

HSBC HOLDINGS PLC
Form 6-K
July 30, 2012

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 July
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 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

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

30 July 2012

HANG SENG BANK LIMITED

2012 INTERIM RESULTS - HIGHLIGHTS

- Attributable profit up 14% to HK\$9,302m (HK\$8,160m for the first half of 2011).
- Profit before tax up 14% to HK\$10,659m (HK\$9,354m for the first half of 2011).
- Operating profit up 13% to HK\$8,034m (HK\$7,129m for the first half of 2011).
- Operating profit excluding loan impairment charges up 14% to HK\$8,283m (HK\$7,287m for the first half of 2011).
- Return on average shareholders' funds of 22.9% (22.8% for the first half of 2011).
- Earnings per share up 14.1% to HK\$4.87 per share (HK\$4.27 per share for the first half of 2011).
 - Second interim dividend of HK\$1.10 per share; total dividends of HK\$2.20 per share for the first half of 2012 (HK\$2.20 per share for the first half of 2011).
 - Capital adequacy ratio of 13.9% (14.3% at 31 December 2011); core capital ratio of 11.7% (11.6% at 31 December 2011).
 - Cost efficiency ratio of 33.0% (34.6% for the first half of 2011).

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

The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions of Hong Kong dollars respectively.

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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 ('the group') for the six months ended 30 June 2012.

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Comment by Raymond Ch'ien, Chairman

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

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

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

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

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

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

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

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

Economic Environment

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

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

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

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

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

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

Review by Rose Lee, Vice-Chairman and Chief Executive

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

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

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

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

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

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

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

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

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

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

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

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

Financial Performance

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

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

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

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

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

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

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

Total loan impairment allowances as a percentage of gross advances to customers was 0.33% as at 30 June 2012 – the same as a year earlier and a two basis point improvement on last year-end.

Our share of profits from associates rose by 32%, due mainly to the increase in contribution from our strategic mainland partner, Industrial Bank Co., Ltd. ('Industrial Bank'), on the back of strong loan and fee income growth.

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

Positioning For Future Growth

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

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

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

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

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

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

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

Results summary

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

Operating profit excluding loan impairment charges delivered an encouraging growth of HK\$996m, or 13.7%, to HK\$8,283m, driven by the increase in both net interest income and non-interest income partly offset by the rise in operating expenses. This result was achieved despite a challenging environment, including increased volatility in global markets amid the uncertainties arising from the eurozone debt crisis and the slowdown of economic growth.

Net interest income rose by HK\$649m, or 8.5%, when compared with the half-year ended 30 June 2011. Growth was driven by the increase in average interest earning assets, improved loan and deposit spreads, and increased returns from the life insurance investment funds portfolio. The increase in average interest earning assets in our Mainland banking subsidiary which earned relatively higher yield also supported the growth in net interest income. The net interest margin for the first half of 2012 was 1.85%, up ten basis points compared with the same period last year. Net interest spread rose by six basis points to 1.74% and the contribution from net free funds grew by four basis points to 0.11%. Compared with the second half of 2011, net interest income also registered an increase, supported by higher average interest earning assets and improved loan spread. Net interest margin also rose by five basis points to 1.85%.

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Net fees and commissions fell by HK\$128m, or 5.0%, to HK\$2,408m. Stockbroking and related services income fell by 33.3%, affected by the decline in equity market activities in the first half of 2012. Against this backdrop, income from sales of retail investment funds decreased by 10.2% as customers' investment sentiment weakened. Private banking service fee income fell by 31.6%. Fee income from our credit card business rose by 12.9% as card spending and transaction volumes increased. Income from credit facilities grew strongly by 84.8% as a result of the bank's effort to expand its corporate lending and earned higher fee income. Insurance agency fee income rose by 9.8%.

Trading income rose by HK\$239m, or 25.7%, to HK\$1,170m. Foreign exchange income grew by HK\$405m, or 51.4%, benefiting from robust customer transaction volumes, notably in fast growing renminbi foreign exchange-linked structured products in the first quarter of this year. Net interest income from funding swap activities increased although this was partly offset by the decrease in foreign exchange income. Income from securities, derivatives and other trading activities fell by HK\$166m, mainly impacted by lower income from the sale of equity-linked structured products and the adverse fair value movement on interest rate derivatives trading.

Income from insurance business (included under 'net interest income', 'net fee income', 'trading income', 'net income from financial instruments designated at fair value', 'net earned insurance premiums', 'movement in present value of in-force long-term insurance business' within 'other operating income', 'share of associate's profits' and after deducting 'net insurance claims incurred and movement in policyholders' liabilities') grew by HK\$626m, or 50.1%, to HK\$1,875m. The performance in the bank's insurance business improved strongly as a result of the bank's effort to grow the sales volumes and gain market share by diversifying products and expanding customer base. Net interest income and fee income from the life insurance business grew by 9.0% benefiting from higher life insurance sales volume and the increase in the size of the life insurance funds investment. Investment returns on life insurance funds improved when compared with the first half of 2011 as a result of positive movements in equity market and the upward commercial property market at end June 2012.

Operating expenses rose by HK\$189m, or 4.9%, compared with the first half of 2011. Excluding our mainland business, operating expenses rose by 2.9%, mainly due to higher wages and salaries as a result of the annual salary increment. There was also an increase in marketing expenditure and processing charges. Mainland-related operating expenses increased by 16.3%, reflecting new branches opened to support future growth. To achieve our long-term strategic goal of becoming a leading foreign bank on the Mainland offering professional and trustworthy services, the bank will continue to invest in Hang Seng China. The cost efficiency ratio improved when compared with the two halves of 2011 as the group continued to manage costs carefully, with revenue growing at a faster pace than operating expenses.

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

Profit before tax increased by 14.0% to HK\$10,659m after taking the following key items into account:

- A decrease of HK\$173m (or 42.1%) in net surplus on property revaluation; and
- An increase of HK\$582m (or 32.2%) in share of profits from associates, mainly from Industrial Bank. On 6 March 2012, Industrial Bank announced a proposal for the private placement of additional share capital which would dilute the bank's interest in Industrial Bank. As at 30 June 2012, the proposal is subject to regulatory approvals and, if it proceeds, will lead to a reassessment of the bank's current accounting treatment of the investment.

Consolidated balance sheet and key ratios

Total assets reached HK\$1,005.9bn, up HK\$30.2bn, or 3.1%, against last year end. Customer advances grew by HK\$24.3bn, or 5.1%, to HK\$504.9bn due to higher demand for corporate and commercial lending and mainland lending. Our residential mortgage business increased as the bank regained momentum in the first half of 2012 and

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positioned itself as a preferred mortgage bank. Customer deposits rose by HK\$28.6bn, or 3.8%, to HK\$771.8bn as the group proactively grew its customer deposits to support loan growth. At 30 June 2012, the advances-to-deposits ratio was 65.4%, broadly the same as last year end.

At 30 June 2012, shareholders' funds (excluding proposed dividends) were HK\$82,142m, an increase of HK\$6,141m, or 8.1%. Retained profits grew by HK\$5,104m, reflecting the growth in attributable profit after the appropriation of interim dividends. The premises revaluation reserve increased by HK\$531m, or 4.3%, against the backdrop of a stable property market during the first half of 2012.

The return on average total assets was 1.9%, compared with 1.7% and 1.8% for the first and second halves of 2011 respectively. The return on average shareholders' funds was 22.9%, compared with 22.8% in the first half of 2011 and 22.6% in the second half of 2011.

At 30 June 2012, the capital adequacy ratio was 13.9%, down 0.4 percentage points compared with 14.3% the end of 2011, reflecting the net effect of growth in capital and in risk-weighted assets. The core capital ratio was 11.7%, compared with 11.6% at last year-end.

The bank maintained a comfortable liquidity position. The average liquidity ratio for the first half of 2012 was 36.9% (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance) compared with 33.3% for the first half of 2011.

The cost efficiency ratio for the first half of 2012 was 33.0% compared with 34.6% and 35.3% for the first and second halves of 2011 respectively.

Dividends

The Directors have declared a second interim dividend of HK\$1.10 per share, which will be payable on 30 August 2012 to shareholders on the register of shareholders as of 15 August 2012. Together with the first interim dividend, the total distribution for the first half of 2012 will amount to HK\$2.20 per share, the same as in the first half of 2011.

Segmental analysis

| Figures in HK\$m | Hong Kong & other businesses | | | | | | | Total |
|----------------------------------|--------------------------------------|----------------------------------|----------|-------|-------|-------------------------|---------------------------|-------|
| | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | Mainland China business | Inter-segment elimination | |
| Half-year ended 30 June 2012 | | | | | | | | |
| Net interest income | 4,276 | 2,435 | 852 | (105) | 7,458 | 828 | — | 8,286 |
| Net fee income/(expense) | 1,545 | 770 | (15) | 59 | 2,359 | 49 | — | 2,408 |
| Trading income | 216 | 278 | 609 | 4 | 1,107 | 63 | — | 1,170 |
| Net income/(loss) from financial | | | | | | | | |

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|--|---------|---------|---------|--------|---------|---------|------|-----------|
| instruments designated at fair value | 106 | (4) | — | — | 102 | — | — | 102 |
| Dividend income | — | — | — | 4 | 4 | — | — | 4 |
| Net earned insurance premiums | 6,488 | 123 | — | — | 6,611 | — | — | 6,611 |
| Other operating income/(loss) | 683 | 12 | — | 113 | 808 | — | (24) | 784 |
| Total operating income | 13,314 | 3,614 | 1,446 | 75 | 18,449 | 940 | (24) | 19,365 |
| Net insurance claims incurred and movement in policyholders' liabilities | (6,931) | (74) | — | — | (7,005) | — | — | (7,005) |
| Net operating income before loan impairment charges | 6,383 | 3,540 | 1,446 | 75 | 11,444 | 940 | (24) | 12,360 |
| Loan impairment (charges)/releases | (189) | 33 | — | — | (156) | (93) | — | (249) |
| Net operating income | 6,194 | 3,573 | 1,446 | 75 | 11,288 | 847 | (24) | 12,111 |
| Operating expenses W | (2,327) | (846) | (133) | (147) | (3,453) | (648) | 24 | (4,077) |
| Impairment loss on intangible assets | — | — | — | — | — | — | — | — |
| Operating profit | 3,867 | 2,727 | 1,313 | (72) | 7,835 | 199 | — | 8,034 |
| Gains less losses from financial investments and fixed assets | — | — | — | 1 | 1 | (1) | — | — |
| Net surplus on property revaluation | — | — | — | 238 | 238 | — | — | 238 |
| Share of profits from associates | 119 | 1 | — | — | 120 | 2,267 | — | 2,387 |
| Profit before tax | 3,986 | 2,728 | 1,313 | 167 | 8,194 | 2,465 | — | 10,659 |
| Share of profit before tax as a % of Hong Kong & other businesses | 37.4% | 25.6% | 12.3% | 1.6% | 76.9% | 23.1% | — | 100.0% |
| Operating profit excluding loan impairment charges | 4,056 | 2,694 | 1,313 | (72) | 7,991 | 292 | — | 8,283 |
| WDepreciation/amortisation included in operating expenses | (24) | (13) | (2) | (347) | (386) | (56) | — | (442) |
| At 30 June 2012 | | | | | | | | |
| Total assets | 270,962 | 273,431 | 303,616 | 42,193 | 890,202 | 115,666 | — | 1,005,868 |
| Total liabilities | 579,005 | 193,794 | 41,060 | 34,536 | 848,395 | 73,228 | — | 921,623 |
| Interest in associates | 1,499 | 7 | — | — | 1,506 | 20,091 | — | 21,597 |

| Figures in HK\$m | Hong Kong & other businesses | | | | | | Mainland China business | Inter- segment elimination | Total (restated) |
|---|--|---|----------|-------|---------|-------|-------------------------------|----------------------------------|---------------------|
| | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | | | | |
| Half-year ended 30 June 2011 | | | | | | | | | |
| Net interest income | 3,904 | 2,176 | 970 | (32) | 7,018 | 619 | — | 7,637 | |
| Net fee income/(expense) | 1,777 | 655 | (11) | 57 | 2,478 | 58 | — | 2,536 | |
| Trading income/(loss) | 245 | 268 | 381 | (14) | 880 | 51 | — | 931 | |
| Net income/(loss) from financial instruments designated at fair value | 96 | (1) | — | 1 | 96 | — | — | 96 | |
| Dividend income | — | — | — | 6 | 6 | — | — | 6 | |
| Net earned insurance premiums | 6,068 | 122 | — | — | 6,190 | — | — | 6,190 | |
| Other operating income/(loss) | 704 | 14 | — | 110 | 828 | (2) | (24) | 802 | |
| Total operating income | 12,794 | 3,234 | 1,340 | 128 | 17,496 | 726 | (24) | 18,198 | |
| Net insurance claims incurred and movement in policyholders' liabilities | (6,875) | (70) | — | — | (6,945) | — | — | (6,945) | |
| Net operating income before loan impairment charges | 5,919 | 3,164 | 1,340 | 128 | 10,551 | 726 | (24) | 11,253 | |
| Loan impairment (charges)/ releases | (113) | (29) | 1 | — | (141) | (17) | — | (158) | |
| Net operating income | 5,806 | 3,135 | 1,341 | 128 | 10,410 | 709 | (24) | 11,095 | |
| Operating expenses W | (2,288) | (842) | (117) | (108) | (3,355) | (557) | 24 | (3,888) | |
| Impairment loss on intangible assets | (75) | (3) | — | — | (78) | — | — | (78) | |
| Operating profit | 3,443 | 2,290 | 1,224 | 20 | 6,977 | 152 | — | 7,129 | |
| Gains less losses from financial investments and fixed assets | — | — | 2 | 8 | 10 | (1) | — | 9 | |
| Net surplus on property revaluation | — | — | — | 421 | 421 | (10) | — | 411 | |
| | — | — | — | 236 | 236 | 1,569 | — | 1,805 | |

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| | | | | | | | | |
|---|---------|---------|---------|--------|---------|---------|---|---------|
| Share of profits from associates | | | | | | | | |
| Profit before tax | 3,443 | 2,290 | 1,226 | 685 | 7,644 | 1,710 | — | 9,354 |
| Share of profit before tax | 36.8% | 24.5% | 13.1% | 7.3% | 81.7% | 18.3% | — | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 45.0% | 30.0% | 16.0% | 9.0% | 100.0% | | | |
| Operating profit excluding loan impairment charges | 3,556 | 2,319 | 1,223 | 20 | 7,118 | 169 | — | 7,287 |
| WDepreciation/amortisation included in operating expenses | (64) | (14) | (2) | (276) | (356) | (49) | — | (405) |
| At 30 June 2011 | | | | | | | | |
| Total assets | 255,150 | 289,143 | 272,354 | 42,410 | 859,057 | 114,364 | — | 973,421 |
| Total liabilities | 559,513 | 178,200 | 57,798 | 33,987 | 829,498 | 69,471 | — | 898,969 |
| Interest in associates | — | — | — | 1,368 | 1,368 | 15,832 | — | 17,200 |

Hong Kong & other businesses

| Figures in HK\$m | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | Mainland China businesses | Inter-branch | Total (restated) |
|---|--------------------------------------|----------------------------------|----------|-------|-------|---------------------------|--------------|------------------|
| Half-year ended 31 December 2011 | | | | | | | | |
| Net interest income | 4,019 | 2,401 | 920 | (45) | 7,295 | 804 | — | 8,099 |
| Net fee income/(expense) | 1,508 | 666 | (10) | 82 | 2,246 | 54 | — | 2,300 |
| Trading income/(loss) | 77 | 243 | 497 | (5) | 812 | 53 | — | 865 |
| Net (loss)/income from financial instruments designated at fair value | (242) | 5 | (1) | (18) | (256) | — | — | (256) |
| Dividend income | — | 7 | — | 4 | 11 | — | — | 11 |
| | 4,752 | 119 | — | — | 4,871 | — | — | 4,871 |

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| | | | | | | | | |
|--|---------|-------|-------|-------|---------|-------|------|---------|
| Net earned insurance premiums | | | | | | | | |
| Other operating income/(loss) | 15 | 3 | — | 123 | 141 | (2) | (20) | 119 |
| Total operating income | 10,129 | 3,444 | 1,406 | 141 | 15,120 | 909 | (20) | 16,009 |
| Net insurance claims incurred and movement in policyholders' liabilities | (4,612) | (53) | — | — | (4,665) | — | — | (4,665) |
| Net operating income before loan impairment charges | 5,517 | 3,391 | 1,406 | 141 | 10,455 | 909 | (20) | 11,344 |
| Loan impairment (charges)/releases | (139) | (190) | — | — | (329) | 47 | — | (282) |
| Net operating income | 5,378 | 3,201 | 1,406 | 141 | 10,126 | 956 | (20) | 11,062 |
| Operating expenses W | (2,332) | (889) | (130) | (43) | (3,394) | (636) | 20 | (4,010) |
| Impairment loss on intangible assets | — | — | — | — | — | — | — | — |
| Operating profit | 3,046 | 2,312 | 1,276 | 98 | 6,732 | 320 | — | 7,052 |
| Gains less losses from financial investments and fixed assets | 20 | 14 | 10 | (3) | 41 | — | — | 41 |
| Net surplus on property revaluation | — | — | — | 571 | 571 | 10 | — | 581 |
| Share of profits from associates | — | — | — | 82 | 82 | 2,145 | — | 2,227 |
| Profit before tax | 3,066 | 2,326 | 1,286 | 748 | 7,426 | 2,475 | — | 9,901 |
| Share of profit before tax as a % | 31.0% | 23.5% | 13.0% | 7.5% | 75.0% | 25.0% | — | 100.0% |
| of Hong Kong & other businesses | 41.3% | 31.3% | 17.3% | 10.1% | 100.0% | | | |
| Operating profit excluding loan impairment charges | 3,185 | 2,502 | 1,276 | 98 | 7,061 | 273 | — | 7,334 |
| WDepreciation/amortisation included in operating expenses | (61) | (15) | (3) | (280) | (359) | (55) | — | (414) |

At 31 December 2011

| | | | | | | | | |
|------------------------|---------|---------|---------|--------|---------|---------|---|---------|
| Total assets | 259,484 | 255,762 | 302,763 | 39,066 | 857,075 | 118,590 | — | 975,665 |
| Total liabilities | 566,563 | 175,040 | 49,242 | 32,157 | 823,002 | 73,029 | — | 896,031 |
| Interest in associates | — | — | — | 1,418 | 1,418 | 18,209 | — | 19,627 |

Hong Kong and other businesses segment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mainland China business

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

In the first half of 2012, concerns over slower domestic economic growth, weakened external and internal demand and increased uncertainties in international financial markets triggered a series of monetary easing policies from the

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Central Government on the Mainland. Deposit reserve ratios were reduced by 50 basis points each in February and May 2012 respectively. For the first time since December 2008, the People's Bank of China cut base interest rates by 25 basis points on 8 June 2012, followed by a further cut on 6 July 2012. At the same time, the adjustment ranges of interest rates for both loans and deposits were widened.

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

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

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

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

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

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

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

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

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

Consolidated Income Statement (unaudited)

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

| | | | |
|------------------------------|------|------|------|
| Earnings per share (in HK\$) | 4.87 | 4.27 | 4.56 |
|------------------------------|------|------|------|

Details of dividends payable to shareholders of the bank attributable to the profit for the half year are set out on page 35.

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 Bank, as included within the HSBC Group accounts:

| Figures in HK\$m | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|--|------------------------------------|------------------------------------|--|
| Interest income | 10,602 | 9,159 | 10,376 |
| Interest expense | (1,684) | (1,254) | (1,756) |
| Net interest income | 8,918 | 7,905 | 8,620 |
| Net interest income and expense reported as 'Net trading income' | (656) | (300) | (548) |
| Net interest income and expense reported as 'Net income from financial instruments designated at fair value' | 24 | 32 | 27 |

Consolidated Statement of Comprehensive Income (unaudited)

| Figures in HK\$m | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 (restated) | Half-year ended 31 December 2011 (restated) |
|---|------------------------------------|--|--|
| Profit for the period | 9,302 | 8,160 | 8,725 |
| Other comprehensive income | | | |
| Premises: | | | |
| - unrealised surplus on revaluation of premises | 839 | 1,720 | 2,009 |
| - deferred taxes | (128) | (284) | (326) |
| - exchange difference | (1) | 1 | 2 |
| Available-for-sale investments reserve: | | | |
| - fair value changes taken to equity: | | | |
| -- on debt securities | 326 | 342 | (87) |

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| | | | |
|--|--------|-------|---------|
| -- on equity shares | 54 | 16 | (8) |
| - fair value changes transferred to income statement: | | | |
| -- on hedged items | (62) | (173) | (365) |
| -- on disposal | (1) | (10) | (43) |
| - share of changes in equity of associates: | | | |
| -- fair value changes | 471 | (411) | (235) |
| - deferred taxes | (156) | 95 | 126 |
| - exchange difference | — | (14) | 9 |
| Cash flow hedging reserve: | | | |
| - fair value changes taken to equity | 33 | 119 | — |
| - fair value changes transferred to income statement | (30) | (119) | (78) |
| - deferred taxes | — | — | 13 |
| - exchange difference | — | — | (1) |
| Defined benefit plans: | | | |
| - actuarial losses on defined benefit plans | (196) | (483) | (1,117) |
| - deferred taxes | 32 | 80 | 184 |
| Share-based payments | (7) | 9 | — |
| Exchange differences on translation of: | | | |
| - financial statements of overseas branches, subsidiaries and associates | (136) | 435 | 539 |
| - exchange difference on retained profits | 1 | — | (1) |
| Others | (25) | — | — |
| Other comprehensive income for the period, net of tax | 1,014 | 1,323 | 621 |
| Total comprehensive income for the period | 10,316 | 9,483 | 9,346 |
| Total comprehensive income for the period attributable to shareholders | 10,316 | 9,483 | 9,346 |

Consolidated Balance Sheet (unaudited)

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 (restated) | At 31 December 2011 (restated) |
|-------------------------------------|--------------------|----------------------------------|--------------------------------------|
| ASSETS | | | |
| Cash and balances with banks | 18,272 | 42,644 | 39,533 |
| Placings with and advances to banks | 137,948 | 114,507 | 107,742 |

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| | | | |
|---|-----------|---------|---------|
| Trading assets | 41,037 | 27,621 | 64,171 |
| Financial assets designated at fair value | 7,708 | 8,006 | 8,096 |
| Derivative financial instruments | 4,063 | 5,678 | 4,710 |
| Advances to customers | 504,902 | 503,645 | 480,574 |
| Financial investments | 224,385 | 210,456 | 209,190 |
| Interest in associates | 21,597 | 17,200 | 19,627 |
| Investment properties | 4,583 | 3,660 | 4,314 |
| Premises, plant and equipment | 18,250 | 16,065 | 17,983 |
| Intangible assets | 6,603 | 5,966 | 5,962 |
| Other assets | 16,520 | 17,973 | 13,763 |
| Total assets | 1,005,868 | 973,421 | 975,665 |

LIABILITIES AND EQUITY

Liabilities

| | | | |
|--|---------|---------|---------|
| Current, savings and other deposit accounts | 720,397 | 703,321 | 699,857 |
| Deposits from banks | 11,284 | 19,452 | 14,004 |
| Trading liabilities | 57,364 | 59,425 | 59,712 |
| Financial liabilities designated at fair value | 443 | 456 | 434 |
| Derivative financial instruments | 4,759 | 4,877 | 4,848 |
| Certificates of deposit and other debt securities in issue | 12,662 | 8,146 | 9,284 |
| Other liabilities | 20,469 | 17,925 | 20,138 |
| Liabilities to customers under insurance contracts | 77,347 | 69,081 | 72,225 |
| Current tax liabilities | 1,420 | 1,329 | 305 |
| Deferred tax liabilities | 3,651 | 3,092 | 3,378 |
| Subordinated liabilities | 11,827 | 11,865 | 11,846 |
| Total liabilities | 921,623 | 898,969 | 896,031 |

Equity

| | | | |
|------------------------------|-----------|---------|---------|
| Share capital | 9,559 | 9,559 | 9,559 |
| Retained profits | 54,623 | 47,328 | 49,519 |
| Other reserves | 17,960 | 15,462 | 16,923 |
| Proposed dividends | 2,103 | 2,103 | 3,633 |
| Shareholders' funds | 84,245 | 74,452 | 79,634 |
| Total equity and liabilities | 1,005,868 | 973,421 | 975,665 |

Consolidated Statement of Changes in Equity (unaudited)

| | | | |
|--|------------------|-----------------|------------|
| | Half –year ended | Half-year ended | Half– year |
| | 30 June | 30 June | ended |

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| Figures in HK\$m | 2012 | 2011 (restated) | 31 December 2011 (restated) |
|--|---------|--------------------|-----------------------------------|
| Share capital | | | |
| At beginning and end of period | 9,559 | 9,559 | 9,559 |
| Retained profits (including proposed dividends) | | | |
| At beginning of period | 53,152 | 47,273 | 49,431 |
| Dividends to shareholders | | | |
| - dividends approved in respect of the previous year | (3,633) | (3,633) | — |
| - dividends declared in respect of the current period | (2,103) | (2,103) | (4,206) |
| Transfer | 178 | 128 | 136 |
| Total comprehensive income for the period | 9,132 | 7,766 | 7,791 |
| | 56,726 | 49,431 | 53,152 |
| Other reserves | | | |
| Premises revaluation reserve | | | |
| At beginning of period | 12,280 | 9,426 | 10,732 |
| Transfer | (179) | (131) | (137) |
| Total comprehensive income for the period | 710 | 1,437 | 1,685 |
| | 12,811 | 10,732 | 12,280 |
| Available-for-sale investment reserve | | | |
| At beginning of period | (561) | 202 | 43 |
| Transfer | | (4) | (1) |
| Total comprehensive income for the period | 632 | (155) | (603) |
| | 71 | 43 | (561) |
| Cash flow hedging reserve | | | |
| At beginning of period | 6 | 72 | 72 |
| Total comprehensive income for the period | 3 | | (66) |
| | 9 | 72 | 6 |
| Foreign exchange reserve | | | |
| At beginning of period | 3,043 | 2,069 | 2,504 |
| Total comprehensive income for the period | (136) | 435 | 539 |
| | 2,907 | 2,504 | 3,043 |

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| Figures in HK\$m | Half– year ended 30 June 2012 | Half-year ended 30 June 2011 | Half– year ended 31 December 2011 |
|--|-------------------------------------|------------------------------------|---|
| Other reserves | | | |
| At beginning of period | 2,155 | 2,085 | 2,111 |
| Cost of share-based payment arrangements | | 31 | 19 |
| Transfer | | 1 | 7 |
| Total comprehensive income for the period | (25 2,162 |) — 2,111 | — 2,155 |
| Total equity | | | |
| At beginning of period | 79,634 | 70,686 | 74,452 |
| Dividends to shareholders | (5,736 |) (5,736 |) (4,206 |
| Cost of share-based payment arrangements | 31 | 19 | 42 |
| Total comprehensive income for the period | 10,316 84,245 | 9,483 74,452 | 9,346 79,634 |

Consolidated Cash Flow Statement (unaudited)

| Figures in HK\$m | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 |
|---|------------------------------------|------------------------------------|
| Net cash inflow/(outflow) from operating activities | 3,078 | (8,739) |
| Cash flows from investing activities | | |
| Dividends received from associates | 660 | 456 |
| Purchase of an interest in an associate | (18) | — |
| Purchase of available-for-sale investments | (20,545) | (28,293) |
| Purchase of held-to-maturity debt securities | (502) | (205) |
| Proceeds from sale or redemption of available-for-sale investments | 40,153 | 34,732 |
| Proceeds from redemption of held-to-maturity debt securities | 305 | 234 |
| Proceeds from sale of loan portfolio | — | 4,670 |

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| | | |
|---|-----------|-----------|
| Purchase of fixed assets and intangible assets | (1780)) | (192) |
| Proceeds from sale of fixed assets and assets held for sale | 26 | 1 |
| Interest received from available-for-sale investments | 1,272 | 893 |
| Dividends received from available-for-sale investments | 4 | 3 |
| Net cash inflow from investing activities | 21,177 | 12,299 |
| Cash flows from financing activities | | |
| Dividends paid | (5,736) | (5,736) |
| Interest paid for subordinated liabilities | (126) | (82) |
| Net cash outflow from financing activities | (5,862))) | (5,818))) |
| Increase/(decrease) in cash and cash equivalents | 18,393 | (2,258) |
| Cash and cash equivalents at 1 January | 120,469 | 118,560 |
| Effect of foreign exchange rate changes | (784) | 1,868 |
| Cash and cash equivalents at 30 June | 138,078 | 118,170 |

Financial Review

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

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

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

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

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

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading as 'Net trading income', while that arising from financial instruments designated at fair value through profit and loss is reported as 'Net income from financial instruments designated at fair value' (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

The table below presents the net interest income of Hang Seng, as included in the HSBC Group accounts:

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

Net fee income

| | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|-------------------------------------|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| - Stockbroking and related services | 464 | 696 | 589 |
| - Retail investment funds | 495 | 551 | 354 |
| - Structured investment products | 4 | 8 | 5 |
| - Insurance agency | 135 | 123 | 119 |
| - Account services | 177 | 181 | 190 |
| - Private banking service fee | 54 | 79 | 50 |
| - Remittances | 144 | 132 | 141 |
| - Cards | 894 | 792 | 884 |
| - Credit facilities | 194 | 105 | 148 |
| - Trade services | 245 | 249 | 212 |

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| | | | |
|-------------|--------|--------|---------|
| - Other | 171 | 126 | 189 |
| Fee income | 2,977 | 3,042 | 2,881 |
| Fee expense | (569)) | (506)) | (581)) |
| | 2,408 | 2,536 | 2,300 |

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

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

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

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

Trading income

| | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Trading income: | | | |
| - foreign exchange | 1,193 | 788 | 1,055 |
| - securities, derivatives and other trading activities | (23) | 143 | (190)) |
| | 1,170 | 931 | 865 |

Trading income grew by HK\$239m, or 25.7%, to HK\$1,170m compared with the first half of 2011. Foreign exchange income increased by HK\$405m, or 51.4%, to HK\$1,193m driven by higher customer demand for foreign exchange-linked structured products, notably in renminbi foreign exchange-linked structured products in the first quarter of this year. Net interest income from funding swapsW activities recorded a net income for the first half of 2012 compared with a net expense for the same period last year.

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

W Treasury from time to time employs foreign exchange swaps for its funding activities, which in essence involve swapping a currency ('original currency') into another currency ('swap currency') at the spot exchange rate for short-term placement and simultaneously entering into a forward exchange contract to convert the funds back to the original currency on maturity of the placement. In accordance with HKAS 39, the exchange difference of the spot and forward contracts is required to be recognised as a foreign exchange gain/loss, while the corresponding interest differential between the original and swap funding is reflected in net interest income.

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

| | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Net income/(loss) on assets designated at fair value which back insurance and investment contracts | 102 | 96 | (256) |

Net income from financial instruments designated at fair value increased by HK\$6m, or 6.3%, reflecting the fair value changes of assets supporting linked insurance contracts with offsetting movements in the value of those contracts reported under 'net insurance claims incurred and movement in policyholders' liabilities'.

Other operating income

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

Other operating income was HK\$784m, a fall of 2.2% compared with the first half of 2011. The movement in present value of in-force long-term insurance business ('PVIF') was broadly the same as the comparable period. PVIF rose as a result of the higher new business written in the first half of 2012 and favourable market conditions updates impacting the costs of options and guarantees. Compared with the second half of 2011, other operating income rose strongly, driven by higher PVIF movement, being the combined effect in 2011 of the revised assumptions mainly reflecting the low interest rate environment and the change in lapse rate, as well as higher life insurance sales and favourable market conditions updates in the first half of 2012.

Analysis of income from wealth management business

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

W Income from structured investment products includes income reported under net fee income on the sales of structured investment products issued by other providers. It also includes profit generated from the selling of structured investment products in issue, reported under trading income.

WW Income from private banking includes income reported under net fee income on investment services and profit generated from selling of structured investment products in issue, reported under trading income.

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

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

| Figures in HK\$m | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|------------------|------------------------------------|------------------------------------|--|
|------------------|------------------------------------|------------------------------------|--|

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| | | | |
|---|---------|---------|---------|
| Life insurance: | | | |
| - net interest income and fee income | 1,381 | 1,267 | 1,309 |
| - investment returns on life insurance funds/ share of associate's profit | 210 | 35 | (396) |
| - net earned insurance premiums | 6,446 | 6,022 | 4,701 |
| - net insurance claims incurred and movement in policyholders' liabilities ^W | (6,954) | (6,899) | (4,616) |
| - movement in present value of in-force long-term insurance business | 614 | 639 | (44) |
| | 1,697 | 1,064 | 954 |
| General insurance and others | 178 | 185 | 179 |
| Total | 1,875 | 1,249 | 1,133 |
| W Including premium and investment reserves | | | |

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

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

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

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

Loan impairment charges

| Figures in HK\$m | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|--------------------------|------------------------------------|------------------------------------|--|
| Loan impairment charges: | | | |
| - individually assessed | (128) | (18) | (85)) |

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| | | | |
|-------------------------|-------|--------|--------|
| - collectively assessed | (121) | (140) | (197)) |
| | (249) | (158) | (282)) |
| Of which: | | | |
| - new and additional | (467) | (396) | (490)) |
| - releases | 189 | 204 | 164 |
| - recoveries | 29 | 34 | 44 |
| | (249) | (158) | (282)) |

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

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

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

Operating expenses

| Figures in HK\$m | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|---|------------------------------------|------------------------------------|--|
| Employee compensation and benefits: | | | |
| - salaries and other costs | 1,871 | 1,742 | 1,824 |
| - retirement benefit costs | 168 | 159 | 163 |
| | 2,039 | 1,901 | 1,987 |
| General and administrative expenses: | | | |
| - rental expenses | 275 | 245 | 252 |
| - other premises and equipment | 449 | 458 | 501 |
| - marketing and advertising expenses | 272 | 266 | 293 |
| - other operating expenses | 600 | 613 | 563 |
| | 1,596 | 1,582 | 1,609 |
| Depreciation of premises, plant and equipment | 381 | 347 | 353 |
| Amortisation of intangible assets | 61 | 58 | 61 |
| | 4,077 | 3,888 | 4,010 |
| Cost efficiency ratio | 33.0% | 34.6% | 35.3% |
| Full-time equivalent staff numbers by region | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
| Hong Kong | 7,800 | 8,145 | 7,993 |

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| | | | |
|----------|-------|-------|-------|
| Mainland | 1,791 | 1,662 | 1,784 |
| Others | 57 | 58 | 57 |
| Total | 9,648 | 9,865 | 9,834 |

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

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

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

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

Gains less losses from financial investments and fixed assets

| | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|--|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Net gains from disposal of available-for-sale equity securities | 1 | 8 | 34 |
| Net gains from disposal of available-for-sale debt securities | — | 2 | 9 |
| Impairment of available-for-sale equity securities | — | — | — |
| Losses on disposal of fixed assets | (1) | (1) | (2) |
| | — | 9 | 41 |

Tax expense

Taxation in the consolidated income statement represents:

| | Half-year ended 30 June 2012 | Half-year ended 30 June 2011 (restated) | Half-year ended 31 December 2011 (restated) |
|------------------|------------------------------------|--|--|
| Figures in HK\$m | | | |

Current tax – provision for
Hong Kong profits tax

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| | | | |
|---|-------|-------|-------|
| Tax for the period | 1,104 | 995 | 947 |
| Adjustment in respect of prior periods | 18 | — | (14) |
| Current tax – taxation outside Hong Kong | | | |
| Tax for the period | 92 | 57 | 19 |
| Deferred tax | | | |
| Origination and reversal of temporary differences | 143 | 142 | 224 |
| Total tax expense | 1,357 | 1,194 | 1,176 |

The current tax provision is based on the estimated assessable profit for the first half of 2012, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2011). 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 2012 is based on earnings of HK\$9,302m (HK\$8,160m and HK\$8,725m for the first and second halves of 2011 respectively) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first and second halves of 2011).

Dividends per share

| | Half-year ended 30 June 2012 | | Half-year ended 30 June 2011 | | Half-year ended 31 December 2011 | |
|----------------|------------------------------------|-------|------------------------------------|-------|--|-------|
| | HK\$ per share | HK\$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 | — | — | — | — | 1.90 | 3,633 |
| | 2.20 | 4,206 | 2.20 | 4,206 | 3.00 | 5,736 |

Segmental analysis

HKFRS8 requires segmental disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purpose of assessing segment performance and making decisions about operating matters. To align with the information reported internally to the group's most senior executive management for the purposes of resources allocation and performance assessment, the group has presented the following five reportable segments which has resulted in additional reportable segments being identified, merged and presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

Hong Kong and other businesses segment

- Retail Banking and Wealth Management activities offer a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance and wealth management;
- Corporate and Commercial Banking activities include the provision of financial services, payments and cash management, international trade finance, insurance, wealth management and tailored financial solutions to corporate and commercial customers;
- Treasury activities are mainly the provision of treasury operation services in credit, rates, foreign exchange, money markets and securities services. Treasury also manages the funding and liquidity positions of the group and other market risk positions arising from banking activities;
- Other mainly represents management of shareholders' funds and investments in premises, investment properties, equity shares and subordinated debt funding;

Mainland China business segment

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

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

(a) Segmental result

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

Profit before tax contributed by the business segments for the periods stated is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 12.

Hong Kong & other businesses

| Figures in HK\$m | Corporate | | Treasury | Other | Total | Mainland China business | Total (restated) |
|------------------|--|-----------------------|----------|-------|-------|-------------------------------|---------------------|
| | Retail Banking and Wealth Management | Commercial Banking | | | | | |
| | | | | | | | |

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Half-year ended
30 June 2012

| | | | | | | | |
|---|-------|-------|-------|------|--------|-------|--------|
| Profit before tax | 3,986 | 2,728 | 1,313 | 167 | 8,194 | 2,465 | 10,659 |
| Share of profit before tax | 37.4% | 25.6% | 12.3% | 1.6% | 76.9% | 23.1% | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 48.7% | 33.3% | 16.0% | 2.0% | 100.0% | | |

Half-year ended
30 June 2011

| | | | | | | | |
|---|-------|-------|-------|------|--------|-------|--------|
| Profit before tax | 3,443 | 2,290 | 1,226 | 685 | 7,644 | 1,710 | 9,354 |
| Share of profit before tax | 36.8% | 24.5% | 13.1% | 7.3% | 81.7% | 18.3% | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 45.0% | 30.0% | 16.0% | 9.0% | 100.0% | | |

Half-year ended
31 December 2011

| | | | | | | | |
|---|-------|-------|-------|-------|--------|-------|--------|
| Profit before tax | 3,066 | 2,326 | 1,286 | 748 | 7,426 | 2,475 | 9,901 |
| Share of profit before tax | 31.0% | 23.5% | 13.0% | 7.5% | 75.0% | 25.0% | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 41.3% | 31.3% | 17.3% | 10.1% | 100.0% | | |

(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 | Mainland | Americas | Others | Total |
|------------------------------|-----------|----------|----------|--------|--------|
| Half-year ended 30 June 2012 | | | | | |
| Income and expense | | | | | |
| Total operating income | 17,758 | 940 | 595 | 72 | 19,365 |
| Profit before tax | 7,566 | 2,465 | 579 | 49 | 10,659 |

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At 30 June 2012

| | | | | | |
|---------------------------------|---------|---------|--------|--------|-----------|
| Total assets | 819,998 | 115,666 | 60,094 | 10,110 | 1,005,868 |
| Total liabilities | 842,760 | 73,228 | 1,683 | 3,952 | 921,623 |
| Interest in associates | 1,506 | 20,091 | — | — | 21,597 |
| Non-current assets ^W | 28,384 | 1,051 | — | 1 | 29,436 |

Half-year ended 30 June 2011
(restated)

| | | | | | |
|------------------------|--------|-------|-----|----|--------|
| Income and expense | | | | | |
| Total operating income | 16,757 | 726 | 656 | 59 | 18,198 |
| Profit before tax | 6,962 | 1,710 | 641 | 41 | 9,354 |

At 30 June 2011 (restated)

| | | | | | |
|---------------------------------|---------|---------|--------|-------|---------|
| Total assets | 786,024 | 114,364 | 64,145 | 8,888 | 973,421 |
| Total liabilities | 823,058 | 69,471 | 1,860 | 4,580 | 898,969 |
| Interest in associates | 1,368 | 15,832 | — | — | 17,200 |
| Non-current assets ^W | 24,721 | 969 | — | 1 | 25,691 |

Half-year ended 31 December 2011 (restated)

| | | | | | |
|------------------------|--------|-------|-----|----|--------|
| Income and expense | | | | | |
| Total operating income | 14,349 | 909 | 683 | 68 | 16,009 |
| Profit before tax | 6,709 | 2,475 | 666 | 51 | 9,901 |

At 31 December 2011 (restated)

| | | | | | |
|---------------------------------|---------|---------|--------|-------|---------|
| Total assets | 790,208 | 118,590 | 58,506 | 8,361 | 975,665 |
| Total liabilities | 818,307 | 73,029 | 1,085 | 3,610 | 896,031 |
| Interest in associates | 1,418 | 18,209 | — | — | 19,627 |
| Non-current assets ^W | 27,258 | 1,000 | — | 1 | 28,259 |

^W Non-current assets consist of properties, plant and equipment, goodwill and other intangible assets.

Cash and balances with banks

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

Placings with and advances to banks

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|---|--------------------|--------------------|------------------------|
| Placings with and advances to banks maturing within one month | 63,727 | 74,083 | 56,787 |
| Placings with and advances to banks maturing after one month but less than one year | 72,558 | 38,829 | 49,326 |
| Placings with and advances to banks maturing after one year | 1,663 | 1,595 | 1,629 |
| | 137,948 | 114,507 | 107,742 |

Trading assets

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|--------------------------|--------------------|--------------------|------------------------|
| Treasury bills | 33,972 | 20,143 | 54,220 |
| Certificates of deposit | 430 | 435 | 432 |
| Other debt securities | 5,815 | 6,679 | 9,006 |
| Debt securities | 40,217 | 27,257 | 63,658 |
| Equity shares | 22 | 15 | 7 |
| Total trading securities | 40,239 | 27,272 | 63,665 |
| OtherW | 798 | 349 | 506 |
| Total trading assets | 41,037 | 27,621 | 64,171 |

Debt securities:

| | | | |
|----------------------------|--------|--------|--------|
| - listed in Hong Kong | 3,330 | 4,099 | 4,550 |
| - listed outside Hong Kong | 262 | 107 | 717 |
| | 3,592 | 4,206 | 5,267 |
| - unlisted | 36,625 | 23,051 | 58,391 |
| | 40,217 | 27,257 | 63,658 |

Equity shares:

| | | | |
|-----------------------|----|----|---|
| - listed in Hong Kong | 22 | 15 | 7 |
|-----------------------|----|----|---|

| | | | |
|--------------------------|--------|--------|--------|
| Total trading securities | 40,239 | 27,272 | 63,665 |
|--------------------------|--------|--------|--------|

Debt securities:

Issued by public bodies:

| | | | |
|---|--------|--------|--------|
| - central governments and central banks | 38,016 | 24,554 | 60,800 |
| - other public sector entities | 81 | 99 | 82 |
| | 38,097 | 24,653 | 60,882 |

Issued by other bodies:

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| | | | |
|------------------------------|--------|--------|--------|
| - banks | 909 | 1,003 | 963 |
| - corporate entities | 1,211 | 1,601 | 1,813 |
| | 2,120 | 2,604 | 2,776 |
| | 40,217 | 27,257 | 63,658 |
| Equity shares: | | | |
| Issued by corporate entities | 22 | 15 | 7 |
| Total trading securities | 40,239 | 27,272 | 63,665 |

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

Trading assets decreased by HK\$23.1bn, or 36.1%, compared with the end of 2011. The bank redeployed surplus funds arising from the maturity of trading assets into interbank placements and advances to customers in order to achieve yield enhancement while prudently managing risk. The trading securities currently held by the bank are mostly Hong Kong Exchange Fund bills with short tenors.

Financial assets designated at fair value

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|----------------------------|--------------------|--------------------|------------------------|
| Certificates of deposit | 1 | 1 | 1 |
| Other debt securities | 3,831 | 4,104 | 3,998 |
| Debt securities | 3,832 | 4,105 | 3,999 |
| Equity shares | 1,356 | 559 | 473 |
| Investment funds | 2,520 | 3,342 | 3,624 |
| | 7,708 | 8,006 | 8,096 |
| Debt securities: | | | |
| - listed in Hong Kong | 15 | 11 | 15 |
| - listed outside Hong Kong | 44 | 181 | 182 |
| | 59 | 192 | 197 |
| - unlisted | 3,773 | 3,913 | 3,802 |
| | 3,832 | 4,105 | 3,999 |
| Equity shares: | | | |
| - listed in Hong Kong | 1,356 | 559 | 473 |
| Investment funds: | | | |
| - listed in Hong Kong | 24 | 23 | 23 |
| - listed outside Hong Kong | 476 | 80 | 150 |
| | 500 | 103 | 173 |
| - unlisted | 2,020 | 3,239 | 3,451 |
| | 2,520 | 3,342 | 3,624 |
| | 7,708 | 8,006 | 8,096 |

Debt securities:
Issued by public bodies:

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| | | | |
|---|-------|-------|-------|
| - central governments and central banks | — | 145 | 140 |
| - other public sector entities | 4 | 54 | 53 |
| | 4 | 199 | 193 |
| Issued by other bodies: | | | |
| - banks | 3,745 | 3,831 | 3,725 |
| - corporate entities | 83 | 75 | 81 |
| | 3,828 | 3,906 | 3,806 |
| | 3,832 | 4,105 | 3,999 |
| Equity shares: | | | |
| Issued by banks | 265 | 66 | 109 |
| Issued by public sector entities | — | 15 | 5 |
| Issued by corporate entities | 1,091 | 478 | 359 |
| | 1,356 | 559 | 473 |
| Investment funds: | | | |
| Issued by banks | 341 | 2,094 | 1,869 |
| Issued by corporate entities | 2,179 | 1,248 | 1,755 |
| | 2,520 | 3,342 | 3,624 |
| | 7,708 | 8,006 | 8,096 |

Advances to customers

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

Loan impairment allowances against advances to customers

| Figures in HK\$m | Individually assessed | Collectively assessed | Total |
|--------------------------------|--------------------------|--------------------------|-------|
| At 1 January 2012 | 896 | 771 | 1,667 |
| Amounts written off | (58) | (199) | (257) |
| Recoveries of advances | | | |
| written off in previous years | 4 | 25 | 29 |
| New impairment allowances | | | |
| charged to income statement | 213 | 254 | 467 |
| Impairment allowances released | | | |
| to income statement | (85) | (133) | (218) |

| | | | |
|---|-----|-----|-------|
| Unwinding of discount of loan impairment allowances recognised as 'interest income' | (3) | (2) | (5) |
| Exchange | (1) | (1) | (2) |
| At 30 June 2012 | 966 | 715 | 1,681 |

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

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

Total loan impairment allowances as a percentage of gross advances to customers were 0.33% at 30 June 2012 compared with 0.35% at the end of 2011. Individually assessed allowances as a percentage of gross advances were at the same level as last year end at 0.19%. Collectively assessed allowances as a percentage of gross advances fell by two basis points to 0.14%, reflecting improved credit quality and the bank's credit risk management control.

Impaired advances and allowances

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|---|--------------------|--------------------|------------------------|
| Gross impaired advances | 1,691 | 1,639 | 1,584 |
| Individually assessed allowances | (966) | (979) | (896) |
| | 725 | 660 | 688 |
| Individually assessed allowances as a percentage of gross impaired advances | 57.1% | 59.7% | 56.6% |
| Gross impaired advances as a percentage of gross advances to customers | 0.33% | 0.32% | 0.33% |

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

Gross impaired advances rose by HK\$107m, or 6.8%, to HK\$1,691m compared with the year-end of 2011, due to the downgrade of a few corporate and commercial banking customers. Gross impaired advances as a percentage of gross

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advances to customers stood at 0.33%, the same as the year-end of 2011.

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

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance has been included.

Overdue advances

Advances to customers that are more than three months overdue and their expression as a percentage of gross advances to customers are as follows:

| | At 30 June 2012 | | At 30 June 2011 | | At 31 December 2011 | |
|--|--------------------|-----|--------------------|-----|------------------------|-----|
| | 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 | 200 | — | 120 | — | 228 | — |
| - more than six months but not more than one year | 252 | 0.1 | 131 | — | 72 | — |
| - more than one year | 700 | 0.1 | 871 | 0.2 | 756 | 0.2 |

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1,152 0.2 1,122 0.2 1,056 0.2

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at the period-end. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice or when the advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Overdue advances increased by HK\$96m, or 9.1%, to HK\$1,152m compared with the last year-end. Overdue advances as a percentage of gross advances to customers stood at 0.2%.

Rescheduled advances

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

| | At 30 June 2012 | | At 30 June 2011 | | At 31 December 2011 | |
|--------------------------------------|--------------------|---|--------------------|---|------------------------|---|
| | HK\$m | % | HK\$m | % | HK\$m | % |
| Rescheduled advances to customers | 161 | — | 169 | — | 180 | — |

Rescheduled advances are those advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status. 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.

Rescheduled advances stood at HK\$161m at 30 June 2012, a fall of HK\$19m, or 10.6% compared with last year end, representing 0.03% 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.

Figures in HK\$m

| | Gross advances to customers | At 30 June 2012 | | | |
|----------------------|--------------------------------|--|-------------------------------------|--|--|
| | | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong | 428,752 | 1,292 | 973 | 752 | 560 |
| Rest of Asia-Pacific | 70,255 | 252 | 133 | 211 | 138 |
| Others | 7,576 | 24 | 46 | 3 | 17 |
| | 506,583 | 1,568 | 1,152 | 966 | 715 |

Figures in HK\$m

At 30 June 2011

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| | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
| Hong Kong | 405,258 | 1,264 | 969 | 830 | 530 |
| Rest of Asia-Pacific | 93,807 | 273 | 151 | 142 | 177 |
| Others | 6,281 | 12 | 2 | 7 | 15 |
| | 505,346 | 1,549 | 1,122 | 979 | 722 |

Figures in HK\$m

At 31 December 2011

| | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
| Hong Kong | 404,889 | 1,315 | 929 | 779 | 603 |
| Rest of Asia-Pacific | 70,099 | 158 | 127 | 115 | 150 |
| Others | 7,253 | 20 | - | 2 | 18 |
| | 482,241 | 1,493 | 1,056 | 896 | 771 |

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 Hong Kong Monetary Authority ('HKMA') is as follows:

| | At 30 June 2012 | At 30 June 2011 (restated) | At 31 December 2011 (restated) |
|--|-----------------|----------------------------|--------------------------------|
| Figures in HK\$m | | | |
| Gross advances to customers for use in Hong Kong | | | |
| Industrial, commercial and financial sectors | | | |
| Property development | 27,927 | 30,626 | 27,090 |
| Property investment | 103,178 | 104,058 | 102,144 |
| Financial concerns | 3,944 | 3,347 | 2,648 |
| Stockbrokers | 227 | 180 | 1,227 |
| Wholesale and retail trade | 15,952 | 13,129 | 11,511 |
| Manufacturing | 13,792 | 13,377 | 13,573 |
| Transport and transport equipment | 6,082 | 6,889 | 6,309 |
| Recreational activities | 233 | 829 | 62 |
| Information technology | 1,680 | 1,851 | 899 |
| Other | 23,102 | 22,022 | 21,859 |
| | 196,117 | 196,308 | 187,322 |
| Individuals | | | |

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| | | | |
|--|---------|---------|---------|
| Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 13,962 | 14,471 | 14,405 |
| Advances for the purchase of other residential properties | 115,731 | 105,841 | 107,563 |
| Credit card advances | 18,392 | 16,362 | 18,547 |
| Other | 13,814 | 14,610 | 13,887 |
| | 161,899 | 151,284 | 154,402 |
| Total gross advances for use in Hong Kong | 358,016 | 347,592 | 341,724 |
| Trade finance | 42,917 | 80,223 | 49,552 |
| Gross advances for use outside Hong Kong | 105,650 | 77,531 | 90,965 |
| Gross advances to customers | 506,583 | 505,346 | 482,241 |

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

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

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

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

Loans for use outside Hong Kong rose by 16.1%, compared with the end of 2011, driven largely by lending on the Mainland. The Mainland loan portfolio increased by 6.1% to HK\$47.4bn, underpinned by the expansion of renminbi lending to corporate borrowers. The group remained vigilant in assessing credit risk in increasing lending on the Mainland.

Financial investments

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|------------------|--------------------|--------------------|------------------------|
|------------------|--------------------|--------------------|------------------------|

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| | | | |
|---|---------|---------|---------|
| Available-for-sale at fair value: | | | |
| - debt securities | 159,231 | 151,851 | 149,020 |
| - equity shares | 297 | 300 | 259 |
| Held-to-maturity debt securities at amortised cost | 64,857 | 58,305 | 59,911 |
| | 224,385 | 210,456 | 209,190 |
| Fair value of held-to-maturity debt securities | 68,931 | 61,976 | 63,396 |
| Treasury bills | 72,101 | 30,533 | 43,296 |
| Certificates of deposit | 12,425 | 8,150 | 9,386 |
| Other debt securities | 139,562 | 171,473 | 156,249 |
| Debt securities | 224,088 | 210,156 | 208,931 |
| Equity shares | 297 | 300 | 259 |
| | 224,385 | 210,456 | 209,190 |
| Debt securities: | | | |
| - listed in Hong Kong | 19,127 | 17,247 | 21,141 |
| - listed outside Hong Kong | 37,866 | 58,373 | 40,027 |
| | 56,993 | 75,620 | 61,168 |
| - unlisted | 167,095 | 134,536 | 147,763 |
| | 224,088 | 210,156 | 208,931 |
| Equity shares: | | | |
| - listed in Hong Kong | 52 | 53 | 48 |
| - listed outside Hong Kong | 5 | 23 | 18 |
| | 57 | 76 | 66 |
| - unlisted | 240 | 224 | 193 |
| | 297 | 300 | 259 |
| | 224,385 | 210,456 | 209,190 |
| Fair value of listed financial investments | 58,105 | 76,347 | 61,902 |
| Debt securities: | | | |
| Issued by public bodies: | | | |
| - central governments and central banks | 102,507 | 63,135 | 78,659 |
| - other public sector entities | 22,157 | 27,592 | 26,021 |
| | 124,664 | 90,727 | 104,680 |
| Issued by other bodies: | | | |
| - banks | 77,433 | 101,455 | 85,251 |
| - corporate entities | 21,991 | 17,974 | 19,000 |
| | 99,424 | 119,429 | 104,251 |
| | 224,088 | 210,156 | 208,931 |
| Equity shares: | | | |
| Issued by corporate entities | 297 | 300 | 259 |
| | 224,385 | 210,456 | 209,190 |

Debt securities by rating agency designation

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

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 premiums and discounts.

Financial investments rose by HK\$15.2bn, or 7.3%, compared with the last year-end. Investments were primarily in high-quality debt securities or debt securities guaranteed by governments, reflecting the bank's strategy of identifying quality investment opportunities that enable it to optimise returns while prudently managing risk. At 30 June 2012, about 99% of the group's holdings of debt securities were assigned 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 equally 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.

Interest in associates

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 (restated) | At 31 December 2011 (restated) |
|---------------------|--------------------|----------------------------------|--------------------------------------|
| Share of net assets | 21,082 | 16,666 | 19,095 |
| Intangibles | 43 | 70 | 57 |
| Goodwill | 472 | 464 | 475 |
| | 21,597 | 17,200 | 19,627 |

Interest in associates rose by HK\$1,970m compared with last year-end, due mainly to the increase in the bank's share of net assets of Industrial Bank. On 6 March 2012, Industrial Bank announced a proposal for the private placement of additional share capital which would dilute the bank's interest in Industrial Bank. As at 30 June 2012, the proposal is subject to regulatory approvals and, if it proceeds, will lead to a reassessment of the bank's current accounting treatment of the investment. Our partnership with Guangzhou Securities Company Limited to set up the joint venture securities investment advisory company – Guangzhou GuangZheng Hang Seng Securities Investment Advisory Company Limited was incorporated in May 2012. The group has a 33% stake in the joint venture.

Intangible assets

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

Other assets

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

At 30 June 2012, HK\$686m of 'Assets of disposal groups held for sale' related to the sale of assets of the bank's general insurance business, Hang Seng General Insurance (Hong Kong) Limited, with corresponding liabilities of HK\$646m disclosed under other liabilities. Hang Seng General Insurance (Hong Kong) Limited also has deposits placed with the bank amounting to HK\$1.0bn which are eliminated at the consolidated level. The transaction was completed on 9 July 2012. The disposal gain of about HK\$350m will be recognised in the bank's results in the second half of 2012.

Current, savings and other deposit accounts

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

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758,161 728,714 730,780

Certificates of deposit and other debt securities in issue

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|---|--------------------|--------------------|------------------------|
| Certificates of deposit and other debt securities in issue: | | | |
| - as stated in consolidated balance sheet | 12,662 | 8,146 | 9,284 |
| - structured certificates of deposit and other debt securities in issue reported as trading liabilities | 1,009 | 3,903 | 3,183 |
| | 13,671 | 12,049 | 12,467 |
| By type: | | | |
| - certificates of deposit in issue | 12,662 | 8,146 | 11,925 |
| - other debt securities in issue | 1,009 | 3,903 | 542 |
| | 13,671 | 12,049 | 12,467 |

Customer deposits, including current, savings and other deposits accounts and certificates of deposit and other debt securities in issue stood at HK\$771.8bn at 30 June 2012 – a rise of 3.8% from the end of 2011. Higher growth was recorded in Hong Kong dollar currency deposits. Structured deposits and certificates of deposit and other debt securities in issue increased as instruments with yield enhancement features gained popularity. Deposits with Hang Seng China also rose by 6.8%, driven mainly by renminbi deposits.

Trading liabilities

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|---|--------------------|--------------------|------------------------|
| Structured certificates of deposit and other debt securities in issue | 1,009 | 3,903 | 3,183 |
| Structured deposits | 37,764 | 25,393 | 30,923 |
| Short positions in securities and others | 18,591 | 30,129 | 25,606 |
| | 57,364 | 59,425 | 59,712 |

Other liabilities

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|--|--------------------|--------------------|------------------------|
| Items in the course of transmission to other banks | 6,538 | 6,622 | 7,027 |
| Accruals | 2,404 | 2,409 | 2,956 |
| Acceptances and endorsements | 5,076 | 4,393 | 4,697 |
| Retirement benefit liabilities | 3,494 | 2,232 | 3,260 |
| | 646 | — | — |

Liabilities of disposal groups held for sale

| | | | |
|-------|--------|--------|--------|
| Other | 2,311 | 2,269 | 2,198 |
| | 20,469 | 17,925 | 20,138 |

Subordinated liabilities

| Figures in HK\$m | | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|--|--|--------------------|--------------------|------------------------|
| Nominal value | Description | | | |
| Amount owed to third parties | | | | |
| US\$450m | Callable floating rate subordinated notes due July 2016W | — | 3,501 | — |
| US\$300m | Callable floating rate subordinated notes due July 2017 WW | 2,326 | 2,333 | 2,328 |
| Amount owed to HSBC Group undertakings | | | | |
| US\$775m | Floating rate subordinated loan debt due December 2020 | 6,011 | 6,031 | 6,022 |
| US\$450m | Floating rate subordinated loan debt due July 2021W | 3,490 | — | 3,496 |
| | | 11,827 | 11,865 | 11,846 |
| Representing: | | | | |
| - measured at amortised cost | | 11,827 | 11,865 | 11,846 |

WThe bank exercised its option to redeem these subordinated notes at par of US\$450m and replenished them with a new issue of US\$450m subordinated loan debt in July 2011.

WWAfter the period under review, the bank redeemed all the US\$300m floating rate subordinated notes due 2017 at par on 6 July 2012.

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

Shareholders' funds

| | At 30 June 2012 | At 30 June 2011 (restated) | At 31 December 2011 (restated) |
|--|--------------------|----------------------------------|--------------------------------------|
| Figures in HK\$m | | | |
| Share capital | 9,559 | 9,559 | 9,559 |
| Retained profits | 54,623 | 47,328 | 49,519 |
| Premises revaluation reserve | 12,811 | 10,732 | 12,280 |
| Cash flow hedging reserve | 9 | 72 | 6 |
| Available-for-sale investment reserve | | | |
| - on debt securities | (176)) | (193))) | (756) |
| - on equity securities | 247 | 236 | 195 |
| Capital redemption reserve | 99 | 99 | 99 |
| Other reserves | 4,970 | 4,516 | 5,099 |
| Total reserves | 72,583 | 62,790 | 66,442 |
| | 82,142 | 72,349 | 76,001 |
| Proposed dividends | 2,103 | 2,103 | 3,633 |
| Shareholders' funds | 84,245 | 74,452 | 79,634 |
| Return on average shareholders' funds | 22.9% | 22.8% | 22.6% |

Shareholders' funds (excluding proposed dividends) grew by HK\$6,141m, or 8.1%, to HK\$82,142m at 30 June 2012. Retained profits rose by HK\$5,104m, mainly reflecting the growth in attributable profit after the appropriation of interim dividends during the period. The premises revaluation reserve increased by HK\$531m on the back of the upward property market during the first half of 2012.

The available-for-sale investment reserve for debt securities recorded a deficit of HK\$176m compared with a deficit of HK\$756m at the year-end of 2011, mainly due to the maturing of debt securities and the narrowing of credit spreads. No debt securities became impaired during the period and, accordingly, no impairment loss has been recognised.

The return on average shareholders' funds was 22.9%, compared with 22.8% and 22.6% for the first and second halves of 2011 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 2012. After the period under review, the bank redeemed all the US\$300m floating rate subordinated notes due 2017 at par on 6 July 2012.

Capital resources management

Analysis of capital base and risk-weighted assets

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|---|--------------------|--------------------|------------------------|
| Core capital: | | | |
| Paid-up ordinary share capital | 9,559 | 9,559 | 9,559 |
| - Reserves per balance sheet | 72,583 | 62,013 | 65,563 |
| - Unconsolidated subsidiaries | (8,359) | (6,882) | (7,234) |
| - Cash flow hedging reserve | (9) | (72) | (6) |
| - Regulatory reserve | (4,639) | (2,889) | (4,226) |
| - Reserves arising from revaluation of property and unrealised gains on available-for-sale equities and debt securities | (17,347) | (15,136) | (15,860) |
| Total reserves included in core capital | 42,229 | 37,034 | 38,237 |
| - Goodwill and intangible assets | (987) | (939) | (977) |
| - 50% of unconsolidated investments | (12,395) | (10,693) | (11,304) |
| - 50% of securitisation positions and other deductions | (158) | (158) | (158) |
| Deductions | (13,540) | (11,790) | (12,439) |
| Total core capital | 38,248 | 34,803 | 35,357 |
| Supplementary capital: | | | |
| - Term subordinated debt | 11,827 | 11,865 | 11,846 |
| - Property revaluation reserves 1 | 5,894 | 5,894 | 5,894 |
| - Available-for-sale investments revaluation reserves 2 | 155 | 226 | 117 |
| - Regulatory reserve 3 | 325 | 318 | 296 |
| - Collective impairment allowances 3 | 50 | 77 | 54 |
| - Excess impairment allowances over expected losses 4 | 1,651 | 1,373 | 1,522 |
| Supplementary capital before deductions | 19,902 | 19,753 | 19,729 |
| - 50% of unconsolidated investments | (12,395) | (10,693) | (11,304) |
| - 50% of securitisation positions and other deductions | (158) | (158) | (158) |
| Deductions | (12,553) | (10,851) | (11,462) |
| Total supplementary capital | 7,349 | 8,902 | 8,267 |
| Capital base | 45,597 | 43,705 | 43,624 |
| Risk-weighted assets | | | |

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| | | | |
|------------------------|---------|---------|---------|
| - Credit risk | 286,786 | 279,207 | 266,567 |
| - Market risk | 4,003 | 2,099 | 2,054 |
| - Operational risk | 36,502 | 36,137 | 35,649 |
| | 327,291 | 317,443 | 304,270 |
| Capital adequacy ratio | 13.9% | 13.8% | 14.3% |
| Core capital ratio | 11.7% | 11.0% | 11.6% |

Reserves and deductible items

| Figures in HK\$m | At 30 June 2012 | At 30 June 2011 | At 31 December 2011 |
|---|--------------------|--------------------|------------------------|
| Published reserves | 38,275 | 34,309 | 31,640 |
| Profit and loss account | 3,954 | 2,725 | 6,597 |
| Total reserves included in core capital | 42,229 | 37,034 | 38,237 |
| Total of items deductible 50% from core capital and 50% from supplementary capital | 25,106 | 21,702 | 22,924 |

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

2 Includes adjustments made in accordance with the Banking (Capital) rules.

3 Total regulatory reserve and collective impairment allowances are apportioned between the standardised approach and internal ratings-based approach in accordance with the Banking (Capital) rules. Those apportioned to the standardised approach are included in supplementary capital. Those apportioned to the internal ratings-based approach are excluded from supplementary capital.

4 Excess impairment allowances over expected losses are applicable to non-securitisation exposures calculated by using the internal ratings-based approach.

Capital ratios at 30 June 2012 were compiled in accordance with the Banking (Capital) Rules ('the Capital Rules') under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II. The bank used the advanced internal ratings-based approach to calculate its credit risk exposure. The standardised (operational risk) approach and internal models approach were used to calculate its operational risk and market risk respectively.

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

At 30 June 2012, the capital adequacy ratio and core capital ratio were 13.9% and 11.7% respectively, compared with 14.3% and 11.6% at the year-end of 2011. The capital adequacy ratio decreased 0.4 percentage points, reflecting the net effect of growth in capital and in risk-weighted assets. The capital ratios at 31 December 2011 and 30 June 2011 have not been restated as a result of the adoption of HKAS 12 'Income Taxes'. Accordingly, the amount of 'reserves per balance sheet' under the core capital would not correspond with the total reserves in the group's financial statements.

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The basis of consolidation for the calculation of capital ratios under the Capital Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment cost of these unconsolidated regulated financial entities is deducted from the capital base. To satisfy the provisions of the Hong Kong Banking Ordinance and regulatory requirements for prudential supervision purposes, the group has earmarked a regulatory reserve from retained profits amounting HK\$4,639m at 30 June 2012 (HK\$2,889m and HK\$4,226m at 30 June 2011 and 31 December 2011 respectively).

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 2012 | Half-year ended 30 June 2011 | Half-year ended 31 December 2011 |
|---|------------------------------------|------------------------------------|--|
| The bank and its subsidiaries designated by the HKMA | 36.9% | 33.3% | 33.8% |

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 2012 | Half-year ended 30 June 2011 |
|---|------------------------------------|------------------------------------|
| Operating profit | 8,034 | 7,129 |
| Net interest income | (8,286) | (7,637) |
| Dividend income | (4) | (6) |
| Loan impairment charges | 249 | 158 |
| Impairment loss of intangible assets | — | 78 |
| Depreciation | 381 | 347 |
| Amortisation of intangible assets | 61 | 58 |
| Amortisation of available-for-sale investments | (23) | (15) |
| Amortisation of held-to-maturity debt securities | — | 2 |
| Advances written off net of recoveries | (228) | (293) |
| Interest received | 9,553 | 8,784 |
| Interest paid | (2,128) | (1,772) |
| Operating profit before changes in working capital | 7,609 | 6,833 |
| Change in treasury bills and certificates of deposit with original maturity more than three months | 8,317 | (13,198) |
| Change in placings with and advances to banks maturing after one month | (23,232) | 15,298 |
| Change in trading assets | 15,510 | (18,327) |
| Change in financial assets designated at fair value | 140 | 106 |
| Change in derivative financial instruments | 558 | 109 |
| Change in advances to customers | (24,345) | (35,547) |

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| | | |
|--|---------|----------|
| Change in other assets | (6,197) | (10,422) |
| Change in current, savings and other deposit accounts | 20,540 | 19,693 |
| Change in deposits from banks | (3,123) | 3,866 |
| Change in trading liabilities | (2,348) | 16,844 |
| Change in certificates of deposit and other debt securities in issue | 3,378 | 5,051 |
| Change in other liabilities | 5,109 | 5,300 |
| Elimination of exchange differences and other non-cash items | 1,235 | (4,290) |
| Cash generated from/(used in) operating activities | 3,151 | (8,684) |
| Taxation paid | (73) | (55) |
| Net cash inflow/(outflow) from operating activities | 3,078 | (8,739) |

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

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

Contingent liabilities, commitments and derivatives

| Figures in HK\$m | Contract amounts | Credit equivalent amounts | Risk- weighted amounts |
|--|---------------------|---------------------------------|------------------------------|
| At 30 June 2012 | | | |
| Direct credit substitutes | 6,548 | 6,390 | 3,858 |
| Transaction-related contingencies | 1,402 | 140 | 57 |
| Trade-related contingencies | 11,339 | 1,136 | 677 |
| Forward asset purchases | 27 | 27 | 27 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable W | 36,652 | 16,448 | 7,233 |
| - unconditionally cancellable | 251,487 | 81,094 | 25,160 |
| | 307,455 | 105,235 | 37,012 |
| Exchange rate contracts: | | | |
| Forward foreign exchange | 565,496 | 2,376 | 651 |
| Other exchange rate contracts | 136,220 | 3,303 | 2,576 |
| | 701,716 | 5,679 | 3,227 |

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| | | | |
|-------------------------------|---------|-------|-----|
| Interest rate contracts: | | | |
| Interest rate swaps | 267,734 | 2,378 | 529 |
| Other interest rate contracts | — | — | — |
| | 267,734 | 2,378 | 529 |
| Other derivative contracts | 5,488 | 375 | 121 |

W The contract amounts for undrawn formal standby facilities, credit lines and other commitments to lend with original maturity of 'not more than one year' and 'more than one year' were HK\$12,957m and HK\$23,695m respectively.

| Figures in HK\$m | Contract amounts | Credit equivalent amounts | Risk-weighted amounts |
|--|------------------|---------------------------|-----------------------|
| At 30 June 2011 | | | |
| Direct credit substitutes | 4,856 | 4,711 | 3,387 |
| Transaction-related contingencies | 462 | 58 | 32 |
| Trade-related contingencies | 11,064 | 1,115 | 660 |
| Forward asset purchases | 49 | 49 | 49 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable | 30,334 | 15,289 | 6,213 |
| - unconditionally cancellable | 218,351 | 72,752 | 23,080 |
| | 265,116 | 93,974 | 33,421 |
| Exchange rate contracts: | | | |
| Forward foreign exchange | 505,747 | 2,993 | 1,906 |
| Other exchange rate contracts | 92,518 | 2,489 | 1,621 |
| | 598,265 | 5,482 | 3,527 |
| Interest rate contracts: | | | |
| Interest rate swaps | 361,412 | 2,744 | 969 |
| Other interest rate contracts | — | — | — |
| | 361,412 | 2,744 | 969 |
| Other derivative contracts | 11,172 | 719 | 238 |

| Figures in HK\$m | Contract amounts | Credit equivalent amounts | Risk-weighted amounts |
|------------------|------------------|---------------------------|-----------------------|
|------------------|------------------|---------------------------|-----------------------|

At 31 December 2011

| | | | |
|--|---------|--------|--------|
| Direct credit substitutes | 5,438 | 5,308 | 3,426 |
| Transaction-related contingencies | 1,220 | 138 | 72 |
| Trade-related contingencies | 9,807 | 979 | 532 |
| Forward asset purchases | 35 | 35 | 35 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable | 31,311 | 15,081 | 5,384 |
| - unconditionally cancellable | 232,469 | 76,890 | 23,420 |
| | 280,280 | 98,431 | 32,869 |
| Exchange rate contracts: | | | |
| Forward foreign exchange | 493,588 | 2,441 | 1,169 |
| Other exchange rate contracts | 91,963 | 2,475 | 1,766 |
| | 585,551 | 4,916 | 2,935 |
| Interest rate contracts: | | | |
| Interest rate swaps | 342,801 | 2,624 | 950 |
| Other interest rate contracts | — | — | — |
| | 342,801 | 2,624 | 950 |
| Other derivative contracts | 5,473 | 371 | 114 |

The tables above give the contract, credit equivalent and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for the purpose of deriving the risk-weighted amounts. The contract amounts, credit equivalent amounts, risk-weighted amounts and the consolidation basis for the periods indicated were calculated in accordance with the Section 98(2) of the Banking Ordinance by the HKMA.

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 management 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 financial instruments designated at fair value, 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.

| Figures in HK\$m | Trading | At 30 June 2012 | | At 30 June 2011 | | | At 31 December 2011 | |
|---------------------|---------|--------------------------------|---------|-----------------|--------------------------------|---------|---------------------|--------------------------------|
| | | Designated at fair value | Hedging | Trading | Designated at fair value | Hedging | Trading | Designated at fair value |

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| | | | | | | | | | |
|----------------------------|-----------|---|--------|-----------|-----|--------|-----------|-----|--------|
| Contract amounts: | | | | | | | | | |
| Interest rate contracts | 211,899 | - | 55,836 | 287,771 | 140 | 74,338 | 275,776 | 140 | 75,431 |
| Exchange rate contracts | 927,014 | - | 3,276 | 766,754 | - | - | 706,521 | - | - |
| Other derivative contracts | 18,054 | - | - | 25,080 | - | - | 21,032 | - | - |
| | 1,156,967 | - | 59,112 | 1,079,605 | 140 | 74,338 | 1,003,329 | 140 | 75,431 |
| Derivative assets: | | | | | | | | | |
| Interest rate contracts | 1,688 | - | 116 | 2,091 | - | 396 | 2,043 | - | 179 |
| Exchange rate contracts | 2,095 | - | - | 2,763 | - | - | 2,246 | - | - |
| Other derivative contracts | 164 | - | - | 428 | - | - | 242 | - | - |
| | 3,947 | - | 116 | 5,282 | - | 396 | 4,531 | - | 179 |
| Derivative liabilities: | | | | | | | | | |
| Interest rate contracts | 1,525 | - | 1,448 | 1,602 | 7 | 1,126 | 1,590 | 3 | 1,340 |
| Exchange rate contracts | 1,647 | - | 3 | 1,853 | - | - | 1,582 | - | - |
| Other derivative contracts | 136 | - | - | 289 | - | - | 333 | - | - |
| | 3,308 | - | 1,451 | 3,744 | 7 | 1,126 | 3,505 | 3 | 1,340 |

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs.

Additional information

1. Statutory accounts and accounting policies

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

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2011 ('2011 accounts'), which have been delivered to the Registrar of Companies and the HKMA. The

auditors expressed an unqualified opinion on those statutory accounts in their report dated 27 February 2012.

Disclosures required by the Banking (Disclosure) Rules issued by the HKMA are contained in the bank's Interim Report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release.

Except as described below, the accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 103 to 123 of the 2011 Annual Report and Accounts.

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

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

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

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

2. Comparative figures

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

3. Property revaluation

The group's premises and investment properties were revalued at 30 June 2012 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The

basis of the valuation of premises was open market value for existing use and the basis of valuation for investment properties was open market value. The net revaluation surplus for group premises amounted to HK\$839m was credited to the premises revaluation reserve. Revaluation gains of HK\$238m on investment properties were recognised through the income statement. The related deferred tax provision for group premises was HK\$128m.

4. Foreign currency positions

The group's foreign exchange exposures mainly comprise foreign exchange dealing by Treasury and currency exposures originated by its banking business. The latter are transferred to Treasury where they are centrally managed within foreign exchange position limits approved by the Risk Management Committee. The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. Structural foreign exchange positions arising from capital investment in associates, subsidiaries and branches outside Hong Kong, mainly in US dollar and Chinese renminbi as set out below, are managed by the Asset and Liability Management Committee ('ALCO'). At 30 June 2012, the US dollar ('US\$') and Chinese renminbi ('RMB') were the currency in which the group had non-structural foreign currency positions that was not less than 10% of the total net position in all foreign currencies. The group also had a RMB structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

| Figures in HK\$m | US\$ | RMB | EUR | Other foreign currencies | Total foreign currencies |
|---|-----------|-----------|----------|--------------------------------|--------------------------------|
| At 30 June 2012 | | | | | |
| Non-structural position | | | | | |
| Spot assets | 169,003 | 102,668 | 11,325 | 134,170 | 417,166 |
| Spot liabilities | (136,120) | (104,599) | (10,718) | (104,885) | (356,322) |
| Forward purchases | 319,178 | 87,915 | 5,013 | 41,528 | 453,634 |
| Forward sales | (351,333) | (84,961) | (5,759) | (70,578) | (512,631) |
| Net options position | 142 | (114) | — | (31) | (3) |
| Net long/(short) non-structural position | 870 | 909 | (139) | 204 | 1,844 |
| Structural position | 205 | 26,935 | — | 387 | 27,527 |

| Figures in HK\$m | US\$ | RMB | EUR | Other foreign currencies | Total foreign currencies |
|-------------------------|-----------|-----------|----------|--------------------------------|--------------------------------|
| At 30 June 2011 | | | | | |
| Non-structural position | | | | | |
| Spot assets | 202,504 | 117,668 | 10,972 | 93,301 | 424,445 |
| Spot liabilities | (138,668) | (116,524) | (11,831) | (98,213) | (365,236) |
| Forward purchases | 272,831 | 109,050 | 7,088 | 44,341 | 433,310 |
| Forward sales | (335,242) | (110,238) | (6,268) | (39,502) | (491,250) |
| Net options position | 67 | (44) | (6) | (11) | 6 |

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| | | | | | |
|---|-------|--------|------|--------------------------------|--------------------------------|
| Net long/(short) non-structural position | 1,492 | (88) | (45) | (84) | 1,275 |
| Structural position | 206 | 21,827 | — | 273 | 22,306 |
| Figures in HK\$m | US\$ | RMB | EUR | Other foreign currencies | Total foreign currencies |

At 31 December 2011

| | | | | | |
|---|-----------|-----------|----------|----------|-----------|
| Non-structural position | | | | | |
| Spot assets | 149,152 | 123,061 | 9,119 | 118,208 | 399,540 |
| Spot liabilities | (128,778) | (124,005) | (11,097) | (99,929) | (363,809) |
| Forward purchases | 265,328 | 87,981 | 4,699 | 30,929 | 388,937 |
| Forward sales | (284,172) | (85,934) | (3,061) | (49,305) | (422,472) |
| Net options position | 147 | (124) | (24) | 4 | 3 |
| Net long/(short) non-structural position | 1,677 | 979 | (364) | (93) | 2,199 |
| Structural position | 206 | 24,850 | — | 305 | 25,361 |

5. Ultimate holding company

Hang Seng Bank is an indirectly held, 62.14%-owned, subsidiary of HSBC Holdings plc.

6. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 15 August 2012, during which time no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the bank's registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 14 August 2012. The second interim dividend will be payable on Thursday, 30 August 2012, to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 15 August 2012. Shares of the bank will be traded ex-dividend as from Monday, 13 August 2012.

7. Proposed timetable for the remaining 2012 quarterly dividends

| | Third interim dividend | Fourth interim dividend |
|----------------------------|---------------------------|----------------------------|
| Announcement | 9 October 2012 | 4 March 2013 |
| Book close and record date | 26 October 2012 | 20 March 2013 |
| Payment date | 13 November 2012 | 3 April 2013 |

8. Code on Corporate Governance Practices

The bank is committed to high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, staff and other stakeholders. The bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA and has fully complied with all the code provisions and the recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2012.

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

9. Board of Directors

At 30 July 2012, the Board of Directors of the bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan*, Dr Marvin K T Cheung*, Ms L Y Chiang*, Mr Andrew H C Fung, Ms Anita Y M Fung#, Dr Fred Zulu Hu*, Mr Jenkin Hui*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mrs Dorothy K Y P Sit#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent non-executive Directors
Non-executive Directors

10. News release

This news release is available on the bank's website www.hangseng.com.

The Interim Report 2012, which contains all disclosures required by the Banking (Disclosure) Rules issued by the HKMA, will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release. Printed copies of the Interim Report 2012 will be sent to shareholders in late August 2012.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 30 July 2012