDOs | | | | |
| - high grade (AA or AAA rated) | 50 | - | 50 | 43 |
| - rated C to A | 558 | - | 558 | 76 |
| | <u>608</u> | <u>-</u> | <u>608</u> | <u>119</u> |
| US government-sponsored enterprises' mortgage-related assets: | | | | |
| MBSs | | | | |
| - high grade (AA or AAA rated) | 5,654 | - | 5,654 | 5,654 |
| Other residential mortgage-related assets: | | | | |
| MBSs | | | | |
| - high grade (AA or AAA rated) | 2,766 | - | 2,766 | 2,626 |
| - rated C to A | 1 | - | 1 | 1 |
| - not publicly rated | 8 | - | 8 | 8 |
| | <u>2,775</u> | <u>-</u> | <u>2,775</u> | <u>2,635</u> |
| Commercial property mortgage-related assets: | | | | |
| MBSs | | | | |
| - rated C to A | 879 | - | 879 | 346 |
| Leverage finance-related assets: | | | | |
| ABSs and ABS CDOs | | | | |
| - high grade (AA or AAA rated) | 149 | - | 149 | 133 |
| Student loan-related assets: | | | | |
| ABSs and ABS CDOs | | | | |
| - high grade (AA or AAA rated) | 1,269 | - | 1,269 | 1,266 |
| Other assets | | | | |
| ABS and ABS CDOs | | | | |
| - high grade (AA or AAA rated) | 939 | - | 939 | 911 |
| - rated C to A | 51 | - | 51 | 16 |
| | <u>990</u> | <u>-</u> | <u>990</u> | <u>927</u> |
| | <u>12,324</u> | <u>-</u> | <u>12,324</u> | <u>11,080</u> |

16. Disclosure for selected exposures (continued)

| <i>Figures in HK\$m</i> | <i>Gross principal[†]</i> | <i>CDS Gross protection^{††}</i> | <i>Net principal exposure^{†††}</i> | <i>Carrying amount^{††††}</i> |
|---|--|--|---|---|
| At 31 December 2009 | | | | |
| Sub-prime residential mortgage-related assets: | | | | |
| MBSs and MBS CDOs | | | | |
| - high grade (AA or AAA rated) | 54 | - | 54 | 45 |
| - rated C to A | 562 | - | 562 | 74 |
| | <u>616</u> | <u>-</u> | <u>616</u> | <u>119</u> |
| US government-sponsored enterprises' mortgage-related assets: | | | | |
| MBSs | | | | |
| - high grade (AA or AAA rated) | 4,071 | - | 4,071 | 4,071 |
| Other residential mortgage-related assets: | | | | |
| MBSs | | | | |
| - high grade (AA or AAA rated) | 3,366 | - | 3,366 | 3,142 |
| - rated C to A | 1 | - | 1 | 1 |
| - not publicly rated | 8 | - | 8 | 8 |
| | <u>3,375</u> | <u>-</u> | <u>3,375</u> | <u>3,151</u> |
| Commercial property mortgage-related assets: | | | | |
| MBSs | | | | |
| - high grade (AA or AAA rated) | 705 | - | 705 | 636 |
| - rated C to A | 785 | - | 785 | 140 |
| | <u>1,490</u> | <u>-</u> | <u>1,490</u> | <u>776</u> |
| Leverage finance-related assets: | | | | |
| ABSs and ABS CDOs | | | | |
| - high grade (AA or AAA rated) | 145 | - | 145 | 127 |
| Student loan-related assets: | | | | |
| ABSs and ABS CDOs | | | | |
| - high grade (AA or AAA rated) | 1,515 | - | 1,515 | 1,508 |
| Other assets | | | | |
| ABS and ABS CDOs | | | | |
| - high grade (AA or AAA rated) | 955 | - | 955 | 935 |
| - rated C to A | 249 | (190) | 59 | 18 |
| | <u>1,204</u> | <u>(190)</u> | <u>1,014</u> | <u>953</u> |
| | <u>12,416</u> | <u>(190)</u> | <u>12,226</u> | <u>10,705</u> |

16. Disclosure for selected exposures (continued)

The table below shows the geographical distribution of the group's exposures to ABSs shown above.

| <i>Figures in HK\$m</i> | <i>At 30 June 2010</i> | | | |
|-------------------------|-------------------------|-------------------------------|----------------------------------|----------------------------|
| | <i>Gross principal*</i> | <i>CDS Gross protection**</i> | <i>Net principal exposure***</i> | <i>Carrying amount****</i> |
| US | 8,567 | - | 8,567 | 7,498 |
| UK | 1,006 | - | 1,006 | 884 |
| Rest of the world | 2,751 | - | 2,751 | 2,698 |
| | <u>12,324</u> | <u>-</u> | <u>12,324</u> | <u>11,080</u> |

| <i>Figures in HK\$m</i> | <i>At 31 December 2009</i> | | | |
|-------------------------|----------------------------|-------------------------------|----------------------------------|----------------------------|
| | <i>Gross principal*</i> | <i>CDS Gross protection**</i> | <i>Net principal exposure***</i> | <i>Carrying amount****</i> |
| US | 7,249 | - | 7,249 | 5,982 |
| UK | 1,105 | - | 1,105 | 918 |
| Rest of the world | 4,062 | (190) | 3,872 | 3,805 |
| | <u>12,416</u> | <u>(190)</u> | <u>12,226</u> | <u>10,705</u> |

- † The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.
- †† A CDS is a credit default swap. CDS protection principal is the gross principal of the underlying instrument that is protected by CDSs.
- ††† Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from monoline protection, except where this protection is purchased with a CDS.
- †††† Carrying amount of the net principal exposure.

b Exposure to derivative transactions entered into with monoline insurers

The group's principal exposure to monoline insurers is through a number of derivative transactions, primarily CDSs.

There is no exposure to derivative transactions entered into with monoline insurers at 30 June 2010.

The table below sets out the fair value of the monoline derivative contracts at 31 December 2009, and hence the amount at risk, based on 31 December 2009 security prices, if the protection purchased were to be wholly ineffective because, for example, the monoline insurer was unable to meet its obligations. The 'Credit risk adjustment' column indicates the valuation adjustment taken against the fair value exposures, and reflects the estimated deterioration in creditworthiness of a monoline insurer during the year. There was no valuation adjustment taken during 2009.

16. Disclosure for selected exposures (continued)

| <i>Figures in HK\$m</i> | <i>Notional amount</i> | <i>Net exposure before credit risk adjustment[†]</i> | <i>Credit risk adjustment^{††}</i> | <i>Net exposure after credit risk adjustment</i> |
|---|----------------------------|---|--|--|
| At 30 June 2010 | | | | |
| Derivative transactions with monolines | | | | |
| - investment grade | - | - | - | - |
| At 31 December 2009 | | | | |
| Derivative transactions with monolines | | | | |
| - investment grade | 190 | - | - | - |

† Net exposure after legal netting and any other relevant credit mitigation prior to deduction of credit risk adjustment.

†† Fair value adjustment recorded against over-the-counter derivative counterparty exposures to reflect the credit worthiness of the counterparty.

c Leveraged finance transactions

Leveraged finance commitments held by the group were HK\$670 million at 30 June 2010 (31 December 2009: HK\$712 million), of which HK\$491 million (31 December 2009: HK\$545 million) was funded.

d Involvement with Special Purpose Entities ('SPEs')

The group enters into certain transactions with customers in the ordinary course of business that involve the establishment of SPEs. The purposes for which the SPEs are established include facilitating the raising of funding for customers' business activities or to effect a lease. 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.

17. Contingent liabilities and commitments

| <i>Figures in HK\$m</i> | <i>At 30 June 2010</i> | <i>At 31 December 2009</i> |
|-------------------------|----------------------------|--------------------------------|
| Contract amount: | | |
| Contingent liabilities | 149,031 | 142,660 |
| Commitments | 1,232,233 | 1,135,475 |
| | 1,381,264 | 1,278,135 |

18. Accounting policies

The accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 37 to 52 of the *2009 Annual Report and Accounts*. A number of new and revised Hong Kong Financial Reporting Standards have become effective in 2010. The only standard that has a material impact on the group is HKAS 17 'Leases'.

Following the amendment to HKAS 17 issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') in May 2009, the group reclassified interests in leasehold land held under long leases from operating leases to finance leases. Before the amendment, these leases were recorded at historical cost and amortised over the term of the lease. Upon reclassification to finance leases, the leases are carried at valuation and included under 'Property, Plant and Equipment', with the difference between the amortised cost and the valuation recognised in the property revaluation reserve. The corresponding prior-year comparatives have been adjusted accordingly.

The following primary statement lines have been impacted by the adoption of HKAS 17:

| | <i>As reported HK\$m</i> | <i>Adjustment HK\$m</i> | <i>Restated HK\$m</i> |
|---|------------------------------|-----------------------------|---------------------------|
| Half-year ended 30 June 2009 | | | |
| Profit for the period | 24,443 | (53) | 24,390 |
| Total comprehensive income | 47,581 | 951 | 48,532 |
| Profit attributable to minority interests | 2,148 | (4) | 2,144 |
| As at 31 December 2009 | | | |
| Property, plant and equipment | 36,327 | 22,483 | 58,810 |
| Property revaluation reserve | 8,593 | 14,390 | 22,983 |
| Retained profits | 139,231 | 24 | 139,255 |
| Minority interests | 24,939 | 1,486 | 26,425 |

19. Subsequent events

On 2 July 2010, the group entered into an agreement to acquire The Royal Bank of Scotland Group plc's retail and commercial banking businesses in India. The total consideration will comprise a premium of up to US\$95 million over the net asset value of the businesses being acquired. The purchase price will be reduced in respect of 90 per cent of any credit losses incurred on the unsecured lending portfolio in the two years subsequent to completion. The initial consideration paid will be reduced by an estimate of these losses with an adjustment to reflect the actual losses at the end of the two year protection period. The acquisition is subject to regulatory approvals and is expected to complete in the first half of 2011.

20. Additional information

Additional financial information, including the group's capital ratios, relating to the period ended 30 June 2010, prepared in accordance with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance, will be made available on our website: www.hsbc.com.hk. A further press release will be issued to announce the availability of this information.

21. Statutory accounts

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

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2009 which have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 1 March 2010. The Annual Report and Accounts for the year ended 31 December 2009, which include the statutory accounts, can be obtained on request from Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: www.hsbc.com.hk.

22. Ultimate holding company

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

23. Statement of compliance

The information in this news release for the half-year ended 30 June 2010 complies with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

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