HSBC HOLDINGS PLC
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of August

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

HANG SENG BANK LIMITED
2009 INTERIM RESULTS - HIGHLIGHTS

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

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

^

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

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

Comment by Raymond Ch'ien, Chairman

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

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

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

We are an active player in the

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

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

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

Financial Performance

Operating profit excluding loan impairment charges and other credit risk provisions was HK$7,361 million, down 20.8 per cent on the first half of 2008 but up 2.2 per cent on the second half. At HK$
6,740 million
, operating profit fell by

26.0 per cent compared with a year earlier, but increased by 46.1 per cent compared with the second half of last year, reflecting the improvement in loan impairment charges and other credit risk provisions.

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

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

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

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

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

The Directors have declared a second interim dividend of HK$1.10 per share, payable on 2 September 2009. This brings the total distribution for the first half of 2009 to HK$2.20 per share, the same as in the first half of last year.

Outlook

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

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

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

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

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

Review by Margaret Leung, Vice-Chairman and Chief Executive

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

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

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

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

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

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

Assisted by close collaboration between colleagues in Hong Kong and on the Mainland, Hang Seng Bank (

China
) Limited further enhanced service delivery and widened its product range. This helped drive a 45 per cent increase in the customer base compared with a year earlier.

Customer Groups

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

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

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

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

Supported by our comprehensive range of life insurance products, we achieved a 12.7 per cent rise in policies in force and a 19.1 per cent increase in total annualised premiums to HK$13.0 billion. Life insurance income grew by 20.4 per cent compared with the first half of 2008 and 110.6 per cent compared with the second half.

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

A series of customer acquisition and card utilisation campaigns helped us expand our credit card business and we gained market share in terms of the card base, spending and receivables. In competitive conditions, we leveraged our online services to maintain a strong position in mortgage lending, ranking first for equitable mortgages and second for residential mortgages in Hong Kong during the first quarter of the year.

Commercial Banking's operating profit excluding loan impairment charges was HK$951 million - down 22 per cent and 16.2 per cent on the first and second halves of last year respectively. Total operating income was down 12.9 per cent, due largely to an 18.5 per cent drop in net interest income.

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

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

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

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

Corporate Banking recorded an operating profit excluding loan impairment charges of HK$517 million - a 41.6 per cent increase compared with the first half of 2008 and a 14.9 per cent increase compared with the second half. At HK$449 million, profit before tax was up 23.0 per cent and 60.4 per cent compared with the first and second halves of last year respectively.

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

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

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

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

Mainland Business

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

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

Under our strategy to create a springboard for future deposits growth, we continued to target the affluent personal customer segment, achieving a 77.0 per cent rise in Prestige Banking customers compared with a year earlier.

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

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

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

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

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

Looking Ahead

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

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

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

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

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

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

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

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

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

Results summary

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

- Operating profit excluding loan impairment charges and other credit risk provisions
fell by HK$1,939 million, or 20.8 per cent, to HK$7,361 million. Affected by the worldwide economic downturn and deteriorating operating conditions, net interest income and non-interest income both recorded significant declines. Operating expenses were contained at a lower level than last year.

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

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

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

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Income

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

- Net operating income

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

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

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

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

- a 77.6 per cent (or HK$191 million) fall in **gains less losses from financial investments and fixed assets**;
- a 73.8 per cent (or HK$169 million) decrease in **net surplus on property revaluation**; and
- a 19.1 per cent

(or HK$180 million)
drop in
share of profits from associates
, mainly Industrial Bank Co., Ltd. ('Industrial Bank') and a property investment associated company.

Consolidated financial positions and key ratios

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

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

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

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

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

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

Dividends

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

Customer group performance

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

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

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

in policyholders' liabilities								
Net operating income before loan impairment charges and other credit risk Provisions	7,572	1,948	512	1,818	1,003	12,853	(233)	12,620
Loan impairment charges and other credit risk provisions	(86)	(71)	(31)	_	_	(188)	_	(188)
Net operating income	7,486	1,877	481	1,818	1,003	12,665	(233)	12,432
Total operating expenses ^	(2,431)	(729)	(147)	(120)	(126)	(3,553)	233	(3,320)
Operating profit	5,055	1,148	334	1,698	877	9,112	_	9,112
Gains less losses from financial investments and fixed assets	175	96	31	_	(56)	246	_	246
Net surplus on property revaluation	_	_	_	_	229	229	_	229
Share of profits from associates	54	459	_	285	145	943	_	943
Profit before tax	5,284	1,703	365	1,983	1,195	10,530	_	10,530
Share of profit before tax	50.2%	16.2%	3.5%	18.8%	11.3%	100.0%	_	100.0
Operating profit excluding loan impairment charges and other credit risk provisions	5,141	1,219	365	1,698	877	9,300	_	9,300
^ *Depreciation/amortisation included in total operating expenses*	(64)	(11)	(3)	(2)	(148)	(228)	_	(228)
At 30 June 2008								
Total assets	210,593	93,416	85,595	320,004	38,308	747,916	_	747,916
Total liabilities	473,224	96,559	46,288	37,937	38,300	692,308	_	692,308
Investments in associates	379	2,412	_	1,923	2,435	7,149	_	7,149

Figures in HK$m	***Personal Financial Services***	***Commercial Banking***	***Corporate Banking***	***Treasury***	***Other***	***Total Reportable Segment***	***Inter-segment elimination***	***Total***
Half-year ended 31 December 2008								
Net interest income	4,405	1,200	546	1,146	683	7,980	_	7,980
Net fee income/(expense)	1,316	519	66	(16)	57	1,942	_	1,942

Trading income/(loss)	258	120	10	347	(39)	696	_	696
Net (loss)/income from financial instruments designated at fair value	(14)	(1)	_	(16)	24	(7)	_	(7
Dividend income	8	5	_	_	15	28	_	28
Net earned insurance premiums	5,303	117	1	_	_	5,421	_	5,421
Other operating income	4	30	2	5	371	412	(236)	176
Total operating income	11,280	1,990	625	1,466	1,111	16,472	(236)	16,236
Net insurance claims incurred and movement in policyholders' liabilities	(5,506)	(54)	_	_	_	(5,560)	_	(5,560
Net operating income before loan impairment charges and other credit risk Provisions	5,774	1,936	625	1,466	1,111	10,912	(236)	10,676
Loan impairment charges and other credit risk provisions	(261)	(782)	(170)	(1,375)	_	(2,588)	_	(2,588
Net operating income	5,513	1,154	455	91	1,111	8,324	(236)	8,088
Total operating expenses ^	(2,448)	(801)	(175)	(127)	(160)	(3,711)	236	(3,475
Operating profit/(loss)	3,065	353	280	(36)	951	4,613	_	4,613
Gains less losses from financial investments and fixed assets	(19)	(11)	_	(84)	135	21	_	21
Net surplus/(deficit) on property revaluation	_	_	_	_	(150)	(150)	_	(150
Share of profits/(losses) from associates	80	425	_	416	(57)	864	_	864
Profit before tax	3,126	767	280	296	879	5,348	_	5,348
Share of profit before tax	58.5%	14.4%	5.2%	5.5%	16.4%	100.0%	_	100.0
Operating profit excluding loan impairment charges and other credit risk provisions	3,326	1,135	450	1,339	951	7,201	_	7,201
^ *Depreciation/amortisation included in total operating expenses*	(76)	(13)	(4)	(1)	(170)	(264)	_	(264
At 31 December 2008								
Total assets	211,092	85,791	93,570	345,920	25,795	762,168	_	762,168

Total liabilities	508,596	96,905	41,981	34,575	28,485	710,542	_	710,542
Investments in associates	501	3,194	_	2,784	2,391	8,870	_	8,870

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

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

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

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

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

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

PFS continued to expand the self-directed customer segment with innovative service propositions. Personal e-banking exceeded
920,000

registered customers in the first half of 2009 and enrolment for the e-Statement service grew by
23.2 per cent
. In May, the bank launched its pioneering mobile phone-based straight-through travel insurance application service.

Commercial Banking ('CMB')

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

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

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

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

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

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

Corporate Banking ('CIB')
achieved an increase of 41.6 per cent in operating profit excluding loan impairment charges, driven largely by satisfactory growth of 31.9 per cent in net interest income. Compared with the second half of last year, operating profit excluding loan impairment charges was up 14.9 per cent. Advances to customers decreased slightly by 3.6

per cent compared with the end of last year, mainly due to fewer advances to manufacturing and real estate companies and hotels and restaurants. Profit before tax rose by HK$84

million, or 23.0

per cent, to HK$449

million.

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

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

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

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

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

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

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

Mainland business

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

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

Hang Seng
China
 continued to enrich and diversify its product offerings to cater for different market conditions and promote wealth management awareness among its target customers. Hang Seng
China
 is the only locally incorporated foreign bank to have launched partially protected renminbi equity linked investment products, offering debit cards and joining the bankcard association of China UnionPay. The award-winning 'Easy Touch' and the index-linked '
Ping

Pang

Range
' were launched in response to increased customer demand for capital protected investment products. Variations such as the transfer-in mortgage and guaranteed company mortgage loan were added to mortgage products to capture more business.

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

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

Contents

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