HSBC HOLDINGS PLC
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of August

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-..............).

HANG SENG BANK LIMITED
2009 INTERIM RESULTS - HIGHLIGHTS

- Operating profit down 26.0 per cent to HK$6,740 million (HK$9,112 million for the first half of 2008; up 46.1 per cent compared with HK$4,613 million for the second half of 2008).
- Operating profit excluding loan impairment charges and other credit risk provisions down 20.8 per cent to HK$7,361 million (HK$9,300 million for the first half of 2008; up 2.2 per cent when compared with HK$7,201 million for the second half of 2008).
- Profit before tax down 27.7 per cent to HK$7,618 million (HK$10,530 million for the first half of 2008; up 42.4 per cent compared with HK$5,348 million for the second half of 2008).
- Attributable profit down 28.8 per cent to HK$6,451 million (HK$9,064 million for the first half of 2008; up 28.1 per cent compared with HK$5,035 million for the second half of 2008).
- Return on average shareholders' funds of 25.1 per cent (32.8 per cent for the first half of 2008; 18.7 per cent for the second half of 2008).
- Assets up 3.7 per cent to HK$790.1 billion (HK$762.2 billion at 31 December 2008).
- Earnings per share down 28.9 per cent to HK$3.37 per share (HK$4.74 per share for the first half of 2008).
- Second interim dividend of HK$1.10 per share; total dividends of HK$2.20 per share for the first half of 2009 (HK$2.20 per share for the first half of 2008).

- Capital adequacy ratio^ of 16.6 per cent (12.5 per cent at 31 December 2008); core capital ratio of 13.1 per cent (9.5 per cent at 31 December 2008).
- Cost efficiency ratio of 30.4 per cent (26.3 per cent for the first half of 2008).

^

The capital adequacy and core capital ratios at 30 June 2009 were calculated in accordance with Basel II - advanced internal ratings-based approach which became effective on 1 January 2009, while those at 31 December 2008 were calculated in accordance with Basel II - foundation internal ratings-based approach.

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 Raymond Ch'ien, Chairman

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

26.0 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, the improvement in the available-for-sale debt securities reserve due to the narrowing of credit spreads and a 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.

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.

Review by Margaret Leung, Vice-Chairman and Chief Executive

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 during 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.

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 poor 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$13.0 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 helped us expand our credit card business and we gained market share in terms of the card base, spending and receivables. 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 tough operating conditions. 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 environment. 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 23.0 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 challenging market conditions, 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 rising by 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 77.0 per cent rise in Prestige Banking customers compared with a year earlier.

In the uncertain economic conditions, we took a prudent approach to lending - emphasising loan quality over business growth - 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 Co., Ltd 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.

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 highly respected 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.

Results summary

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.

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Net interest income
decreased by HK$977 million, or 11.8 per cent, despite the 4.2 per cent increase in average interest-earning assets. Markedly reduced deposit spreads and a lower contribution from net free funds in the near-zero interest rate environment outweighed the benefits from improved loan spreads.
Net interest margin
for the first half of 2009 was 2.06 per cent - down 37 basis points compared with the same period last year. Net interest spread dropped by 21 basis points to 1.99 per cent and the contribution from net free funds declined by 16 basis points to 0.07 per cent.

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Net fees and commissions income
dropped by HK$1,101 million, or 36.4 per cent, to HK$1,926 million, due largely to reduced demand for investment-related products as a result of negative market sentiment. The volatility in global equity markets and the unfavourable investment climate dampened investor activity, with income from sales of retail investment funds and third party structured investment products fell by 70.8 per cent and 98.3 per cent respectively. With lower stock market turnover, income generated from stockbroking and related services fell by 14.7 per cent. Private banking recorded a 74.0 per cent drop in fee income, reflecting the diminished client appetite for trading and structured products. To meet the insurance needs of customers, the group offered a comprehensive range of health and wealth insurance solutions for all life stages. This drove a 90.7 per cent rise in insurance fee income and helped to increase the group's market share to 16.3 per cent in terms of new business in the first quarter of the year. Credit card business also continued to gain market share in terms of cards in issue, spending and receivables and achieved encouraging fee income growth of 5.8 per cent.

- Trading income
improved by HK$276 million, or 36.4 per cent, to HK$1,035 million. Foreign exchange income registered significant growth of HK$395 million, or 73.8 per cent, attributable partly to increased trading net interest income from funding swaps and the continued strong customer demand for foreign exchanged-linked structured products. The rise was also driven by the reduced losses on the revaluation of certain US dollar capital funds - maintained in the bank's mainland subsidiary bank and subject to regulatory controls - against the renminbi. Securities, derivatives and other trading income dropped by HK$119 million, or 53.1 per cent, resulting from the shrinking demand for equity-linked investment products.

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Income

from insurance business, including
net earned insurance premiums, net interest income, net fee income and net income from financial instruments designated at fair value, the change in present value of in-force business,
and after deducting
net insurance claims incurred and movement in policyholders' liabilities,
grew by HK$242 million, or 24.0 per cent, to HK$1,251 million. Life insurance business was ranked No. 2 in Hong Kong
in terms of direct new business, with a market share of 16.3 per cent for the first quarter of 2009. To cater for the increase in customer concerns about health issues, more emphasis was placed on products offering greater protection and medical coverage. Net interest income and fee income from life insurance business grew by 58.2 per cent, attributable mainly to the increase in the size of the investment portfolio. Investment returns on life insurance funds also improved significantly from a loss of HK$1,030 million in the first half of 2008 to a loss of HK$133 million in the first half of 2009.

- Net operating income

before loan impairment charges and other credit risk provisions
decreased by HK$2,044 million, or 16.2 per cent, to HK$10,576 million.

- Operating expenses
were reduced by HK$105 million, or 3.2 per cent, compared with the first half of 2008. With the deterioration in financial and economic conditions, the bank maintained strict cost control. Excluding mainland business, operating expenses dropped by 4.7 per cent, attributable largely to lower performance-related pay expenses and marketing expenditure. Mainland-related operating expenses rose by 9.1 per cent, reflecting the expansion of the bank's wholly owned mainland banking subsidiary, Hang Seng Bank (China) Limited ('Hang Seng China'), from 30 to 34 outlets as well as the increase in headcount from 1,312 to 1,411 in the last twelve months.

- 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.

- Profit before tax
was down by 27.7 per cent at HK$7,618 million after taking the following items into account:

- 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.

Consolidated financial positions and key ratios

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.

As at 30 June 2009, shareholders' funds (excluding proposed dividends) were HK$51,158 million, an increase of HK$5,268 million, or 11.5 per cent. Retained profits rose by HK$3,564 million, reflecting the increase in attributable profit (excluding first and second interim dividends) for the first half of 2009. The available-for-sale investments reserve improved by HK$1,819 million, due mainly to the narrowing of credit spreads as a result of stabilisation in credit markets.

The
return on average total assets
was 1.7 per cent, compared with 2.4 per cent and 1.3 per cent for the first and second halves of 2008 respectively.
The
return on average shareholders' funds
was 25.1 per cent (32.8 per cent in the first half of 2008 and 18.7 per cent in the second half of 2008).

At 30 June 2009, the
capital adequacy ratio
was 16.6 per cent, up from 12.5 per cent at the end of 2008. The
core capital ratio
was 13.1
per cent, up from 9.5 per cent. The ratios were calculated in accordance with the internal ratings-based approach under the Banking (Capital) Rules issued by the Hong Kong Monetary Authority for the implementation of Basel II. Effective 1 January 2009, the bank has migrated to the 'advanced internal ratings-based approach' under the Basel II framework to calculate its capital ratios. The capital adequacy ratio and core capital ratio at 31 December 2008 were calculated using the 'foundation internal ratings-based approach'.
The strengthening of these ratios largely reflects profit growth after accounting for dividends in the first half of the year, the improvement in the available-for-sale debt securities reserve due to the narrowing of credit spreads and a change in calculation methodology.

The bank maintained a strong liquidity position. The **average liquidity ratio** for the first half of 2009 was 47.5 per cent (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance), compared with 47.3 per cent for the first half of 2008.

The cost efficiency ratio for the first half of 2009 was 30.4 per cent, compared with 26.3 per cent and 32.5 per cent for the first and second halves of 2008 respectively.

Dividends

The Directors have declared a second interim dividend of HK$1.10 per share, which will be payable on 2 September 2009 to shareholders on the register of shareholders as of 18 August 2009. Together with the first interim dividend, the total distribution for the first half of 2009 will amount to HK$2.20 per share, the same as in the first half of 2008.

Customer group performance

Figures in HK$m	*Personal Financial Services*	*Commercial Banking*	*Corporate Banking*	*Treasury*	*Other*	*Total Reportable Segment*	*Inter-segment elimination*	*To*
Half-year ended 30 June 2009								
Net interest income	**4,015**	**987**	**583**	**1,353**	**337**	**7,275**	**_**	**7,2**
Net fee income/(expense)	**1,294**	**524**	**79**	**(19)**	**48**	**1,926**	**_**	**1,9**
Trading income/(loss)	**317**	**115**	**10**	**616**	**(23)**	**1,035**	**_**	**1,0**
Net loss from financial instruments designated at fair value	**(170)**	**_**	**_**	**(9)**	**(16)**	**(195)**	**_**	**(1**
Dividend income	**1**	**_**	**_**	**_**	**4**	**5**	**_**	
Net earned insurance premiums	**6,549**	**108**	**1**	**_**	**_**	**6,658**	**_**	**6,6**
Other operating income	**264**	**15**	**1**	**_**	**307**	**587**	**(237)**	**3**
Total operating income	**12,270**	**1,749**	**674**	**1,941**	**657**	**17,291**	**(237)**	**17,0**
Net insurance claims incurred and movement in policyholders' liabilities	**(6,413)**	**(65)**	**_**	**_**	**_**	**(6,478)**	**_**	**(6,4**
Net operating income before loan impairment charges and other credit risk provisions	**5,857**	**1,684**	**674**	**1,941**	**657**	**10,813**	**(237)**	**10,5**
Loan impairment charges and other credit risk provisions	**(274)**	**(263)**	**(82)**	**(2)**	**_**	**(621)**	**_**	**(6**
Net operating income	**5,583**	**1,421**	**592**	**1,939**	**657**	**10,192**	**(237)**	**9,9**
Total operating expenses ^	**(2,278)**	**(733)**	**(157)**	**(137)**	**(147)**	**(3,452)**	**237**	**(3,2**
Operating profit	**3,305**	**688**	**435**	**1,802**	**510**	**6,740**	**_**	**6,7**
Gains less losses from	**96**	**53**	**14**	**(95)**	**(13)**	**55**	**—**	

financial investments and fixed assets								
Net surplus on property revaluation	**–**	**–**	**–**	**–**	**60**	**60**	**–**	
Share of profits from associates	**66**	**339**	**–**	**310**	**48**	**763**	**–**	**7**
Profit before tax	**3,467**	**1,080**	**449**	**2,017**	**605**	**7,618**	**–**	**7,6**
Share of profit before tax	**45.5%**	**14.2%**	**5.9%**	**26.5%**	**7.9%**	**100.0%**	**–**	**10**
Operating profit excluding loan impairment charges and other credit risk provisions	**3,579**	**951**	**517**	**1,804**	**510**	**7,361**	**–**	**7,3**
^ *Depreciation/amortisation included in total operating expenses*	**(82)**	**(15)**	**(4)**	**(2)**	**(162)**	**(265)**	**–**	**(2**
At 30 June 2009								
Total assets	**218,251**	**84,180**	**90,115**	**366,245**	**31,330**	**790,121**	**–**	**790,1**
Total liabilities	**542,284**	**106,419**	**32,593**	**27,141**	**28,423**	**736,860**	**–**	**736,8**
Investments in associates	**683**	**3,608**	**–**	**2,666**	**2,372**	**9,329**	**–**	**9,3**

Figures in HK$m	***Personal Financial Services***	***Commercial Banking***	***Corporate Banking***	***Treasury***	***Other***	***Total Reportable Segments***	***Inter-segment elimination***	***Tota***
Half-year ended 30 June 2008								
Net interest income	4,295	1,211	442	1,536	768	8,252	–	8,25
Net fee income/(expense)	2,380	547	61	(17)	56	3,027	–	3,02
Trading income/(loss)	485	125	8	294	(153)	759	–	75
Net (loss)/income from financial instruments designated at fair value	(1,029)	(1)	–	6	–	(1,024)	–	(1,02
Dividend income	17	5	–	–	32	54	–	5
Net earned insurance premiums	6,832	96	2	–	–	6,930	–	6,93
Other operating income/(loss)	435	24	–	(1)	300	758	(233)	52
Total operating income	13,415	2,007	513	1,818	1,003	18,756	(233)	18,52
Net insurance claims incurred and movement	(5,843)	(59)	(1)	–	–	(5,903)	–	(5,90

in policyholders' liabilities								
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

Figures in HK$m	***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/(loss)	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 surplus/(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

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 swa
p^
income (described below) - which was 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.

^
Treasury from time to time employs foreign exchange swaps for its funding activities, which in essence involve swapping a currency ('original currency') into another currency ('swap currency') at the spot exchange rate for short-term placement and simultaneously entering into a forward exchange contract to convert the funds back to the original currency on maturity of the placement. In accordance with HKAS39, the exchange difference of the spot and forward contracts is required to be recognised as a foreign exchange gain/loss, while the corresponding interest differential between the original and swap funding is reflected in net interest income.

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
 is striving 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 Co., Ltd, mainland business contributed 11.7 per cent of total profit before tax, compared with 9.4 per cent for the first half of 2008.

Contents

The financial information in this news release is based on the unaudited consolidated financial statements of Hang Seng Bank Limited ('the bank') and its subsidiaries and associates ('the group') for the six months ended 30 June 2009.

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Consolidated Income Statement (unaudited)

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Interest income	**8,775**	13,665	12,507
Interest expense	**(1,500)**	(5,413)	(4,527)
Net interest income	**7,275**	8,252	7,980
Fee income	**2,327**	3,368	2,336
Fee expense	**(401)**	(341)	(394)
Net fee income	**1,926**	3,027	1,942
Trading income	**1,035**	759	696
Net loss from financial instruments designated at fair value	**(195)**	(1,024)	(7)
Dividend income	**5**	54	28
Net earned insurance premiums	**6,658**	6,930	5,421
Other operating income	**350**	525	176
Total operating income	**17,054**	18,523	16,236
Net insurance claims incurred and movement in policyholders' liabilities	**(6,478)**	(5,903)	(5,560)
Net operating income before loan impairment charges and other credit risk provisions	**10,576**	12,620	10,676
Loan impairment charges and other credit risk provisions	**(621)**	(188)	(2,588)
Net operating income	**9,955**	12,432	8,088
Employee compensation and benefits	**(1,669)**	(1,736)	(1,716)
General and administrative expenses	**(1,281)**	(1,356)	(1,495)
Depreciation of premises, plant and equipment	**(225)**	(201)	(231)
Amortisation of intangible assets	**(40)**	(27)	(33)
Total operating expenses	**(3,215)**	(3,320)	(3,475)
Operating profit	**6,740**	9,112	4,613
Gains less losses from financial investments and fixed assets	**55**	246	21
Net surplus/(deficit) on property revaluation	**60**	229	(150)
Share of profits from associates	**763**	943	864
Profit before tax	**7,618**	10,530	5,348
Tax expense	**(1,167)**	(1,466)	(313)
Profit for the period	**6,451**	9,064	5,035
Profit attributable to shareholders	**6,451**	9,064	5,035
Earnings per share (in HK$)	**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 on page 39.

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 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 interest income and interest expense 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*
Interest income	*8,545*	*13,376*	*12,223*
Interest expense	*(1,124)*	*(4,679)*	*(3,687)*
Net interest income	*7,421*	*8,697*	*8,536*
Net interest income and expense reported as 'Net trading income'	*(196)*	*(551)*	*(660)*
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	*50*	*106*	*104*

Consolidated Statement of Comprehensive Income (unaudited)

Figures in HK$m	***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 investments reserve:			
- fair value changes taken to 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
	9,467	6,914	174

Consolidated Statement of Financial Position (unaudited)

Figures in HK$m	***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
ASSETS			
Cash and balances with banks and			

other financial institutions	**51,065**	19,755	24,822
Placings with and advances to banks and other financial institutions	**55,223**	136,534	69,579
Trading assets	**84,517**	13,689	108,389
Financial assets designated at fair value	**6,025**	12,607	7,798
Derivative financial instruments	**4,927**	6,043	7,104
Advances to customers	**325,371**	337,157	329,121
Financial investments	**225,338**	184,654	181,159
Investments in associates	**9,329**	7,149	8,870
Investment properties	**2,716**	2,776	2,593
Premises, plant and equipment	**6,887**	7,487	7,090
Interest in leasehold land held for own use under operating lease	**543**	558	551
Intangible assets	**3,621**	3,297	3,385
Other assets	**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	**591,267**	535,148	562,183
Deposits from banks	**4,603**	19,247	11,556

Trading liabilities	**53,387**	53,767	48,282
Financial liabilities designated at fair value	**1,452**	1,431	1,407
Derivative financial instruments	**8,778**	8,882	14,945
Certificates of deposit and other debt securities in issue	**2,294**	4,026	2,772
Other liabilities	**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	**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	**53,261**	55,608	51,626
Total equity and liabilities	**790,121**	747,916	762,168

Consolidated Statement of Changes in Equity (unaudited)

	Half−year to 30 June	*Half-year to 30 June*	*Half−year to 31 December 2008*

Figures in HK$m	***2009***	*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

Figures in HK$m	***Half−year to 30 June 2009***	*Half-year to 30 June 2008*	*Half−year to 31 December 2008*
Other reserve			

At beginning of period	**1,984**	1,856	1,933
Cost 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)

Figures in HK$m	***Half-year ended 30 June 2009***	*Half-year ended 30 June 2008*
Net cash inflow/(outflow) from operating activities	**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 asset 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	**166,215**	124,134

Financial Review

Net interest income

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%

Despite a HK$28.5 billion, or 4.2 per cent, increase in average interest-earning assets to HK$711.3 billion, a 4.9 per cent rise in average customer deposits, and the shifting of time deposits to low-cost savings deposits, net interest income fell by HK$977 million, or 11.8 per cent, to HK$7,275 million.

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 noted in the 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

.
I
nterest 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 fee income

Half-year ended

Figures in HK$m	***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

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

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 in 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

	Half-year ended 30 June	*Half-year ended 30 June*	*Half-year ended 31 December*

Figures in HK$m	***2009***	*2008*	*2008*
Trading income:			
- foreign exchange	**930**	535	849
- securities, derivatives and other trading activities	**105**	224	(153)
	1,035	759	696

Trading income rose significantly by HK$276 million, or 36.4 per cent, to HK$1,035 million. 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

Figures in HK$m	***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)

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 the investment assets of the life insurance portfolios for high-quality debt securities in the second half of 2008.

Other operating income

Figures in HK$m	***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

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 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
.

	Half-year ended 30 June 2009	*Half-year ended 30 June 2008*	*Half-year ended 31 December 2008*
Figures in HK$m			

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*

Loan impairment charges and other credit risk provisions

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 provisions	**-**	-	(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 the 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 provisions 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 in the global credit markets.

Operating expenses

Figures in HK$m	***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	**145**	84	89
	1,669	1,736	1,716
General and administrative expenses:			
- rental expenses	**218**	203	220
- 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	**225**	201	231
Amortisation of intangible assets	**40**	27	33
	3,215	3,320	3,475
Cost efficiency ratio	**30.4 %**	26.3%	32.5%

Staff numbers^ 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

^

Full-time equivalent

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.

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.

Gains less losses from financial investments and fixed assets

Figures in HK$m	***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 fixed assets	**(5)**	(5)	(7)
	55	246	21

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. I mpairment 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.

Tax expense

Taxation in the consolidated income statement represents:

Figures in HK$m	***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)
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)	—
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 Hong Kong by using the
Hong Kong
profits tax rate of 16.5 per cent (same as 2008). 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.

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).

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$m***	*HK$ per share*	*HK$m*	*HK$ per share*	*HK$m*
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

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.

Profit before tax contributed by the customer groups for the periods stated is set out in the table below. More customer group analysis and discussions are set out in the 'Customer group performance' section on page 13.

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%

(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.

Figures in HK$m	***Hong Kong***	***Americas***	***Mainland and other***	***Total***
Half-year ended 30 June 2009				
Income and expense				
Total operating income	**16,058**	**499**	**497**	**17,054**
Profit before tax	**6,391**	**449**	**778**	**7,618**
At 30 June 2009				
Total assets	**680,589**	**60,265**	**49,267**	**790,121**
Total liabilities	**707,734**	**1,169**	**27,957**	**736,860**
Contingent liabilities and commitments	**193,094**	_	**15,786**	**208,880**
Half-year ended 30 June 2008				
Income and expense				
Total operating income	16,789	1,296	438	18,523
Profit before tax	8,410	1,273	847	10,530
At 30 June 2008				
Total assets	620,326	74,177	53,413	747,916
Total liabilities	658,663	3,453	30,192	692,308
Contingent liabilities and commitments	207,082	_	12,417	219,499
Half-year ended 31 December 2008				
Income and expense				
Total operating income	14,592	1,082	562	16,236
Profit before tax	4,424	498	426	5,348
At 31 December 2008				
Total assets	656,411	55,365	50,392	762,168
Total liabilities	680,296	1,238	29,008	710,542
Contingent liabilities and commitments	196,778	_	13,464	210,242

Cash and balances with banks and other financial institutions

Figures in HK$m	***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

Placings with and advances to banks and other financial institutions

Figures in HK$m	***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	**26,767**	37,334	22,554
	55,223	136,534	69,579

Trading assets

Figures in HK$m	***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
Treasury bills	**79,426**	6,732	103,621
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
Othe r^	**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	—
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.

With the severe turbulence in the financial markets and interventions by various governments and central banks to stabilise their financial systems in the second half of 2008, the bank has preserved its liquidity and yield by deploying surplus funds from matured available-for-sale securities and short-term interbank placements to high quality trading debt securities in late 2008. These trading securities are mostly in the form of treasury bills with short tenors issued by governments. During the first half of 2009, Treasury redeployed the surplus funds upon the maturity of trading assets to interbank placements and available-for-sale debt securities to achieve yield enhancement while prudently managing risk in the more stable financial markets and credit environment experienced in the first half of 2009. As a result, trading securities declined by HK$24,604 million, or 22.7 per cent, to HK$83,767 million when compared with last year-end.

Financial assets designated at fair value

Figures in HK$m	***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

Advances to customers

Figures in HK$m	***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

Loan impairment allowances against advances to customers

Figures in HK$m	***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	**9**	**18**	**27**
New impairment allowances charged to income statement	**358**	**351**	**709**
Impairment allowances released to income statement	**(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**

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

Total loan impairment allowances as a percentage of gross advances to customers was 0.72 per cent at 30 June 2009, 0.11 percentage points higher than at the end of 2008. Individually assessed allowances as a percentage of gross advances rose by 0.09 percentage points to 0.46 per cent, reflecting the downgrading of certain corporate and commercial banking customers as a result of the weak credit environment
.

Impaired advances and allowances

Figures in HK$m	***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.

Gross impaired advances rose by HK$338 million, or 9.9 per cent, to HK$3,742 million compared with last year-end, with the downgrade of certain commercial banking accounts partly offset by the write-off of irrecoverable balances against impairment allowances and customer repayments. Gross impaired advances as a percentage of gross advances to customers was 1.1 per cent
, broadly in line with the end of 2008.

Figures in HK$m	***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 has been included.

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*	
	HK$m	***%***	*HK$m*	*%*	*HK$m*	*%*
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

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.

Overdue advances rose by 83.0 per cent to HK$1,958 million at 30 June 2009. Overdue advances as a percentage of gross advances to customers stood at 0.6 per cent, higher than last year's end by 0.3 percentage points.

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*	
	HK$m	***%***	*HK$m*	*%*	*HK$m*	*%*
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. A rescheduled advance will continue to be disclosed as such unless the debt has been performing in accordance with the rescheduled terms for a period of six to 12 months. Rescheduled advances that have been overdue for more than three months under the rescheduled terms are reported as overdue advances (page 48).

Rescheduled advances increased by HK$385 million, or 137.0 per cent, to HK$666 million at 30 June 2009, representing 0.2 per cent of gross advances to customers.

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 total loans and advances.

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:

Figures in HK$m	***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
Gross advances to customers for use in Hong Kong			
Industrial, commercial and financial sectors			
Property development	**22,865**	20,658	25,314
Property investment	**66,060**	62,251	66,179
Financial concerns	**2,130**	2,468	3,146
Stockbrokers	**2,736**	313	526
Wholesale and retail trade	**6,489**	6,875	6,183
Manufacturing	**11,350**	13,767	12,828
Transport and transport equipment	**8,031**	8,837	8,400
Recreational activities	**28**	235	26
Information technology	**1,265**	1,051	1,075
Other	**25,348**	20,380	21,553
	146,302	136,835	145,230
Individuals			
Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**15,740**	17,934	16,739
Advances for the purchase of other residential properties	**91,656**	94,792	89,669
Credit card advances	**12,780**	11,685	12,841
Other	**10,992**	13,698	11,892
	131,168	138,109	131,141
Total gross advances for use in Hong Kong	**277,470**	274,944	276,371
Trade finance	**18,878**	25,206	19,039
Gross advances for use outside Hong Kong	**31,383**	38,052	35,754

Gross advances to customers	**327,731**	338,202	331,164

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 repayment of certain existing large 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.

Financial investments

Figures in HK$m	***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
Available-for-sale at fair value:			
- debt securities	**180,413**	156,464	144,520
- equity shares	**295**	2,987	434
Held-to-maturity debt securities at amortised cost	**44,630**	25,203	36,205
	225,338	184,654	181,159

Fair value of held-to-maturity debt securities	**44,823**	24,720	39,315
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
Debt securities:			
- listed in Hong Kong	**5,526**	5,084	5,604
- listed outside Hong Kong	**65,791**	60,382	67,018
	71,317	65,466	72,622
- unlisted	**153,726**	116,201	108,103
	225,043	181,667	180,725
Equity shares:			
- 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
	225,338	184,654	181,159
Fair value of listed financial investments	**71,398**	67,798	73,048
Debt securities:			
Issued by public bodies:			
- central governments and central banks	**44,478**	8,617	16,643
- other public sector entities	**9,463**	3,902	4,353
	53,941	12,519	20,996
Issued by other bodies:			
- banks and other financial institutions	**154,640**	156,105	144,167
- corporate entities	**16,462**	13,043	15,562
	171,102	169,148	159,729
	225,043	181,667	180,725
Equity shares:			
Issued by corporate entities	**295**	2,987	434
	225,338	184,654	181,159

Debt securities by rating agency designation

Figures in HK$m	***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

Financial investments include treasury bills, certificates of deposit, other debt securities and equity shares intended to be held for an indefinite period of time.

Available-for-sale investments may be sold in response to needs for liquidity or changes in the market environment, and are carried at fair value with the gains and losses from changes in fair value recognised through equity reserves. Held-to-maturity debt securities are stated at amortised cost. Where debt securities have been purchased at a premium or discount, the carrying value of the security is adjusted to reflect the effective interest rate of the debt security taking into account such premium or discount.

Financial investments rose by HK$44.2 billion, or 24.4 per cent, compared with last year-end. Investments were primarily in high-quality debt securities or debt securities guaranteed by governments, reflecting the bank's strategy to identify quality investment opportunities that enable it to optimise returns while prudently managing risk. At 30 June 2009, 98.0 per cent of the group's holdings of debt securities were assigned with investment grade ratings by rating agencies. The unrated debt securities were issued by subsidiaries of investment-grade banks and are guaranteed by their corresponding holding companies. These notes rank pari passu with all of the respective guarantor's other senior debt obligations. The group did not hold any investments in structured investment vehicles or any sub-prime related assets such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

Investments in associates

Figures in HK$m	***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
Share of net assets	**8,782**	6,848	8,314
Intangibles	**119**	—	157
Goodwill	**428**	301	399
	9,329	7,149	8,870

Investments in associates increased by HK$459 million, due mainly to the increase in the bank's share of net assets of Industrial Bank Co., Ltd.

Other assets

Figures in HK$m	***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

Current, savings and other deposit accounts

Figures in HK$m	***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	**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

Certificates of deposit and other debt securities in issue

Figures in HK$m	***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 and other debt securities in issue reported as trading liabilities	**7,329**	9,867	9,716
	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

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 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.

Trading liabilities

Figures in HK$m	***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
Structured certificates of deposit and other debt securities in issue	**7,329**	9,867	9,716
Structured deposits	**28,306**	31,067	29,785
Short positions in securities and other	**17,752**	12,833	8,781
	53,387	53,767	48,282

Other liabilities

Figures in HK$m	***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

Subordinated liabilities

Figures in HK$m		***At 30 June 2009***	*At 30 June 2008*	*At 31 December 2008*
Nominal value	Description			
Amount owed to third parties				
HK$1,500 million	Callable floating rate subordinated notes			

	due June 2015	**1,499**	1,497	1,498
HK$1,000 million	4.125 per cent callable fixed rate subordinated notes due June 2015	**1,017**	979	994
US$450 million	Callable floating rate subordinated notes due July 2016	**3,479**	3,498	3,478
US$300 million	Callable floating rate subordinated notes due July 2017	**2,319**	2,332	2,318
Amount owed to HSBC Group undertakings				
US$260 million	Callable floating rate subordinated loan debt due December 2015	**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

There was no subordinated debt issued during the first half of 2009. The outstanding subordinated notes, which qualify as supplementary capital, serve to help the bank maintain a more balanced capital structure and support business growth.

Shareholders' funds

Figures in HK$m	***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 investments 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%

Shareholders' funds (excluding proposed dividends) grew by HK$5,268 million, or 11.5 per cent, to HK$51,158 million at 30 June 2009. Retained profits rose by HK$3,564 million, mainly reflecting the growth in attributable profit (excluding first and second interim dividends) during the period. The premises revaluation reserve increased by HK$159 million on the back of the rebound in the property market during second quarter of the year.

In accordance with accounting standards, available-for-sale debt and equity securities (other than held-to-maturity debt securities) should be measured at fair value. The carrying amounts of the various debt and equity securities are reviewed at the balance sheet date to determine whether there is any objective evidence of impairment. If evidence exists, the relevant carrying amount is reduced to the estimated recoverable amount by means of an impairment charge to the income statement.

The available-for-sale investments reserve for debt securities showed a deficit of HK$2,191 million compared with a deficit of HK$4,137 million at last year-end, reflecting the improvement and stabilisation in the global credit market and the disposal of high-risk assets under the bank's prudent risk management strategy. The group assessed that there were no impaired debt securities during the period, and accordingly, no impairment loss have been recognised.

The 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.

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

Capital resources management

Analysis of capital base and risk-weighted assets

Figures in HK$m	***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: deductible of 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
- Collective 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%

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'). On 30 June 2009, the capital adequacy ratio and core capital ratio were 16.6 per cent and 13.1 per cent, compared 12.5 per cent and 9.5 per cent at last year-end.
The strengthening of these ratios largely reflects profit growth after accounting for dividends in the first half of the year, the improvement in the available-for-sale debt securities reserve due to the narrowing of credit spreads and a change in calculation methodology.

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.

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.

Liquidity ratio

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%

Reconciliation of cash flow statement

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

Figures in HK$m	***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

Figures in HK$m	***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

Contingent liabilities, commitments and derivatives

Figures in HK$m	***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**
Other exchange rate contracts	**36,469**	**1,390**	**371**
	444,500	**7,023**	**968**

Interest rate contracts:			
Interest rate swaps	**219,022**	**3,121**	**402**
Other interest rate contracts	**142**	**1**	**_**
	219,164	**3,122**	**402**
Other derivative contracts	**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' were HK$16,748 million and HK$13,876 million respectively.

Figures in HK$m	***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
Other exchange rate contracts	80,674	1,777	870
	568,474	9,128	2,722
Interest rate contracts:			
Interest rate swaps	226,277	2,078	406
Other interest rate contracts	262	1	_
	226,539	2,079	406
Other derivative contracts	29,714	2,948	1,678

Figures in HK$m	***Contract amount***	***Credit equivalent amount***	***Risk-weighted amount***
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
Other exchange rate contracts	51,226	1,836	778
	551,392	9,200	2,650
Interest rate contracts:			
Interest rate swaps	248,758	4,144	1,117
Other interest rate contracts	142	1	_
	248,900	4,145	1,117
Other derivative contracts	15,705	1,141	343

The tables above give the nominal contract, credit equivalent and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. The nominal contract amounts, credit equivalent amounts, risk-weighted amounts and the consolidation basis for the periods indicated were calculated in accordance with the Banking (Capital) Rules issued by the HKMA, which came into effect on 1 January 2007.

For the above analysis, contingent liabilities and commitments are credit-related instruments that include acceptances and endorsements, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit origination, portfolio maintenance and collateral requirements as for customers applying for loans. As the facilities may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Derivative financial instruments are held for trading or designated as either fair value hedges or cash flow hedges. The following table shows the nominal contract amounts and marked-to-market value of assets and liabilities by class of derivatives.

	At 30 June 2009			At 30 June 2008			At 31 December 2008		
Figures in		**Designated at**			Designated at			Designated at	
HK$m	**Trading**	**fair value**	**Hedging**	Trading	fair value	Hedging	Trading	fair value	Hedging
Contract amounts:									