

HSBC HOLDINGS PLC
Form 6-K
August 05, 2013

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 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-.....).

HANG SENG BANK LIMITED
2013 INTERIM RESULTS - HIGHLIGHTS

- Attributable profit up 100% to HK\$18,468m (HK\$9,253m for the first half of 2012). Excluding the Industrial Bank reclassification, attributable profit up 27%.

- Profit before tax up 77% to HK\$18,773m (HK\$10,600m for the first half of 2012). Excluding the Industrial Bank reclassification, profit before tax up 25%.
- Operating profit up 12% to HK\$8,934m (HK\$7,975m for the first half of 2012).
- Operating profit excluding loan impairment charges up 11% to HK\$9,132m (HK\$8,224m for the first half of 2012).
- Return on average shareholders' funds of 35.9% (22.8% for the first half of 2012). Excluding the Industrial Bank reclassification, return on average shareholders' funds of 19.0% (17.4% for the first half of 2012).
- Earnings per share up 100% to HK\$9.66 per share (HK\$4.84 per share for the first half of 2012).
- Second interim dividend of HK\$1.10 per share; total dividends of HK\$2.20 per share for the first half of 2013 (HK\$2.20 per share for the first half of 2012).
- Total capital ratio of 15.8%, both Common Equity Tier 1 ('CET1') and Tier 1 capital ratios of 13.6% at 30 June 2013 under Basel III; (capital adequacy ratio of 14.0% and core capital ratio of 12.2% at 31 December 2012 under Basel II).
- Cost efficiency ratio of 32.2% (33.5% for the first half of 2012).

Industrial Bank Co., Ltd. ('Industrial Bank') reclassification

Reported results for the first half of 2013 include a non-distributable accounting gain on reclassification of Industrial Bank from an associate to a financial investment of HK\$8,454m before tax, HK\$9,517m attributable profit. Reported results for the first half of 2012, when the investment in Industrial Bank was equity accounted for, include HK\$2,364m before tax and HK\$2,209m attributable profit respectively. Amounts quoted 'excluding the Industrial Bank reclassification' adjust for the above items.

Comparative figures have been restated to reflect the adoption of the Hong Kong Accounting Standard 19 'Employee Benefits', details of which are set out on page 67.

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

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

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The financial information in this news release is based on the unaudited consolidated financial statements of Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') for the six months ended 30 June 2013.

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Comment by Raymond Ch'ien, Chairman

With global economic uncertainty creating ongoing challenges in the first half of 2013, Hang Seng Bank's focus on delivering service excellence helped us maintain good growth momentum to return solid first-half results.

Leveraging the trusted Hang Seng brand, we expanded our range of products and services, enhanced our extensive cross-border distribution network and took further steps to improve efficiency and manage risk.

Profit attributable to shareholders was HK\$18,468m - double that at the same period last year. Earnings per share rose by 100% to HK\$9.66. Excluding the Industrial Bank reclassification, profit attributable to shareholders was up 27% at HK\$8,951m and earnings per share increased by 27% to HK\$4.68.

Return on average shareholders' funds was 35.9%, compared with 22.8% in the first half of 2012. Excluding the Industrial Bank reclassification, return on average shareholders' funds was 19.0%, compared with 17.4% in the first half of last year.

The Directors have declared a second interim dividend of HK\$1.10 per share, bringing the total distribution for the first half of 2013 to HK\$2.20 per share, the same as in the first half of 2012.

Economic Environment

Investment sentiment improved during the early part of 2013 - as reflected in the movements of major stock indices and the stabilisation of European sovereign bond yields - but economic fundamentals remained mixed. The US economy expanded at a moderate pace due to further recovery in labour and housing markets, but the eurozone remained in recession as governments continued with austerity measures designed to restore fiscal discipline.

Rises in employment and wages in Hong Kong sustained robust consumer spending, underpinning the 2.8% expansion in the local economy in the first quarter of the year. However, weak external demand continued to put downward pressure on overall growth. Private consumption will remain the key economic driver and we expect real GDP to expand by 3.0% for the year - up 1.5 percentage points compared with 2012.

Subdued export activity will also continue to constrain the mainland China economy, which grew by 7.6% in the first half, down from 7.8% in 2012. Nevertheless, domestic consumption and investment have remained resilient and should support solid economic growth to generate a full-year GDP growth rate of 7.5%.

With the US set to roll back quantitative easing measures, the economic outlook for the rest of 2013 remains uncertain. Interest rates are likely to remain low until 2015. However, Hong Kong's ongoing development as a leading centre for offshore renminbi financial services and primary gateway for cross-border trade will generate new opportunities for business expansion.

We will enhance our market position in key areas of business by continuing with strategic initiatives in line with our competitive strengths as well as through more effective resource allocation and enhancing efficiency. We remain firmly committed to our core values of service excellence and generating increasing value for customers and shareholders.

Review by Rose Lee, Vice-Chairman and Chief Executive

Hang Seng Bank achieved encouraging results for the first half of 2013 - recording growth in income and profit across all business segments.

With an economic slowdown in mainland China, greater market volatility and keen competition, the operating environment remained challenging.

Profit attributable to shareholders was HK\$18,468m - double that for the same period last year - and a return on average shareholders' funds of 35.9% was achieved. Excluding the impact of the Industrial Bank reclassification, attributable profit was up 27% and return on average shareholders' funds rose by 1.6 percentage points to 19.0%.

Leveraging our brand and network, we continued to implement strategic initiatives that reinforce our position as the leading domestic bank in Hong Kong to drive sustainable growth in our core business.

Success in income diversification resulted in balanced growth of 8% in net interest income and 11% in non-funds income. Implementation of customer-focused initiatives drove wealth management income growth by 10%.

Hang Seng Bank (China) Limited ('Hang Seng China') enhanced its product suite and continued to invest in service delivery infrastructure and brand building. Our strong network in the Yangtze Delta Region and southern China placed us well to capture opportunities generated by increasing cross-border economic integration and renminbi internationalisation.

Our wholly owned subsidiary, Hang Seng Investment Management Limited, was the first non-mainland financial institution in Hong Kong to be granted RMB Qualified Foreign Institutional Investor status, enabling us to invest in mainland securities with renminbi raised in Hong Kong. We expect to launch an A-share exchange-traded fund in the second half of this year.

Profit before tax was up 77% at HK\$18,773m. Excluding the Industrial Bank reclassification, profit before tax increased by 25% to HK\$10,319m.

Operating profit excluding loan impairment charges rose by 11% to HK\$9,132m. Operating profit grew by 12% to HK\$8,934m. Compared with the second half of last year, operating profit excluding loan impairment charges and operating profit were both up 19%.

With the 9% growth in net operating income before loan impairment charges outpacing the 5% rise in operating expenses, our cost efficiency ratio improved to 32.2% - down 1.3 percentage points and 4.2 percentage points compared with the first and second halves of 2012 respectively.

Net interest income grew by HK\$683m to HK\$8,969m. Our in-depth knowledge of local markets and effective balance sheet management enabled us to expand lending by 8% while maintaining a high level of credit quality. Customer deposits increased by 2%.

Despite challenging conditions for the Treasury portfolio, we achieved a net interest margin of 1.84% - one basis point down and unchanged compared with the first and second halves of 2012 respectively.

Non-interest income was up by HK\$434m at HK\$4,508m.

Under the new Basel III rules, our total capital ratio at 30 June 2013 was 15.8% and our Common Equity Tier 1 ('CET1') and Tier 1 capital ratios were both 13.6%.

A Strategy for Sustainable Growth

Our business is rooted in an economically dynamic region that offers exciting opportunities for growth. At the same time, a rapidly changing regulatory environment and volatile market conditions prevail. We must remain proactive in building for long-term success, reinforce our status as Hong Kong's leading domestic bank and further enhance our strong cross-border capabilities to benefit from increasing economic integration.

We will continue to drive a customer need-focused strategy, further enhance efficiency and strategically deploy capital and other resources to develop our core business and maintain balanced growth. Our commitment to the personal and professional development of our staff saw us recognised as Hong Kong's most attractive employer in the banking and financial services sector in the 2013 Randstad Award.

We will maintain high standards of risk management and corporate governance. We remain committed to fulfilling our corporate social responsibility to promote the well-being of the communities to which we owe much of Hang Seng's success.

I would like to take this opportunity to thank our staff for their loyalty and dedication and our customers and shareholders for their unwavering support.

Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported an unaudited profit attributable to shareholders of HK\$18,468m for the first half of 2013, up 99.6% compared with the first half of 2012. Earnings per share were up 99.6% at HK\$9.66. The profit for the first half of 2013 included the HK\$9,517m non-distributable accounting gain on the reclassification of Industrial Bank Co., Ltd. ('Industrial Bank').

Operating profit excluding loan impairment charges grew by HK\$908m, or 11.0%, to HK\$9,132m, with encouraging growth in both net interest income and non-interest income. The bank's investment in its core business continued to generate good growth momentum to generate solid first-half results in an increasingly challenging market environment.

Net interest income rose by HK\$683m, or 8.2%, to HK\$8,969m compared with the first half of 2012, supported by the 11.7% growth in average customer advances and the 9.0% rise in average customer deposits. The insurance business also contributed to the rise in net interest income as the group continued to grow its life insurance investment portfolios. Net interest margin narrowed by one basis point to 1.84% while net interest spread was down to 1.73%. The compression of spreads on the Treasury Balance Sheet Management portfolio and deposits under the mainland China business segment outweighed the widening of loan spreads and stable deposit spread in Hong Kong created by the bank's effective funding cost management. Net interest income also registered an increase compared with the second half of 2012, supported by higher average interest-earning assets. The net interest margin compared with the second half of last year was unchanged at 1.84%.

Net fees and commissions increased across core business lines, up HK\$528m, or 21.9%, to HK\$2,936m. With increased retail investor activity early in the year, the bank generated a 70.7% rise in income related to the sale of retail investment funds. Income from stockbroking and related services grew by 15.3%, benefitting from the increase in stock market trading turnover. Insurance agency-related fee income grew by 65.2%, reflecting an increase in non-life insurance products distribution commission, with a decrease in non-life insurance underwriting profit, following the disposal of the general insurance manufacturing business in the second half of last year. The credit card business and trade services also performed well and their fees and commissions grew by 13.6% and 15.9% respectively.

Trading income increased by HK\$34m, or 2.9%, to HK\$1,204m. Foreign exchange income was broadly in line with the first half of 2012. Increased revenue from increased customer activity and higher customer demand for foreign exchange-linked structured treasury products was largely offset by the fall in net interest income from funding swap activities. Compared with the same period last year, income from securities, derivatives and other trading activities recorded a gain of HK\$14m compared with a loss of HK\$23m, reflecting higher income from interest rate-related derivatives and linked structured products which benefitted from a more favourable market interest rate environment. This was partly offset by the revaluation loss on equity options backing a life endowment product, arising from an unfavourable movement in the underlying equity indices.

Income from insurance business (included under 'net interest income', 'net fee income', 'trading income', 'net income/(loss) from financial instruments designated at fair value', 'net earned insurance premiums', 'movement in present value of in-force long-term insurance business and other' within 'other operating income', 'share of profits from associates' and after deducting 'net insurance claims incurred and movement in policyholders' liabilities') fell by HK\$48m, or 2.6%, to HK\$1,827m. Net interest income and fee income from the life insurance business grew by 9.3%, reflecting the increase in the size of the life insurance funds investment portfolio. The investment return on life insurance funds was adversely affected by the unfavourable movement in equity markets though this was partly offset by property revaluation gains. General insurance income decreased by 41%, due mainly to the disposal of the bank's general insurance business in the second half of 2012.

Operating expenses rose by HK\$209m, or 5.1%, to HK\$4,345m, compared with the first half of 2012, reflecting the bank's continued investment in new business platforms and mainland operations to support long-term growth. Staff costs increased by 3.4% as a result of the annual salary increment and an increase in headcount. General and administrative expenses rose by 9.1% as a result of an increase in rental expenses, marketing expenditure and processing charges. mainland-related operating expenses increased by 5.6%, reflecting the network expansion of Hang Seng China.

The cost efficiency ratio improved when compared with the first and second halves of 2012, as a result of the bank's effort to improve operational efficiency and maintain cost controls. With total operating income growing at a faster pace than operating expenses, the cost efficiency ratio improved to 32.2%.

Operating profit grew by HK\$959m, or 12.0%, to HK\$8,934m, due to the reduction of HK\$51m in loan impairment charges.

Profit before tax increased by 77.1% to HK\$18,773m after taking the following key items into account:

- An accounting gain on reclassification of Industrial Bank of HK\$8,454m arising from the reclassification of Industrial Bank as a financial investment on 7 January 2013;
- An increase of HK\$761m (or 319.7%) in net surplus on property revaluation, reflecting mainly the improved commercial property market in the first half of 2013;
- An increase of HK\$173m in net gains from financial investments and fixed assets, due mainly to property disposals; and

- A decrease of HK\$2,174m (or 91.1%) in share of profits from associates, mainly reflecting the reclassification of Industrial Bank as a financial investment.

Consolidated balance sheet and key ratios

Total assets rose by HK\$29.6bn, or 2.7%, compared with last year-end to HK\$1,106.7bn. The group continued to pursue a balanced growth strategy in managing its assets and liabilities and achieved solid increases in both loans and deposits. Customer loans and advances grew by HK\$43.5bn, or 8.1%, to HK\$579.7bn, driven by growth in lending to corporate and commercial and mainland China customers. Residential mortgage lending also increased, helped by the bank's diverse range of mortgage products, including an enhanced fixed-rate mortgage plan launched in April 2013. The increase in cross-border trade between Hong Kong and the Mainland supported a solid recovery in trade finance lending. Hang Seng China lending portfolios also increased, underpinned by the expansion of renminbi lending to corporate customers. Customer deposits, including certificates of deposit and other debt securities in issue, rose by HK\$13.4bn, or 1.6%, to HK\$832.2bn. At 30 June 2013, the advances-to-deposits ratio was 69.7%, compared with 65.5% at 31 December 2012.

At 30 June 2013, shareholders' funds (excluding proposed dividends) were HK\$100.0bn, an increase of HK\$11.5bn, or 13.0%, against last year-end. Retained profits grew by HK\$17.0bn as a result of the growth in attributable profit (including the accounting gain on reclassification of Industrial Bank) after the appropriation of interim dividends. The premises revaluation reserve increased by HK\$838m, or 6.1%, reflecting the increase in the fair value of the bank's premises. The available-for-sale investment reserve recorded a deficit of HK\$2,884m, compared with a surplus of HK\$227m at the end of 2012, primarily reflecting the unrealised revaluation deficit on the bank's investment in Industrial Bank.

The return on average total assets was 3.4%, compared with 1.9% for both the first and second halves of 2012. The return on average shareholders' funds was 35.9%, compared with 22.8% in the first half of 2012 and 22.9% in the second half. Excluding the Industrial Bank reclassification, return on average total assets was 1.7%, compared with 1.4% for the first half of 2012. On the same basis, return on average shareholders' funds was 19.0%, compared with 17.4% for the first half of last year.

On 1 January 2013, the Hong Kong Monetary Authority ('HKMA') implemented the first phase of the Basel III capital framework in Hong Kong. The capital disclosures for June 2013 under Basel III are, therefore, not directly comparable with the disclosure for December 2012 which was prepared on Basel II basis. Under Basel III, the total capital ratio was 15.8% at 30 June 2013 and both Common Equity Tier 1 and Tier 1 capital ratios stood at 13.6%. For the year ended 31 December 2012, the total capital adequacy ratio and core capital ratio were 14.0% and 12.2% respectively calculated on Basel II basis.

The bank has been maintaining liquidity at a comfortable level. The average liquidity ratio for the first half of 2013 was 35.8% (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance) compared with 36.9% for the first half of 2012.

Dividends

The Directors have declared a second interim dividend of HK\$1.10 per share, which will be payable on 5 September 2013 to shareholders on the register of shareholders as of 21 August 2013. Together with the first interim dividend, the total distribution for the first half of 2013 will amount to HK\$2.20 per share, the same as in the first half of 2012.

Segmental analysis

| Figures in HK\$m | Hong Kong & other businesses | | | | | | | Total |
|---|--|---|----------|-------|---------|-------------------------------|----------------------------------|---------|
| | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | Mainland China business | Inter- segment elimination | |
| Half-year ended 30 June 2013 | | | | | | | | |
| Net interest income/(expense) | 4,917 | 2,722 | 794 | (113) | 8,320 | 649 | — | 8,969 |
| Net fee income/(expense) | 1,955 | 889 | (13) | 66 | 2,897 | 39 | — | 2,936 |
| Trading income/(loss) | 89 | 326 | 690 | (9) | 1,096 | 108 | — | 1,204 |
| Net income/(loss) from financial instruments designated at fair value | (108) | (3) | — | — | (111) | — | — | (111) |
| Dividend income | — | — | — | 4 | 4 | — | — | 4 |
| Net earned insurance premiums | 5,761 | 39 | — | — | 5,800 | — | — | 5,800 |
| Other operating income | 956 | 25 | — | 140 | 1,121 | — | (26) | 1,095 |
| Total operating income | 13,570 | 3,998 | 1,471 | 88 | 19,127 | 796 | (26) | 19,897 |
| Net insurance claims incurred and movement in policyholders' liabilities | (6,381) | (39) | — | — | (6,420) | — | — | (6,420) |
| Net operating income before loan impairment charges | 7,189 | 3,959 | 1,471 | 88 | 12,707 | 796 | (26) | 13,477 |
| Loan impairment (charges)/ releases | (280) | 65 | — | — | (215) | 17 | — | (198) |
| Net operating income | 6,909 | 4,024 | 1,471 | 88 | 12,492 | 813 | (26) | 13,279 |
| Operating expenses W | (2,615) | (886) | (151) | (35) | (3,687) | (684) | 26 | (4,345) |
| Operating profit | 4,294 | 3,138 | 1,320 | 53 | 8,805 | 129 | — | 8,934 |
| Gains less losses from financial investments and fixed assets | (1) | 1 | — | 173 | 173 | — | — | 173 |
| Gain on reclassification of Industrial Bank | — | — | — | — | — | 8,454 | — | 8,454 |
| Net surplus on property revaluation | — | — | — | 999 | 999 | — | — | 999 |
| Share of profits from associates | 162 | 1 | — | — | 163 | 50 | — | 213 |
| Profit before tax | 4,455 | 3,140 | 1,320 | 1,225 | 10,140 | 8,633 | — | 18,773 |
| Share of profit before tax | 23.8% | 16.7% | 7.0% | 6.5% | 54.0% | 46.0% | — | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 43.9% | 31.0% | 13.0% | 12.1% | 100.0% | | | |

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|------|---|-------|
| Operating profit excluding loan impairment charges | 4,574 | 3,073 | 1,320 | 53 | 9,020 | 112 | — | 9,132 |
| W Depreciation/amortisation included in operating expenses | (24) | (13) | (1) | (345) | (383) | (50) | — | (433) |

At 30 June 2013

| | | | | | | | | |
|------------------------|---------|---------|---------|--------|-----------|---------|----------|-----------|
| Total assets | 307,081 | 324,547 | 283,618 | 98,429 | 1,013,675 | 118,176 | (25,194) | 1,106,657 |
| Total liabilities | 621,704 | 213,303 | 33,203 | 46,569 | 914,779 | 109,913 | (20,116) | 1,004,576 |
| Interest in associates | 1,769 | 9 | — | — | 1,778 | 975 | — | 2,753 |

Hong Kong & other businesses

| Figures in HK\$m | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | Mainland China business | Inter-segment elimination | Total |
|--|--------------------------------------|----------------------------------|----------|-------|---------|-------------------------|---------------------------|---------|
| Half-year ended 30 June 2012 (restated) | | | | | | | | |
| Net interest income/(expense) | 4,232 | 2,479 | 852 | (105) | 7,458 | 828 | — | 8,286 |
| Net fee income/(expense) | 1,545 | 770 | (15) | 59 | 2,359 | 49 | — | 2,408 |
| Trading income | 216 | 278 | 609 | 4 | 1,107 | 63 | — | 1,170 |
| Net income/(loss) from financial instruments designated at fair value | 106 | (4) | — | — | 102 | — | — | 102 |
| Dividend income | — | — | — | 4 | 4 | — | — | 4 |
| Net earned insurance premiums | 6,488 | 123 | — | — | 6,611 | — | — | 6,611 |
| Other operating income | 683 | 12 | — | 113 | 808 | — | (24) | 784 |
| Total operating income | 13,270 | 3,658 | 1,446 | 75 | 18,449 | 940 | (24) | 19,365 |
| Net insurance claims incurred and movement in policyholders' liabilities | (6,931) | (74) | — | — | (7,005) | — | — | (7,005) |
| Net operating income before loan impairment charges | 6,339 | 3,584 | 1,446 | 75 | 11,444 | 940 | (24) | 12,360 |
| Loan impairment (charges)/releases | (189) | 33 | — | — | (156) | (93) | — | (249) |
| Net operating income | 6,150 | 3,617 | 1,446 | 75 | 11,288 | 847 | (24) | 12,111 |

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| | | | | | | | | |
|---|---------|-------|-------|-------|---------|-------|----|---------|
| Operating expenses W | (2,373) | (857) | (135) | (147) | (3,512) | (648) | 24 | (4,136) |
| Operating profit | 3,777 | 2,760 | 1,311 | (72) | 7,776 | 199 | — | 7,975 |
| Gains less losses from financial investments and fixed assets | — | — | — | 1 | 1 | (1) | — | — |
| Gain on disposal of a subsidiary | — | — | — | — | — | — | — | — |
| Net surplus on property revaluation | — | — | — | 238 | 238 | — | — | 238 |
| Share of profits from associates | 119 | 1 | — | — | 120 | 2,267 | — | 2,387 |
| Profit before tax | 3,896 | 2,761 | 1,311 | 167 | 8,135 | 2,465 | — | 10,600 |
| Share of profit before tax | 36.7% | 26.0% | 12.4% | 1.6% | 76.7% | 23.3% | — | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 47.9% | 33.9% | 16.1% | 2.1% | 100.0% | | | |
| Operating profit excluding loan impairment charges | 3,966 | 2,727 | 1,311 | (72) | 7,932 | 292 | — | 8,224 |
| W Depreciation/amortisation included in operating expenses | (24) | (13) | (2) | (347) | (386) | (56) | — | (442) |

At 30 June 2012

| | | | | | | | | |
|------------------------|---------|---------|---------|--------|---------|---------|----------|-----------|
| Total assets | 275,221 | 286,112 | 286,974 | 63,050 | 911,357 | 116,278 | (21,767) | 1,005,868 |
| Total liabilities | 579,005 | 194,085 | 41,060 | 35,053 | 849,203 | 89,178 | (16,758) | 921,623 |
| Interest in associates | 1,499 | 7 | — | — | 1,506 | 20,091 | — | 21,597 |

Hong Kong & other businesses

| Figures in HK\$m | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | Mainland China businesses | Inter-segment elimination | Total |
|---|--------------------------------------|----------------------------------|----------|-------|-------|---------------------------|---------------------------|-------|
| Half-year ended 31 December 2012 (restated) | | | | | | | | |
| Net interest income/(expense) | 4,529 | 2,810 | 824 | (223) | 7,940 | 720 | — | 8,660 |
| Net fee income/(expense) | 1,765 | 796 | (13) | 82 | 2,630 | 48 | — | 2,678 |
| Trading income/(loss) | 311 | 168 | 379 | (16) | 842 | 51 | — | 893 |

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| | | | | | | | | |
|--|---------|-------|-------|-------|---------|-------|------|---------|
| Net income/(loss) from financial instruments designated at fair value | 275 | (1) | — | — | 274 | — | — | 274 |
| Dividend income | — | 7 | — | 6 | 13 | — | — | 13 |
| Net earned insurance premiums | 4,288 | 48 | — | — | 4,336 | — | — | 4,336 |
| Other operating income | 265 | 19 | — | 126 | 410 | 15 | (28) | 397 |
| Total operating income | 11,433 | 3,847 | 1,190 | (25) | 16,445 | 834 | (28) | 17,251 |
| Net insurance claims incurred and movement in policyholders' liabilities | (5,189) | (41) | — | — | (5,230) | — | — | (5,230) |
| Net operating income before loan impairment charges | 6,244 | 3,806 | 1,190 | (25) | 11,215 | 834 | (28) | 12,021 |
| Loan impairment (charges)/releases | (186) | 18 | 1 | — | (167) | 30 | — | (137) |
| Net operating income | 6,058 | 3,824 | 1,191 | (25) | 11,048 | 864 | (28) | 11,884 |
| Operating expenses W | (2,462) | (901) | (141) | (169) | (3,673) | (727) | 28 | (4,372) |
| Operating profit | 3,596 | 2,923 | 1,050 | (194) | 7,375 | 137 | — | 7,512 |
| Gains less losses from financial investments and fixed assets | — | (3) | — | (2) | (5) | — | — | (5) |
| Gain on disposal of a subsidiary | 187 | 168 | — | — | 355 | — | — | 355 |
| Net surplus on property revaluation | — | — | — | 538 | 538 | — | — | 538 |
| Share of profits from associates | 172 | 1 | — | — | 173 | 2,821 | — | 2,994 |
| Profit before tax | 3,955 | 3,089 | 1,050 | 342 | 8,436 | 2,958 | — | 11,394 |
| Share of profit before tax | 34.7% | 27.1% | 9.2% | 3.0% | 74.0% | 26.0% | — | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 46.9% | 36.6% | 12.4% | 4.1% | 100.0% | | | |
| Operating profit excluding loan impairment charges | 3,782 | 2,905 | 1,049 | (194) | 7,542 | 107 | — | 7,649 |
| W Depreciation/amortisation included in operating expenses | (21) | (13) | (2) | (344) | (380) | (55) | — | (435) |

At 31 December 2012

| | | | | | | | | |
|------------------------|---------|---------|---------|--------|---------|---------|----------|-----------|
| Total assets | 292,217 | 289,667 | 326,257 | 63,480 | 971,621 | 125,232 | (19,757) | 1,077,096 |
| Total liabilities | 621,266 | 197,590 | 47,163 | 38,295 | 904,314 | 95,146 | (14,687) | 984,773 |
| Interest in associates | 1,644 | 8 | — | — | 1,652 | 23,003 | — | 24,655 |

Hong Kong and other businesses segment

Retail Banking and Wealth Management ('RBWM') in Hong Kong reported profit before tax of HK\$4,455m in the first half of 2013, representing a 14.3% year-on-year increase. Operating profit excluding loan impairment charges grew by 15.3% to HK\$4,574m.

We achieved good results by leveraging the trusted Hang Seng brand and employing a competitive pricing strategy. We continued to expand the affluent customer base in attracting new sources of funds to sustain our business growth. Along with solid growth in unsecured lending businesses, this helped support a 16.2% increase in net interest income to HK\$4,917m.

Non-interest income rose by 7.8% year-on-year to HK\$2,272m. With our continued focus on wealth management, net fee income increased by 26.5% to HK\$1,955m. Overall wealth management income grew by 12.6% to HK\$3,169m.

Mortgage business remained an important source of income growth. We expanded our range of products with the launch of an enhanced fixed-rate mortgage plan in April that is designed to help customers guard against fluctuations in market interest rates. Despite keen competition, we sustained good business momentum with a market share of 15.6% in terms of new mortgage registrations in the first half of 2013. The mortgage loans portfolio grew by 3.0% compared to 31 December 2012 with an improvement in yield.

Supported by effective marketing campaigns and our quality credit card customer base, card spending achieved double digit growth of 11.3% compared with same period last year. Total cards in circulation rose by 5.8% to 2.4m year-on-year and we were the third-largest card issuer of VISA and MasterCard in Hong Kong. The personal loan portfolio grew by 8.5% compared to 31 December 2012, with a total loan balance of HK\$6,373m.

With improved investor sentiment in the early months of the year, total operating income from investment service business increased by 37.2% year-on-year, with sales of retail investment funds as the major growth driver. Retail investment funds turnover and income increased by 102.9% and 69.1% respectively. Securities turnover rose by 22.6% and related income grew by 13.4%. We broadened our product suite to capture market trends by launching the Hang Seng China A-Share FlexiPower Fund and the Hang Seng 'God of Wealth' gold bar.

Total operating income from insurance business decreased by 3.2% year-on-year. Leveraging our extensive distribution network and timely promotion offers, annualised new life insurance premiums grew by 8.5% year-on-year and total life insurance policies in-force rose by 8.1% compared with the same period last year. The good sales results were, however, offset by the lower returns on our investment portfolio as the investment climate changed towards the end of the second quarter.

We took additional steps to acquire new quality customers with wealth management needs to successfully increase the number of Prestige and Preferred Banking customers compared with the same time last year. We invested in the development of our Prestige and Preferred Banking Centres to enhance the customer experience. As at the end of June, we had nine such centres in strategic locations, with plans to open more in the pipeline. We expanded our team of relationship managers and put additional resources into their professional development so as to better serve our customers.

We invested in new technology to improve and upgrade our online and mobile wealth management channels to provide customers with fast, convenient and secure access to financial services. Our new online 'iPower' platform,

launched in April, allows customers to manage their investment funds portfolio online and offers the option of a lower minimum subscription amount than traditional funds account services. With the introduction of our contactless mobile payment service in June 2013, customers who hold Hang Seng MasterCard credit cards can now link their compatible smartphone SIM to their credit card account to enjoy the convenience of using their mobile phones to make payments in a growing network of retail outlets in Hong Kong.

Corporate and Commercial Banking ('CNC') in Hong Kong achieved a 13.7% increase in profit before tax to HK\$3,140m.

We have achieved a balanced growth in both customer advances and deposits, which increased by 10.6% and 8.4% respectively during the first half of 2013. Net interest income grew by 9.8% to HK\$2,722m compared with the prior year.

We have stepped up portfolio management and increased the return on risk-weighted assets with more proactive cross-selling of non-interest income products and tailor-made propositions. Non-interest income was up 11.9% at HK\$1,237m, underpinned by satisfactory growth on sales of investment funds, FX structured products and securities trading. Renminbi investment and hedging products were well-received by our corporate and commercial customers.

The credit portfolio remained healthy with HK\$65m of net loan impairment released in the first half of 2013.

We have continued to attract and retain quality SME customers through our expanded network, enhanced mobile banking platform and new product offering. Two new Business Banking Centres were opened in Sheung Shui and Kwun Tong to enhance accessibility and services. Our Business Mobile Banking platform was upgraded in April 2013 with payment authorisation and fund transfer capability to registered third parties. We launched the 'UpBiz Integrated Account' supporting high-value customers with designated relationship managers and Trade Advisory Team. We continued to be one of the major market participants in the Hong Kong Mortgage Corporation's SME Financing Guarantee Scheme ('SFGS') and approved over HK\$4.5bn of loan facilities since June 2012 when SFGS was enhanced with an 80% guarantee. We won the 'SME's Best Partner Award' from the Hong Kong General Chamber of Small and Medium Business for the eighth consecutive year in May 2013.

We have introduced innovative supply chain solutions to customers in the first half of 2013, including pre-delivery receivable financing under the vendor-managed inventory model. We were awarded 'Trade Finance Domestic Bank - Hong Kong' by the Asian Banking & Finance Magazine for the second consecutive year in June 2013. We shall continue to strengthen transaction banking (trade and cash management) core product capabilities and infrastructure to meet customers' needs in the fast-changing international trade landscape.

Treasury ('TRY') in Hong Kong recorded a 0.7% increase in profit before tax to HK\$1,320m.

Net interest income declined by 6.8% to HK\$794m, reflecting the reduction in the commercial surplus available for deployment, as well as the low interest rate environment and flattened yield curves - which limited opportunities for yield enhancement. The prevailing low interest rates also had an unfavourable impact on the reinvestment of funds arising from the maturing of debt securities in the balance sheet management portfolio.

Total trading income increased by HK\$81m, or 13.3%, to HK\$690m. Option income from foreign exchange structured products registered encouraging growth, boosted in part by rising demand for renminbi-denominated products following the further development of renminbi business in Hong Kong. An increase in trading activity, particularly during the second quarter of the year, helped drive a 77.1% year-on-year rise in foreign exchange trading income.

Front-line channels (including e-Banking) and trading systems were enhanced to facilitate straight-through processing, enabling better position management.

To enhance our strong position as a provider of physical gold and gold-related investment products, we collaborated with Retail Banking and Wealth Management to launch the Hang Seng 'God of Wealth' gold bar and a structured investment deposit linked to gold during the first half of the year.

To further diversify our revenue base, we increased the provision of treasury products to RBWM and CNC customers through closer collaboration and a segmentation study to identify potential new opportunities for fulfilling customer needs.

Mainland China business

Mainland China's economic growth momentum slowed during the first half of 2013, reflecting the effects of structural reforms introduced under the '12th Five-Year Plan' in 2011, the slowing of domestic investment and consumption and subdued external demand. Keen competition for deposits and volatility in the interbank market continued to put pressure on interest margins.

Hang Seng China continued with the development of its distribution and service platforms, including the commencement of operations at the Qianhai sub-branch in Shenzhen, to capture new cross-border business opportunities arising from the establishment of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. Shantou sub-branch is scheduled to open in the second half of 2013 to further strengthen Hang Seng China's foothold in the Closer Economic Partnership Arrangement ('CEPA') catchment area.

To further diversify the income base and in preparation for further liberalisation in the financial sector, Hang Seng China made additional investments in its people, e-banking platform, and product and service propositions. Close cooperation between the bank and its mainland subsidiary is enabling us to further leverage our unique strengths in serving customers who require seamless and sophisticated cross-border financial solutions and enhance awareness of the Hang Seng brand - particularly in the southern region of the Mainland.

Driven by an expansion in the customer base, overall advances to customers rose by 16.8%. Customer deposits were up 11.6%, compared with last year-end.

Total operating income was 15.3% lower than the first half of 2012, affected by a 21.6% decrease in net interest income. Operating profit fell by 35.2% compared with the same period last year, taking into account the 5.6% increase in operating expenses relating to further investment in future business development and a net release in loan impairment charges, compared with a net charge in the first half of 2012.

| | As reported | Constant currencyW |
|--|-------------|-----------------------|
| Half-year ended 30 June 2013 compared with 30 June 2012 | | |
| Total operating income | -15.3% | -15.9% |
| Operating profit | -35.2% | -36.7% |
| At 30 June 2013 compared with 31 December 2012 | | |
| Gross advances to customers | 16.8% | 14.7% |
| Customer deposits | 11.6% | 9.6% |

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The group has continued to cooperate closely with Industrial Bank as a strategic business partner in various business areas, including trade finance and retail banking business. Business collaboration between Hang Seng China and Industrial Bank has also been stepped up.

W Constant currency comparatives for 2012 referred to in the tables above are computed by translating into Hong Kong dollars the functional currency (renminbi) of Hang Seng's mainland China business:

- the income statement for the half year to 30 June 2012 at the average rates of exchange for the half year to 30 June 2013;and

- the balance sheet at 31 December 2012 at the prevailing rates of exchange on 30 June 2013.

Consolidated Income Statement (unaudited)

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 (restated) | Half-year ended 31 December 2012 (restated) |
|--|------------------------------------|--|--|
| Interest income | 11,459 | 10,780 | 11,081 |
| Interest expense | (2,490)) | (2,494)) | (2,421)) |
| Net interest income | 8,969 | 8,286 | 8,660 |
| Fee income | 3,637 | 2,977 | 3,321 |
| Fee expense | (701)) | (569)) | (643)) |
| Net fee income | 2,936 | 2,408 | 2,678 |
| Trading income | 1,204 | 1,170 | 893 |
| Net income/(loss) from financial instruments designated at fair value | (111)) | 102 | 274 |
| Dividend income | 4 | 4 | 13 |
| Net earned insurance premiums | 5,800 | 6,611 | 4,336 |
| Other operating income | 1,095 | 784 | 397 |
| Total operating income | 19,897 | 19,365 | 17,251 |
| Net insurance claims incurred and movement in policyholders' liabilities | (6,420)) | (7,005)) | (5,230)) |
| Net operating income before loan impairment charges | 13,477 | 12,360 | 12,021 |
| Loan impairment charges | (198)) | (249)) | (137)) |
| Net operating income | 13,279 | 12,111 | 11,884 |
| Employee compensation and benefits | (2,170)) | (2,098)) | (2,158)) |
| General and administrative expenses | (1,742)) | (1,596)) | (1,779)) |
| Depreciation of premises, plant and equipment | (376)) | (381)) | (381)) |
| Amortisation of intangible assets | (57)) | (61)) | (54)) |
| Operating expenses | (4,345)) | (4,136)) | (4,372)) |
| Operating profit | 8,934 | 7,975 | 7,512 |
| Gains less losses from financial investments and fixed assets | 173 | — | (5) |

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| | | | |
|---|--------|----------|----------|
| Gain on reclassification of Industrial Bank | 8,454 | — | — |
| Gain on disposal of a subsidiary | — | — | 355 |
| Net surplus on property revaluation | 999 | 238 | 538 |
| Share of profits from associates | 213 | 2,387 | 2,994 |
| Profit before tax | 18,773 | 10,600 | 11,394 |
| Tax expense | (305)) | (1,347)) | (1,320)) |
| Profit for the period | 18,468 | 9,253 | 10,074 |
| Profit attributable to shareholders | 18,468 | 9,253 | 10,074 |
| Earnings per share (in HK\$) | 9.66 | 4.84 | 5.27 |

Details of dividends payable to shareholders of the bank attributable to the profit for the half year are set out on page 37.

Consolidated Statement of Comprehensive Income (unaudited)

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 (restated) | Half-year ended 31 December 2012 (restated) |
|--|------------------------------------|--|--|
| Profit for the period | 18,468 | 9,253 | 10,074 |
| Other comprehensive income | | | |
| Items that will be reclassified subsequently to the income statement when specific conditions are met: | | | |
| Available-for-sale investment reserve: | | | |
| - fair value changes taken to equity: | | | |
| -- on debt securities | (685) | 326 | 54 |
| -- on equity shares | (3,458) | 54 | 36 |
| - fair value changes transferred to income statement: | | | |
| -- on hedged items | 461 | (62) | 84 |
| -- on disposal | — | (1) | — |
| - share of changes in equity of associates: | | | |
| -- fair value changes | 4 | 471 | (12) |
| -- fair value changes transferred to income statement on reclassification of Industrial Bank | 94 | — | — |
| - deferred taxes | 42 | (156) | (1) |
| - exchange difference | 431 | — | (1) |
| Cash flow hedging reserve: | | | |

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| | | | |
|--|---------|-------|-------|
| - fair value changes taken to equity | 498 | 33 | 308 |
| - fair value changes transferred to income statement | (516) | (30) | (298) |
| - deferred taxes | 3 | — | (2) |
| Exchange differences on translation of: | | | |
| - financial statements of overseas branches, subsidiaries and associates | 338 | (136) | 164 |
| - cumulative foreign exchange reserve transferred to income statement on reclassification of Industrial Bank | (2,039) | — | — |
| - retained profits | (3) | 1 | (1) |
| Share-based payments | (1) | (7) | — |
| Others | 30 | (25) | (10) |

Items that will not be reclassified subsequently to the income statement:

Premises:

| | | | |
|---|-------|-------|-------|
| - unrealised surplus on revaluation of premises | 1,526 | 839 | 1,383 |
| - deferred taxes | (241) | (128) | (230) |
| - exchange difference | 2 | (1) | 1 |

Defined benefit plans:

| | | | |
|---|-------|-------|-------|
| - actuarial gains/(losses) on defined benefit plans | 855 | (137) | 861 |
| - deferred taxes | (141) | 22 | (142) |

| | | | |
|---|---------|-------|-------|
| Other comprehensive income for the period, net of tax | (2,800) | 1,063 | 2,194 |
|---|---------|-------|-------|

| | | | |
|---|--------|--------|--------|
| Total comprehensive income for the period | 15,668 | 10,316 | 12,268 |
|---|--------|--------|--------|

| | | | |
|--|--------|--------|--------|
| Total comprehensive income for the period attributable to shareholders | 15,668 | 10,316 | 12,268 |
|--|--------|--------|--------|

Consolidated Balance Sheet (unaudited)

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|--------------------|------------------------|
| ASSETS | | | |
| Cash and balances with banks | 19,190 | 18,272 | 27,082 |
| Placings with and advances to banks | 135,999 | 137,948 | 140,382 |
| Trading assets | 34,509 | 41,037 | 34,399 |
| Financial assets designated at fair value | 10,150 | 7,708 | 8,343 |
| Derivative financial instruments | 4,752 | 4,063 | 5,179 |

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| | | | |
|---------------------------------|-----------|-----------|-----------|
| Loans and advances to customers | 579,705 | 504,902 | 536,162 |
| Financial investments | 263,369 | 224,385 | 253,408 |
| Interest in associates | 2,753 | 21,597 | 24,655 |
| Investment properties | 10,547 | 4,583 | 4,860 |
| Premises, plant and equipment | 20,690 | 18,250 | 19,262 |
| Intangible assets | 7,403 | 6,603 | 6,783 |
| Other assets | 17,590 | 16,520 | 16,581 |
| Total assets | 1,106,657 | 1,005,868 | 1,077,096 |

LIABILITIES AND EQUITY

Liabilities

| | | | |
|---|-----------|---------|---------|
| Current, savings and other deposit accounts | 779,884 | 720,397 | 769,147 |
| Deposits from banks | 15,790 | 11,284 | 19,845 |
| Trading liabilities | 67,749 | 57,364 | 59,853 |
| Financial liabilities designated at fair value | 466 | 443 | 464 |
| Derivative financial instruments | 4,817 | 4,759 | 4,118 |
| Certificates of deposit and other debt securities in issue | 11,022 | 12,662 | 11,291 |
| Other liabilities | 20,874 | 20,469 | 21,653 |
| Liabilities to customers under insurance contracts | 86,584 | 77,347 | 81,670 |
| Current tax liabilities | 1,928 | 1,420 | 588 |
| Deferred tax liabilities | 3,633 | 3,651 | 4,323 |
| Subordinated liabilities | 11,829 | 11,827 | 11,821 |
| Total liabilities | 1,004,576 | 921,623 | 984,773 |

Equity

| | | | |
|------------------------------|-----------|-----------|-----------|
| Share capital | 9,559 | 9,559 | 9,559 |
| Retained profits | 76,633 | 54,623 | 59,683 |
| Other reserves | 13,786 | 17,960 | 19,257 |
| Proposed dividends | 2,103 | 2,103 | 3,824 |
| Shareholders' funds | 102,081 | 84,245 | 92,323 |
| Total equity and liabilities | 1,106,657 | 1,005,868 | 1,077,096 |

Consolidated Statement of Changes in Equity (unaudited)

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|--|------------------------------------|------------------------------------|--|
| Share capital | | | |
| At beginning and end of period | 9,559 | 9,559 | 9,559 |
| Retained profits (including proposed dividends) | | | |
| At beginning of period | 63,507 | 53,152 | 56,726 |

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| | | | |
|---|----------|----------|----------|
| Dividends to shareholders | | | |
| - dividends approved in respect of the previous year | (3,824) | (3,633) | — |
| - dividends declared in respect of the current period | (2,103) | (2,103) | (4,2066) |
| Transfer | 1,978 | 178 | 195 |
| Total comprehensive income for the period | 19,178 | 9,132 | 10,792 |
| | 78,736 | 56,726 | 63,507 |
| Other reserves | | | |
| Premises revaluation reserve | | | |
| At beginning of period | 13,790 | 12,280 | 12,811 |
| Transfer | (449) | (179) | (1755) |
| Total comprehensive income for the period | 1,287 | 710 | 1,154 |
| | 14,628 | 12,811 | 13,790 |
| Available-for-sale investment reserve | | | |
| At beginning of period | 227 | (561) | 71 |
| Transfer | — | — | (44) |
| Total comprehensive income for the period | (3,111) | 632 | 160 |
| | (2,884) | 71 | 227 |
| Cash flow hedging reserve | | | |
| At beginning of period | 17 | 6 | 99 |
| Total comprehensive income for the period | (15) | 3 3 | 88 |
| | 2 | 9 | 17 |
| Foreign exchange reserve | | | |
| At beginning of period | 3,0711 | 3,043 | 2,907 |
| Transfer | (64) | — | — |
| Total comprehensive income for the period | (1,701) | (136) | 164 |
| | 1,306 | 2,907 | 3,071 |

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|--|------------------------------------|------------------------------------|--|
|--|------------------------------------|------------------------------------|--|

Figures in HK\$m

| | | | |
|--|-------|-------|-------|
| Other reserves | | | |
| At beginning of period | 2,152 | 2,155 | 2,162 |
| Cost of share-based payment arrangements | 17 | 31 | 16 |

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| | | | |
|---|----------|----------|----------|
| Transfer | (1,465) | 1 | (16) |
| Total comprehensive income for the period | 30 | (25) | (10) |
| | 734 | 2,162 | 2,152 |
| Total equity | | | |
| At beginning of period | 92,323 | 79,634 | 84,245 |
| Dividends to shareholders | (5,927) | (5,736) | (4,206) |
| Cost of share-based payment arrangements | 17 | 31 | 16 |
| Total comprehensive income for the period | 15,668 | 10,316 | 12,268 |
| | 102,081 | 84,245 | 92,323 |

Consolidated Cash Flow Statement (unaudited)

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 |
|--|------------------------------------|------------------------------------|
| Net cash inflow from operating activities | 1,393 | 3,078 |
| Cash flows from investing activities | | |
| Dividends received from associates | — | 660 |
| Purchase of an interest in an associate | — | (18) |
| Purchase of available-for-sale investments | (23,729) | (20,545) |
| Purchase of held-to-maturity debt securities | (953) | (502) |
| Proceeds from sale or redemption of available-for-sale investments | 16,177 | 40,153 |
| Proceeds from redemption of held-to-maturity debt securities | 55 | 305 |
| Purchase of fixed assets and intangible assets | (3,229) | (178) |
| Proceeds from sale of fixed assets and assets held for sale | 910 | 26 |
| Interest received from available-for-sale investments | 826 | 1,272 |
| Dividends received from available-for-sale investments | 5 | 4 |
| Net cash (outflow)/inflow from investing activities | (9,938) | 21,177 |
| Cash flows from financing activities | | |
| Dividends paid | (5,927) | (5,736) |
| Interest paid for subordinated liabilities | (155) | (126) |
| Net cash outflow from financing activities | (6,082) | (5,862) |
| (Decrease)/increase in cash and cash equivalents | (14,627) | 18,393 |

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| | | |
|---|---------|---------|
| Cash and cash equivalents at 1 January | 125,034 | 120,469 |
| Effect of foreign exchange rate changes | (2,557) | (784) |
| Cash and cash equivalents at 30 June | 107,850 | 138,078 |

Financial Review

Net interest income

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Net interest income/(expense) arising from: | | | |
| - financial assets and liabilities that are not at fair value through profit and loss | 9,705 | 8,918 | 9,244 |
| - trading assets and liabilities | (770) | (656) | (612) |
| - financial instruments designated at fair value | 34 | 24 | 28 |
| | 8,969 | 8,286 | 8,660 |
| Average interest-earning assets | 981,814 | 898,862 | 935,411 |
| Net interest spread | 1.73% | 1.74% | 1.73% |
| Net interest margin | 1.84% | 1.85% | 1.84% |

Net interest income rose by HK\$683m, or 8.2%, to HK\$8,969m, driven in part by the 9.2% increase in average interest-earning assets. The insurance business also contributed to the rise in net interest income, with the group recording solid growth in its life insurance investment portfolio.

Net interest margin and net interest spread both fell slightly by one basis point to 1.84% and 1.73% respectively compared with the same period last year. Income from the Treasury Balance Sheet Management portfolio declined, as yield curves continued to flatten and maturing available-for-sale debt securities were re-invested at prevailing lower interest rates. In mainland China, interbank market volatility and increasing competition for deposits placed significant downward pressure on spreads. These adverse factors were largely offset by the improved lending margins and the stable deposit spread in Hong Kong. The contribution from net free funds remained the same at 0.11%.

Compared with the second half of 2012, net interest income grew by HK\$309m, or 3.6%, supported by higher average interest-earning assets, despite fewer days in the period. Net interest margin compared with the second half of 2012 was unchanged at 1.84%.

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

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

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| - Net interest income and expense reported as 'Net interest income' | | | |
| Interest income | 11,334 | 10,602 | 10,935 |
| Interest expense | (1,629) | (1,684) | (1,691) |
| Net interest income | 9,705 | 8,918 | 9,244 |
| - Net interest income and expense reported as 'Net trading income' | (770) | (656) | (612) |
| - Net interest income and expense reported as 'Net income from financial instruments designated at fair value' | 34 | 24 | 28 |
| Average interest-earning assets | 944,273 | 835,783 | 895,641 |
| Net interest spread | 1.98% | 2.06% | 1.96% |
| Net interest margin | 2.07% | 2.15% | 2.05% |

Net fee income

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|-------------------------------------|------------------------------------|------------------------------------|--|
| - Stockbroking and related services | 535 | 464 | 477 |
| - Retail investment funds | 845 | 495 | 635 |
| - Insurance agency | 223 | 135 | 232 |
| - Account services | 179 | 177 | 176 |
| - Private banking service fee | 53 | 54 | 39 |
| - Remittances | 158 | 144 | 157 |
| - Cards | 1,016 | 894 | 971 |
| - Credit facilities | 163 | 194 | 162 |
| - Trade services | 284 | 245 | 299 |
| - Other | 181 | 175 | 173 |
| Fee income | 3,637 | 2,977 | 3,321 |
| Fee expense | (701) | (569) | (643) |

2,936 2,408 2,678

Net fee income increased by HK\$528m, or 21.9%, to HK\$2,936m compared with the first half of 2012.

With the improved investor sentiment in the early part of the year, the bank used its strong wealth management platform to capture new business opportunities, driving a 70.7% increase in retail investment funds income. Stockbroking and related services income increased by 15.3%, due to higher transaction volumes in the more favourable market conditions.

Insurance-related fee income rose by 65.2%, benefitting from the increase in non-life insurance products distribution commission since the second half of last year as a result of the disposal of the bank's general insurance manufacturing business in the second half of 2012. This increase was offset by a corresponding fall in non-life insurance underwriting profit.

Supported by effective marketing campaigns, the credit card business sustained its growth momentum in the first half of 2013 in terms of card income and average card balances. Credit card income increased by 13.6%, underpinned by the 11.4% rise in cardholder spending and the 2.6% increase in the number of cards in circulation.

Fees from remittances and trade-related service income rose by 9.7% and 15.9% respectively, reflecting an increase in trade activity and the expansion of renminbi cross-border trade settlement volumes.

Compared with the second half of 2012, net fee income increased by 9.6%, mainly reflecting higher income from retail investment funds and stockbroking and related services.

Trading income

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Trading income: | | | |
| - foreign exchange | 1,190 | 1,193 | 793 |
| - securities, derivatives and other trading activities | 14 | (23) | 100 |
| | 1,204 | 1,170 | 893 |

Trading income grew by HK\$34m, or 2.9%, to HK\$1,204m compared with the first half of 2012. Foreign exchange income remained broadly unchanged when compared with the first half of 2012. Increased customer-driven business and higher customer demand for foreign exchange option-linked structured products, notably in renminbi, has resulted in an improvement in foreign exchange revenues. However, these favourable factors were offset by lower net interest income from funding swaps activities.

Income from securities, derivatives and other trading activities recorded a net gain of HK\$14m, compared with a net loss of HK\$23m for the same period last year, reflecting higher income on interest rate derivatives and linked structured products, caused by market interest rate movement, partly offset by the revaluation loss on equity options backing a life endowment product.

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

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

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Net income/(loss) on assets designated at fair value which back insurance and investment contracts | (111)) | 102 | 274 |

Net income from financial instruments designated at fair value recorded a net loss of HK\$111m compared with a net income of HK\$102m for the first half of 2012, mainly due to unfavourable equity movements during the first half of 2013. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims incurred and movement in policyholders' liabilities' or 'movement in present value of in-force long-term insurance business ('PVIF')'.

Other operating income

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|--|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Rental income from investment properties | 106 | 94 | 103 |
| Movement in present value of in-force long-term insurance business | 622 | 614 | 201 |
| Other | 367 | 76 | 93 |
| | 1,095 | 784 | 397 |

Other operating income rose by HK\$311m, or 39.7% compared with the first half of 2012, driven by a gain on a property held by the insurance business.

Analysis of income from wealth management business

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| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 (restated) | Half-year ended 31 December 2012 (restated) |
|---|------------------------------------|--|--|
| Investment income: | | | |
| - retail investment funds | 845 | 495 | 635 |
| - structured investment products ^W | 667 | 653 | 299 |
| - private banking service fee ^{WW} | 65 | 72 | 51 |
| - stockbroking and related services | 535 | 464 | 477 |
| - margin trading and others | 68 | 71 | 71 |
| | 2,180 | 1,755 | 1,533 |
| Insurance income: | | | |
| - life insurance | 1,722 | 1,697 | 1,319 |
| - general insurance and others | 105 | 178 | 132 |
| | 1,827 | 1,875 | 1,451 |
| Total | 4,007 | 3,630 | 2,984 |

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

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

Wealth management business income recorded growth of 10.4% compared with the first half of 2012. Investment income increased by 24.2%, driven by strong retail investment fund sales and a higher level of stock market trading activity. Insurance business income decreased slightly by 2.6%, mainly due to the fall in non-life insurance income.

Analysis of insurance business income

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Life insurance: | | | |
| - net interest income and fee income | 1,509 | 1,381 | 1,464 |
| - investment returns on life insurance funds/share of associate's profit/surplus on property revaluation backing insurance contract | 211 | 210 | 551 |
| - net earned insurance premiums | 5,800 | 6,446 | 4,328 |
| - net insurance claims incurred and movement in policyholders' liabilities | (6,420) | (6,954) | (5,225) |

| | | | |
|---|-------|-------|-------|
| - movement in present value of in-force | | | |
| long-term insurance business | 622 | 614 | 201 |
| | 1,722 | 1,697 | 1,319 |
| General insurance and others | 105 | 178 | 132 |
| Total | 1,827 | 1,875 | 1,451 |

Life insurance income rose by HK\$25m, or 1.5%, to HK\$1,722m. Supported by our comprehensive range of life insurance products, the bank achieved an 8.5% increase in new annualised life insurance premiums when compared with the first half of 2012. The bank continued to enhance its strong position in providing retirement savings and protection products to its customers. In response to the low interest rate environment and to achieve stable growth in life insurance business income, part of the life insurance funds investment portfolio has been invested in commercial property, which recorded a revaluation gain during the first half of 2013.

Net interest income and fee income from the life insurance investment portfolio grew by 9.3%, as a result of the growth in the size of the portfolio. Investment returns on life insurance funds remained broadly unchanged. This reflected the net effect of the unfavourable movement in equity markets partly offset by the property revaluation gains on the assets portfolio supporting insurance contracts and reported under 'trading income', 'net income/(loss) from financial instruments designated at fair value' and 'other operating income'. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims incurred and movement in policyholders' liabilities' or 'movement in present value of in-force long-term insurance business ('PVIF')'. The movement in PVIF was broadly the same as last year.

General insurance income decreased by 41.0% to HK\$105m, mainly due to the disposal of the bank's general insurance subsidiary in the second half of 2012. The decrease in non-life insurance underwriting profit was offset by a corresponding increase in non-life insurance products distribution commission reported under 'Net fee income'.

Loan impairment charges

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Net charge for impairment of loans and advances to customers: | | | |
| Individually assessed impairment allowances: | | | |
| - new allowances | (61) | (213) | (81))) |
| - releases | 57 | 81 | 143 |
| - recoveries | 7 | 4 | 9 |
| | 3 | (128))) | 71 |
| Net charge for collectively assessed impairment allowances | (201) | (121))) | (208))) |
| Net charge for loan impairment |) | | (137))) |
| | (198 | (249))) | |

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Loan impairment charges fell by HK\$51m, or 20.5%, year-on-year to HK\$198m. Overall credit quality was relatively stable with loan impairment ratios remaining at a low level. We remain cautious on our credit outlook.

Individually assessed impairment charges recorded a net release of HK\$3m compared with a net charge of HK\$128m for the first half of 2012 due to lower impairment charges on corporate and commercial banking customers during the first half of 2013.

Collectively assessed charges increased by HK\$80m, largely due to the increase in impairment charges for credit card and personal loan portfolios, reflecting a revision to collective impairment models. Impairment allowances for loans not individually identified as impaired recorded a higher release compared with the first half of 2012 as a result of improved average historical loss rate.

Operating expenses

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 (restated) | Half-year ended 31 December 2012 (restated) |
|---|------------------------------------|--|--|
| Figures in HK\$m | | | |
| Employee compensation and benefits: | | | |
| - salaries and other costs | 1,953 | 1,871 | 1,929 |
| - retirement benefit costs | 217 | 227 | 229 |
| | 2,170 | 2,098 | 2,158 |
| General and administrative expenses: | | | |
| - rental expenses | 315 | 275 | 284 |
| - other premises and equipment | 519 | 449 | 515 |
| - marketing and advertising expenses | 322 | 272 | 345 |
| - other operating expenses | 586 | 600 | 635 |
| | 1,742 | 1,596 | 1,779 |
| Depreciation of premises, plant and equipment | 376 | 381 | 381 |
| Amortisation of intangible assets | 57 | 61 | 54 |
| | 4,345 | 4,136 | 4,372 |
| Cost efficiency ratio | 32.2% | 33.5% | 36.4% |
| Full-time equivalent staff numbers | At 30 June | At 30 June | At 31 December |
| by region | 2013 | 2012 | 2012 |
| Hong Kong and others | 8,014 | 7,863 | 7,797 |
| Mainland | 1,820 | 1,785 | 1,883 |
| Total | 9,834 | 9,648 | 9,680 |

Operating expenses rose by HK\$209m, or 5.1%, compared with the first half of 2012, reflecting the bank's continued investment in new business platforms and mainland operations to support long-term business growth while continuing carefully to manage costs. Compared with the second half of 2012, operating expenses were broadly unchanged.

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Compared with the first half of 2012, employee compensation and benefits increased by HK\$72m, or 3.4%. Salaries and other costs rose by 4.4%, reflecting the annual salary increment and increased staff numbers. General and administrative expenses were up 9.1%, due to the increase in marketing expenditure as more branding and promotional activities were conducted to support business growth. Rental expenses rose due to higher rents for branches in Hong Kong. Other premises and equipment expenses also increased as a result of continued investment in information technology infrastructure.

At 30 June 2013, the group's number of full-time equivalent staff rose by 154 compared with the 2012 year-end.

With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio for the first half of 2013 reduced by 1.3 percentage points to 32.2%, compared with 33.5% for the first half of 2012. Compared with the second half of 2012, the cost efficiency ratio fell by 4.2 percentage points.

Gains less losses from financial investments and fixed assets

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Net gains from disposal of available-for-sale equity securities | — | 1 | — |
| Gains less losses on disposal of assets held for sale | 175 | — | — |
| Gains less losses on disposal of loans and advances | 1 | — | (4) |
| Losses on disposal of fixed assets | (3) | (1) | (1) |
| | 173 | — | (5) |

Gains less losses from financial investments and fixed assets rose by HK\$173m compared with the first half of 2012. The HK\$175m net gain on disposal of assets held for sale was from the disposal of certain properties.

Gain on reclassification of Industrial Bank

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Gain on reclassification of Industrial Bank | 8,454 | — | — |

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On 7 January 2013, Industrial Bank completed a private placement of additional share capital to a number of third parties, thereby diluting the group's equity holding from 12.8% to 10.9%. As a result of this and other factors, the group considers it is no longer in a position to exercise significant influence over Industrial Bank and ceased to account for the investment as an associate from that date, giving rise to an accounting gain of HK\$8,454m.

| Gain on disposal of a subsidiary | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|---|------------------------------------|------------------------------------|--|
| Figures in HK\$m | | | |
| Net gains from disposal of a subsidiary | — | — | 355 |

The HK\$355m gain from disposal of a subsidiary in the second half of 2012 represented the disposal of the group's general insurance business in the second half of 2012.

Tax expense

Taxation in the consolidated income statement represents:

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 (restated) | Half-year ended 31 December 2012 (restated) |
|---|------------------------------------|--|--|
| Figures in HK\$m | | | |
| Current tax - provision for Hong Kong profits tax | | | |
| Tax for the period | 1,298 | 1,104 | 1,121 |
| Adjustment in respect of prior periods | — | 18 | (93) |
| Current tax - taxation outside Hong Kong | | | |
| Tax for the period | 52 | 92 | — |
| Adjustment in respect of prior periods | 7 | — | (2) |
| Deferred tax | | | |
| Origination and reversal of temporary differences | (1,052) | 133 | 294 |
| Total tax expense | 305 | 1,347 | 1,320 |

The current tax provision is based on the estimated assessable profit for the first half of 2013, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2012). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The release in deferred tax was mainly related to the reclassification of Industrial Bank as a financial investment in the first half of 2013.

Earnings per share

The calculation of earnings per share for the first half of 2013 is based on earnings of HK\$18,468m (HK\$9,253m and HK\$10,074m for the first and second halves of 2012 respectively) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first and second halves of 2012).

Dividends per share

| | Half-year ended 30 June 2013 | | Half-year ended 30 June 2012 | | Half-year ended 31 December 2012 | |
|----------------|------------------------------------|-------|------------------------------------|-------|--|-------|
| | HK\$ per share | HK\$m | HK\$ per share | HK\$m | HK\$ per share | HK\$m |
| First interim | 1.10 | 2,103 | 1.10 | 2,103 | — | — |
| Second interim | 1.10 | 2,103 | 1.10 | 2,103 | — | — |
| Third interim | — | — | — | — | 1.10 | 2,103 |
| Fourth interim | — | — | — | — | 2.00 | 3,824 |
| | 2.20 | 4,206 | 2.20 | 4,206 | 3.10 | 5,927 |

Segmental analysis

Hong Kong Financial Reporting Standard 8 ('HKFRS 8') requires segmental disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. To align with the information reported internally to the group's most senior executive management for the purposes of resources allocation and performance assessment, the group has presented the following five reportable segments. Consolidation adjustments made in preparing the group's financial statements and inter-segment elimination of income or expenses upon consolidation are included in the 'Inter-segment elimination'.

Hong Kong and other businesses segment

- Retail Banking and Wealth Management activities offer a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance and wealth management;
- Corporate and Commercial Banking activities include the provision of financial services, payments and cash management, international trade finance, insurance, wealth management and tailored financial solutions to corporate

and commercial customers;

- Treasury activities are mainly the provision of treasury operation services in credit, interest rates, foreign exchange, money markets and securities services. Treasury also manages the funding and liquidity positions of the group and other market risk positions arising from banking activities;
- Other mainly represents management of shareholders' funds and investments in premises, investment properties, equity shares and subordinated debt funding;

Mainland China business segment

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

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of management overheads. Bank-owned premises are reported under Other segment. When these premises are utilised by Global Businesses, notional rent will be charged to respective business segments based on the market rate.

Profit before tax contributed by the business segments for the periods stated is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 11.

| Figures in HK\$m | Hong Kong & other businesses | | | | | Mainland China business | Total |
|---|--|---|----------|-------|--------|-------------------------------|--------|
| | Retail Banking and Wealth Management | Corporate and Commercial Banking | Treasury | Other | Total | | |
| Half-year ended 30 June 2013 | | | | | | | |
| Profit before tax | 4,455 | 3,140 | 1,320 | 1,225 | 10,140 | 8,633 | 18,773 |
| Share of profit before tax | 23.8% | 16.7% | 7.0% | 6.5% | 54.0% | % 46.0 | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 43.9% | 31.0% | 13.0% | 12.1% | 100.0% | | |
| Half-year ended 30 June 2012 (restated) | | | | | | | |
| Profit before tax | 3,896 | 2,761 | 1,311 | 167 | 8,135 | 2,465 | 10,600 |
| Share of profit before tax | 36.7% | 26.0% | 12.4% | 1.6% | 76.7% | % 23.3 | 100.0% |
| | 47.9% | 33.9% | 16.1% | 2.1% | 100.0% | | |

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Share of profit
before tax as a
% of Hong
Kong & other
businesses

Half-year ended
31 December 2012 (restated)

| | | | | | | | |
|---|-------|-------|-------|------|--------|-------|--------|
| Profit before tax | 3,955 | 3,089 | 1,050 | 342 | 8,436 | 2,958 | 11,394 |
| Share of profit before tax | 34.7% | 27.1% | 9.2% | 3.0% | 74.0% | 26.0% | 100.0% |
| Share of profit before tax as a % of Hong Kong & other businesses | 46.9% | 36.6% | 12.4% | 4.1% | 100.0% | | |

(b) Geographic information

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the bank itself, by the location of the branches responsible for reporting the results or advancing the funds.

| Figures in HK\$m | Hong Kong | Mainland | Americas | Others | Inter-segment elimination | Total |
|------------------------------|-----------|----------|----------|--------|---------------------------|-----------|
| Half-year ended 30 June 2013 | | | | | | |
| Income and expense | | | | | | |
| Total operating income | 18,640 | 796 | 421 | 81 | (41) | 19,897 |
| Profit before tax | 9,683 | 8,633 | 404 | 53 | — | 18,773 |
| At 30 June 2013 | | | | | | |
| Total assets | 1,008,809 | 118,176 | 57,583 | 10,996 | (88,907) | 1,106,657 |
| Total liabilities | 911,782 | 109,913 | 56,008 | 10,703 | (83,830) | 1,004,576 |
| Interest in associates | 1,778 | 975 | — | — | — | 2,753 |
| Non-current assetsW | 37,556 | 1,083 | — | 1 | — | 38,640 |

Half-year ended 30 June 2012 (restated)

| | | | | | | | |
|------------------------|--------|--|-----|-----|----|------|--------|
| Income and expense | | | | | | | |
| Total operating income | 17,801 | | 940 | 595 | 69 | (40) | 19,365 |

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| | | | | | | |
|-------------------|-------|-------|-----|----|---|--------|
| Profit before tax | 7,512 | 2,465 | 579 | 44 | — | 10,600 |
|-------------------|-------|-------|-----|----|---|--------|

At 30 June 2012 (restated)

| | | | | | | |
|---------------------------------|---------|---------|--------|--------|----------|-----------|
| Total assets | 905,808 | 116,278 | 60,163 | 11,393 | (87,774) | 1,005,868 |
| Total liabilities | 844,866 | 89,178 | 59,086 | 11,182 | (82,689) | 921,623 |
| Interest in associates | 1,506 | 20,091 | — | — | — | 21,597 |
| Non-current assets ^W | 28,384 | 1,051 | — | 1 | — | 29,436 |

Half-year ended 31 December 2012 (restated)

| | | | | | | |
|------------------------|--------|-------|-----|----|------|--------|
| Income and expense | | | | | | |
| Total operating income | 15,881 | 834 | 502 | 75 | (41) | 17,251 |
| Profit before tax | 7,916 | 2,958 | 468 | 52 | — | 11,394 |

At 31 December 2012

| | | | | | | |
|---------------------------------|---------|---------|--------|--------|----------|-----------|
| Total assets | 967,288 | 125,232 | 61,296 | 11,768 | (88,488) | 1,077,096 |
| Total liabilities | 901,369 | 95,146 | 60,129 | 11,523 | (83,394) | 984,773 |
| Interest in associates | 1,652 | 23,003 | — | — | — | 24,655 |
| Non-current assets ^W | 29,872 | 1,032 | — | 1 | — | 30,905 |

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

Cash and balances with banks

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|-----------------------------|--------------------|--------------------|------------------------|
| Cash in hand | 10,161 | 9,933 | 11,041 |
| Balances with central banks | 4,016 | 1,523 | 8,973 |
| Balances with banks | 5,013 | 6,816 | 7,068 |
| | 19,190 | 18,272 | 27,082 |

Placings with and advances to banks

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|--------------------|------------------------|
| Placings with and advances to banks maturing within one month | 80,620 | 63,727 | 77,367 |
| Placings with and advances to banks maturing after one month but less than one year | 53,392 | 72,558 | 61,316 |
| Placings with and advances to banks maturing after one year | 1,987 | 1,663 | 1,699 |

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135,999 137,948 140,382

Trading assets

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|--------------------|------------------------|
| Treasury bills | 28,206 | 33,972 | 26,808 |
| Certificates of deposit | — | 430 | 400 |
| Other debt securities | 5,935 | 5,815 | 6,106 |
| Debt securities | 34,141 | 40,217 | 33,314 |
| Investment funds | 25 | 22 | 30 |
| Total trading securities | 34,166 | 40,239 | 33,344 |
| Other ^W | 343 | 798 | 1,055 |
| Total trading assets | 34,509 | 41,037 | 34,399 |
| Debt securities: | | | |
| - listed in Hong Kong | 4,322 | 3,330 | 3,046 |
| - listed outside Hong Kong | 232 | 262 | 238 |
| | 4,554 | 3,592 | 3,284 |
| - unlisted | 29,587 | 36,625 | 30,030 |
| | 34,141 | 40,217 | 33,314 |
| Investment funds: | | | |
| - listed in Hong Kong | 25 | 22 | 30 |
| Total trading securities | 34,166 | 40,239 | 33,344 |
| Debt securities: | | | |
| Issued by public bodies: | | | |
| - central governments and central banks | 33,077 | 38,016 | 31,105 |
| - other public sector entities | 69 | 81 | 80 |
| | 33,146 | 38,097 | 31,185 |
| Issued by other bodies: | | | |
| - banks | 581 | 909 | 934 |
| - corporate entities | 414 | 1,211 | 1,195 |
| | 995 | 2,120 | 2,129 |
| | 34,141 | 40,217 | 33,314 |
| Investment funds: | | | |
| Issued by corporate entities | 25 | 22 | 30 |
| Total trading securities | 34,166 | 40,239 | 33,344 |

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

Trading assets remained broadly at the same level as at the end of 2012. The trading securities currently held by the bank are mostly Hong Kong Exchange Fund bills with short tenors.

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Financial assets designated at fair value

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|--------------------|------------------------|
| Certificates of deposit | — | 1 | — |
| Other debt securities | 4,228 | 3,831 | 4,047 |
| Debt securities | 4,228 | 3,832 | 4,047 |
| Equity shares | 2,990 | 1,356 | 1,632 |
| Investment funds | 2,932 | 2,520 | 2,664 |
| | 10,150 | 7,708 | 8,343 |
| Debt securities: | | | |
| - listed in Hong Kong | 87 | 15 | 38 |
| - listed outside Hong Kong | 465 | 44 | 336 |
| | 552 | 59 | 374 |
| - unlisted | 3,676 | 3,773 | 3,673 |
| | 4,228 | 3,832 | 4,047 |
| Equity shares: | | | |
| - listed in Hong Kong | 1,554 | 1,356 | 1,632 |
| - listed outside Hong Kong | 1,408 | — | — |
| | 2,962 | 1,356 | 1,632 |
| - unlisted | 28 | — | — |
| | 2,990 | 1,356 | 1,632 |
| Investment funds: | | | |
| - listed in Hong Kong | 27 | 24 | 30 |
| - listed outside Hong Kong | 741 | 476 | 599 |
| | 768 | 500 | 629 |
| - unlisted | 2,164 | 2,020 | 2,035 |
| | 2,932 | 2,520 | 2,664 |
| | 10,150 | 7,708 | 8,343 |
| Debt securities: | | | |
| Issued by public bodies: | | | |
| - central governments and central banks | 313 | — | 181 |
| - other public sector entities | 46 | 4 | 1 |
| | 359 | 4 | 182 |
| Issued by other bodies: | | | |
| - banks | 3,664 | 3,745 | 3,687 |
| - corporate entities | 205 | 83 | 178 |
| | 3,869 | 3,828 | 3,865 |
| | 4,228 | 3,832 | 4,047 |
| Equity shares: | | | |
| Issued by banks | 499 | 265 | 370 |
| Issued by public sector entities | 12 | — | 13 |
| Issued by corporate entities | 2,479 | 1,091 | 1,249 |
| | 2,990 | 1,356 | 1,632 |
| Investment funds: | | | |

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| | | | |
|------------------------------|--------|-------|-------|
| Issued by banks | — | 341 | 400 |
| Issued by corporate entities | 2,932 | 2,179 | 2,264 |
| | 2,932 | 2,520 | 2,664 |
| | 10,150 | 7,708 | 8,343 |

Loans and advances to customers

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---------------------------------------|--------------------|--------------------|------------------------|
| Gross loans and advances to customers | 581,080 | 506,583 | 537,571 |
| Less: | | | |
| Loan impairment allowances: | | | |
| - individually assessed | (666) | (966) | (681) |
| - collectively assessed | (709) | (715) | (728) |
| | 579,705 | 504,902 | 536,162 |

Loan impairment allowances against loans and advances to customers

| Figures in HK\$m | Individually assessed | Collectively assessed | Total |
|---|--------------------------|--------------------------|-------|
| At 1 January 2013 | 681 | 728 | 1,409 |
| Amounts written off | (18) | (246) | (264) |
| Recoveries of loans and advances written off in previous years | 7 | 24 | 31 |
| New impairment allowances charged to income statement | 61 | 324 | 385 |
| Impairment allowances released to income statement | (64) | (123) | (187) |
| Unwinding of discount of loan impairment allowances recognised as 'interest income' | (3) | (1) | (4) |
| Exchange | 2 | 3 | 5 |
| At 30 June 2013 | 666 | 709 | 1,375 |

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

| | At 30 June 2013 % | At 30 June 2012 % | At 31 December 2012 % |
|-----------------------------|-------------------------|-------------------------|-----------------------------|
| Loan impairment allowances: | | | |
| - individually assessed | 0.11 | 0.19 | 0.13 |
| - collectively assessed | 0.12 | 0.14 | 0.13 |

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| | | | |
|----------------------------------|------|------|------|
| Total loan impairment allowances | 0.23 | 0.33 | 0.26 |
|----------------------------------|------|------|------|

Total loan impairment allowances as a percentage of gross loans and advances to customers was 0.23% at 30 June 2013 compared with 0.26% at the end of 2012. Individually assessed allowances as a percentage of gross loans and advances improved by two basis points to 0.11% as overall asset quality remained sound. Collectively assessed allowances as a percentage of gross loans and advances fell by one basis point to 0.12%.

Impaired loans and advances to customers and allowances

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|--|--------------------|--------------------|------------------------|
| Gross impaired loans and advances | 1,289 | 1,691 | 1,340 |
| Individually assessed allowances | (666) | (966) | (681) |
| | 623 | 725 | 659 |
| Individually assessed allowances as a percentage of gross impaired loans and advances | 51.7% | 57.1% | 50.8% |
| Gross impaired loans and advances as a percentage of gross loans and advances to customers | 0.22% | 0.33% | 0.25% |

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

Gross impaired loans and advances decreased by HK\$51m, or 3.8%, to HK\$1,289m compared with the year-end of 2012, due to repayments by corporate and commercial banking customers. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.22% compared with 0.25% at the year-end of 2012.

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|--|--------------------|--------------------|------------------------|
| Gross individually assessed impaired loans and advances | 1,131 | 1,568 | 1,190 |
| Individually assessed allowances | (666) | (966) | (681) |
| | 465 | 602 | 509 |
| Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers | 0.19% | 0.31% | 0.22% |

| | | | |
|---|-----|-----|-----|
| Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers | 407 | 569 | 498 |
|---|-----|-----|-----|

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

Overdue loans and advances to customers

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

| | At 30 June | | At 30 June | | At 31 December | |
|---|------------|-------|------------|-------|----------------|-----|
| | 2013 | | 2012 | | 2012 | |
| HK\$m | % | HK\$m | % | HK\$m | % | |
| Gross loans and advances which have been overdue with respect to either principal or interest | 140 | — | 200 | — | 114 | — |
| for periods of: | | | | | | |
| - more than three months | 50 | — | 252 | 0.1 | 143 | — |
| but not more than six months | 681 | 0.1 | 700 | 0.1 | | |
| - more than six months but not more than one year | | | | | | |
| - more than one year | | | | | 662 | 0.2 |
| | 871 | 0.1 | 1,152 | 0.2 | 919 | 0.2 |

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

Overdue loans and advances decreased by HK\$48m, or 5.2%, to HK\$871m compared with the last year-end. Overdue loans and advances as a percentage of gross loans and advances to customers stood at 0.1%.

Rescheduled loans and advances to customers

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

| | At 30 June 2013 | | At 30 June 2012 | | At 31 December 2012 | |
|---|--------------------|---|--------------------|---|------------------------|---|
| | HK\$m | % | HK\$m | % | HK\$m | % |
| Rescheduled loans and advances to customers | 167 | — | 161 | — | 196 | — |

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status. A rescheduled loan and advance will continue to be disclosed as such unless the debt has been performing in accordance with the rescheduled terms for a period of six to 12 months. Rescheduled loans and advances to customers which have been overdue for more than three months under the rescheduled terms are reported as overdue loans and advances.

Rescheduled loans and advances stood at HK\$167m at 30 June 2013, a fall of HK\$29m, or 14.8% compared with last year-end, representing 0.03% of gross loans and advances to customers.

Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

Figures in HK\$m

| | At 30 June 2013 | | | | |
|----------------------|--------------------------|--|----------------------------|----------------------------------|----------------------------------|
| | Gross loans and advances | Individually impaired loans and advances | Overdue loans and advances | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong | 467,327 | 886 | 715 | 498 | 545 |
| Rest of Asia-Pacific | 106,461 | 212 | 150 | 163 | 153 |
| Others | 7,292 | 33 | 6 | 5 | 11 |
| | 581,080 | 1,131 | 871 | 666 | 709 |

Figures in HK\$m

| | At 30 June 2012 (restated) | | | | |
|----------------------|----------------------------|--|----------------------------|----------------------------------|----------------------------------|
| | Gross loans and advances | Individually impaired loans and advances | Overdue loans and advances | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong | 428,752 | 1,292 | 973 | 752 | 560 |
| Rest of Asia-Pacific | 72,304 | 252 | 133 | 211 | 144 |
| Others | 5,527 | 24 | 46 | 3 | 11 |
| | 506,583 | 1,568 | 1,152 | 966 | 715 |

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Figures in HK\$m

At 31 December 2012

| | Gross loans and advances | Individually impaired loans and advances | Overdue loans and advances | Individually assessed allowances | Collectively assessed allowances |
|----------------------|--------------------------|--|----------------------------|----------------------------------|----------------------------------|
| Hong Kong | 447,310 | 948 | 718 | 503 | 561 |
| Rest of Asia-Pacific | 84,428 | 218 | 201 | 177 | 156 |
| Others | 5,833 | 24 | - | 1 | 11 |
| | 537,571 | 1,190 | 919 | 681 | 728 |

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA') is as follows:

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|--|-----------------|-----------------|---------------------|
| Gross loans and advances to customers for use in Hong Kong | | | |
| Industrial, commercial and financial sectors | | | |
| Property development | 28,551 | 27,927 | 29,771 |
| Property investment | 99,722 | 103,178 | 103,675 |
| Financial concerns | 4,566 | 3,944 | 3,595 |
| Stockbrokers | 402 | 227 | 325 |
| Wholesale and retail trade | 19,850 | 15,952 | 16,445 |
| Manufacturing | 17,252 | 13,792 | 15,212 |
| Transport and transport equipment | 6,072 | 6,082 | 5,774 |
| Recreational activities | 224 | 233 | 244 |
| Information technology | 1,968 | 1,680 | 1,430 |
| Other | 32,751 | 23,102 | 26,766 |
| | 211,358 | 196,117 | 203,237 |
| Individuals | | | |
| Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 13,619 | 13,962 | 13,886 |

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| | | | |
|---|---------|---------|---------|
| Loans and advances for the purchase of other residential properties | 129,733 | 115,731 | 125,176 |
| Credit card advances | 20,081 | 18,392 | 20,389 |
| Other | 14,333 | 13,814 | 13,514 |
| | 177,766 | 161,899 | 172,965 |
| Total gross loans and advances for use in Hong Kong | 389,124 | 358,016 | 376,202 |
| Trade finance | 62,892 | 42,917 | 47,555 |
| Gross loans and advances for use outside Hong Kong | 129,064 | 105,650 | 113,814 |
| Gross loans and advances to customers | 581,080 | 506,583 | 537,571 |

Gross loans and advances to customers grew by HK\$43.5bn, or 8.1%, to HK\$581.1bn compared with the end of 2012.

Loans and advances for use in Hong Kong increased by HK\$12.9bn, or 3.4%. Lending to the industrial, commercial and financial sectors grew by 4.0%. Lending to property development and property investment declined by 4.1% and 3.8% respectively, due mainly to repayments of certain existing loans. Lending to financial concerns remained active and grew by 27.0%. The bank remained major market participant in the Hong Kong Government-organised schemes to support SMEs, and recorded growth of 20.7% in the wholesale and retail trade sector and 13.4% in the manufacturing sector. Growth in lending to 'Other' was mainly due to certain new working capital financing facilities for large corporate customers.

Lending to individuals increased by 2.8% compared with the last year-end. The property market remained fairly active early this year but began to slow after the government implemented new prudential measures. The bank was able to sustain a leading position for the mortgage business based on diversified mortgage products, a competitive pricing strategy and premium service. Residential mortgage lending to individuals rose by 3.6% compared with the end of 2012. Credit card advances were broadly the same level as last year-end. Other loans to individuals grew by 6.1%, reflecting the success of the group in expanding its consumer finance business.

Trade finance regained momentum and recorded strong growth against last year, reflecting Corporate and Commercial Banking's achievement in expanding trade finance business by maintaining close relationship with its business partners to support cross-border renminbi trade business on the Mainland.

Loans and advances for use outside Hong Kong rose by 13.4%, compared with the end of 2012, driven largely by lending on the Mainland. The mainland loan portfolio increased by 16.8% to HK\$60.2bn, underpinned by the expansion of renminbi lending to corporate and commercial customers. The group employed a cautious approach to lending on the Mainland and will continue to strengthen its prudent credit policies in light of the more difficult operating conditions for mainland businesses.

Financial investments

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|------------------|--------------------|--------------------|------------------------|
|------------------|--------------------|--------------------|------------------------|

Available-for-sale at fair value:

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| | | | |
|---|---------|---------|---------|
| - debt securities | 166,288 | 159,231 | 185,443 |
| - equity shares | 26,103 | 255 | 295 |
| - investment funds | 43 | 42 | 39 |
| Held-to-maturity debt securities at amortised cost | 70,935 | 64,857 | 67,631 |
| | 263,369 | 224,385 | 253,408 |
| Fair value of held-to-maturity debt securities | 72,386 | 68,931 | 72,716 |
| Treasury bills | 75,014 | 72,101 | 98,262 |
| Certificates of deposit | 10,980 | 12,425 | 11,228 |
| Other debt securities | 151,229 | 139,562 | 143,584 |
| Debt securities | 237,223 | 224,088 | 253,074 |
| Equity shares | 26,103 | 255 | 295 |
| Investment funds | 43 | 42 | 39 |
| | 263,369 | 224,385 | 253,408 |
| Debt securities: | | | |
| - listed in Hong Kong | 12,676 | 19,127 | 16,625 |
| - listed outside Hong Kong | 46,430 | 37,866 | 48,166 |
| | 59,106 | 56,993 | 64,791 |
| - unlisted | 178,117 | 167,095 | 188,283 |
| | 237,223 | 224,088 | 253,074 |
| Equity shares: | | | |
| - listed in Hong Kong | 65 | 52 | 65 |
| - listed outside Hong Kong | 25,753 | 5 | 6 |
| | 25,818 | 57 | 71 |
| - unlisted | 285 | 198 | 224 |
| | 26,103 | 255 | 295 |
| Investment funds: | | | |
| - unlisted | 43 | 42 | 39 |
| | 263,369 | 224,385 | 253,408 |
| Fair value of listed financial investments | 85,235 | 58,105 | 66,270 |
| Debt securities: | | | |
| Issued by public bodies: | | | |
| - central governments and central banks | 110,094 | 102,507 | 128,587 |
| - other public sector entities | 27,655 | 22,157 | 23,638 |
| | 137,749 | 124,664 | 152,225 |
| Issued by other bodies: | | | |
| - banks | 70,860 | 77,433 | 76,854 |
| - corporate entities | 28,614 | 21,991 | 23,995 |
| | 99,474 | 99,424 | 100,849 |
| | 237,223 | 224,088 | 253,074 |
| Equity shares: | | | |
| Issued by banks | 25,753 | 5 | 6 |
| Issued by corporate entities | 350 | 250 | 289 |
| | 26,103 | 255 | 295 |
| Investment funds: | | | |
| Issued by corporate entities | 43 | 42 | 39 |
| | 263,369 | 224,385 | 253,408 |

Debt securities by rating agency designation

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|------------------|--------------------|--------------------|------------------------|
| AA- to AAA | 184,183 | 170,992 | 183,420 |
| A- to A+ | 43,799 | 43,052 | 61,001 |
| B+ to BBB+ | 6,872 | 7,571 | 6,161 |
| Unrated | 2,369 | 2,473 | 2,492 |
| | 237,223 | 224,088 | 253,074 |

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

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

Financial investments rose by HK\$10.0bn, or 3.9%, compared with the last year-end. Debt securities investment decreased by HK\$15.9bn while equity shares increased by HK\$25.8bn due to the reclassification of the bank's investment in Industrial Bank from associated company to available-for-sale financial investment.

Investments were primarily in high-quality debt securities or debt securities guaranteed by governments, reflecting the bank's strategy of identifying quality investment opportunities that enable it to optimise returns while prudently managing risk. At 30 June 2013, about 99% of the group's holdings of debt securities were assigned investment grade ratings by rating agencies. The unrated debt securities were issued by subsidiaries of investment-grade banks and are guaranteed by their corresponding holding companies. These notes rank equally with all of the respective guarantors' other senior debt obligations. The group did not hold any investments in structured investment vehicles or any sub-prime related assets such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

Interest in associates

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---------------------|--------------------|--------------------|------------------------|
| Share of net assets | 2,597 | 21,082 | 24,151 |
| Intangible assets | 15 | 43 | 29 |
| Goodwill | 141 | 472 | 475 |
| | 2,753 | 21,597 | 24,655 |

Interest in associates fell by HK\$21,902m compared with last year-end, mainly due to the reclassification of Industrial Bank as a financial investment on 7 January 2013.

| Intangible assets | At 30 June | At 30 June | At 31 December |
|--|------------|------------|----------------|
| Figures in HK\$m | 2013 | 2012 | 2012 |
| Present value of in-force long-term insurance business | 6,625 | 5,802 | 6,003 |
| Internally developed software | 390 | 426 | 400 |
| Acquired software | 59 | 46 | 51 |
| Goodwill | 329 | 329 | 329 |
| | 7,403 | 6,603 | 6,783 |

| Other assets | At 30 June | At 30 June | At 31 December |
|--|------------|------------|----------------|
| Figures in HK\$m | 2013 | 2012 | 2012 |
| Items in the course of collection from other banks | 5,540 | 5,333 | 5,642 |
| Prepayments and accrued income | 3,245 | 2,975 | 2,999 |
| Assets held for sale | | | |
| - repossessed assets | 4 | 23 | 16 |
| - assets of disposal groups held for sale | — | 686 | — |
| - other assets held for sale | — | 250 | 593 |
| Acceptances and endorsements | 6,057 | 5,076 | 5,264 |
| Retirement benefit assets | 42 | 30 | 31 |
| Other accounts | 2,702 | 2,147 | 2,036 |
| | 17,590 | 16,520 | 16,581 |

Current, savings and other deposit accounts

| Figures in HK\$m | At 30 June | At 30 June | At 31 December |
|---|------------|------------|----------------|
| | 2013 | 2012 | 2012 |
| Current, savings and other deposit accounts: | | | |
| - as stated in consolidated balance sheet | 779,884 | 720,397 | 769,147 |
| - structured deposits reported as trading liabilities | 39,990 | 37,764 | 38,113 |
| | 819,874 | 758,161 | 807,260 |
| By type: | | | |
| - demand and current accounts | 68,142 | 59,187 | 68,071 |
| - savings accounts | 483,341 | 453,716 | 495,880 |
| - time and other deposits | 268,391 | 245,258 | 243,309 |
| | 819,874 | 758,161 | 807,260 |

Certificates of deposit and other debt securities in issue

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|--------------------|------------------------|
| Certificates of deposit and other debt securities in issue: | | | |
| - as stated in consolidated balance sheet | 11,022 | 12,662 | 11,291 |
| - structured certificates of deposit and other debt securities in issue reported as trading liabilities | 1,312 | 1,009 | 248 |
| | 12,334 | 13,671 | 11,539 |
| By type: | | | |
| - certificates of deposit in issue | 11,022 | 12,662 | 11,291 |
| - other debt securities in issue | 1,312 | 1,009 | 248 |
| | 12,334 | 13,671 | 11,539 |

Customer deposits, including current, savings and other deposits accounts, certificates of deposit and other debt securities in issue stood at HK\$832.2bn at 30 June 2013 - a rise of 1.6% from the end of 2012. Structured deposits, certificates of deposit and other debt securities in issue increased as instruments with yield enhancement features gained popularity. Deposits with Hang Seng China also rose by 11.6%, driven mainly by renminbi deposits.

At 30 June 2013, the advances-to-deposits ratio was 69.7%, compared with 65.5% at 31 December 2012.

Trading liabilities

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|--------------------|------------------------|
| Structured certificates of deposit and other debt securities in issue | 1,312 | 1,009 | 248 |
| Structured deposits | 39,990 | 37,764 | 38,113 |
| Short positions in securities and others | 26,447 | 18,591 | 21,492 |
| | 67,749 | 57,364 | 59,853 |

Other liabilities

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|--|--------------------|--------------------|------------------------|
| Items in the course of transmission to other banks | 8,034 | 6,538 | 8,153 |

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| | | | |
|--|--------|--------|--------|
| Accruals | 3,052 | 2,404 | 3,248 |
| Acceptances and endorsements | 6,057 | 5,076 | 5,264 |
| Retirement benefit liabilities | 1,682 | 3,494 | 2,449 |
| Liabilities of disposal groups held for sale | — | 646 | — |
| Other | 2,049 | 2,311 | 2,539 |
| | 20,874 | 20,469 | 21,653 |

Subordinated liabilities

| Figures in HK\$m | | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|--|--|--------------------|--------------------|------------------------|
| Nominal value | Description | | | |
| Amount owed to third parties | | | | |
| US\$300m | Callable floating rate subordinated notes due July 2017W | — | 2,326 | — |
| Amount owed to HSBC Group undertakings | | | | |
| US\$775m | Floating rate subordinated loan debt due December 2020 | 6,011 | 6,011 | 6,007 |
| US\$450m | Floating rate subordinated loan debt due July 2021 | 3,491 | 3,490 | 3,488 |
| US\$300m | Floating rate subordinated loan debt due July 2022W | 2,327 11,829 | — 11,827 | 2,326 11,821 |
| Representing: | | | | |
| - measured at amortised cost | | 11,829 | 11,827 | 11,821 |

W The bank exercised its option to redeem these subordinated notes at par of US\$300m and replenished them with a new issue of US\$300m subordinated loan debt in July 2012.

The outstanding subordinated loan debt, which qualifies as supplementary capital, serves to help the bank maintain a balanced capital structure and support business growth.

Shareholders' funds

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 | At 31 December 2012 |
|---------------------------------------|--------------------|--------------------|------------------------|
| Share capital | 9,559 | 9,559 | 9,559 |
| Retained profits | 76,633 | 54,623 | 59,683 |
| Premises revaluation reserve | 14,628 | 12,811 | 13,790 |
| Cash flow hedging reserve | 2 | 9 | 17 |
| Available-for-sale investment reserve | | | |
| - on debt securities | (141) | (176) | (57) |
| - on equity securities | (2,743) | 247 | 284 |
| Capital redemption reserve | 99 | 99 | 99 |
| Other reserves | 1,941 | 4,970 | 5,124 |
| Total reserves | 90,419 | 72,583 | 78,940 |
| | 99,978 | 82,142 | 88,499 |
| Proposed dividends | 2,103 | 2,103 | 3,824 |
| Shareholders' funds | 102,081 | 84,245 | 92,323 |
| Return on average shareholders' funds | 35.9% | 22.8% | 22.9% |

Shareholders' funds (excluding proposed dividends) grew by HK\$11,479m, or 13.0%, to HK\$99,978m at 30 June 2013. Retained profits rose by HK\$16,950m, mainly reflecting the growth in attributable profit (including the accounting gain on Industrial Bank) after the appropriation of interim dividends during the period.

The premises revaluation reserve increased by HK\$838m, reflecting mainly the improved commercial property market during the first half of 2013.

The available-for-sale investment reserve for equity securities recorded a deficit of HK\$2,743m compared with a surplus of HK\$284m at year-end 2012, mainly caused by the share price of Industrial Bank being lower at 30 June 2013 than on reclassification as a financial investment on 7 January 2013. Changes in the fair value of the bank's investment in Industrial Bank are recognised in the available-for-sale investment reserve unless the investment becomes impaired. If the investment becomes impaired, the cumulative revaluation deficit would be reclassified from the available-for-sale investment reserve to the income statement. The group will continue to perform an impairment review of its investment in Industrial Bank at each balance sheet date in accordance with the group's accounting policy on impairment of available-for-sale financial assets.

Other reserves decreased by HK\$3,183m compared with last year-end, reflecting the recycling of the Industrial Bank-related cumulative foreign exchange and other reserves to retained profits as a result of the reclassification.

The return on average shareholders' funds was 35.9%, compared with 22.8% for the first half of 2012. Excluding the Industrial Bank reclassification, the return on average shareholders' funds was 19.0%, compared with 17.4% for the first half of 2012.

There was no purchase, sale or redemption by the bank, or any of its subsidiaries, of the bank's securities during the first half of 2013.

Capital management

The Banking (Capital) (Amendment) Rules 2012, effective on 1 January 2013, signified the first phase of Basel III requirements in Hong Kong. The definition of regulatory capital under Basel III is different from that under Basel II which was used at 31 December 2012. The capital disclosures for June 2013 under Basel III are, therefore, not directly comparable with the disclosures for December 2012 prepared under Basel II basis. Certain comparative figures have not been provided where the current year is the first year of disclosure.

The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the group uses the standardised (operational risk) approach to calculate its operational risk.

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. Accordingly, the investment cost of these unconsolidated regulated financial entities is deducted from the capital base.

The tables overleaf show the capital ratios, risk-weighted assets and capital base as contained in the 'Capital Adequacy Ratio' return required to be submitted to the HKMA by Hang Seng Bank on a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

The bank and its subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes.

At 30 June 2013, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$5,213m (31 December 2012: HK\$4,866m).

There are no relevant capital shortfalls in any of the group's subsidiaries as at 30 June 2013 (31 December 2012: nil) which are not included in the group's consolidation for regulatory purposes.

(a) Capital structure

| Figures in HK\$m | At 30 June 2013 |
|---|--------------------|
| Common Equity Tier 1 ('CET1') Capital | |
| Shareholders' equity | 93,464 |
| - Shareholders' equity per balance sheet | 102,081 |
| - Unconsolidated subsidiaries | (8,617) |
| Regulatory deductions to CET1 capital | (40,027) |
| - Cash flow hedging reserve | (3) |
| - Changes in own credit risk on fair valued liabilities | (109) |
| - Goodwill and intangible assets | (565) |
| - Regulatory reserve | (5,213) |
| - Reserves arising from revaluation of property | (20,019) |
| - Valuation adjustments | (219) |
| - Excess AT1 deductions | (13,899) |

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| | |
|---|----------|
| Total CET1 Capital | 53,437 |
| Additional Tier 1 ('AT1') Capital | |
| Total AT1 capital before regulatory deductions | — |
| Regulatory deductions to AT1 capital | — |
| - Significant capital investments in unconsolidated financial sector entities | (13,899) |
| - Excess AT1 deductions | 13,899 |
| Total AT1 Capital | — |
| Total Tier 1 ('T1') Capital | 53,437 |
| Tier 2 ('T2') Capital | |
| Total T2 capital before regulatory deductions | 22,344 |
| - Term subordinated debt | 10,880 |
| - Property revaluation reserves ¹ | 9,009 |
| - Impairment allowances and regulatory reserve eligible for inclusion in T2 capital | 2,455 |
| Regulatory deductions to T2 capital | (13,899) |
| - Significant capital investments in unconsolidated financial sector entities | (13,899) |
| Total T2 Capital | 8,445 |
| Total Capital | 61,882 |

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

(b) Risk-weighted assets by risk type

| Figures in HK\$m | At 30 June 2013 |
|------------------|--------------------|
| Credit risk | 350,616 |
| Market risk | 2,534 |
| Operational risk | 39,361 |
| Total | 392,511 |

(c) Capital ratios (as a percentage of risk-weighted assets)

The capital ratios on consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

| | At 30 June 2013 |
|----------------------|--------------------|
| CET1 capital ratio | 13.6% |
| Tier 1 capital ratio | 13.6% |
| Total capital ratio | 15.8% |

(d) Capital instruments

The following is a summary of the group's CET1 and Tier 2 capital instruments:

| | At 30 June 2013 |
|---|--------------------|
| CET1 capital instruments issued by the bank | |
| Ordinary shares: | |
| 1,911,842,736 issued and fully paid ordinary shares of HK\$5 each | HK\$9,559m |
| Tier 2 capital instruments | |
| Issued by the bank: | |
| Subordinated loan due 2020 (nominal value: US\$775m) | HK\$6,011m |
| Subordinated loan due 2021 (nominal value: US\$450m) | HK\$3,491m |
| Subordinated loan due 2022 (nominal value: US\$300m) | HK\$2,327m |

(e) Additional information

To comply with the Banking (Disclosure) Rules ('BDR'), the group will establish a new section 'Regulatory Disclosure' on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the group's published financial statements.

The disclosure will be published before 30 September 2013 according to the BDR and will include the following information:

- A description of the main features and the full terms and conditions of the group's capital instruments can be viewed on our website: www.hangseng.com.
- A detailed breakdown of the group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA, can be viewed on our website: www.hangseng.com.
- A full reconciliation between the group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA, can be viewed on our website: www.hangseng.com.

Capital base and risk-weighted assets

| Figures in HK\$m | At 30 June 2012 | At 31 December 2012 |
|--------------------------------|--------------------|------------------------|
| Core capital: | | |
| Paid-up ordinary share capital | 9,559 | 9,559 |
| - Reserves per balance sheet | 72,583 | 78,940 |
| - Unconsolidated subsidiaries | (8,359) | (8,872) |
| - Cash flow hedging reserve | (9) | (17) |

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| | | |
|---|----------|----------|
| - Regulatory reserve | (4,639) | (4,866) |
| - Reserves arising from revaluation of property and unrealised gains on available-for-sale equities and debt securities | (17,347) | (18,936) |
| Total reserves included in core capital | 42,229 | 46,249 |
| - Goodwill and intangible assets | (987) | (965) |
| - 50% of unconsolidated investments | (12,395) | (13,683) |
| - 50% of securitisation positions and other deductions | (158) | (158) |
| Deductions | (13,540) | (14,806) |
| Total core capital | 38,248 | 41,002 |
| Supplementary capital: | | |
| - Term subordinated debt | 11,827 | 11,821 |
| - Property revaluation reserves 1 | 5,894 | 5,894 |
| - Available-for-sale investments revaluation reserves 2 | 155 | 183 |
| - Regulatory reserve 3 | 325 | 303 |
| - Collective impairment allowances 3 | 50 | 46 |
| - Excess impairment allowances over expected losses 4 | 1,651 | 1,727 |
| Supplementary capital before deductions | 19,902 | 19,974 |
| - 50% of unconsolidated investments | (12,395) | (13,683) |
| - 50% of securitisation positions and other deductions | (158) | (158) |
| Deductions | (12,553) | (13,841) |
| Total supplementary capital | 7,349 | 6,133 |
| Capital base | 45,597 | 47,135 |
| Risk-weighted assets | | |
| - Credit risk | 286,786 | 295,743 |
| - Market risk | 4,003 | 2,447 |
| - Operational risk | 36,502 | 37,827 |
| | 327,291 | 336,017 |
| Capital adequacy ratio | 13.9% | 14.0% |
| Core capital ratio | 11.7% | 12.2% |

Reserves and deductible items

| Figures in HK\$m | At 30 June 2012 | At 31 December 2012 |
|---|--------------------|------------------------|
| Published reserves | 38,275 | 39,152 |
| Profit and loss account | 3,954 | 7,097 |
| Total reserves included in core capital | 42,229 | 46,249 |

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| | | |
|--|--------|--------|
| Total of items deductible 50% from core capital and 50% from supplementary capital | 25,106 | 27,682 |
|--|--------|--------|

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

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

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

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

Capital ratios at 30 June 2012 and 31 December 2012 on Basel II basis were compiled in accordance with the Banking (Capital) Rules under the Hong Kong Banking Ordinance.

Liquidity ratio

The average liquidity ratio for the periods indicated, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, is as follows:

| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | Half-year ended 31 December 2012 |
|--|------------------------------------|------------------------------------|--|
| The bank and its subsidiaries designated by the HKMA | 35.8% | 36.9% | 36.8% |

Reconciliation of cash flow statement

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

| Figures in HK\$m | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 (restated) |
|--|------------------------------------|--|
| Operating profit | 8,934 | 7,975 |
| Net interest income | (8,969) | (8,286) |
| Dividend income | (4) | (4) |
| Loan impairment charges | 198 | 249 |
| Depreciation | 376 | 381 |
| Amortisation of intangible assets | 57 | 61 |
| Amortisation of available-for-sale investments | 49 | (23) |
| Loans and advances written off net of recoveries | (233) | (228) |
| Movement in present value of in-force long-term insurance business | (622) | (614)) |

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| | | |
|---|----------|----------|
| Interest received | 10,794 | 9,553 |
| Interest paid | (2,306) | (2,128) |
| Operating profit before changes in working capital | 8,274 | 6,936 |
| Change in treasury bills and certificates of deposit with original maturity more than three months | 7,728 | 8,317 |
| Change in placings with and advances to banks maturing after one month | 7,923 | (23,232) |
| Change in trading assets | 2,537 | 15,510 |
| Change in financial assets designated at fair value | — | 140 |
| Change in derivative financial instruments | 1,126 | 558 |
| Change in loans and advances to customers | (43,428) | (24,345) |
| Change in other assets | (6,020) | (5,583) |
| Change in current, savings and other deposit accounts | 10,737 | 20,540 |
| Change in deposits from banks | (4,101) | (3,123) |
| Change in trading liabilities | 7,896 | (2,348) |
| Change in certificates of deposit and other debt securities in issue | (269) | 3,378 |
| Change in other liabilities | 3,541 | 5,109 |
| Elimination of exchange differences and other non-cash items | 5,444 | 1,294 |
| Cash generated from operating activities | 1,388 | 3,151 |
| Taxation recovered/(paid) | 5 | (73) |
| Net cash inflow from operating activities | 1,393 | 3,078 |

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

| Figures in HK\$m | At 30 June 2013 | At 30 June 2012 |
|--|--------------------|--------------------|
| Cash and balances with banks | 19,190 | 18,272 |
| Placings with and advances to banks maturing within one month | 78,729 | 61,347 |
| Treasury bills | 9,931 | 57,494 |
| Certificates of deposit | — | 965 |
| | 107,850 | 138,078 |

Contingent liabilities, commitments and derivatives

| Figures in HK\$m | Contract amounts | Credit equivalent amounts | Risk- weighted amounts |
|-----------------------------------|---------------------|---------------------------------|------------------------------|
| At 30 June 2013 | | | |
| Direct credit substitutes | 6,973 | 6,747 | 3,253 |
| Transaction-related contingencies | 1,546 | 156 | 58 |
| Trade-related contingencies | 14,443 | 1,514 | 796 |
| Forward asset purchases | 32 | 32 | 32 |

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| | | | |
|---|---------|---------|--------|
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable W | 34,121 | 15,346 | 6,489 |
| - unconditionally cancellable | 247,537 | 81,705 | 22,708 |
| | 304,652 | 105,500 | 33,336 |
| Exchange rate contracts: | | | |
| Spot and forward foreign exchange | 449,358 | 2,740 | 777 |
| Other exchange rate contracts | 177,483 | 6,718 | 5,654 |
| | 626,841 | 9,458 | 6,431 |
| Interest rate contracts: | | | |
| Interest rate swaps | 251,150 | 1,802 | 555 |
| Other interest rate contracts | 194 | — | — |
| | 251,344 | 1,802 | 555 |
| Other derivative contracts | 5,198 | 391 | 182 |

W The contract amounts for undrawn formal standby facilities, credit lines and other commitments to lend with original maturity of 'up to one year' and 'over one year' were HK\$6,652m and HK\$27,469m respectively.

| Figures in HK\$m | Contract amounts | Credit equivalent amounts | Risk-weighted amounts |
|---|------------------|---------------------------|-----------------------|
| At 30 June 2012 | | | |
| Direct credit substitutes | 6,548 | 6,390 | 3,858 |
| Transaction-related contingencies | 1,402 | 140 | 57 |
| Trade-related contingencies | 11,339 | 1,136 | 677 |
| Forward asset purchases | 27 | 27 | 27 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable | 36,652 | 16,448 | 7,233 |
| - unconditionally cancellable | 251,487 | 81,094 | 25,160 |
| | 307,455 | 105,235 | 37,012 |
| Exchange rate contracts: | | | |
| Spot and forward foreign exchange | 565,496 | 2,376 | 651 |
| Other exchange rate contracts | 136,220 | 3,303 | 2,576 |
| | 701,716 | 5,679 | 3,227 |
| Interest rate contracts: | | | |
| Interest rate swaps | 267,734 | 2,378 | 529 |
| | 267,734 | 2,378 | 529 |
| Other derivative contracts | 5,488 | 375 | 121 |

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| Figures in HK\$m | Contract amounts | Credit equivalent amounts | Risk-weighted amounts |
|--|------------------|---------------------------|-----------------------|
| At 31 December 2012 | | | |
| Direct credit substitutes | 7,259 | 7,041 | 3,805 |
| Transaction-related contingencies | 1,250 | 128 | 54 |
| Trade-related contingencies | 11,548 | 1,181 | 696 |
| Forward asset purchases | 51 | 51 | 51 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable | 33,261 | 15,258 | 6,189 |
| - unconditionally cancellable | 247,891 | 82,049 | 24,909 |
| | 301,260 | 105,708 | 35,704 |
| Exchange rate contracts: | | | |
| Spot and forward foreign exchange | 544,790 | 4,197 | 728 |
| Other exchange rate contracts | 111,945 | 2,355 | 1,545 |
| | 656,735 | 6,552 | 2,273 |
| Interest rate contracts: | | | |
| Interest rate swaps | 230,032 | 2,121 | 472 |
| | 230,032 | 2,121 | 472 |
| Other derivative contracts | 4,856 | 452 | 143 |

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

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

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

| Figures in HK\$m | At 30 June 2013 | | At 30 June 2012 | | At 31 December 2012 | |
|----------------------------|-----------------|---------|-----------------|---------|---------------------|---------|
| | Trading | Hedging | Trading | Hedging | Trading | Hedging |
| Contract amounts: | | | | | | |
| Interest rate contracts | 215,933 | 35,799 | 211,899 | 55,836 | 192,421 | 37,739 |
| Exchange rate contracts | 888,359 | 4,992 | 927,014 | 3,276 | 826,210 | 4,263 |
| Other derivative contracts | 15,617 | - | 18,054 | - | 17,614 | - |
| | 1,119,909 | 40,791 | 1,156,967 | 59,112 | 1,036,245 | 42,002 |

| | | | | | | |
|----------------------------|-------|-----|-------|-------|-------|-------|
| Derivative assets: | | | | | | |
| Interest rate contracts | 1,257 | 94 | 1,688 | 116 | 1,438 | 59 |
| Exchange rate contracts | 2,505 | 793 | 2,095 | - | 3,024 | 280 |
| Other derivative contracts | 103 | - | 164 | - | 378 | - |
| | 3,865 | 887 | 3,947 | 116 | 4,840 | 339 |
| Derivative liabilities: | | | | | | |
| Interest rate contracts | 1,061 | 956 | 1,525 | 1,448 | 1,292 | 1,352 |
| Exchange rate contracts | 2,451 | 38 | 1,647 | 3 | 1,419 | 3 |
| Other derivative contracts | 311 | - | 136 | - | 52 | - |
| | 3,823 | 994 | 3,308 | 1,451 | 2,763 | 1,355 |

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

Additional information

1. Statutory accounts and accounting policies

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

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2012 ('2012 accounts'), which have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 4 March 2013.

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

Except as described below, the accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 84 to 103 of the 2012 accounts.

During the period, the group has adopted the following new standards and amendments to standards which had insignificant or no effect on the consolidated financial statements:

- HKAS 27 (2011) 'Separate Financial Statements'
- HKAS 28 (2011) 'Investments in Associates and Joint Ventures'
- HKFRS 10 'Consolidated Financial Statements'
- HKFRS 11 'Joint Arrangements'
- HKFRS 12 'Disclosure of Interests in Other Entities'
- Amendments to HKFRS 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities'
- Annual Improvements to HKFRSs 2009-2011 Cycle

The impact of the rest of the newly adopted standard and amendments is illustrated below.

Amendments to HKAS 1 'Presentation of financial statements' require grouping of items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The group's presentation of other comprehensive income has been modified accordingly with comparative information re-presented.

Since the amendments to HKAS 19 'Employee Benefits' became effective, the group has replaced the interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement will be presented in other comprehensive income. The amendments have been applied retrospectively with comparative figures adjusted accordingly.

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

| Figures in HK\$m | As reported | Adjustment | Restated |
|---|-------------|------------|----------|
| Half-year ended 30 June 2012 | | | |
| Consolidated income statement: | | | |
| Employee compensation and benefits | (2,039) | (59) | (2,098) |
| Profit before tax | 10,659 | (59) | 10,600 |
| Tax expense | (1,357) | 10 | (1,347) |
| Profit attributable to shareholders | 9,302 | (49) | 9,253 |
| Earnings per share (HK\$) | 4.87 | (0.03) | 4.84 |
| Return on average shareholders' funds (%) | 22.9 | (0.1) | 22.8 |
| Consolidated statement of comprehensive income: | | | |
| Defined benefit plans: | | | |
| - actuarial losses on defined benefit plans | (196) | 59 | (137) |
| - deferred taxes | 32 | (10) | 22 |
| Other comprehensive income for the period, net of tax | 1,014 | 49 | 1,063 |

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

In addition, Hong Kong Financial Reporting Standard ('HKFRS') 13 'Fair Value Measurement' establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs and with prospective application. It clarifies the definition of fair value as an exit price - a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. It also contains extensive disclosure requirements about fair value measurements. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The group has adopted the new standard this year and provided those disclosures in the notes to the financial statements. Comparative disclosures are not required in the first period of adoption of the standard.

2. Comparative figures

As a result of the adoption of the amendments to HKAS 19 'Employee Benefits', certain comparative figures have been adjusted to conform with the current year's presentation and to provide comparative amounts in respect of items

disclosed for the first time in 2013.

3. Change in accounting treatment for Industrial Bank Co., Ltd. ('Industrial Bank')

On 7 January 2013, Industrial Bank completed a private placement of additional share capital to a number of third parties, thereby diluting the group's equity holding from 12.8% to 10.9%. As a result of this and other factors, the group considered it was no longer in a position to exercise significant influence over Industrial Bank and ceased to account for the investment as an associate from that date, giving rise to an accounting gain on reclassification of Industrial Bank of HK\$9,517m for the first half of 2013. The accounting gain included the deemed disposal profit on reclassification of Industrial Bank of HK\$8,454m and the release of deferred tax amounted to HK\$1,063m.

Thereafter, the holding in Industrial Bank is being recognised as a financial investment in the balance sheet of the group with any subsequent movement in its fair value reflected in accordance with current applicable Hong Kong Financial Reporting Standards. At 30 June 2013, there was a revaluation deficit on the investment in Industrial Bank recorded in the 'available-for-sale investment reserve', reflecting the decline in its fair value below the deemed cost upon reclassification based on the share price on 4 January 2013. The change in fair value of the bank's investment in Industrial Bank is recognised in the available-for-sale investment reserve unless the investment becomes impaired. If the investment becomes impaired, the cumulative revaluation deficit would be reclassified from the available-for-sale investment reserve to the income statement.

The group will continue to perform an impairment review of its investment in Industrial Bank at each balance sheet date in accordance with the group's accounting policy on impairment of available-for-sale financial assets. Dividends from Industrial Bank are recognised in the group's consolidated income statement. This change has been incorporated and reflected in the group's 2013 interim results.

Financial implication of change in accounting treatment on Industrial Bank:

From 2013 onwards, the reclassification of Industrial Bank and the change in accounting treatment will result in an increase in the group's dividend income, subject to the amount of dividend to be declared by Industrial Bank and a decrease in the share of profit from associates. The share of profit from Industrial Bank was HK\$2,364m in the first half of 2012.

Since there are significant financial implications as a result of the change in accounting treatment for Industrial Bank, the key financial results and performance metrics are not directly comparable when comparing the first half of 2013 with 2012. For the sake of comparison, we have prepared the following key financial results and performance metrics by excluding the non-distributable accounting gain in the first half of 2013 and the share of Industrial Bank's profit in the first half of 2012.

| | As reported | | ChangeW | Excluding Industrial Bank reclassification | | |
|---|------------------------------|------------------------------|---------|--|------------------------------|---------|
| | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | | Half-year ended 30 June 2013 | Half-year ended 30 June 2012 | ChangeW |
| Attributable profit | 18,468 | 9,253 | 99.6% | 8,951 | 7,044 | 27.1% |
| Profit before tax | 18,773 | 10,600 | 77.1% | 10,319 | 8,236 | 25.3% |
| Return on average shareholders' funds (%) | 35.9 | 22.8 | 13.1pp | 19.0 | 17.4 | 1.6pp |

| | | | | | | |
|------------------------------------|------|------|-------|------|------|-------|
| Return on average total assets (%) | 3.4 | 1.9 | 1.5pp | 1.7 | 1.4 | 0.3pp |
| Earnings per share (HK\$) | 9.66 | 4.84 | 99.6% | 4.68 | 3.68 | 27.2% |

W Change in 'pp' represents change in percentage points.

4. Property revaluation

The group's premises and investment properties were revalued at 30 June 2013 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 Fair Value Measurement and taken into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for group premises amounted to HK\$1,523m, of which HK\$1,526m was credited to the premises revaluation reserve and HK\$3m was debited to the income statement. Revaluation gains of HK\$1,147m on investment properties were recognised through the income statement. The related deferred tax provisions for group premises was HK\$253m.

The revaluation exercise also covered business premises and investment properties reclassified as properties held for sale. The revaluation gain of HK\$136m was recognised through the income statement.

5. Foreign currency positions

The group's foreign exchange exposures mainly comprise foreign exchange dealing by Treasury and currency exposures originated by its banking business. The latter are transferred to Treasury where they are centrally managed within foreign exchange position limits approved by the Risk Management Committee. The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. Structural foreign exchange positions arising from capital investment in associates, subsidiaries and branches and the fair value of the group's long-term foreign currency equity investment, mainly in US dollar and Chinese renminbi as set out below, are managed by the Asset and Liability Management Committee ('ALCO').

At 30 June 2013, the US dollar ('US\$'), Chinese renminbi ('RMB'), Australian dollar ('AUD') and Japanese Yen ('JPY') were the currencies in which the group had non-structural foreign currency positions that were not less than 10% of the total net position in all foreign currencies. The group also had a RMB structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

| Figures in HK\$m | US\$ | RMB | AUD | JPY | Other foreign currencies | Total foreign currencies |
|-------------------------|-----------|-----------|----------|---------|--------------------------|--------------------------|
| At 30 June 2013 | | | | | | |
| Non-structural position | | | | | | |
| Spot assets | 173,526 | 147,750 | 44,328 | 6,417 | 51,559 | 423,580 |
| Spot liabilities | (154,308) | (128,555) | (49,486) | (3,194) | (55,661) | (391,204) |
| Forward purchases | 271,887 | 113,794 | 10,107 | 11,096 | 20,646 | 427,530 |

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| | | | | | | |
|--|-----------|-----------|---------|----------|----------|-----------|
| Forward sales | (292,423) | (129,830) | (5,115) | (13,937) | (16,482) | (457,787) |
| Net options position | 753 | (156) | (209) | (48) | (375) | (35) |
| Net long/(short) non-structural position | (565) | 3,003 | (375) | 334 | (313) | 2,084 |
| Structural position | 205 | 34,011 | — | — | 478 | 34,694 |

| Figures in HK\$m | US\$ | RMB | AUD | JPY | Other foreign currencies | Total foreign currencies |
|--|-----------|-----------|----------|----------|--------------------------------|--------------------------------|
| At 30 June 2012 | | | | | | |
| Non-structural position | | | | | | |
| Spot assets | 169,003 | 102,668 | 47,817 | 40,998 | 56,680 | 417,166 |
| Spot liabilities | (136,120) | (104,599) | (51,536) | (5,404) | (58,663) | (356,322) |
| Forward purchases | 319,178 | 87,915 | 10,458 | 15,039 | 21,044 | 453,634 |
| Forward sales | (351,333) | (84,961) | (6,601) | (50,658) | (19,078) | (512,631) |
| Net options position | 142 | (114) | (24) | — | (7) | (3) |
| Net long/(short) non-structural position | 870 | 909 | 114 | (25) | (24) | 1,844 |
| Structural position | 205 | 26,935 | — | — | 387 | 27,527 |
| Figures in HK\$m | US\$ | RMB | AUD | JPY | Other foreign currencies | Total foreign currencies |

At 31 December 2012

| | | | | | | |
|--|-----------|-----------|----------|----------|----------|-----------|
| Non-structural position | | | | | | |
| Spot assets | 160,217 | 119,957 | 50,739 | 23,957 | 69,491 | 424,361 |
| Spot liabilities | (144,015) | (112,827) | (50,157) | (2,141) | (56,493) | (365,633) |
| Forward purchases | 301,222 | 83,737 | 8,503 | 11,182 | 14,889 | 419,533 |
| Forward sales | (313,787) | (90,096) | (9,028) | (33,069) | (27,827) | (473,807) |
| Net options position | 160 | (142) | 82 | (19) | (55) | 26 |
| Net long/(short) non-structural position | 3,797 | 629 | 139 | (90) | 5 | 4,480 |
| Structural position | 205 | 30,375 | — | — | 434 | 31,014 |

6. Ultimate holding company

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

7. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 21 August 2013, during which time no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 20 August 2013. The second interim dividend will be payable on Thursday, 5 September 2013, to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 21 August 2013. Shares of the bank will be traded ex-dividend as from Monday, 19 August 2013.

8. Proposed timetable for the remaining 2013 quarterly dividends

| | Third interim dividend | Fourth interim dividend |
|----------------------------|---------------------------|----------------------------|
| Announcement | 7 October 2013 | 24 February 2014 |
| Book close and record date | 24 October 2013 | 12 March 2014 |
| Payment date | 7 November 2013 | 27 March 2014 |

9. Code on corporate governance practices

The bank is committed to high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, staff and other stakeholders. The bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA and has fully complied with all the code provisions and most of the recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2013.

The Audit Committee of the bank has reviewed the results of the bank for the six months ended 30 June 2013.

10. Board of Directors

At 5 August 2013, the Board of Directors of the bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan*, Dr Marvin K T Cheung*, Ms L Y Chiang*, Mr Andrew H C Fung, Ms Anita Y M Fung#, Dr Fred Zulu Hu*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mrs Dorothy K Y P Sit#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent non-executive Directors

11. News release

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

The Interim Report 2013, which contains all disclosures required by the Banking (Disclosure) Rules issued by the HKMA, will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release. Printed copies of the Interim Report 2013 will be sent to shareholders in late August 2013.

Media enquiries to:

Walter Cheung

Telephone: (852) 2198 4020

Ruby Chan

Telephone: (852) 2198 4236

This information is provided by RNS
The company news service from the London Stock Exchange

END

SIGNATURE

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

HSBC Holdings plc

By:

Name: Ben J S Mathews

Title: Group Company Secretary

Date: 05 August 2013