

HSBC HOLDINGS PLC
Form 6-K
August 04, 2008

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 2008

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-.....).

The following is the text of an announcement made today by Hang Seng Bank, a 62.14 per cent owned subsidiary of the HSBC Group.

4 August 2008

HANG SENG BANK LIMITED

2008 INTERIM RESULTS - HIGHLIGHTS

- Operating profit up 17.2 per cent to HK\$9,112 million (HK\$7,773 million for the first half of 2007).
- Operating profit excluding loan impairment charges and other credit risk provisions up 15.5 per cent to HK\$9,300 million (HK\$8,053 million for the first half of 2007).
- Profit before tax up 3.1 per cent to HK\$10,530 million (HK\$10,218 million for the first half of 2007), excluding the gain on dilution of strategic investment in the first half of 2007, profit before tax up 20.3 per cent.
- Attributable profit up 2.2 per cent to HK\$9,064 million (HK\$8,867 million for the first half of 2007), excluding the gain on dilution of strategic investment in the first half of 2007, attributable profit up 22.5 per cent.
- Return on average shareholders' funds of 32.8 per cent (36.6 per cent for the first half of 2007), excluding the gain on dilution of strategic investment in the first half of 2007, return on average shareholders' funds up 2.3 percentage points.
- Assets up 0.3 per cent to HK\$747.9 billion (HK\$746.0 billion at 31 December 2007).
- Earnings per share up 2.2 per cent to HK\$4.74 per share (HK\$4.64 per share for the first half of 2007).

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- Second interim dividend of HK\$1.10 per share; total dividends of HK\$2.20 per share for the first half of 2008 (HK\$2.20 per share for the first half of 2007).
- Capital adequacy ratio of 13.9 per cent (11.2 per cent at 31 December 2007); core capital ratio of 11.3 per cent (8.4 per cent at 31 December 2007).
- Cost efficiency ratio of 26.3 per cent (26.6 per cent for the first half of 2007).

The capital adequacy and core capital ratios at 30 June 2008 were calculated in accordance with Basel II – foundation internal ratings-based approach which became effective on 1 January 2008, while those at 31 December 2007 were calculated in accordance with Basel II – standardised approach.

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

Hang Seng Bank Limited

Comment by Raymond K F Ch'ien, Chairman

Hang Seng's 2008 interim results reflect good performance in an increasingly challenging market environment.

Net interest income increased by 23.2 percent, underpinned by good growth in Treasury balance sheet management income, expansion of higher-yield lending and improved loan spreads.

Our wealth management business remained a key driver of growth. We launched innovative investment products and strengthened service delivery channels, which supported increases in the securities and investment fund account bases. Our life insurance business was Hong Kong's number one provider in terms of new annualised premiums during the first quarter of the year.

We expanded and deepened commercial customer relationships to positive effect. Corporate wealth management's contribution to Commercial Banking's total operating income increased to 11.2 per cent. We enjoyed strong growth in average commercial customer deposits and advances in mainland China.

Mainland business increased its contribution to total profit before tax to 9.4 per cent, reflecting progress by Hang Seng Bank (China) Limited ('Hang Seng China') and a big rise in our share of profits from our strategic partner, Industrial Bank Co., Ltd. We took further steps to boost deposits growth, which significantly expanded our lending capacity.

At a bank-wide level, operating profit excluding loan impairment charges and other credit risk provisions rose by 15.5 per cent to HK\$9,300 million. Operating profit increased by 17.2 per cent to HK\$9,112 million.

Profit attributable to shareholders was up 2.2 per cent at HK\$9,064 million compared to the first-half result in 2007, which included a HK\$1,465 million one-off dilution gain from our strategic holding in Industrial Bank. Excluding this gain, attributable profit increased by 22.5 per cent. Earnings per share were HK\$4.74, compared with HK\$4.64 for the same period last year.

Net operating income before loan impairment charges rose by 15.1 per cent to HK\$12,620 million, reflecting continued growth across all our core business lines and outpacing the 13.9 per cent rise in operating expenses. This contributed to an improved cost efficiency ratio of 26.3 per cent - 0.3 percentage points better than a year earlier.

Profit before tax was up 3.1 per cent at HK\$10,530 million. Excluding the gain on dilution in the first half of 2007, profit before tax rose by 20.3 per cent.

Return on average shareholders' funds was 32.8 per cent, compared with 36.6 per cent (30.5 per cent excluding the dilution gain) for the first half of 2007. Return on average total assets was 2.4 per cent, compared with 2.5 per cent (2.1 per cent excluding the dilution gain) for the same period last year.

On 30 June 2008, our capital adequacy ratio and core capital ratio were 13.9 per cent and 11.3 per cent respectively, as calculated in accordance with the 'foundation internal ratings-based approach' under Basel II.

The Directors have declared a second interim dividend of HK\$1.10 per share, payable on 4 September 2008. This brings the total distribution for the first half of 2008 to HK\$2.20 per share, the same as in the first half of 2007.

Outlook

Looking ahead, economic growth in Hong Kong and on the Mainland will likely be affected by the US economic slowdown as well as growing inflationary pressures.

The global credit crunch and surging oil prices will continue to exert pressure on major industrialised economies, which may impact activity in Hong Kong's external sector. However, domestic demand remains resilient on the back of the tight employment market and relatively low interest rate environment, pointing to moderate expansion.

Despite the Sichuan earthquake and mounting inflationary pressures, the Mainland is still on track to achieve solid growth this year - exports will face increasing challenges but private consumption is holding up well.

Investments in people, IT and our mainland network have strengthened our operational capabilities and provide a good foundation for the continued development of our business.

We will further leverage our competitive strengths - particularly our strong brand, market leadership position and comprehensive portfolio of products and services - to achieve sustainable growth.

Hang Seng Bank Limited

Review by Raymond C F Or, Vice-Chairman and Chief Executive

In a less favourable operating environment, Hang Seng made good progress in the first half of 2008, recording income growth across all core customer groups.

We maintained leadership in wealth management by strengthening our retirement planning proposition and using our time-to-market competitive advantage. We rolled out new products to reflect changing investor sentiment, including Hong Kong's first Securities and Futures Commission-authorized mainland China bond fund, a Taiwan index fund and several capital-protected instruments.

We took successful steps to expand higher-yield credit cards and commercial lending.

Treasury achieved impressive growth, reflecting supportive interest rate conditions and further success with income diversification efforts.

Commercial Banking leveraged its strong customer relationship capabilities to record encouraging rises in average customer advances and corporate wealth management business. It also enhanced its 'one-stop' service for customers operating in Hong Kong and on the Mainland.

Corporate Banking developed initiatives to expand non-interest income and capitalised on opportunities for the upward repricing of loans.

Our mainland business recorded good increases in the customer bases and deposits, underpinned by Hang Seng Bank (China) Limited's expanding network of outlets in high-growth regions, the launch of new investment products and strengthened service capabilities.

Customer Groups

With outstanding results achieved last year, Personal Financial Services maintained its good earnings in more challenging market conditions. Profit before tax was HK\$5,284 million - a slight increase of 0.1 per cent year on year. Operating profit excluding loan impairment charges dropped by 4.4 per cent to HK\$5,141 million.

Excluding Private Banking, Personal Financial Services' profit before tax grew by 5 per cent.

Wealth management business continued to grow, recording a 2.2 per cent rise in income compared with a year earlier to reach HK\$3,518 million.

We expanded our range of investment products, enhanced online services, launched new marketing campaigns, and strengthened cross-referral mechanisms. This led to an encouraging increase in our number of investment services customers as well as rises in income from structured product sales, securities-related services and investment fund business.

Following strong growth last year, Private Banking was adversely affected by weak investment sentiment. Refinements to relationship management teams supported a 15.4 per cent increase in the customer base, but customer transactions fell in the more uncertain market conditions, resulting in a 44.5 per cent drop in wealth management income.

Our broad range of retirement planning solutions facilitated a 44.9 per cent rise in net earned life insurance premiums.

Our new enJoy credit card and well-developed card loyalty scheme underpinned encouraging increases in the cards in issue, spending and receivables. Personal loans grew by 39 per cent year on year. Despite strong competition, we maintained our market share for mortgage business, achieving double-digit lending growth.

Commercial Banking's operating profit excluding loan impairment charges grew by 13.3 per cent to HK\$1,219 million. Including the share of profits from associates, profit before tax rose by 32.5 per cent to HK\$1,703 million.

Our strong relationship management teams and expanding product range drove good growth in the corporate wealth management business, which increased its contribution to Commercial Banking's total operating income by 1.8 percentage points compared with a year earlier to reach 11.2 per cent. Net fee income and trading income rose by 14.9 per cent and 68.9 per cent respectively. The establishment of new teams to serve specific customer segments facilitated a 67.8 per cent increase in investment and treasury income.

Enhanced offerings for retailers, particularly our Octopus card merchant services, helped us grow our number of new commercial customers by 13.5 per cent in the first half of the year.

Commercial Banking teams in Hong Kong stepped up efforts with their mainland and Macau counterparts to provide 'joined-up' services to middle-market enterprises. This contributed to good increases in average customer advances and deposits on the Mainland.

Corporate Banking achieved a 90.1 per cent increase in profit before tax to HK\$365 million, underpinned by a 30.4 per cent rise in net interest income as well as lower loan impairment charges. In the tightening credit market, we took good advantage of opportunities to reprice credit facilities. Operating profit excluding loan impairment charges was up 22.5 per cent at HK\$365 million.

Treasury achieved an impressive 272.4 per cent increase in operating profit to HK\$1,698 million. Profit before tax, including share of profits from associates, rose 247.3 per cent to HK\$1,983 million.

Treasury's net interest income grew strongly by HK\$1,129 million, or 277.4 per cent, to reach HK\$1,536 million. We took further steps to grow income from proprietary trading and customer-driven business by exploring new trading opportunities, strengthening product development capabilities and deepening relationships with customers.

Reduced investor appetite for equities facilitated the successful promotion of foreign exchange and interest rate-linked products and capital-protected investment instruments. Treasury's trading income grew by 80.4 per cent to reach HK\$294 million.

Mainland Business

Hang Seng China opened seven sub-branches during the first half of 2008, taking its number of outlets to 30 across nine cities. To support this expansion and drive future growth, its number of full-time equivalent staff rose by 19.6 per cent to 1,312.

The launch of new wealth management products helped us to increase our Prestige Banking mainland customer base by 74 per cent compared with the end of 2007, while the establishment in May of our first commercial sub-branch in ChangAn county in Dongguan is helping us capture new Commercial Banking business. Overall, our number of customers on the Mainland grew by 36 per cent.

Along with increased marketing, improved cross-group referrals and closer collaboration between mainland and Hong Kong teams, this drove a 94.1 per cent increase in deposits compared with last year-end. Lending rose by 14.7 per

cent.

Year on year, deposits and advances were up 292.5 per cent and 55 per cent respectively. Total operating income increased by 66.9 per cent.

Profit before tax was up 23.3 per cent, affected in part by investments in expanding the network and headcount as well as a foreign exchange loss on the revaluation of US dollar capital held by Hang Seng China against the renminbi.

Including our share of profits from Industrial Bank, mainland business contributed 9.4 per cent of total profit before tax, compared with 5.9 per cent and 7 per cent in the first and second halves of 2007 respectively.

On 31 January 2008, we signed an agreement to subscribe for 20 per cent of the enlarged share capital of Yantai City Commercial Bank - one of the largest city commercial banks in Shandong Province - for a total consideration of RMB800 million. Upon completion of the acquisition, we will strengthen our foothold in the rapidly developing Bohai Economic Rim region.

Looking Ahead

Hang Seng's 2008 interim results reflect our competitive strength in changing market conditions.

We will continue to invest and build on our strength in wealth management, using our comprehensive range of products and services, well-established brand and leading market position as a springboard to achieve continued growth.

We will step up customer acquisitions in the affluent segment by opening more Prestige Banking centres and concentrating on tailor-made wealth management solutions.

We will increase our market share among younger customers by offering convenient, fast and environmentally friendly banking services with a strong emphasis on electronic channels.

We will capitalise on our large base of commercial customers in Hong Kong and growing mainland capabilities to become the bank of choice for Greater China business flows. We will take more steps to 'join up' Hong Kong and mainland Commercial Banking teams to deliver seamless banking services wherever customers do business.

Supported by our strong relationship management structures, we will expand our corporate wealth management business.

In Corporate Banking, we will focus on further income diversification and seek opportunities to improve yields on our loan portfolio.

We will build on the good progress made in developing a more balanced and diversified Treasury income base. We will streamline service delivery, strengthen cross-group cooperation to broaden and deepen product penetration, and further explore emerging opportunities on the Mainland.

Through Hang Seng China, we will pursue new avenues of business to increase our customer base. We will grow our wealth management business and expand our deposit base by opening more outlets in cities with good growth potential, expanding renminbi product offerings and accelerating brand-building initiatives.

By the end of this year, we will have new branches in Tianjin and Kunming and more sub-branches in key cities.

We will capitalise on the synergies created by our strategic partnerships to good effect.

We will remain vigilant in identifying and managing credit risk.

We have established an excellent platform for future expansion. Supported by our strong brand, premium customer service and good market knowledge, we will continue to grow our core businesses, generate increasing value for shareholders and enhance our position as a leading financial institution in Greater China.

Hang Seng Bank Limited

Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries and associates ('the group') reported an unaudited profit attributable to shareholders of HK\$9,064 million for the first half of 2008, a rise of 2.2 per cent over the first half of 2007. Earnings per share were HK\$4.74, up HK\$0.10 from the first half of 2007. Excluding the dilution gain arising from the bank's strategic investment in Industrial Bank Co., Ltd. ('Industrial Bank') in the first half of 2007, profit attributable to shareholders increased by 22.5 per cent.

- Operating profit excluding loan impairment charges and other credit risk provisions rose by HK\$1,247 million, or 15.5 per cent, to HK\$9,300 million, a robust performance riding in part on the momentum and record-breaking results achieved last year. This growth reflects a significant rise in net interest income and sustained leadership in wealth management business in less favourable market conditions.

- Net interest income grew by HK\$1,556 million, or 23.2 per cent, with an increase of 6.8 per cent in average interest-earning assets. Net interest income also benefited from improved loan spreads and better yields on Treasury balance sheet management portfolios, which outweighed the drop in contribution from net free funds due to the fall in market interest rates. **Net interest margin** for the first half of 2008 was 2.43 per cent - up 32 basis points compared with the same period last year. Net interest spread improved by 48 basis points to 2.20 per cent while contribution from net free funds declined by 16 basis points to 0.23 per cent.

- Net fees and commissions rose by HK\$165 million, or 5.8 per cent, to HK\$3,027 million. The group's dedicated efforts to continue expanding fee-based income proved rewarding. Against a backdrop of slower stock market activity due to uncertainty over the global credit crunch and rising crude oil prices, encouraging growth was registered in income from stockbroking and related services (9.5 per cent), sales of retail investment funds (6.2 per cent) and sales of third-party structured investment products (19.3 per cent). Credit card business continued to gain market share in terms of cards in issue, spending and receivables to achieve remarkable income growth of 29.0 per cent. Income from remittances and trade services grew by 17.6 per cent and 5.3 per cent respectively. Private banking investment services fee income fell significantly by 46.8 per cent. The downturn in equities markets resulted in dampened customer appetite for investment and reduced transaction volume exacerbated by declining asset values.

- Trading income improved by HK\$175 million, or 30.0 per cent, to HK\$759 million. Foreign exchange income rose by 35.8 per cent, attributable to increased customer activity and good trading opportunities captured by Treasury under the volatile market conditions. This increase was affected by the exchange loss on forward contracts used in 'funding swap' activities in the balance sheet management portfolios and on the revaluation of certain US dollar capital funds - maintained in the bank's mainland subsidiary bank and subject to regulatory controls - against the appreciating renminbi. Excluding these unfavourable factors, foreign exchange income registered remarkable growth of 57.5 per cent. Securities, derivatives and other trading income grew by 17.9 per cent as a result of the group expanding its treasury product portfolio and higher demand for equity-linked investment products.

Hang Seng Bank Limited

Results summary *(continued)*

- 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**, fell by 8.2 per cent to HK\$1,009 million. Life insurance business continued to gain market share and was ranked first in Hong Kong in terms of new annualised regular life insurance premiums for the first quarter of 2008. Our expanding range of products - particularly for retirement planning - drove strong growth in new annualised premiums. This underpinned the 44.9 per cent rise in net earned life insurance premiums to HK\$6,774 million. Net interest income and fee income from life insurance business grew by 40.1 per cent due to the increase in investment portfolio size. However, investment returns on life insurance funds were adversely affected by the poorly performing global capital markets.

- **Net operating income before loan impairment charges and other credit risk provisions** increased by HK\$1,653 million, or 15.1 per cent, to HK\$12,620 million, reflecting the group's core profitability across a wide range of products and customer segments.

- **Operating expenses** rose by HK\$406 million, or 13.9 per cent, compared with the first half of 2007, driven principally by further investments in mainland network expansion and business development in Hong Kong and on the Mainland. These investments supported growth, with net operating income before loan impairment charges outpacing the increase in costs. This helped the bank to improve its cost efficiency ratio, which fell by 0.3 percentage points to 26.3 per cent. The bank's mainland operations accounted for HK\$159 million, or 39.3 per cent, of the increase in operating expenses, reflecting the expansion of the mainland network of our wholly owned banking subsidiary, Hang Seng Bank (China) Ltd ('Hang Seng China'), from 23 to 30 outlets as well as its rise in net headcount from 1,097 to 1,312 during the first half of 2008. Excluding mainland operations, operating expenses increased by 9.1 per cent, due mainly to increased headcount and annual salary increments, as well as rises in rents, IT costs, depreciation and marketing expenses.

- **Operating profit** grew by HK\$1,339 million, or 17.2 per cent, to HK\$9,112 million, after accounting for the HK\$92 million reduction in **loan impairment charges and other credit risk provisions**.

- **Profit before tax** was up 3.1 per cent at HK\$10,530 million after taking the following items into account:

- a 10.2 per cent fall in **gains less losses from financial investments and fixed assets**;
- the non-recurrence of the HK\$1,465 million **gain on dilution of investment in an associate** related to the listing of Industrial Bank in the first half of last year;
- a 13.9 per cent decrease in **net surplus on property revaluation**; and
- a 114.3 per cent rise in **share of profits from associates**, mainly contributed by Industrial Bank.

Hang Seng Bank Limited

Results summary *(continued)*

Balance sheet and key ratios

Total assets increased by HK\$1.9 billion, or 0.3 per cent, to HK\$747.9 billion. Customer advances rose by 9.3 per cent with encouraging growth in commercial lending, trade finance, mainland lending and personal loans. In a competitive operating environment, the bank took good advantage of opportunities to grow its residential mortgage lending in the active property market in the first half of the year. Interbank placing rose 20.8 per cent while investment in money market instruments fell by 24.4 per cent, reflecting a strategy of identifying quality investment opportunities to optimise returns while prudently managing risk. Customer deposits fell marginally by HK\$10.5 billion, or 1.8 per cent, to HK\$580.1 billion in the low interest rate environment. At 30 June 2008, the advances-to-deposits ratio was 58.1 per cent, compared with 52.2 per cent and 55.7 per cent at the end of December 2007 and June 2007 respectively.

As at 30 June 2008, shareholders' funds (excluding proposed dividends) were HK\$53,505 million, an increase of HK\$2,785 million, or 5.5 per cent. Retained profits rose by HK\$4,485 million, reflecting the increase in attributable profit (excluding first and second interim dividends) for the first half of 2008. The adverse effects of the global credit market upheaval led to a decline in the available-for-sale investments reserve.

The **return on average total assets** was 2.4 per cent, compared with 2.5 per cent for the first half of 2007. The **return on average shareholders' funds** was 32.8 per cent (36.6 per cent, or 30.5 per cent excluding the gain on dilution, in

the first half of 2007).

On 30 June 2008, the **capital adequacy ratio** was 13.9 per cent, up from 11.2 per cent at the end of 2007. The **core capital ratio** was 11.3 per cent, up from 8.4 per cent. The ratios were calculated in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority ('HKMA') for the implementation of Basel II. In December 2007, the bank obtained the HKMA's approval to adopt the more sophisticated 'foundation internal ratings-based approach' under the Basel II framework to calculate its capital ratios, effective from 1 January 2008. The capital adequacy ratio and core capital ratio at 31 December 2007 were, however, calculated using the 'standardised (credit risk) approach' under the Basel II framework. As there are significant differences between the two approaches, the capital ratios of the two reporting periods are not directly comparable.

The bank maintained a strong liquidity position. The **average liquidity ratio** for the first half of 2008 was 47.3 per cent (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance), compared with 52.9 per cent for the first half of 2007.

The cost efficiency ratio for the first half of 2008 was 26.3 per cent, compared with 26.6 per cent for both the first and second halves of 2007.

Dividends

The Directors have declared a second interim dividend of HK\$1.10 per share, which will be payable on 4 September 2008 to shareholders on the register of shareholders as of 20 August 2008. Together with the first interim dividend, the total distribution for the first half of 2008 will amount to HK\$2.20 per share, the same as in the first half of 2007.

Hang Seng Bank Limited

Customer group performance

| Figures in HK\$m | <i>Personal</i> | | | | <i>Inter-</i> | |
|------------------|---------------------------|---------------------------|--------------------------|-----------------|--------------------------|--------------|
| | <i>Financial Services</i> | <i>Commercial Banking</i> | <i>Corporate Banking</i> | <i>Treasury</i> | <i>segment</i> | <i>Total</i> |
| | | | | | <i>Other elimination</i> | |

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Half-year ended

30 June 2008

| | | | | | | | |
|---|---------------|--------------|------------|--------------|--------------|--------------|---------------|
| Net interest income | 4,295 | 1,211 | 442 | 1,536 | 768 | — | 8,252 |
| Net fee income/(expense) | 2,380 | 547 | 61 | (17) | 56 | — | 3,027 |
| Trading income/(loss) | 485 | 125 | 8 | 294 | (153) | — | 759 |
| Net (loss)/income from financial instruments designated at fair value | (1,029) | (1) | — | 6 | — | — | (1,024) |
| Dividend income | 17 | 5 | — | — | 32 | — | 54 |
| Net earned insurance premiums | 6,832 | 96 | 2 | — | — | — | 6,930 |
| Other operating income/(loss) | 435 | 24 | — | (1) | 67 | — | 525 |
| Inter-segment income | — | — | — | — | 233 | (233) | — |
| Total operating income | 13,415 | 2,007 | 513 | 1,818 | 1,003 | (233) | 18,523 |
| Net insurance claims incurred and movement in policyholders' liabilities | (5,843) | (59) | (1) | — | — | — | (5,903) |
| Net operating income before loan impairment charges and other credit risk provisions | 7,572 | 1,948 | 512 | 1,818 | 1,003 | (233) | 12,620 |
| Loan impairment charges and other credit risk provisions | (86) | (71) | (31) | — | — | — | (188) |
| Net operating income | 7,486 | 1,877 | 481 | 1,818 | 1,003 | (233) | 12,432 |
| Total operating expenses | (2,237) | (699) | (143) | (115) | (126) | — | (3,320) |
| Inter-segment expenses | (194) | (30) | (4) | (5) | — | 233 | — |
| Operating profit | 5,055 | 1,148 | 334 | 1,698 | 877 | — | 9,112 |
| Gains less losses from financial investments and fixed assets | 175 | 96 | 31 | — | (56) | — | 246 |
| Net surplus on property revaluation | — | — | — | — | 229 | — | 229 |
| Share of profits from associates | 54 | 459 | — | 285 | 145 | — | 943 |
| Profit before tax | 5,284 | 1,703 | 365 | 1,983 | 1,195 | — | 10,530 |
| Share of profit before tax | 50.2% | 16.2% | 3.5% | 18.8% | 11.3% | — | 100.0% |
| Operating profit excluding inter-segment transactions | 5,249 | 1,178 | 338 | 1,703 | 644 | — | 9,112 |
| Operating profit excluding loan impairment charges and other credit risk provisions | 5,141 | 1,219 | 365 | 1,698 | 877 | — | 9,300 |
| <i>Depreciation/amortisation included in total operating expenses</i> | (64) | (11) | (3) | (2) | (148) | — | (228) |

At 30 June 2008

| | | | | | | | |
|--|---------|--------|--------|---------|--------|---|---------|
| Total assets | 210,593 | 93,416 | 85,595 | 320,004 | 38,308 | — | 747,916 |
| Total liabilities | 473,224 | 96,559 | 46,288 | 37,937 | 38,300 | — | 692,308 |
| Investments in associates | 379 | 2,412 | — | 1,923 | 2,435 | — | 7,149 |
| Capital expenditure incurred during the period | 203 | 25 | 6 | 2 | 131 | — | 367 |

Hang Seng Bank Limited

Customer group performance (continued)

| Figures in HK\$m | <i>Personal Financial Services</i> | <i>Commercial Banking</i> | <i>Corporate Banking</i> | <i>Treasury</i> | <i>Other</i> | <i>Inter- segment elimination</i> | <i>Total</i> |
|---|--|-------------------------------|------------------------------|-----------------|--------------|---|---------------|
| Half-year ended | | | | | | | |
| 30 June 2007 | | | | | | | |
| Net interest income | 4,142 | 1,119 | 339 | 407 | 689 | — | 6,696 |
| Net fee income/(expense) | 2,307 | 476 | 54 | (11) | 36 | — | 2,862 |
| Trading income/(loss) | 358 | 74 | 4 | 163 | (15) | — | 584 |
| Net income/(loss) from financial instruments designated at fair value | 689 | — | — | (3) | — | — | 686 |
| Dividend income | 6 | — | — | — | 20 | — | 26 |
| Net earned insurance premiums | 4,741 | 79 | 1 | — | — | — | 4,821 |
| Other operating income | 300 | 25 | — | — | 72 | — | 397 |
| Inter-segment income | — | — | — | — | 187 | (187) | — |
| Total operating income | 12,543 | 1,773 | 398 | 556 | 989 | (187) | 16,072 |
| Net insurance claims incurred and movement in policyholders' liabilities | (5,061) | (44) | — | — | — | — | (5,105) |
| Net operating income before loan impairment charges and other credit risk provisions | 7,482 | 1,729 | 398 | 556 | 989 | (187) | 10,967 |
| Loan impairment charges and other credit risk provisions | (122) | (45) | (113) | — | — | — | (280) |
| Net operating income | 7,360 | 1,684 | 285 | 556 | 989 | (187) | 10,687 |
| Total operating expenses | (1,939) | (636) | (97) | (96) | (146) | — | (2,914) |
| Inter-segment expenses | (163) | (17) | (3) | (4) | — | 187 | — |
| Operating profit | 5,258 | 1,031 | 185 | 456 | 843 | — | 7,773 |
| Gain on dilution of investment in associate | — | — | — | — | 1,465 | — | 1,465 |

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| | | | | | | | |
|---|--------|-------|------|-------|--------|---|--------|
| Gains less losses from financial investments and fixed assets | — | — | 7 | — | 267 | — | 274 |
| Net surplus on property revaluation | — | — | — | — | 266 | — | 266 |
| Share of profits from associates | 20 | 254 | — | 115 | 51 | — | 440 |
| Profit before tax | 5,278 | 1,285 | 192 | 571 | 2,892 | — | 10,218 |
| Share of profit before tax | 51.7 % | 12.6% | 1.8% | 5.6 % | 28.3 % | — | 100.0% |
| Operating profit excluding inter-segment transactions | 5,421 | 1,048 | 188 | 460 | 656 | — | 7,773 |
| Operating profit excluding loan impairment charges and other credit risk provisions | 5,380 | 1,076 | 298 | 456 | 843 | — | 8,053 |
| <i>Depreciation/amortisation included in total operating expenses</i> | (56) | (8) | (2) | (1) | (113) | — | (180) |

At 30 June 2007

| | | | | | | | |
|--|---------|--------|--------|---------|--------|---|---------|
| Total assets | 191,312 | 74,766 | 82,688 | 353,011 | 39,545 | — | 741,322 |
| Total liabilities | 432,416 | 93,988 | 51,983 | 70,109 | 39,878 | — | 688,374 |
| Investments in associates | 155 | 1,951 | — | 880 | 2,293 | — | 5,279 |
| Capital expenditure incurred during the period | 135 | 43 | 8 | 3 | 29 | — | 218 |

Hang Seng Bank Limited

Customer group performance (*continued*)

| Figures in HK\$m | <i>Personal</i> | | | <i>Treasury</i> | <i>Inter-segment Other elimination</i> | <i>Total</i> |
|---|---------------------------|---------------------------|--------------------------|-----------------|--|--------------|
| | <i>Financial Services</i> | <i>Commercial Banking</i> | <i>Corporate Banking</i> | | | |
| <i>Half-year ended 31 December 2007</i> | | | | | | |

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| | | | | | | | |
|---|---------------|--------------|------------|--------------|--------------|--------------|---------------|
| Net interest income | 4,559 | 1,245 | 380 | 905 | 934 | — | 8,023 |
| Net fee income/(expense) | 3,419 | 529 | 55 | (14) | 35 | — | 4,024 |
| Trading income/(loss) | 728 | 99 | 5 | 305 | (42) | — | 1,095 |
| Net income from financial instruments designated at fair value | 1,212 | 2 | — | 7 | — | — | 1,221 |
| Dividend income | 8 | 1 | — | — | 17 | — | 26 |
| Net earned insurance premiums | 4,778 | 102 | 1 | — | — | — | 4,881 |
| Other operating income/(loss) | 243 | 22 | — | (3) | 88 | — | 350 |
| Inter-segment income | — | — | — | — | 186 | (186) | — |
| Total operating income | 14,947 | 2,000 | 441 | 1,200 | 1,218 | (186) | 19,620 |
| Net insurance claims incurred and movement | | | | | | | |
| in policyholders' liabilities | (5,523) | (48) | (1) | — | — | — | (5,572) |
| Net operating income before loan impairment charges and other credit risk provisions | 9,424 | 1,952 | 440 | 1,200 | 1,218 | (186) | 14,048 |
| Loan impairment charges and other credit risk provisions | (155) | (120) | (21) | — | — | — | (296) |
| Net operating income | 9,269 | 1,832 | 419 | 1,200 | 1,218 | (186) | 13,752 |
| Total operating expenses | (2,503) | (801) | (137) | (118) | (177) | — | (3,736) |
| Inter-segment expenses | (162) | (17) | (3) | (4) | — | 186 | — |
| Operating profit | 6,604 | 1,014 | 279 | 1,078 | 1,041 | — | 10,016 |
| Gains less losses from financial investments and fixed assets | 4 | 1 | 4 | — | 433 | — | 442 |
| Net surplus on property revaluation | — | — | — | — | 113 | — | 113 |
| Share of profits from associates | 32 | 401 | — | 180 | 69 | — | 682 |
| Profit before tax | 6,640 | 1,416 | 283 | 1,258 | 1,656 | — | 11,253 |
| Share of profit before tax | 59.0 % | 12.6 % | 2.5 % | 11.2 % | 14.7 % | — | 100.0 % |
| Operating profit excluding inter-segment transactions | 6,766 | 1,031 | 282 | 1,082 | 855 | — | 10,016 |
| Operating profit excluding loan impairment charges and other credit risk provisions | 6,759 | 1,134 | 300 | 1,078 | 1,041 | — | 10,312 |
| <i>Depreciation/amortisation included in total operating expenses</i> | (62) | (13) | (3) | (2) | (121) | — | (201) |

At 31 December 2007

| | | | | | | | |
|--|---------|---------|--------|---------|--------|---|---------|
| Total assets | 190,696 | 80,479 | 79,419 | 358,306 | 37,099 | — | 745,999 |
| Total liabilities | 459,756 | 100,857 | 53,373 | 42,486 | 33,071 | — | 689,543 |
| Investments in associates | 201 | 2,520 | — | 1,138 | 2,318 | — | 6,177 |
| Capital expenditure incurred during the period | 91 | 33 | 13 | — | 186 | — | 323 |

Hang Seng Bank Limited

Customer group performance (*continued*)

Personal Financial Services ('PFS') maintained its year-on-year earnings with a slight increase of 0.1 per cent in profit before tax to HK\$5,284 million for the first half of 2008. Operating profit excluding loan impairment charges was down 4.4 per cent at HK\$5,141 million.

Excluding Private Banking, Personal Financial Services' profit before tax grew by 5 per cent.

Net interest income recorded moderate growth of 3.7 per cent, supported by stable customer deposit balances.

Non-interest income declined slightly by 1.9 per cent. Wealth management income was negatively affected by the economic slowdown and subsequent market volatility, but insurance was able to maintain its sales momentum. In the first half of 2008, new annualised life insurance premiums exceeded HK\$2 billion, underpinning the 44.9 per cent rise in net earned insurance premiums. In the first quarter of the year, the group's life insurance business ranked number one in Hong Kong in terms of new business, with a market share of 16.2 per cent.

Total operating income from unsecured lending recorded significant year-on-year growth of 32.5 per cent as the bank's credit card business continued to gain market share in terms of cards in force, spending and receivables. The launch of a new credit card employing innovative contactless payment technology and a series of promotion campaigns helped drive the number of cards in issue to 1.64 million, representing year-on-year growth of 13.9 per cent. Card receivables grew strongly by 19.3 per cent year on year to reach HK\$11.7 billion, attributable mainly to successful card utilisation campaigns and robust consumer spending. Personal lending also registered impressive growth with a 39.0 per cent year-on-year increase in loan balances to HK\$3.2 billion.

Residential mortgage business benefited from market anticipation of asset price inflation, achieving double-digit growth in first half of the year. Despite the recent market slowdown, the bank maintained its market share in terms of total mortgage loans outstanding at around 16.0 per cent and secured the number two position in new mortgage loan drawdowns for the first half of 2008.

Commercial Banking ('CMB') achieved an increase of 13.3 per cent in operating profit excluding loan impairment charges, underpinned by satisfactory growth in net fee income and net trading income. Taking into account the contribution from Industrial Bank, profit before tax rose by 32.5 per cent to HK\$1,703 million, representing 16.2 per cent of the group's total profit before tax.

Average customer advances rose by 21.9 per cent as a result of balanced growth in lending to the manufacturing, wholesale and retail and property sectors, and increases in trade finance and factoring. This good growth was partly offset by the narrowing of deposit margins, resulting in a moderate rise of 8.2 per cent in net interest income.

Hang Seng Bank Limited

Customer group performance (*continued*)

Driven by concerted efforts to grow corporate wealth management business, net fee income and net trading income reported good growth of 14.9 per cent and 68.9 per cent respectively. Corporate wealth management income contributed 11.2 per cent of CMB's total operating income in the first half of 2008, up 1.8 percentage points compared with the first half of 2007. With the establishment of designated corporate teams to serve the diverse investment needs of different customer segments, investment and treasury income registered robust growth of 67.8 per cent compared with the first half of 2007.

CMB's efforts to offer enhanced services to customers in the retail sector continued to generate positive returns. Net fee income from card merchant-acquiring business achieved strong growth of 10.9 per cent. Octopus card merchant services helped to strengthen the bank's franchise in the small and medium-sized enterprise ('SME') sector, as evidenced by the fact that 70 per cent of Octopus merchants acquired in the first half of 2008 were new customers for the bank. Overall, the number of new commercial customers acquired in the first half of 2008 grew by 13.5 per cent.

CMB continued to strengthen its relationships with middle-market enterprises ('MME'). The collaborative efforts of the Hong Kong, Mainland and Macau teams have put CMB in a better position to provide one-stop banking solutions for MME customers with operations in the Pearl River Delta, Yangtze River Delta and Bohai Economic Rim regions. Average customer deposits and average customer advances on the Mainland registered strong growth of 324.0 per cent and 119.5 per cent respectively. The establishment of Hang Seng China's first commercial banking sub-branch at ChangAn, Dongguan, in June 2008, will help further to extend CMB's catchment area in the region.

At 30 June 2008, over 57,000 customers had registered for Business e-Banking services, an increase of 30.8 per cent compared to the same period in 2007. The number of online business banking transactions grew by 31.7 per cent.

Corporate Banking ('CIB') achieved an increase of 22.5 per cent in operating profit excluding loan impairment charges, driven largely by satisfactory growth of 30.4 per cent in net interest income. CIB continued to focus on liability-driven business and higher-yield loan transactions. Average customer deposits rose by 16.2 per cent. Average customer advances were up 10.3 per cent, due mainly to increased lending to real estate companies, hotels and investment holding companies. Profit before tax rose strongly by HK\$173 million, or 90.1 per cent, to HK\$365 million.

CIB remained active in financing mainland projects of Hong Kong-based corporations during 2008 and continued to expand its mainland customer base. Average customer deposits and average customer advances on the Mainland recorded encouraging growth of 354.7 per cent and 32.1 per cent respectively.

Treasury ('TRY') reported a strong 272.4 per cent growth in operating profit. Profit before tax, taking into account the increase in share of profits from associates, rose by 247.3 per cent to HK\$1,983 million, contributing 18.8 per cent to the group's total profit before tax.

Hang Seng Bank Limited

Customer group performance (*continued*)

Benefiting from the rate cut cycle in the United States that began in September 2007, the interest margin of balance sheet management portfolios improved significantly. Coupled with good portfolio positioning and a prudent strategy of investing in high quality instruments, net interest income from balance sheet management portfolios registered remarkable growth of HK\$1,129 million, or 277.4 per cent. Including the net increase of HK\$82 million in funding swap costs (described below) - which were recognised as foreign exchange losses - net interest income rose by HK\$1,047 million, or 475.9 per cent.

Trading income reversed its declining trend of 2007 to record growth of HK\$131 million, or 80.4 per cent, attributable mainly to foreign exchange and derivative trading activities. This good trading income result was partly offset by the mirror effect of 'funding swap' activities in the balance sheet management portfolios, which reported a loss of HK\$269 million in the first six months of 2008. Excluding the impact of such activities, trading income increased by HK\$213 million.

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.

Hang Seng Bank Limited

Mainland business

Headquartered in Shanghai, the bank's mainland subsidiary, Hang Seng China, marked its first anniversary in May 2008. At 30 June 2008, Hang Seng China's network had grown from 23 to 30 outlets since the end of 2007, comprising nine branches and 21 sub-branches operating across nine cities: Beijing, Shanghai, Guangzhou, Dongguan, Shenzhen, Fuzhou, Nanjing, Hangzhou and Ningbo. The bank has a branch in Shenzhen for foreign currency wholesale business and a representative office in Xiamen. To support expansion and strengthen sales and marketing capabilities, Hang Seng China's number of full-time equivalent staff increased by 215 to 1,312 in the first half of 2008.

Supported by the robust mainland economy, Hang Seng China capitalised on new opportunities to grow its business by offering a comprehensive range of premium banking services, including renminbi services. Mainland lending grew by 14.7 per cent compared with the end of last year. The launch of full renminbi deposit services for local residents and new investment-linked deposit products contributed to the strong 94.1 per cent increase in customer deposits during the first half of 2008. Year on year, deposits and advances were up 292.5 per cent and 55.0 per cent respectively. Total operating income rose by 66.9 per cent, representing good growth in both interest income and non-interest income.

The combined effects of the cost of network expansion, investment in human resources, a foreign exchange loss on the revaluation of US dollar capital funds held by Hang Seng China against the renminbi, and a decline in loan impairment charges, resulted in a 23.3 per cent increase in profit before tax.

Mainland PFS successfully grew its share of the mass affluent and affluent segments, expanding its customer base by 38 per cent since the end of last year and enjoying particular success with Prestige Banking, which recorded a 74 per cent increase in customers. Leveraging the bank's well-established corporate customer base in Hong Kong, Hang Seng China's CMB and CIB teams collaborated closely with their Hong Kong counterparts to offer 'joined-up' services to customers with operations in Hong Kong and on the Mainland, helping to expand the commercial customer base and renminbi business. TRY continued to manage the funding positions of the branches and launched new structured investment products to meet a wide range of customer needs.

Including the bank's share of profit from Industrial Bank, mainland business contributed 9.4 per cent of total profit before tax, compared with 5.9 per cent and 7.0 per cent for the first and second halves of 2007 respectively.

Hang Seng Bank Limited

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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 and associates ('the group') for the six months ended 30 June 2008.

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Hang Seng Bank Limited

Consolidated Income Statement (unaudited)

| | <i>Half-year ended 30 June</i> | <i>Half-year ended 30 June</i> | <i>Half-year ended 31 December</i> |
|----------------------------|--|--|--|
| | <i>2008</i> | <i>2007</i> | <i>2007</i> |
| <i>Figures in HK\$m</i> | | | |
| Interest income | 13,665 | 16,318 | 18,088 |
| Interest expense | (5,413) | (9,622) | (10,065) |
| Net interest income | 8,252 | 6,696 | 8,023 |
| Fee income | 3,368 | 3,163 | 4,519 |
| Fee expense | (341) | (301) | (495) |
| Net fee income | 3,027 | 2,862 | 4,024 |

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| | | | |
|---|----------------|---------|---------|
| Trading income | 759 | 584 | 1,095 |
| Net (loss)/income from financial instruments designated at fair value | (1,024) | 686 | 1,221 |
| Dividend income | 54 | 26 | 26 |
| Net earned insurance premiums | 6,930 | 4,821 | 4,881 |
| Other operating income | 525 | 397 | 350 |
| Total operating income | 18,523 | 16,072 | 19,620 |
| Net insurance claims incurred and movement in policyholders' liabilities | (5,903) | (5,105) | (5,572) |
| Net operating income before loan impairment charges and other credit risk provisions | 12,620 | 10,967 | 14,048 |
| Loan impairment charges and other credit risk provisions | (188) | (280) | (296) |
| Net operating income | 12,432 | 10,687 | 13,752 |

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| | | | |
|---|----------------|---------|---------|
| Employee compensation and benefits | (1,736) | (1,598) | (1,987) |
| General and administrative expenses | (1,356) | (1,136) | (1,548) |
| Depreciation of premises, plant and equipment | (201) | (169) | (179) |
| Amortisation of intangible assets | (27) | (11) | (22) |
| Total operating expenses | (3,320) | (2,914) | (3,736) |
| Operating profit | 9,112 | 7,773 | 10,016 |
| Gain on dilution of investment in an associate | — | 1,465 | — |
| Gains less losses from financial investments and fixed assets | 246 | 274 | 442 |
| Net surplus on property revaluation | 229 | 266 | 113 |
| Share of profits from associates | 943 | 440 | 682 |

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| | | | |
|---|----------------|---------|---------|
| | 10,530 | 10,218 | 11,253 |
| Profit before tax | | | |
| Tax expense | (1,466) | (1,150) | (1,715) |
| Profit for the period | 9,064 | 9,068 | 9,538 |
| Profit attributable to shareholders | 9,064 | 8,867 | 9,375 |
| Profit attributable to minority interests | — | 201 | 163 |
| | 9,064 | 9,068 | 9,538 |
| Dividends | 4,206 | 4,206 | 7,839 |
| Earnings per share (in HK\$) | 4.74 | 4.64 | 4.90 |

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

The table below presents the interest income and interest expense of Hang Seng, as included within the HSBC Group accounts:

| <i>Figures in HK\$m</i> | <i>Half-year ended 30 June 2008</i> | <i>Half-year ended 30 June 2007</i> | <i>Half-year ended 31 December 2007</i> |
|----------------------------|---|---|---|
| <i>Interest income</i> | 13,376 | 15,941 | 17,760 |
| <i>Interest expense</i> | (4,679) | (8,354) | (8,989) |
| <i>Net interest income</i> | 8,697 | 7,587 | 8,771 |

| | | | |
|---|-------|-------|-------|
| <i>Net interest income and expense reported as 'Net trading income'</i> | (551) | (938) | (815) |
| <i>Net interest income and expense reported as 'Net income from financial instruments designated at fair value'</i> | 106 | 47 | 67 |

Hang Seng Bank Limited**Consolidated Balance Sheet (unaudited)**

| | <i>At 30 June 2008</i> | <i>At 30 June 2007</i> | <i>At 31 December 2007</i> |
|--|--------------------------------|--------------------------------|------------------------------------|
| <i>Figures in HK\$m</i> | | | |
| Assets | | | |
| Cash and balances with banks and other financial institutions | 19,755 | 12,921 | 16,864 |
| Placings with and advances to banks and other financial institutions | 136,534 | 94,485 | 113,029 |
| Trading assets | 13,689 | 9,848 | 10,390 |
| Financial assets designated at fair value | 12,607 | 9,827 | 13,892 |

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| | | | |
|--|----------------|---------|---------|
| Derivative financial instruments | 6,043 | 2,348 | 4,702 |
| Advances to customers | 337,157 | 310,972 | 308,356 |
| Financial investments | 184,654 | 251,191 | 244,294 |
| Investments in associates | 7,149 | 5,279 | 6,177 |
| Investment properties | 2,776 | 2,457 | 2,581 |
| Premises, plant and equipment | 7,487 | 6,342 | 6,794 |
| Interest in leasehold land held for own use under operating lease | 558 | 572 | 565 |
| Intangible assets | 3,297 | 2,347 | 2,889 |
| Other assets | 16,210 | 32,733 | 15,466 |
| | 747,916 | | |