

HSBC HOLDINGS PLC
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of February
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-.....).

27 February 2012

HANG SENG BANK LIMITED
2011 RESULTS - HIGHLIGHTS

- Attributable profit up 12% to HK\$16,680m (HK\$14,917m in 2010).
- Profit before tax up 11% to HK\$19,213m (HK\$17,345m in 2010).
- Operating profit up 1% to HK\$14,181m (HK\$14,085m in 2010).
- Operating profit excluding loan impairment charges up 1% to HK\$14,621m (HK\$14,475m in 2010).
- Return on average shareholders' funds of 22.6% (22.8% in 2010).
- Assets up 6% to HK\$975.4bn (HK\$916.9bn at 31 December 2010).
- Earnings per share up 12% to HK\$8.72 per share (HK\$7.80 per share in 2010).
- Fourth interim dividend of HK\$1.90 per share; total dividends of HK\$5.20 per share for 2011 (HK\$5.20 per share in 2010).
- Capital adequacy ratio of 14.3% (13.6% at 31 December 2010); core capital ratio of 11.6% (10.8% at 31 December 2010).
- Cost efficiency ratio of 35.0% (33.7% in 2010).

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 audited consolidated financial statements of Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') for the year ended 31 December 2011.

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Comment by Raymond Ch'ien, Chairman

In the challenging environment of 2011, we built on our trusted brand to enhance long-term growth and achieved a solid operating result.

We continued to develop areas of strength and deepened our penetration into segments that offer growth opportunities. Our core strategies of financial prudence and innovating to deliver more value served us in good stead.

In the volatile market conditions, we drew on our time-to-market wealth management capabilities to offer comprehensive products catering for the changing financial needs of our customers, targeting mainland China customers among other segments.

In our commercial and corporate banking businesses, our good industry knowledge, strong cross-border capabilities and total solutions helped enhance our status as a preferred partner for trade-related services and our franchise in corporate wealth management.

The Mainland will remain a major focus for our future expansion. Reflecting our efforts to take advantage of the opening up of the mainland financial sector, the gradual internationalisation of the renminbi and the closer economic integration of Hong Kong and the Mainland, we achieved encouraging growth in our cross-border services and renminbi-related businesses.

In an important milestone, Hang Seng Bank (China) Limited moved into new headquarters in Shanghai's Lujiazui financial district in May 2011. The move signifies our long-term commitment to developing our business on the Mainland.

Our strengths continued to win recognition. The bank was named the Best Domestic Bank in Hong Kong for the 12th consecutive year by The Asset and the Best Domestic Bank in Hong Kong by Asiamoney.

Financial Highlights

Profit attributable to shareholders rose by 12% to HK\$16,680m and profit before tax was up 11% at HK\$19,213m. Earnings per share were up 12% to HK\$8.72 per share.

The return on average shareholders' funds was 22.6%, compared with 22.8% in 2010. The return on average total assets was 1.8%, compared with 1.7% a year earlier.

At 31 December 2011, our capital adequacy ratio was 14.3%, compared with 13.6% at the end of 2010. The core capital ratio was 11.6%, compared with 10.8% a year earlier. The rise in both capital and core capital ratios reflected the combined effect of the increase in profit after accounting for dividends in 2011 and the decrease in risk-weighted assets.

The Directors have declared a fourth interim dividend of HK\$1.90 per share, payable on 29 March 2012. This brings the total distribution for 2011 to HK\$5.20 per share, the same as for 2010.

Operating Environment

The operating environment in 2011 was affected by growing global economic uncertainties, including the deepening sovereign debt crisis in the eurozone, the continuing fragility of the US economic recovery, and the effects of the devastating earthquake and tsunami in Japan on global supply chains. As a result, the growth momentum in Hong Kong eased in the second half of the year as external demand slowed.

China headed towards a soft landing as economic growth moderated due to persistent monetary tightening by the government and weaker external demand. The economy was mainly supported by strong investment and consumption growth. The high inflationary pressure began to ease after peaking in July.

In 2012, the prevailing economic uncertainties in the eurozone and the US will continue to dominate globally. The downgrade of the credit ratings of the US and various eurozone countries by credit rating agencies over the past year indicates continued downside risks in the world economic outlook.

Given the above, Hong Kong's economic growth is likely to slow this year. Exports will be adversely affected by the difficult global environment, but domestic demand should remain resilient on the back of steady income growth and continued expansion of public sector construction works. Inflation is expected to come down due to the recent easing in global food and commodity prices, and the expected economic slowdown.

Economic growth on the Mainland is expected to slow further, although its economy remains among the fastest growing in the world. Since December 2011, China's central bank has cut the reserve requirement ratio for commercial lenders twice in a sign it is easing monetary policy to stimulate domestic demand. Although exports should continue to soften given weakening external demand, consumption growth is expected to remain resilient given the increasing personal wealth of the mainland population. Investment growth is also expected to remain steady as the government gradually eases monetary conditions. Inflation is likely to fall steadily.

In the banking sector, loan growth is expected to moderate while competition for deposits will remain keen. Banks will encounter more challenges, including evolving regulatory requirements.

Against this backdrop, we will continue our efforts to create sustainable value for our stakeholders.

Review by Margaret Leung, Vice-Chairman and Chief Executive

The global economic uncertainties in the second half of 2011 posed significant challenges to the banking sector.

Our strong financial fundamentals, relationship building strategies and capture of new business opportunities helped us achieve a solid operating result. Operating profit excluding loan impairment charges increased by 1% to HK\$14,621m for the year and grew 1% in the second half of the year compared with the first half.

Amid intense market competition, our commercial and corporate banking businesses recorded strong growth. The further enhancement of our cross-border operations to support business customers reinforced our leading position in the provision of renminbi financial services. This was offset by lower revenues in Retail Banking and Wealth Management, particularly as income from our wealth management services declined given the weaker investor sentiment in the second half of 2011.

Our wholly owned subsidiary Hang Seng Bank (China) Limited ('Hang Seng China') delivered encouraging results as we tapped China's expanding economy and rising personal incomes.

At 35.0%, our cost efficiency ratio remained among the lowest in the industry. In order to improve operational efficiency and facilitate customer convenience, internet-based banking platforms were further strengthened. At the year-end, our Personal e-Banking and Business e-Banking customer bases were up 12% and 16% respectively, compared with a year earlier.

Financial Performance

Total assets rose by 6% to HK\$975.4bn. Customer advances increased by 2%, with growth in commercial and corporate lending businesses, while we maintained sound loan quality. Customer deposits, including certificates of deposit and other debt securities in issue, rose by 5%, driven in part by strong growth in renminbi deposits.

Operating profit rose by 1% to HK\$14,181m, while the increased contribution from our associates and higher gains on revaluing investment properties led to an increase in profit attributable to shareholders of 12% to HK\$16,680m.

Net interest income rose by 10% to HK\$15,736m. The net interest margin was maintained at 1.78%, the same level as in 2010. At 1.80% in the second half of the year, the net interest margin was up five basis points from the first half.

Affected by the unfavourable investment climate, non-interest income declined by 9%, compared with 2010. Net fee income decreased slightly by 1%, with income from the wealth management business dropping by 6%. Card services income grew by 15% as we increased our market share in terms of card base in this competitive business.

While continuing to exercise a high degree of prudence in managing costs, investment for future growth led to a 7% rise in operating expenses, in particular for business expansion on the Mainland.

Loan impairment charges registered an increase of HK\$50m, or 13%, to HK\$440m, mainly due to the increase in collectively assessed impairment charges.

Reflecting our good credit risk management, total loan impairment allowances as a percentage of gross advances to customers decreased to 0.35% at the end of 2011, compared with 0.39% a year earlier.

Gross impaired advances as a percentage of gross advances to customers fell to 0.33%, compared with 0.42% at the end of 2010.

Customer Groups

Retail Banking and Wealth Management reported a profit before tax of HK\$6,623m, down 16% from 2010. Operating profit excluding loan impairment charges was HK\$6,441m, a drop of 18% from a year earlier.

Net interest income recorded a decline of 4% as market competition levied pressure on deposit income.

With a quality credit card customer base, income from unsecured lending remained a key income driver and grew by 11%, compared with 2010. The card base increased by 10% to 2.23 million during the year. Card spending and receivables rose by 16% and 18% respectively.

Repricing of our mortgage portfolio affected our market share initially. However, our market share in Hong Kong in terms of new registrations rebounded to reach 19% in December 2011.

Life insurance annualised new premiums increased by 12% and total policies in force grew by 8%, compared with 2010. Despite the strong sales, income from insurance fell as market conditions led to lower investment returns on the life insurance fund portfolios.

The euro debt problem intensified in the second half of 2011. This severely affected investment appetite leading to lower distribution income from investment services, as reflected by slower fund sales and securities broking activities in the second half of the year. Income from investment services for the year fell by 11% year-on-year.

Commercial Banking achieved an increase of 34% in profit before tax to HK\$5,031m. Operating profit excluding loan impairment charges was up 29% to HK\$3,442m.

Net interest income increased by 26% while non-interest income grew by 13%. Customer deposits grew by 5% during the year.

Various initiatives to grow fee income achieved satisfactory results. Income from corporate wealth management rose by 15% and contributed to 13% of Commercial Banking's net operating income.

We continued to take advantage of the growth in renminbi trade settlement. Besides close collaboration between colleagues in Hong Kong and the Mainland, we also cooperate with strategic partners on the Mainland to enhance our cross-border services. This proved to be a valuable source of referral business. At the end of 2011, we had over 70,000 commercial renminbi accounts in Hong Kong and renminbi cross-border trade-related business routed through the bank had increased.

Our network of seven Business Banking Centres helped facilitate account acquisition and the Commercial Banking customer base increased by 13% during the year.

Corporate Banking achieved growth of 46% in profit before tax to HK\$1,843m. Operating profit excluding loan impairment charges rose by 42% to HK\$1,794m. The strong profit growth was mainly attributable to increases in net interest income and non-interest income, which rose by 39% and 14% respectively.

Against a backdrop of tightening market liquidity, we achieved selective growth of 10% in customer advances, partly by taking advantage of the increased cross-border loan demand. Through offering total cash management solutions to customers and capitalising on our efficient cross-border relationship management system, customer deposits grew by 29%.

Treasury recorded a 26% increase in profit before tax to HK\$4,227m, while operating profit rose by 24% to HK\$2,729m.

In spite of persistently low interest rates, net interest income rose by 50% to reach HK\$2,108m. The increase was attributed to a larger commercial surplus for investment as the bank's balance sheet grew, more positioning taken in balance sheet management and the contribution from funding swap activities. It was also due to better margins for inter-bank lending in both Hong Kong and the Mainland.

Trading income fell by 14% to HK\$1,001m, affected by the decline in income from funding swap activities.

Mainland business

Hang Seng China recorded encouraging growth in profit before tax to HK\$482m as it increased its foothold on the Mainland.

With the opening of its third cross-city sub-branch in Huizhou, Hang Seng China operated a strategically located network of 39 outlets across 14 mainland cities at the year-end. Applications to establish a new branch in Xiamen, a sub-branch each in Beijing and Tianjin, and a cross-city sub-branch each in Guangdong's Shunde, Zhuhai and Jiangmen respectively have been approved.

Through focusing on the growing financial needs of target mainland customers with rapidly rising incomes, the mainland personal banking customer base increased by 21%. The enhancement of wealth management services facilitated a 26% rise in the number of Prestige Banking customers. As we capitalised on our good cross-border capabilities, the number of corporate and commercial banking customers also increased by 8%.

Driven by the expanded customer base and with continued emphasis on credit quality, advances to customers rose by 23%. Total deposits increased by 34%. Underpinned by strong growth in net interest income and other operating income, total operating income was 46% higher than in 2010.

The mainland business contributed 22% to the bank's total profit before tax, compared with 15% in 2010. This includes the share of profit from our mainland investments, where our share of profit from Industrial Bank increased by about 40% during the year.

Positioning for future growth

We are likely to see slower economic growth in both Hong Kong and the Mainland in 2012 amid lingering debt problems in Europe and a fragile global recovery.

In the banking sector, competition will remain strong, adding pressure to funding costs.

In this operating environment, we have charted a course for long-term growth. We will build on our market leadership, service excellence and time-to-market offerings to deepen relationships with our loyal customers and reach out to a new client base.

In our personal banking business, we will strengthen our wealth management and private banking services to satisfy customer needs at different life stages, targeting affluent and middle-class customers in particular. We will enhance our status as a preferred partner for trade-related services by building on our trade and corporate wealth management capabilities. Treasury will develop effective hedging solutions and new renminbi-related products.

The closer economic integration of Hong Kong and the Mainland, the opening-up of the mainland market and the further liberalisation of offshore renminbi financial services offer vast opportunities. We intend to reinforce our role as a key player and pioneer in the provision of renminbi services.

In February 2012, the bank launched the world's first renminbi-denominated gold exchange-traded fund ('ETF') and Hong Kong's first renminbi ETF – the Hang Seng RMB Gold ETF. We will continue to design more renminbi products to cater for the growing investor demand in this area.

Our wholly owned subsidiary Hang Seng Securities Limited partnered with Guangzhou Securities Company Limited to apply in 2011 to set up the first joint venture securities investment advisory company under CEPA VI in Guangdong province.

We will further expand our network on the Mainland. We intend to reach out to more affluent mainland customers who are seeking new investment opportunities at home and in Hong Kong. We will also target mainland business customers with high growth potential in key industries, in particular those supported under China's 12th Five-Year Plan. Our cross-border collaboration between our Hong Kong and mainland teams will be strengthened and our referral partner network will further help us grow our client base.

Deposit growth will provide a solid foundation for our business expansion. Leveraging our strong balance sheet and effective credit risk management system, we will prudently grow our quality loan portfolio, including renminbi lending, while maintaining a competitive pricing strategy. Diversification of income streams will remain important.

Even as we invest for future growth, cost efficiency will be improved through resource optimisation and technological advancement.

In the challenging operating environment, Hang Seng is committed to providing superior financial solutions to our customers as their preferred service provider. As a financially-strong, forward-looking bank, we are confident that our business strategies will drive steady growth in the long-term.

Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported an audited profit attributable to shareholders of HK\$16,680m for 2011, up 11.8% compared with 2010. Earnings per share were HK\$8.72, up HK\$0.92 from 2010. Profit attributable to shareholders for the second half of 2011 increased by HK\$566m, or 7.0%, compared with the first half.

Operating profit excluding loan impairment charges grew by HK\$146m, or 1.0%, to HK\$14,621m. The bank continues to navigate a challenging environment and delivered a solid operating result. Net interest income grew by 10.0%, primarily due to average loan growth coupled with higher loan spreads and increased balance sheet management income. The increasingly uncertain and volatile market as a result of the evolving eurozone sovereign debt concerns and slow recovery of the US economy led to an unfavourable investment climate which did not favour the wealth management business. Non-interest income declined by 8.9% compared with last year. While the bank remains prudent in managing costs, investment for future growth, in particular business expansion in mainland China, led to a 7.4% rise in operating expenses compared with 2010. Riding on the bank's business momentum and leveraging its core strengths, the bank registered a 0.6% increase in operating profit excluding loan impairment charges in the second half of the year compared with the first half.

Net interest income rose by HK\$1,436m, or 10.0%, to HK\$15,736m. Net interest margin for 2011 was 1.78%, the same level as in 2010. Net interest spread narrowed by four basis points to 1.68%, while the contribution from net free funds increased by four basis points to 0.10%. The 10.4% encouraging growth in average interest-earning assets, improved loan spreads and increased income from balance sheet management were partly offset by increased deposit costs.

Net fee income was HK\$4,836m, broadly at the same level as last year. The wealth management business remained well diversified but was affected by weaker investor sentiment. Against the backdrop of sluggish stock market turnover, income from stockbroking and related services decreased by 12.5%. Volatility in the stock market and an unfavourable investment climate also led to a decline in sales of retail investment funds. As a result, subscription fees and commissions fell, leading to a drop in income from retail investment funds of 12.9%. Private banking service income also fell by 19.4%. Credit card fees were 14.6% higher than in 2010 which was in line with the growth in credit card balances. The credit card business continued to grow and we increased our market share in terms of card base while increased receivables and spending resulted in rising merchant and interchange fee income. Credit facilities fees also recorded strong growth, mainly attributable to higher fees from the corporate lending business.

Trading income decreased by HK\$263m, or 12.8%, to HK\$1,796m. Foreign exchange income rose by HK\$75m, or 4.2%, attributable to the bank's efforts to expand customer-driven business and higher customer demand for foreign exchange-linked structured treasury products. The increase in foreign exchange income was largely offset by decreased net interest income from funding swap activities. Income from securities, derivatives and other trading

activities also recorded an unfavourable change of HK\$338m, or 116.2%, mainly affected by the losses on equity options backing a life endowment product due to unfavourable movements in the underlying equity indices, which resulted in a corresponding decrease in 'Net insurance claims incurred and movement in policyholder liabilities'.

Income from the insurance business (included under 'net interest income', 'net fee income', 'trading income', 'net income from financial instruments designated at fair value', 'net earned insurance premiums', 'movement in present value of in-force long-term insurance business' within 'other operating income', and after deducting 'net insurance claims incurred and movement in policyholders' liabilities') fell by HK\$242m, or 9.2%, to HK\$2,382m. Hang Seng continued to enhance its leading position in life insurance by providing a diverse range of retirement savings and protection products. Net interest income and fee income from the life insurance business grew by 8.1%, due primarily to the increase in the size of the life insurance funds investment portfolio. The investment return on the life insurance funds investment portfolio was, however, affected by the unfavourable movements of the equities market during the second half of 2011. The movement in present value of in-force long-term insurance business ('PVIF') decreased by 47.2%, representing the net effect of the unfavourable experience variance of the investment return assumption, offset by a refinement of the calculation of the PVIF asset to bring greater comparability and consistency across the group's insurance operation and higher sales in 2011 compared with 2010.

Operating expenses rose by HK\$543m, or 7.4%, to HK\$7,898m. While the bank carefully managed its costs, investments were made on the Mainland and for business development in Hong Kong to support the long-term growth of core income streams. Operating expenses of our Hong Kong operations rose by 5.2%, mainly in relation to staff-related costs, marketing expenditure and processing charges following inflationary increases and business growth. Mainland-related operating expenses rose by 20.6%, attributable mainly to the ongoing business expansion of Hang Seng China. Despite the increase in costs, the cost efficiency ratio of the bank remains one of the lowest in the industry and the bank continues to focus on improving operational efficiency while maintaining growth momentum and market leadership.

Loan impairment charges registered an increase of HK\$50m, or 12.8%, to HK\$440m. Individually assessed impairment charges dropped by HK\$83m, or 44.6%, driven by higher releases and recoveries from corporate and commercial banking customers in 2011 although there was an increase in new impairment charges which included a specific impairment charge provided in 2011. Collectively assessed impairment charges rose by HK\$133m, or 65.2%, to HK\$337m, with higher charges on the expanding credit card and personal loans portfolios. Impairment allowances for loans not individually identified as impaired recorded a net charge compared with a net release in 2010, mainly due to loan growth during the year.

Impairment loss on intangible assets of HK\$78m related to certain IT projects.

Operating profit rose slightly by HK\$96m, or 0.7%, to HK\$14,181m.

Profit before tax increased by 10.8% to HK\$19,213m after taking the following items into account:

- a 55.4% (or HK\$62m) fall in gains less losses from financial investments and fixed assets;
- a 103.7% (or HK\$505m) increase in net surplus on property revaluation; and
- a 49.9% (or HK\$1,329m) increase in share of profits from associates, mainly from Industrial Bank and a property investment company.

Consolidated balance sheet and key ratios

Total assets rose by HK\$58.5bn, or 6.4%, to HK\$975.4bn. Customer advances increased by HK\$7.9bn, or 1.7%, with growth in the commercial and corporate lending businesses, largely in mainland China. The trade finance business declined as certain trade finance loans matured in the second half of the year. The bank was strongly positioned to capture cross-border opportunities and prudently grew its Mainland lending during the year while maintaining sound

loan quality. Under the vigorous deposit acquisition strategy in both Hong Kong and the Mainland during the year, customer deposits, including certificates of deposit and other debt securities in issue, increased by HK\$32.9bn, or 4.6%, to HK\$743.2bn, driven in part by strong growth in renminbi deposits. At 31 December 2011, the advances-to-deposits ratio was 64.7%, compared with 66.5% at 31 December 2010. Financial investments and trading assets increased by 4.9% and 146.3% respectively, reflecting the deployment of the commercial surplus to high-quality treasury bills and debt securities.

At 31 December 2011, shareholders' funds (excluding proposed dividends) were HK\$75,122m, an increase of HK\$8,743m, or 13.2%. Retained profits rose by HK\$5,674m, mainly reflecting the increase in profit after the appropriation of interim dividends. With the growth in the commercial property market through 2011, the premises revaluation reserve increased by HK\$2,854m, or 30.3%. The available-for-sale investment reserve recorded a deficit of HK\$561m, compared with a surplus of HK\$202m at the end of 2010, as a result of the general widening of credit spreads.

The return on average total assets was 1.8% (1.7% for 2010). The return on average shareholders' funds was 22.6% (22.8% for 2010).

At 31 December 2011, the capital adequacy ratio was 14.3%, up from 13.6% at the end of 2010. The core capital ratio was 11.6%, compared with 10.8% a year earlier. The rise in both capital and core capital ratios reflected the combined effect of the increase in profit after accounting for dividends in 2011 and the decrease in risk-weighted assets.

The bank maintained a strong liquidity position. The average liquidity ratio for 2011 was 33.6% (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance), compared with 38.1% for 2010.

The cost efficiency ratio for 2011 was 35.0% compared with 33.7% in 2010.

Dividends

The Directors have declared a fourth interim dividend of HK\$1.90 per share, which will be payable on 29 March 2012 to shareholders on the register of shareholders as of 14 March 2012. Together with the interim dividends for the first three quarters, the total distribution for 2011 will be HK\$5.20 per share.

Customer group performance

| Figures in HK\$m | Retail Banking and Wealth Management | Commercial Banking | Corporate Banking | Treasury | Other | Total reportable segments | Inter- segment elimination | Total |
|--|---|-----------------------|----------------------|----------|-------|---------------------------------|----------------------------------|--------|
| Year ended 31 December 2011 | | | | | | | | |
| Net interest income | 8,150 | 3,400 | 1,998 | 2,108 | 80 | 15,736 | — | 15,736 |
| Net fee income/(expense) | 3,298 | 1,210 | 219 | (34) | 143 | 4,836 | — | 4,836 |
| Trading income/(loss) | 351 | 530 | 13 | 1,001 | (99) | 1,796 | — | 1,796 |
| Net loss from financial instruments designated at fair | | | | | | | | |

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|--|----------|---------|-------|-------|-------|----------|-------|----------|
| value | (158) | (1) | — | (1) | — | (160) | — | (160) |
| Dividend income | — | 7 | — | — | 10 | 17 | — | 17 |
| Net earned insurance premiums | 10,820 | 239 | 2 | — | — | 11,061 | — | 11,061 |
| Other operating income/(loss) | 719 | 18 | (1) | — | 679 | 1,415 | (494) | 921 |
| Total operating income | 23,180 | 5,403 | 2,231 | 3,074 | 813 | 34,701 | (494) | 34,207 |
| Net insurance claims incurred and movement in policyholders' liabilities | (11,487) | (122) | (1) | — | — | (11,610) | — | (11,610) |
| Net operating income before loan impairment charges | 11,693 | 5,281 | 2,230 | 3,074 | 813 | 23,091 | (494) | 22,597 |
| Loan impairment (charges)/releases | (254) | (233) | 46 | 1 | — | (440) | — | (440) |
| Net operating income | 11,439 | 5,048 | 2,276 | 3,075 | 813 | 22,651 | (494) | 22,157 |
| Operating expenses W | (5,177) | (1,836) | (436) | (346) | (597) | (8,392) | 494 | (7,898) |
| Impairment loss on intangible assets | (75) | (3) | — | — | — | (78) | — | (78) |
| Operating profit | 6,187 | 3,209 | 1,840 | 2,729 | 216 | 14,181 | — | 14,181 |
| Gains less losses from financial investments and fixed assets | 20 | 11 | 3 | 12 | 4 | 50 | — | 50 |
| Net surplus on property revaluation | — | — | — | — | 992 | 992 | — | 992 |
| Share of profits from associates | 416 | 1,811 | — | 1,486 | 277 | 3,990 | — | 3,990 |
| Profit before tax | 6,623 | 5,031 | 1,843 | 4,227 | 1,489 | 19,213 | — | 19,213 |
| Share of profit before tax | 34.5% | 26.2% | 9.6% | 22.0% | 7.7% | 100.0% | — | 100.0% |
| Operating profit excluding loan impairment charges | 6,441 | 3,442 | 1,794 | 2,728 | 216 | 14,621 | — | 14,621 |
| WDepreciation/amortisation included in operating expenses | (155) | (31) | (5) | (5) | (623) | (819) | — | (819) |

At 31 December 2011

| | | | | | | | | |
|---|---------|---------|---------|---------|--------|---------|---|---------|
| Total assets | 274,294 | 185,350 | 143,734 | 329,295 | 42,772 | 975,445 | — | 975,445 |
| Total liabilities | 596,593 | 149,416 | 64,736 | 51,897 | 34,048 | 896,690 | — | 896,690 |
| Interest in associates | 2,115 | 8,185 | — | 6,441 | 2,666 | 19,407 | — | 19,407 |
| Non-current assets incurred during the year | 160 | 49 | 5 | 4 | 204 | 422 | — | 422 |

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| Figures in HK\$m | Retail Banking and Wealth Management | Commercial Banking | Corporate Banking | Treasury | Other | Total Inter- reportable segment contribution | Elimination | Total |
|--|---|-----------------------|----------------------|----------|-------|---|-------------|----------|
| Year ended | | | | | | | | |
| 31 December 2010 | | | | | | | | |
| Net interest income | 8,485 | 2,709 | 1,440 | 1,403 | 263 | 14,300 | — | 14,300 |
| Net fee income/(expense) | 3,423 | 1,209 | 188 | (29) | 106 | 4,897 | — | 4,897 |
| Trading income/(loss) | 630 | 334 | 11 | 1,162 | (78) | 2,059 | — | 2,059 |
| Net income/(loss) from financial instruments designated at fair value | 297 | — | — | (1) | (14) | 282 | — | 282 |
| Dividend income | — | 5 | — | — | 9 | 14 | — | 14 |
| Net earned insurance premiums | 11,059 | 246 | 2 | — | — | 11,307 | — | 11,307 |
| Other operating income/(loss) | 1,271 | 23 | 1 | (1) | 712 | 2,006 | (448) | 1,558 |
| Total operating income | 25,165 | 4,526 | 1,642 | 2,534 | 998 | 34,865 | (448) | 34,417 |
| Net insurance claims incurred and movement in policyholders' liabilities | (12,436) | (152) | 1 | — | — | (12,587) | — | (12,587) |
| Net operating income before loan impairment charges | 12,729 | 4,374 | 1,643 | 2,534 | 998 | 22,278 | (448) | 21,830 |
| Loan impairment charges | (209) | (178) | (3) | — | — | (390) | — | (390) |
| Net operating income | 12,520 | 4,196 | 1,640 | 2,534 | 998 | 21,888 | (448) | 21,440 |
| Total operating expenses W | (4,864) | (1,703) | (379) | (327) | (530) | (7,803) | 448 | (7,355) |
| Operating profit | 7,656 | 2,493 | 1,261 | 2,207 | 468 | 14,085 | — | 14,085 |
| Gains less losses from financial investments and fixed assets | — | — | 5 | 95 | 12 | 112 | — | 112 |
| Net surplus on property revaluation | — | — | — | — | 487 | 487 | — | 487 |
| Share of profits from associates | 216 | 1,255 | — | 1,059 | 131 | 2,661 | — | 2,661 |
| Profit before tax | 7,872 | 3,748 | 1,266 | 3,361 | 1,098 | 17,345 | — | 17,345 |
| Share of profit before tax | 45.4% | 21.6% | 7.3% | 19.4% | 6.3% | 100.0% | — | 100.0% |
| Operating profit excluding loan impairment charges | | | | | | | | |
| | 7,865 | 2,671 | 1,264 | 2,207 | 468 | 14,475 | — | 14,475 |
| WDepreciation/amortisation included in total operating expenses | | | | | | | | |
| | (175) | (34) | (5) | (4) | (503) | (721) | — | (721) |

At 31 December 2010

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| | | | | | | | | |
|---|---------|---------|---------|---------|--------|---------|---|---------|
| Total assets | 264,827 | 180,013 | 130,148 | 304,898 | 37,025 | 916,911 | — | 916,911 |
| Total liabilities | 581,118 | 141,518 | 50,862 | 39,268 | 34,133 | 846,899 | — | 846,899 |
| Interest in associates | 1,384 | 6,197 | — | 5,626 | 2,459 | 15,666 | — | 15,666 |
| Non-current assets incurred during the year | 128 | 39 | 5 | 4 | 739 | 915 | — | 915 |

Retail Banking and Wealth Management ('RBWM') reported a profit before tax of HK\$6,623m in 2011, down 15.9% from 2010. Operating profit excluding loan impairment charges reached HK\$6,441m, representing a drop of 18.1% compared with 2010.

Net interest income recorded a year-on-year decline. Intense market competition levied pressure on RBWM's deposit income, while unsecured lending and insurance were able to achieve moderate growth in their respective net interest income. Intense market competition and the resulting high cost of funds hit deposit income. To grow the bank's deposit base, increased interest rates were offered to customers. As a result, net interest income from deposits dropped by 15.8% compared with the same period in 2010.

The bank switched its focus from HIBOR-based lending to Prime-based loans in early 2011 in its mortgage business. The bank's mortgage market share dropped initially, but as many competitors followed suit and rationalised their mortgage pricing, our market share in terms of new registrations rebounded to reach 18.7% in December 2011. Net interest income from our Hong Kong mortgage business improved in the second half of the year over the first half.

With a quality credit card customer base, total operating income from unsecured lending remained a key income driver and grew by 10.9% year-on-year. The bank grew its market share in terms of card base and remained the second and third largest issuer of VISA and MasterCard cards respectively. As of 31 December 2011, total cards in issue reached 2.23 million and over 342,000 new cards were acquired during the year. The Hang Seng Hong Kong dollar China UnionPay ('CUP') credit card continued to generate strong interest, with the number of cards issued more than doubling since the end of 2010. Effective marketing efforts continued to boost card usage with card spending and card receivables growing by 16.1% and 17.6% year-on-year respectively. Personal loan balances were up by 15.2% year-on-year to HK\$5.3bn.

Income from investments declined by 10.6% year-on-year as the investment business experienced volatile markets in 2011. Investment fund subscriptions deteriorated in the second half due to the economic uncertainties around the globe. As a result, the income from both retail investment funds and securities broking declined compared with the previous year.

The diversification strategy of offering new life insurance plans with improved protection propositions proved to be effective in driving sales momentum later in the year. Annualised new premiums grew by 12.1% compared with 2010 while total policies in force also grew steadily. However, net insurance premium income fell by 2.2% compared to 2010. Income from non-linked insurance business fell as unfavourable market conditions led to lower investment returns. Insurance income was also affected by the decline in the present value of in-force long-term insurance business, representing the net effect of the unfavourable experience variance of the investment return assumption, offset by a refinement of the calculation of the PVIF asset to bring greater comparability and consistency across the group's insurance operation and higher sales in 2011 compared with 2010.

Service quality was never compromised and Hang Seng Bank continued to receive recognition in the banking industry. The bank was named 'Best Local Private Bank in Hong Kong' in the Euromoney Private Banking Survey 2011 based on the assessment of business performance and peer nominations. Asiamoney also named Hang Seng Bank the 'Best Domestic Bank in Hong Kong' again in 2011.

Commercial Banking ('CMB') achieved a 34.2% increase in profit before tax to HK\$5,031m, contributing to more than a quarter of the bank's total. Operating profit excluding loan impairment charges was up 28.9% to HK\$3,442m.

Against a backdrop of buoyant consumer demand, CMB achieved encouraging growth driven mainly by net interest income from advances and non-interest income. With a strong asset base and strategic re-pricing, net interest income from advances increased by 36.0%, whereas non-interest income grew by 13.0%. Amidst intense competition, healthy growth was achieved in customer deposits of 5.1% compared with 31 December 2010.

Various initiatives to grow fee income achieved satisfactory results, notably from loan-related fees and remittances. CMB also provided timely and competitive corporate wealth management products for its customers, focusing particularly on those in the top-end segment. A wide range of products including corporate investment, insurance and treasury products were marketed to customers through different platforms to capture the shift in investment sentiment as well as to meet customers' expectations on yield enhancement or hedging needs. Income from the corporate wealth management business increased by 14.9% and contributed to 13.3% of CMB's net operating income.

To assist commercial customers in growing their cross-border business and to establish a dynamic customer referral channel, CMB closely collaborated with Hang Seng China and strategic partners on the Mainland. This collaboration has enhanced the bank's cross-border service proposition and has proven to be a valuable source of referral business.

At 31 December 2011, the number of commercial renminbi accounts in Hong Kong exceeded 70,000 and the renminbi cross-border trade-related business routed through the bank had increased. As Hong Kong develops into an important renminbi offshore centre, the bank will capitalise on its growth capabilities by further enhancing renminbi services, especially through the provision of customised renminbi trade solutions and wealth management services as well as capturing the potential of renminbilending in Hong Kong.

Cash management capabilities were further enhanced to offer speedy China remittance services to customers. The Express China remittance service was enhanced to provide 'within 3 hours credit' for remittances to beneficiary accounts of Hang Seng China. Hang Seng was one of the pioneer banks to offer a renminbi bill payment service providing a one-stop solution to merchants for collecting renminbi payments from their customers via the bank's automated channels.

Seven Business Banking Centres located in areas of high commercial traffic are in operation, enhancing the network and providing high quality and convenient services to customers and referral partners. Those centres facilitated account acquisition and Commercial Banking customer numbers increased by 13.4% over 2010.

There were also continuous efforts to encourage customers to use online and automated banking channels. The activation of online investment accounts and e-Statement services were launched on the Business e-Banking platform in July 2011. An online renminbi exchange service was launched in August 2011. As a result, the number of customers using Business e-Banking services increased by 16.2% while the number of online business transactions grew by 13.8%.

With prudent risk management, a high quality asset portfolio was maintained and loan impairment allowances against CMB's total portfolio remained at a low level of 0.77%.

Corporate Banking ('CIB') achieved a 45.6% growth in profit before tax to HK\$1,843m compared with 2010. Operating profit excluding loan impairment charges was HK\$1,794m, up 41.9%. The strong profit growth was mainly attributable to a rise in net interest income and non-interest income which increased by 38.8% and 14.3% respectively.

CIB encountered a challenging operating environment in 2011. On the Mainland, market liquidity tightened significantly following a series of increases in interest rates and the required deposit reserve ratio. Strong loan demand

prompted an increasing number of mainland enterprises to come to Hong Kong for bank financing. To meet the loan demand, competition for customer deposits intensified and hence raised funding costs.

Against a backdrop of tightening market liquidity, CIB leveraged its strong industry knowledge, effective risk management as well as dedicated business teams in Hong Kong and on the Mainland to achieve strong financial results through selective growth in customer advances, which increased by 10.2% compared with the end of 2010. By offering total cash management solutions to customers and capitalising on an efficient cross-border relationship management system, CIB's customer deposits grew by 29.0% amid intense competition.

The return on renminbi deposits and lending also showed positive growth as we took advantage of the increase in cross-border loan demand and the relaxation of foreign direct investment restrictions.

Leveraging its well-established business infrastructure, CIB also stepped up efforts to grow non-interest income, offering a wide spectrum of services encompassing treasury, hedging, trade services, cash management, wealth management and insurance.

Treasury ('TRY') recorded a 25.8% increase in profit before tax to HK\$4,227m, while operating profit increased by 23.7% to HK\$2,729m. The growth was mainly driven by increases in net interest income and TRY's share of profits from associates.

In spite of persistently low interest rates, net interest income surged by 50.2% to reach HK\$2,108m. The increase was attributed to a number of factors including more commercial surplus for investment as the bank's balance sheet grew, more positioning taken in balance sheet management and more opportunities and better margins for inter-bank lending in both Hong Kong and mainland China. Leveraging opportunities in foreign exchange markets for funding swap activities also contributed to the increase though this was partly offset by the loss on foreign exchange arising from funding swap activities grouped under trading income.

Trading income fell by HK\$161m, or 13.9%, to HK\$1,001m. Foreign exchange trading income recorded encouraging growth, boosted in part by rising demand for renminbi-denominated products following further liberalisation of renminbi business in Hong Kong. However, overall trading income was impacted by the decline in income from funding swap activities.

Mainland business

With the opening of the third cross-city sub-branch in Huizhou under CEPA VI in August 2011, Hang Seng China currently operates a network of 11 branches and 28 sub-branches, covering 14 cities in mainland China. The bank maintains a wholesale branch in Shenzhen for foreign currency business. Applications to establish a new branch in Xiamen, a sub-branch each in Beijing and Tianjin, and a cross-city sub-branch each in Guangdong's Shunde, Zhuhai and Jiangmen respectively have been approved. The establishment of the new outlets will further strengthen Hang Seng's strategic presence in focused areas on the Mainland.

Since late 2010, inflationary pressure became the government's major concern and a series of tightening measures was adopted in the first half of 2011. This was followed by transitions in macro-economic policies from credit tightening to selective monetary easing after the consumer price index ('CPI') peaked and worries over international economic conditions that weakened domestic growth surfaced in the latter half of 2011. In the banking sector, competition for deposits remained intense among all banks and costs to attract and retain talent with local experience stayed high.

Against such a challenging and highly competitive environment, Hang Seng China continued to target corporate customers with renminbi cross-border trade-related business needs and align credit policies with China's 12th Five-Year Plan. On the retail front, Hang Seng China's leading position in the wealth management business was boosted with the launch of the VIP Prestige Centre in Shanghai to provide tailor-made services for high net worth individuals.

Hang Seng China's strategy has been to grow in both scale and value and this has delivered encouraging results. In 2011, the total number of Corporate and Commercial Banking customers increased by 8.3% while the total number of Retail Banking and Wealth Management customers grew by 21.1% (the number of Prestige Banking customers increased by 25.6%) over December 2010.

Driven by the expanded customer base, gross advances to customers rose by 23.0% whereas total deposits increased by 34.1% over the end of 2010. Total operating income was 45.7% higher than 2010, underpinned by strong growth in net interest income and other operating income. Profit before tax recorded an increase of 821.8% compared with 2010.

| | As reported | 2011 compared with 2010 Constant currencyW |
|-----------------------------|-------------|--|
| Total operating income | 45.7% | 38.8% |
| Profit before tax | 821.8% | 778.2% |
| Gross advances to customers | 23.0% | 17.6% |
| Customer deposits | 34.1% | 28.3% |

The partnership with Industrial Bank continued to support the bank's long-term growth on the Mainland. In March 2011, the bank signed a memorandum of understanding with Industrial Bank to further strengthen bilateral cooperation in various business areas. Moreover, more branch-level cooperation initiatives have been launched between Hang Seng and Industrial Bank.

In October 2011, Hang Seng Securities Limited ('Hang Seng Securities'), a wholly owned subsidiary of the bank, signed a memorandum of understanding with Guangzhou Securities Company Limited ('Guangzhou Securities') to take an important step in their application to set up Guangzhou GuangZheng Hang Seng Securities Investment Advisory Company Limited. This is the first ever application to set up a joint venture securities investment advisory company in Guangdong province under CEPA VI. Subject to regulatory approval for its establishment, the joint venture aims to become a showcase for cross-border securities investment advisory co-operation under CEPA by combining the strengths of both partners, paving the way for Hang Seng to expand its business on the Mainland.

WWhen reference is made to 'constant currency' in commentaries, comparative data reported in the functional currency of Hang Seng's operations on the Mainland have been translated at the appropriate exchange rates applied in the current year in respect of the income statement or balance sheet. Constant currency comparatives in respect of 2010 and 2009 used in the 2011 and 2010 commentaries respectively are computed by translating into HK Dollars:

- the income statement for 2010 and 2009 of renminbi at the average rates of exchange for 2011 and 2010 respectively; and
- the balance sheet at 31 December 2010 and 2009 for renminbi at the prevailing rates of exchange on 31 December 2011 and 2010 respectively.

Consolidated Income Statement

| | | |
|------------------|--------------------------------|------|
| Figures in HK\$m | Year ended 31 December 2011 | 2010 |
|------------------|--------------------------------|------|

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| | | |
|---|----------|----------|
| Interest income | 19,845 | 16,507 |
| Interest expense | (4,109) | (2,207) |
| Net interest income | 15,736 | 14,300 |
| Fee income | 5,923 | 5,895 |
| Fee expense | (1,087) | (998) |
| Net fee income | 4,836 | 4,897 |
| Trading income | 1,796 | 2,059 |
| Net (loss)/income from financial instruments designated at fair value | (160) | 282 |
| Dividend income | 17 | 14 |
| Net earned insurance premiums | 11,061 | 11,307 |
| Other operating income | 921 | 1,558 |
| Total operating income | 34,207 | 34,417 |
| Net insurance claims incurred and movement in policyholders' liabilities | (11,610) | (12,587) |
| Net operating income before loan impairment charges | 22,597 | 21,830 |
| Loan impairment charges | (440) | (390) |
| Net operating income | 22,157 | 21,440 |
| Employee compensation and benefits | (3,888) | (3,717) |
| General and administrative expenses | (3,191) | (2,917) |
| Depreciation of premises, plant and equipment | (700) | (619) |
| Amortisation of intangible assets | (119) | (102) |
| Operating expenses | (7,898) | (7,355) |
| Impairment loss on intangible assets | (78) | — |
| Operating profit | 14,181 | 14,085 |
| Gains less losses from financial investments and fixed assets | 50 | 112 |
| Net surplus on property revaluation | 992 | 487 |
| Share of profits from associates | 3,990 | 2,661 |
| Profit before tax | 19,213 | 17,345 |
| Tax expense | (2,533) | (2,428) |
| Profit for the year | 16,680 | 14,917 |
| | | |
| Profit attributable to shareholders | 16,680 | 14,917 |
| | | |
| Earnings per share (in HK\$) | 8.72 | 7.80 |

Details of dividends payable to shareholders of the bank attributable to the profit for the year are set out on page 38.

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

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

| Figures in HK\$m | 2011 | 2010 |
|--|---------|---------|
| Interest income | 19,535 | 16,228 |
| Interest expense | (3,010) | (1,772) |
| Net interest income | 16,525 | 14,456 |
| Net interest income and expense reported as 'Net trading income' | (848) | (238) |
| Net interest income and expense reported as 'Net income from financial instruments designated at fair value' | 59 | 82 |

Consolidated Statement of Comprehensive Income

| Figures in HK\$m | ended 31 December 2011 | Year 2010 |
|--|---------------------------|--------------|
| Profit for the year | 16,680 | 14,917 |
| Other comprehensive income | | |
| Premises: | | |
| - unrealised surplus on revaluation of premises | 3,729 | 2,102 |
| - deferred taxes | (610) | (343) |
| Available-for-sale investment reserve: | | |
| - fair value changes taken to equity: | | |
| -- on debt securities | 255 | 774 |
| -- on equity shares | 8 | (5) |
| - fair value changes transferred to income statement: | | |
| -- on hedged items | (538) | (272) |
| -- on disposal | (53) | (105) |
| - share of changes in equity of associates: | | |
| -- fair value changes | (646) | 120 |
| - deferred taxes | 221 | (53) |
| Cash flow hedging reserve: | | |
| - fair value changes taken to equity | 119 | 291 |
| - fair value changes transferred to income statement | (197) | (414) |
| - deferred taxes | 13 | 21 |
| Defined benefit plans: | | |
| - actuarial (losses)/gains on defined benefit plans | (1,600) | 11 |
| - deferred taxes | 264 | (2) |
| Exchange differences on translation of: | | |
| - financial statements of overseas branches, subsidiaries and associates | 971 | 687 |
| Others | 8 | 13 |
| Other comprehensive income for the year, net of tax | 1,944 | 2,825 |

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| | | |
|--|--------|--------|
| Total comprehensive income for the year | 18,624 | 17,742 |
| Total comprehensive income for the year attributable to shareholders | 18,624 | 17,742 |

Consolidated Balance Sheet

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| ASSETS | | |
| Cash and balances with banks and other financial institutions | 39,533 | 44,411 |
| Placings with and advances to banks and other financial institutions | 107,742 | 110,564 |
| Trading assets | 64,171 | 26,055 |
| Financial assets designated at fair value | 8,096 | 7,114 |
| Derivative financial instruments | 4,710 | 5,593 |
| Advances to customers | 480,574 | 472,637 |
| Financial investments | 209,190 | 199,359 |
| Interests in associates | 19,407 | 15,666 |
| Investment properties | 4,314 | 3,251 |
| Premises, plant and equipment | 17,983 | 14,561 |
| Intangible assets | 5,962 | 5,394 |
| Other assets | 13,763 | 12,306 |
| Total assets | 975,445 | 916,911 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Current, savings and other deposit accounts | 699,857 | 683,628 |
| Deposits from banks | 14,004 | 15,586 |
| Trading liabilities | 59,712 | 42,581 |
| Financial liabilities designated at fair value | 434 | 457 |
| Derivative financial instruments | 4,848 | 4,683 |
| Certificates of deposit and other debt securities in issue | 9,284 | 3,095 |
| Other liabilities | 20,138 | 17,018 |
| Liabilities to customers under insurance contracts | 72,225 | 64,425 |
| Current tax liabilities | 305 | 344 |
| Deferred tax liabilities | 4,037 | 3,234 |
| Subordinated liabilities | 11,846 | 11,848 |
| Total liabilities | 896,690 | 846,899 |
| Equity | | |
| Share capital | 9,559 | 9,559 |
| Retained profits | 48,640 | 42,966 |

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| | | |
|------------------------------|---------|---------|
| Other reserves | 16,923 | 13,854 |
| Proposed dividends | 3,633 | 3,633 |
| Shareholders' funds | 78,755 | 70,012 |
| Total equity and liabilities | 975,445 | 916,911 |

Consolidated Statement of Changes in Equity

| Figures in HK\$m | Year ended 31 December | |
|--|------------------------|----------|
| | 2011 | 2010 |
| Share capital | | |
| At beginning and end of year | 9,559 | 9,559 |
| Retained profits (including proposed dividends) | | |
| At beginning of year | 46,599 | 41,385 |
| Dividends to shareholders | | |
| - dividends approved in respect of the previous year | (3,633) | (3,633) |
| - dividends declared in respect of the current year | (6,309) | (6,309) |
| Transfer | 264 | 218 |
| Total comprehensive income for the year | 15,352 | 14,938 |
| | 52,273 | 46,599 |
| Other reserves | | |
| Premises revaluation reserve | | |
| At beginning of year | 9,426 | 7,885 |
| Transfer | (268) | (218) |
| Total comprehensive income for the year | 3,122 | 1,759 |
| | 12,280 | 9,426 |
| Available-for-sale investment reserve | | |
| At beginning of year | 202 | (257) |
| Transfer | (5) | — |
| Total comprehensive income for the year | (758) | 459 |
| | (561) | 202 |
| Cash flow hedging reserve | | |
| At beginning of year | 72 | 174 |
| Total comprehensive income for the year | (66) | (102) |
| | 6 | 72 |

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| | | |
|--|-------|-------|
| Foreign exchange reserve | | |
| At beginning of year | 2,069 | 1,382 |
| Total comprehensive income for the year | 974 | 687 |
| | 3,043 | 2,069 |
| Other reserve | | |
| At beginning of year | 2,085 | 2,020 |
| Cost of share-based payment arrangements | 61 | 64 |
| Transfer | 9 | — |
| Total comprehensive income for the year | — | — |
| | 2,155 | 2,085 |

1

| Figures in HK\$m | Year ended 31 | |
|--|---------------|----------|
| | December 2011 | 2010 |
| Total equity | | |
| At beginning of year | 70,012 | 62,148 |
| Dividends to shareholders | (9,942) | (9,942) |
| Cost of share-based payment arrangements | 61 | 64 |
| Total comprehensive income for the year | 18,624 | 17,742 |
| | 78,755 | 70,012 |

Consolidated Cash Flow Statement

| Figures in HK\$m | Year ended 31 | |
|--|---------------|----------|
| | December 2011 | 2010 |
| Net cash outflow from operating activities | (19,577) | (30,098) |
| Cash flows from investing activities | | |
| Dividends received from associates | 488 | 424 |
| Purchase of an interest in an associate | — | (2,626) |
| Purchase of available-for-sale investments | (44,199) | (27,401) |
| Purchase of held-to-maturity debt securities | (1,009) | (1,113) |
| Proceeds from sale or redemption of available-for-sale investments | 66,367 | 43,356 |
| Proceeds from redemption of held-to-maturity debt securities | 530 | 260 |

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| | | |
|---|----------|----------|
| Proceeds from sale of loan portfolio | 5,643 | — |
| Purchase of fixed assets and intangible assets | (422) | (915) |
| Proceeds from sale of fixed assets and assets held for sale | — | 19 |
| Interest received from available-for-sale investments | 2,038 | 1,632 |
| Dividends received from available-for-sale investments | 14 | 12 |
| Net cash inflow from investing activities | 29,450 | 13,648 |
| Cash flows from financing activities | | |
| Dividends paid | (9,942) | (9,942) |
| Interest paid for subordinated liabilities | (197) | (63) |
| Issue of subordinated liabilities | 3,496 | 6,025 |
| Repayment of subordinated liabilities | (3,502) | (4,516) |
| Net cash outflow from financing activities | (10,145) | (8,496) |
| Decrease in cash and cash equivalents | (272) | (24,946) |
| Cash and cash equivalents at 1 January | 118,560 | 136,759 |
| Effect of foreign exchange rate changes | 2,181 | 6,747 |
| Cash and cash equivalents at 31 December | 120,469 | 118,560 |

Financial Review

Net interest income

| Figures in HK\$m | 2011 | 2010 |
|---|---------|---------|
| Net interest income/(expense) arising from: | | |
| - financial assets and liabilities that are not at fair value through profit and loss | 16,525 | 14,459 |
| - trading assets and liabilities | (848) | (238) |
| - financial instruments designated at fair value | 59 | 79 |
| | 15,736 | 14,300 |
| Average interest-earning assets | 886,156 | 802,464 |
| Net interest spread | 1.68% | 1.72% |
| Net interest margin | 1.78% | 1.78% |

Net interest income rose by HK\$1,436m, or 10.0%, with a 10.4% increase in average interest-earning assets. The increase in net interest income was primarily due to the growth in average customer advances with strong loan growth from the latter part of 2010, improved balance sheet management income and loan spreads. This was partly offset by the narrowed deposit spreads under keen market competition on deposit acquisition and the persistently low interest rate environment.

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Net interest margin remained intact at 1.78% for 2011, and net interest spread fell by four basis points to 1.68%. The reduction in net interest spread was driven by the combination of the low interest rate environment and narrowing deposit spreads, resulting from keen market competition. There was an improvement in balance sheet management portfolio income as Treasury grasped opportunities in the interbank market and successfully enhanced the portfolio yield on new and existing assets with a larger commercial surplus for investment. The average volume growth in corporate and commercial lending and credit cards also helped to support net interest income revenue streams. The group also grew its life insurance funds investment portfolio and increased its interest income by 10.0% compared with last year. Despite the growth in renminbi business, the dilutive effect of the increase in lower yielding renminbi funds placed with the local clearing bank adversely affected the net interest spread. The contribution from net free funds grew by four basis points to 0.10%.

Net interest income in the second half of 2011 grew by HK\$462m, or 6.0%, compared with the first half, due mainly to fewer days in the first half of the year and a 1.7% increase in average interest-earning assets. Net interest margin in the second half was 1.80%, up five basis points compared with the first half.

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

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

| Figures in HK\$m | 2011 | 2010 |
|---------------------------------|---------|---------|
| Net interest income | 16,525 | 14,456 |
| Average interest-earning assets | 840,064 | 756,110 |
| Net interest spread | 1.89% | 1.86% |
| Net interest margin | 1.97% | 1.91% |

Net fee income

| Figures in HK\$m | 2011 | 2010 |
|-------------------------------------|---------|-------|
| - Stockbroking and related services | 1,285 | 1,468 |
| - Retail investment funds | 905 | 1,039 |
| - Structured investment products | 13 | 19 |
| - Insurance agency | 242 | 256 |
| - Account services | 371 | 349 |
| - Private banking service fee | 129 | 160 |
| - Remittances | 273 | 259 |
| - Cards | 1,676 | 1,462 |
| - Credit facilities | 253 | 195 |
| - Trade services | 461 | 452 |
| - Other | 315 | 236 |
| Fee income | 5,923 | 5,895 |
| Fee expense | (1,087) | (998) |
| | 4,836 | 4,897 |

Net fee income decreased slightly by HK\$61m, or 1.2%, to HK\$4,836m compared with 2010.

With the weak investment sentiment in Hong Kong in the second half of the year, income from stockbroking and related services decreased by 12.5%, reflecting the decline in stock market trading turnover. Income from retail investment funds fell by 12.9%, as the demand for wealth management products decreased in the second half. The increasingly uncertain and volatile equities market and an unfavourable investment sentiment led to a decline in retail investment funds sales. As a result, subscription fees and commissions decreased. Insurance agency fee income and private banking service fee income fell by 5.5% and 19.4% respectively.

Card services income increased by 14.6%, which was in line with the growth in average credit card balances. The 9.8% growth in the card base resulted in rising merchant and interchange fee income. Credit facilities fee income rose by 29.7%, due mainly to higher fees from increased corporate lending.

On the back of increased trade activity and the expansion of renminbi cross-border trade settlement volumes, remittances and trade-related fee income grew by 5.4% and 2.0% respectively.

Compared with the first half of 2011, net fee income in the second half fell by HK\$236m, or 9.3%, mainly reflecting decreases in income from stockbroking and related services, the sales of retail investment funds and private banking services. Fee income from credit facilities and card services registered growth in the second half of the year.

Trading income

| Figures in HK\$m | 2011 | 2010 |
|--|-------|-------|
| Trading income: | | |
| - foreign exchange | 1,843 | 1,768 |
| - securities, derivatives and other trading activities | (47) | 291 |
| | 1,796 | 2,059 |

Trading income fell by HK\$263m, or 12.8%, to HK\$1,796m. Foreign exchange income rose by HK\$75m, or 4.2%, contributed by higher customer demand for foreign exchange-linked structured products and the bank's efforts to meet the growing demand for renminbi-denominated products. The bank was also successful in capturing higher customer driven activity and achieving wider spreads as volatility increased. This was offset partly by reduced net interest income from funding swapW activities and increased losses on the revaluation of certain US dollar capital funds - maintained in Hang Seng China and subject to regulatory controls - against the renminbi. Excluding the above offsetting items, foreign exchange trading income grew by HK\$285m, or 17.8%.

Income from securities, derivatives and other trading activities fell by HK\$338m. This was primarily related to the losses on equity options backing a life endowment product due to unfavourable movements in the underlying equity indices, which resulted in a corresponding decrease in 'Net insurance claims incurred and movement in policyholder liabilities'.

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

| Figures in HK\$m | 2011 | 2010 |
|--|------------|-------------|
| Net (loss)/income on assets designated at fair value which back insurance and investment contracts | (160) | 297 |
| Net change in fair value of other financial instruments designated at fair value | — (160) | (15) 282 |

Net income from financial instruments designated at fair value reported a revaluation loss of HK\$160m, compared with a revaluation gain of HK\$282m in 2010, reflecting the fair value changes of assets supporting the linked insurance contracts with offsetting movements in the value of those contracts reported under 'net insurance claims incurred and movement in policyholders' liabilities'.

Other operating income

| Figures in HK\$m | 2011 | 2010 |
|--|------|-------|
| Rental income from investment properties | 174 | 155 |
| Movement in present value of in-force long-term insurance business | 595 | 1,126 |
| Other | 152 | 277 |
| | 921 | 1,558 |

Other operating income fell by HK\$637m, or 40.9%, to HK\$921m compared with 2010. The movement in present value of in-force long-term insurance business ('PVIF') decreased by 47.2%, representing the net effect of the unfavourable experience variance of the investment return assumption, offset by a refinement of the calculation of the PVIF asset to bring greater comparability and consistency across the group's insurance operations and higher sales in 2011 compared with 2010.

Analysis of income from wealth management business

| Figures in HK\$m | 2011 | 2010 |
|------------------|------|------|
|------------------|------|------|

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| | | |
|---|-------|-------|
| Investment income: | | |
| - retail investment funds | 905 | 1,039 |
| - structured investment products ^W | 661 | 448 |
| - private banking service fee ^{WW} | 172 | 196 |
| - stockbroking and related services | 1,285 | 1,468 |
| - margin trading and others | 134 | 129 |
| | 3,157 | 3,280 |
| Insurance income: | | |
| - life insurance | 2,018 | 2,282 |
| - general insurance and others | 364 | 342 |
| | 2,382 | 2,624 |
| Total | 5,539 | 5,904 |

^W Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profit generated from the selling of structured investment products in issue, reported under trading income.

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

Eurozone sovereign debt concerns affected the stock market in general and weakened investment sentiment in the second half of 2011. Against this backdrop, wealth management business income decreased by 6.2% compared with 2010. Investment and insurance income fell by 3.8% and 9.2% respectively.

The volatility in the stock market and unfavourable investment sentiment led to a 12.9% decline in income from sales of retail investment funds. Stockbroking and related services income fell by 12.5% as a result of lower stock market turnover recorded by the bank.

The bank continued to make good progress in distributing competitive structured products to customers, primarily related to renminbi-denominated products, and recorded a 47.5% growth in structured investment products income. Private banking service income fell by 12.2%, reflecting weaker investment sentiment.

Life insurance income decreased by HK\$264m, or 11.6%, to HK\$2,018m. Hang Seng continued to launch new products catering for customers' investment and protection needs. This included the launch of the 'RewardYou Life Insurance Plan' and '3-Year Target Life Insurance Plan' which were well received. Total policies in-force at 31 December 2011 rose by 8.5% year-on-year.

Net interest income and fee income from the life insurance funds investment portfolio rose by 8.1%, due mainly to growth in the size of the life insurance investment portfolio, which held bond investments as its major assets.

The investment return on life insurance investment funds reported a loss of HK\$361m, compared with a gain of HK\$287m in 2010, reflecting changes in the fair value of assets supporting insurance contracts and reported under 'trading income' and 'net income/(loss) from financial instruments designated at fair value', with offsetting movements in policyholders' liabilities. The movement in PVIF decreased by 47.2%, representing the net effect of the unfavourable experience variance of the investment return assumption, offset by a refinement of the calculation of the PVIF asset to bring greater comparability and consistency across the group's insurance operations and higher sales in 2011 compared with last year.

General insurance income increased by 6.4% to HK\$364m.

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| Figures in HK\$m | 2011 | 2010 |
|---|----------|----------|
| Life insurance: | | |
| - net interest income and fee income | 2,576 | 2,382 |
| - investment returns on life insurance funds | (361) | 287 |
| - net earned insurance premiums | 10,723 | 10,966 |
| - net insurance claims incurred and movement in policyholders' liabilities ^W | (11,515) | (12,479) |
| - movement in present value of in-force long-term insurance business | 595 | 1,126 |
| | 2,018 | 2,282 |
| General insurance and others | 364 | 342 |
| Total | 2,382 | 2,624 |

W Including premium and investment reserves

Loan impairment charges

| Figures in HK\$m | 2011 | 2010 |
|--------------------------|-------|-------|
| Loan impairment charges: | | |
| - individually assessed | (103) | (186) |
| - collectively assessed | (337) | (204) |
| | (440) | (390) |
| Of which: | | |
| - new and additional | (740) | (609) |
| - releases | 222 | 157 |
| - recoveries | 78 | 62 |
| | (440) | (390) |

Loan impairment charges increased by HK\$50m, or 12.8%, to HK\$440m compared with a year earlier.

Individually assessed impairment charges fell by HK\$83m, or 44.6%, mainly due to higher releases and recoveries from commercial and corporate banking customers which offset the increase in new impairment. The increase in new impairment charges was primarily due to a specific impairment charge provided in 2011.

Collectively assessed impairment charges rose by HK\$133m, due largely to the rise in impairment allowances for loans not individually identified as impaired. Impairment allowances for credit card and personal loans portfolios were also higher as a result of portfolio growth.

Operating expenses

| Figures in HK\$m | 2011 | 2010 |
|------------------|------|------|
|------------------|------|------|

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| | | |
|--|-------|-------|
| Employee compensation and benefits: | | |
| - salaries and other costs | 3,566 | 3,448 |
| - retirement benefit costs | 322 | 269 |
| | 3,888 | 3,717 |
| General and administrative expenses: | | |
| - rental expenses | 497 | 464 |
| - other premises and equipment | 959 | 902 |
| - marketing and advertising expenses | 559 | 470 |
| - other operating expenses | 1,176 | 1,081 |
| | 3,191 | 2,917 |
| Depreciation of business premises and equipment | 700 | 619 |
| Amortisation of intangible assets | 119 | 102 |
| | 7,898 | 7,355 |
| Cost efficiency ratio | 35.0% | 33.7% |
| Full time equivalent staff numbers by region | 2011 | 2010 |
| Hong Kong | 7,993 | 7,960 |
| Mainland | 1,784 | 1,623 |
| Others | 57 | 59 |
| Total | 9,834 | 9,642 |

Operating expenses rose by HK\$543m, or 7.4%, compared with 2010. While carefully managing costs, the bank continued to make investments in support of long-term business growth. Operating expenses of our Hong Kong operations rose by 5.2%.

Employee compensation and benefits increased by HK\$171m, or 4.6%. Salaries and other related costs increased by 3.4%, reflecting the annual salary increment and higher average headcount. General and administrative expenses were up 9.4%, mainly due to the increase in processing charges and marketing expenditure as more branding and promotional activities were conducted during the year to support business growth. Rental expenses rose as a result of increased rents for branches in Hong Kong and new branches on the Mainland. Depreciation charges rose by 13.1%, mainly reflecting higher depreciation charges on business premises following upward property revaluation in Hong Kong.

At 31 December 2011, the group's staff numbers had increased by 192 compared with the end of 2010.

With the increase in operating expenses outpacing the growth in net operating income before impairment charges, the cost efficiency ratio rose by 1.3 percentage points, compared with 2010, to 35.0%. The bank continues to focus on improving operational efficiency while maintaining growth momentum and market leadership.

Gains less losses from financial investments and fixed assets

| | | |
|--|------|------|
| Figures in HK\$m | 2011 | 2010 |
| Net gains from disposal of available-for-sale equity securities | 42 | 10 |

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| | | |
|---|-----|-----|
| Net gains from disposal of available-for-sale debt securities | 11 | 95 |
| Gains on disposal of assets held for sale | — | 12 |
| Losses on disposal of fixed assets | (3) | (5) |
| | 50 | 112 |

Gains less losses from financial investments and fixed assets fell by HK\$62m, or 55.4%, compared with last year. Net gains from the disposal of available-for-sale equity securities rose by HK\$32m while net gains from the disposal of available-for-sale debt securities fell by HK\$84m compared with 2010.

Tax expense

Taxation in the consolidated income statement represents:

| Figures in HK\$m | 2011 | 2010 |
|---|-------|-------|
| Current tax - provision for Hong Kong profits tax | | |
| Tax for the year | 1,942 | 1,967 |
| Adjustment in respect of prior year | (14) | (19) |
| Current tax - taxation outside Hong Kong | | |
| Tax for the year | 76 | 38 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 529 | 442 |
| Total tax expense | 2,533 | 2,428 |

The current tax provision is based on the estimated assessable profit for 2011, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (same as in 2010). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share

The calculation of earnings per share in 2011 is based on earnings of HK\$16,680m (HK\$14,917m in 2010) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2010).

Dividends per share

| | 2011 | 2010 |
|--|------------|------------|
| | HK\$ HK\$m | HK\$ HK\$m |
| | per share | per share |

| | | | | |
|----------------|------|-------|------|-------|
| 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 | 1.10 | 2,103 |
| Fourth interim | 1.90 | 3,633 | 1.90 | 3,633 |
| | 5.20 | 9,942 | 5.20 | 9,942 |

Segmental analysis

The group's business comprises five customer groups. To be consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the group identified the following five reportable segments:

- Retail Banking and Wealth Management provides banking (including deposits, credit cards, mortgages and other retail lending) and wealth management services (including private banking, investment and insurance) to personal customers
- Commercial Banking manages middle market and smaller corporate relationships and specialises in trade-related financial services
- Corporate Banking handles relationships with large corporate and institutional customers
- Treasury engages in balance sheet management. Treasury also manages the funding and liquidity positions of the group and other market risk positions arising from banking activities
- 'Other' mainly represents management of shareholders' funds and investments in premises, investment properties and equity shares

(a) Segmental result

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

Profit before tax contributed by the customer groups in 2011 compared with 2010 is set out in the table below. More customer group analysis and discussion is set out in the 'Customer group performance' section on page 14.

| Figures in HK\$m | Retail Banking and Wealth Management | Commercial Banking | Corporate Banking | Treasury | Other | Total reportable segments |
|------------------|---|-----------------------|----------------------|----------|-------|---------------------------------|
|------------------|---|-----------------------|----------------------|----------|-------|---------------------------------|

Year ended 31 December 2011

| | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|--------|
| Profit before tax | 6,623 | 5,031 | 1,843 | 4,227 | 1,489 | 19,213 |
| Share of profit before tax | 34.5% | 26.2% | 9.6% | 22.0% | 7.7% | 100.0% |

Year ended 31 December 2010

| | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|--------|
| Profit before tax | 7,872 | 3,748 | 1,266 | 3,361 | 1,098 | 17,345 |
| Share of profit before tax | 45.4% | 21.6% | 7.3% | 19.4% | 6.3% | 100.0% |

(b) Geographic information

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

| Figures in HK\$m | Hong Kong | Americas | Mainland and others | Total |
|---------------------------------|-----------|----------|---------------------|---------|
| Year ended 31 December 2011 | | | | |
| Income and expense | | | | |
| Total operating income | 31,106 | 1,339 | 1,762 | 34,207 |
| Profit before tax | 13,629 | 1,307 | 4,277 | 19,213 |
| At 31 December 2011 | | | | |
| Total assets | 789,988 | 58,506 | 126,951 | 975,445 |
| Total liabilities | 818,966 | 1,085 | 76,639 | 896,690 |
| Interest in associates | 1,198 | — | 18,209 | 19,407 |
| Non-current assets ^W | 27,258 | — | 1,001 | 28,259 |
| Year ended 31 December 2010 | | | | |
| Income and expense | | | | |
| Total operating income | 32,124 | 1,047 | 1,246 | 34,417 |
| Profit before tax | 13,722 | 996 | 2,627 | 17,345 |
| At 31 December 2010 | | | | |
| Total assets | 752,206 | 68,216 | 96,489 | 916,911 |
| Total liabilities | 786,304 | 1,187 | 59,408 | 846,899 |
| Interest in associates | 989 | — | 14,677 | 15,666 |
| Non-current assets ^W | 22,262 | — | 944 | 23,206 |

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

Analysis of assets and liabilities by remaining maturity

The maturity analysis is based on the remaining contractual maturity at the balance sheet date, with the exception of the trading portfolio that may be sold before maturity and is accordingly recorded as 'Trading'.

| | | | | |
|-------|-----|-------|-----|--|
| One | | | | |
| month | One | Three | One | |

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| Figures in HK\$m | Repayable on demand | or less but not on demand | month to three months | months to one year | year to five years | Over five years | Trading | No contractual maturity | Total |
|--|---------------------------|------------------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------|---------|-------------------------------|---------|
| Assets | | | | | | | | | |
| Cash and balances with banks and other financial institutions | 39,533 | — | — | — | — | — | — | — | 39,533 |
| Placings with and advances to banks and other financial institutions | 9,089 | 47,699 | 43,686 | 5,639 | — | 1,629 | — | — | 107,742 |
| Trading assets | — | — | — | — | — | — | 64,171 | — | 64,171 |
| Financial assets designated at fair value | — | 140 | 82 | 116 | 3,615 | 49 | — | 4,094 | 8,096 |
| Derivative financial instruments | — | 7 | 13 | 72 | 87 | — | 4,531 | — | 4,710 |
| Advances to customers | 11,131 | 39,239 | 43,024 | 89,609 | 164,318 | 133,253 | — | — | 480,574 |
| Financial investments | — | 11,608 | 20,731 | 70,955 | 69,246 | 35,516 | — | 1,134 | 209,190 |
| Interest in associates | — | — | — | — | — | — | — | 19,407 | 19,407 |
| Investment properties | — | — | — | — | — | — | — | 4,314 | 4,314 |
| Premises, plant and equipment | — | — | — | — | — | — | — | 17,983 | 17,983 |
| Intangible assets | — | — | — | — | — | — | — | 5,962 | 5,962 |
| Other assets | 5,185 | 3,231 | 3,234 | 1,616 | 124 | 19 | — | 354 | 13,763 |
| At 31 December 2011 | 64,938 | 101,924 | 110,770 | 168,007 | 237,390 | 170,466 | 68,702 | 53,248 | 975,445 |
| Liabilities | | | | | | | | | |
| Current, savings and other deposit accounts | 503,537 | 93,809 | 69,086 | 32,401 | 1,024 | — | — | — | 699,857 |
| Deposits from banks | 2,072 | 8,941 | 2,374 | 617 | — | — | — | — | 14,004 |
| Trading liabilities | — | — | — | — | — | — | 59,712 | — | 59,712 |
| Financial liabilities designated at fair value | 1 | — | — | — | — | 433 | — | — | 434 |
| Derivative financial instruments | — | 22 | 4 | 65 | 1,046 | 203 | 3,508 | — | 4,848 |

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| | | | | | | | | | |
|--|---------|---------|--------|--------|-------|--------|--------|--------|---------|
| Certificates of deposit and other debt securities in issue | — | 1,596 | — | 1,475 | 6,213 | — | — | — | 9,284 |
| Other liabilities | 6,629 | 4,205 | 3,343 | 1,817 | 64 | 19 | — | 4,061 | 20,138 |
| Liabilities to customers under insurance contracts | — | — | — | — | — | — | — | 72,225 | 72,225 |
| Current tax liabilities | — | — | — | 305 | — | — | — | — | 305 |
| Deferred tax liabilities | — | — | — | — | — | — | — | 4,037 | 4,037 |
| Subordinated liabilities | — | — | — | 2,328 | — | 9,518 | — | — | 11,846 |
| At 31 December 2011 | 512,239 | 108,573 | 74,807 | 39,008 | 8,347 | 10,173 | 63,220 | 80,323 | 896,690 |

| Figures in HK\$m | Repayable on demand | One month or less but not on demand | One month to three months | Three months to one year | One year to five years | Over five years | Trading | No contractual maturity | Total |
|------------------|---------------------|-------------------------------------|---------------------------|--------------------------|------------------------|-----------------|---------|-------------------------|-------|
|------------------|---------------------|-------------------------------------|---------------------------|--------------------------|------------------------|-----------------|---------|-------------------------|-------|

| | | | | | | | | | |
|--|--------|--------|--------|--------|---------|---------|--------|-------|---------|
| Assets | | | | | | | | | |
| Cash and balances with banks and other financial institutions | 44,411 | — | — | — | — | — | — | — | 44,411 |
| Placings with and advances to banks and other financial institutions | 4,730 | 51,706 | 48,475 | 5,185 | — | 468 | — | — | 110,564 |
| Trading assets | — | — | — | — | — | — | 26,055 | — | 26,055 |
| Financial assets designated at fair value | — | 50 | 7 | 384 | 3,951 | 48 | — | 2,674 | 7,114 |
| Derivative financial instruments | — | 20 | 74 | 113 | 288 | 16 | 5,082 | — | 5,593 |
| Advances to customers | 10,198 | 65,179 | 34,733 | 71,444 | 151,430 | 139,653 | — | — | 472,637 |
| | — | 9,183 | 12,633 | 59,389 | 84,566 | 32,733 | — | 855 | 199,359 |

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| | | | | | | | | | |
|-------------------------------|--------|---------|--------|---------|---------|---------|--------|--------|---------|
| Financial investments | | | | | | | | | |
| Interest in associates | — | — | — | — | — | — | — | 15,666 | 15,666 |
| Investment properties | — | — | — | — | — | — | — | 3,251 | 3,251 |
| Premises, plant and equipment | — | — | — | — | — | — | — | 14,561 | 14,561 |
| Intangible assets | — | — | — | — | — | — | — | 5,394 | 5,394 |
| Other assets | 4,980 | 2,765 | 2,390 | 1,708 | 74 | 18 | — | 371 | 12,306 |
| At 31 December 2010 | 64,319 | 128,903 | 98,312 | 138,223 | 240,309 | 172,936 | 31,137 | 42,772 | 916,911 |

| | | | | | | | | | |
|--|---------|--------|--------|--------|-------|-------|--------|--------|---------|
| Liabilities | | | | | | | | | |
| Current, savings and other | | | | | | | | | |
| deposit accounts | 536,363 | 78,218 | 37,862 | 29,611 | 1,574 | — | — | — | 683,628 |
| Deposits from banks | 6,387 | 7,688 | 1,394 | — | 117 | — | — | — | 15,586 |
| Trading liabilities | — | — | — | — | — | — | 42,581 | — | 42,581 |
| Financial liabilities designated at fair value | 2 | — | — | — | — | 455 | — | — | 457 |
| Derivative financial instruments | — | — | — | 99 | 819 | 56 | 3,709 | — | 4,683 |
| Certificates of deposit and other debt securities in issue | — | 96 | 447 | 112 | 2,440 | — | — | — | 3,095 |
| Other liabilities | 6,954 | 3,293 | 2,597 | 1,598 | 97 | 25 | — | 2,454 | 17,018 |
| Liabilities to customers under insurance contracts | — | — | — | — | — | — | — | 64,425 | 64,425 |
| Current tax liabilities | — | — | — | 344 | — | — | — | — | 344 |
| Deferred tax liabilities | — | — | — | — | — | — | — | 3,234 | 3,234 |
| Subordinated liabilities | — | — | — | 3,495 | 2,328 | 6,025 | — | — | 11,848 |
| At 31 December 2010 | 549,706 | 89,295 | 42,300 | 35,259 | 7,375 | 6,561 | 46,290 | 70,113 | 846,899 |

Cash and balances with banks and other financial institutions

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| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Cash in hand | 9,491 | 6,101 |
| Balances with central banks | 7,102 | 6,591 |
| Balances with banks and other financial institutions | 22,940 | 31,719 |
| | 39,533 | 44,411 |

Placings with and advances to banks and other financial institutions

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Placings with and advances to banks and other financial institutions maturing within one month | 56,787 | 56,437 |
| Placings with and advances to banks and other financial institutions maturing after one month but less than one year | 49,326 | 53,659 |
| Placings with and advances to banks and other financial institutions maturing after one year | 1,629 | 468 |
| | 107,742 | 110,564 |

Trading assets

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|----------------------------|------------------------|------------------------|
| Treasury bills | 54,220 | 20,204 |
| Certificates of deposit | 432 | 18 |
| Other debt securities | 9,006 | 5,101 |
| Debt securities | 63,658 | 25,323 |
| Equity shares | 7 | 8 |
| Total trading securities | 63,665 | 25,331 |
| OtherW | 506 | 724 |
| Total trading assets | 64,171 | 26,055 |
| Debt securities: | | |
| - listed in Hong Kong | 4,550 | 3,876 |
| - listed outside Hong Kong | 717 | 170 |
| | 5,267 | 4,046 |
| - unlisted | 58,391 | 21,277 |
| | 63,658 | 25,323 |
| Equity shares: | | |
| - listed in Hong Kong | 7 | 8 |

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| | | |
|---|--------|--------|
| Total trading securities | 63,665 | 25,331 |
| Debt securities: | | |
| Issued by public bodies: | | |
| - central governments and central banks | 60,800 | 24,905 |
| - other public sector entities | 82 | 101 |
| | 60,882 | 25,006 |
| Issued by other bodies: | | |
| - banks | 963 | 149 |
| - corporate entities | 1,813 | 168 |
| | 2,776 | 317 |
| | 63,658 | 25,323 |
| Equity shares: | | |
| Issued by corporate entities | 7 | 8 |
| Total trading securities | 63,665 | 25,331 |

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

Trading assets increased by HK\$38.1bn, or 146.3%, compared with the end of 2010. In light of the evolving eurozone sovereign debt concerns and the turbulence in the financial market, the bank has further strengthened its prudent risk management strategy and preserved its liquidity by deploying its surplus funds to high quality debt securities. Those trading securities are mostly Hong Kong Exchange Fund bills with short tenors.

Financial assets designated at fair value

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|----------------------------|------------------------|------------------------|
| Certificates of deposit | 1 | — |
| Other debt securities | 3,998 | 4,440 |
| Debt securities | 3,999 | 4,440 |
| Equity shares | 473 | 583 |
| Investment funds | 3,624 | 2,091 |
| | 8,096 | 7,114 |
| Debt securities: | | |
| - listed in Hong Kong | 15 | 11 |
| - listed outside Hong Kong | 182 | 184 |
| | 197 | 195 |
| - unlisted | 3,802 | 4,245 |
| | 3,999 | 4,440 |
| Equity shares: | | |
| - listed in Hong Kong | 473 | 583 |
| Investment funds: | | |
| - listed in Hong Kong | 23 | 23 |
| - listed outside Hong Kong | 150 | 65 |

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| | | |
|---|-------|-------|
| | 173 | 88 |
| - unlisted | 3,451 | 2,003 |
| | 3,624 | 2,091 |
| | 8,096 | 7,114 |
| Debt securities: | | |
| Issued by public bodies: | | |
| - central governments and central banks | 140 | 148 |
| - other public sector entities | 53 | 105 |
| | 193 | 253 |
| Issued by other bodies: | | |
| - banks | 3,725 | 4,113 |
| - corporate entities | 81 | 74 |
| | 3,806 | 4,187 |
| | 3,999 | 4,440 |
| Equity shares: | | |
| Issued by banks | 109 | 69 |
| Issued by public sector entities | 5 | 15 |
| Issued by corporate entities | 359 | 499 |
| | 473 | 583 |
| Investment funds: | | |
| Issued by banks | 1,869 | 2,004 |
| Issued by corporate entities | 1,755 | 87 |
| | 3,624 | 2,091 |
| | 8,096 | 7,114 |

Advances to customers

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|-----------------------------|------------------------|------------------------|
| Gross advances to customers | 482,241 | 474,473 |
| Less: | | |
| Loan impairment allowances: | | |
| - individually assessed | (896) | (1,118) |
| - collectively assessed | (771) | (718) |
| | 480,574 | 472,637 |

Loan impairment allowances against advances to customers

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| Figures in HK\$m | Individually assessed | Collectively assessed | Total |
|---|-----------------------|-----------------------|-------|
| At 1 January 2011 | 1,118 | 718 | 1,836 |
| Amounts written off | (355) | (330) | (685) |
| Recoveries of advances written off in previous years | 35 | 43 | 78 |
| New impairment allowances charged to income statement | 359 | 381 | 740 |
| Impairment allowances released to income statement | (256) | (44) | (300) |
| Unwinding of discount of loan impairment allowances recognised as 'interest income' | (10) | (3) | (13) |
| Exchange | 5 | 6 | 11 |
| At 31 December 2011 | 896 | 771 | 1,667 |

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

| | At 31 December 2011 % | At 31 December 2010 % |
|----------------------------------|--------------------------|--------------------------|
| Loan impairment allowances: | | |
| - individually assessed | 0.19 | 0.24 |
| - collectively assessed | 0.16 | 0.15 |
| Total loan impairment allowances | 0.35 | 0.39 |

Total loan impairment allowances as a percentage of gross advances to customers were 0.35% at 31 December 2011 compared with 0.39% at the end of 2010. Individually assessed allowances as a percentage of gross advances fell by 5 basis points to 0.19%, reflecting improved credit quality and the bank's good credit risk management during the year. Collectively assessed allowances as a percentage of gross advances rose slightly by 1 basis point to 0.16%.

Impaired advances and allowances

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---|---------------------|---------------------|
| Gross impaired advances | 1,584 | 1,990 |
| Individually assessed allowances | (896) | (1,118) |
| | 688 | 872 |
| Individually assessed allowances as a percentage of gross impaired advances | 56.6% | 56.2% |

| | | |
|--|-------|-------|
| Gross impaired advances as a percentage of gross advances to customers | 0.33% | 0.42% |
|--|-------|-------|

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

Gross impaired advances fell by HK\$406m, or 20.4%, to HK\$1,584m compared with the end of 2010, with the write-off of irrecoverable balances against impairment allowances and customer repayments offsetting the new credit downgrades of certain Commercial Banking customers. Gross impaired advances as a percentage of gross advances to customers fell to 0.33%, compared with 0.42% at the end of 2010.

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Gross individually assessed impaired advances | 1,493 | 1,886 |
| Individually assessed allowances | (896) | (1,118) |
| | 597 | 768 |
| Gross individually assessed impaired advances as a percentage of gross advances to customers | 0.31% | 0.40% |
| Amount of collateral which has been taken into account in respect of individually assessed impaired advances to customers | 423 | 682 |

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

Overdue advances

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

| | At 31 December 2011 | At 31 December 2010 |
|-------|------------------------|------------------------|
| HK\$m | % | HK\$m |

Gross advances to customers which have been overdue with respect to either principal or interest for periods of:

| | | | | |
|---|-------|-----|-------|-----|
| - more than three months but not more than six months | 228 | — | 137 | — |
| - more than six months but not more than one year | 72 | — | 89 | — |
| - more than one year | 756 | 0.2 | 1,147 | 0.3 |
| | 1,056 | 0.2 | 1,373 | 0.3 |

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

Overdue advances decreased by HK\$317m, or 23.1% to HK\$1,056m compared with the end of 2010. Overdue advances as a percentage of gross advances to customers stood at 0.2%, down 0.1 percentage point compared with 2010.

Rescheduled advances

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

| | At 31 December 2011 | | At 31 December 2010 | |
|-----------------------------------|---------------------|---|---------------------|---|
| | HK\$m | % | HK\$m | % |
| Rescheduled advances to customers | 180 | — | 194 | — |

Rescheduled advances are those advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve granting concessionary terms and resetting the overdue account to non-overdue status. A rescheduled advance will continue to be disclosed as such unless the debt has been performing in accordance with the rescheduled terms for a period of six to 12 months. Rescheduled advances that have been overdue for more than three months under the rescheduled terms are reported as overdue advances (page 47).

At 31 December 2011, rescheduled advances improved by HK\$14m, or 7.2%, to HK\$180m, representing 0.04% of gross advances to customers. The improvement was due mainly to the upgrade of and repayments by customers.

Segmental analysis of advances to customers by geographical area

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

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| Figures in HK\$m | At 31 December 2011 | | | | |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
| | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong | 404,889 | 1,315 | 929 | 779 | 603 |
| Rest of Asia-Pacific | 70,099 | 158 | 127 | 115 | 150 |
| Others | 7,253 | 20 | - | 2 | 18 |
| | 482,241 | 1,493 | 1,056 | 896 | 771 |

| Figures in HK\$m | At 31 December 2010 | | | | |
|----------------------|-----------------------------|---|-------------------------------|----------------------------------|----------------------------------|
| | Gross advances to customers | Individually impaired advances to customers | Overdue advances to customers | Individually assessed allowances | Collectively assessed allowances |
| Hong Kong | 392,836 | 1,452 | 1,112 | 838 | 545 |
| Rest of Asia-Pacific | 76,308 | 345 | 257 | 234 | 162 |
| Others | 5,329 | 89 | 4 | 46 | 11 |
| | 474,473 | 1,886 | 1,373 | 1,118 | 718 |

Gross advances to customers by industry sector

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

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 (restated) |
|--|---------------------|-----------------------------------|
| Gross advances to customers for use in Hong Kong | | |
| Industrial, commercial and financial sectors | | |
| Property development | 27,090 | 32,430 |
| Property investment | 102,066 | 100,023 |
| Financial concerns | 2,648 | 2,907 |
| Stockbrokers | 1,227 | 165 |
| Wholesale and retail trade | 11,511 | 11,339 |
| Manufacturing | 16,274 | 14,628 |
| Transport and transport equipment | 6,309 | 7,546 |
| Recreational activities | 62 | 532 |

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| | | |
|--|---------|---------|
| Information technology | 899 | 1,957 |
| Other | 21,859 | 20,177 |
| | 189,945 | 191,704 |
| Individuals | | |
| Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 14,405 | 14,834 |
| Advances for the purchase of other residential properties | 107,563 | 112,394 |
| Credit card advances | 18,547 | 15,735 |
| Other | 13,887 | 13,776 |
| | 154,402 | 156,739 |
| Total gross advances for use in Hong Kong | 344,347 | 348,443 |
| Trade finance | 49,552 | 63,660 |
| Gross advances for use outside Hong Kong | 88,342 | 62,370 |
| Gross advances to customers | 482,241 | 474,473 |

At 31 December 2011, gross advances to customers were up HK\$7.8bn, or 1.6%, at HK\$482.2bn compared with the end of 2010.

Loans for use in Hong Kong decreased by HK\$4.1bn, or 1.2%. Lending to industrial, commercial and financial sectors declined marginally by 0.9%. New financing to corporate customers remained active, reflecting strong growth in property investment lending against the backdrop of the buoyant commercial property market during the year. Stronger partnerships with Commercial Banking customers helped grow lending to the manufacturing industry by 11.3%. Advances to the information technology sector fell by 54.1% mainly due to loan repayments.

Trade finance declined substantially as certain trade finance loans matured during the second half of the year.

Lending to individuals fell by HK\$2.3bn, or 1.5%. Residential mortgage lending to individuals declined by 4.3%, as a result of the bank's focus towards Prime-based mortgage lending. The decrease was also affected by the intense market competition and new government measures to cool the residential property market. The uncertain economic conditions also led to a decline in residential property market activity towards the latter part of the year.

The credit card business registered strong growth, with card advances growing by 17.9%. This was supported by a rise of 9.8% in the number of cards in issue and a 16.5% increase in card spending, mainly due to successful card customer acquisition and card utilisation campaigns.

Loans for use outside Hong Kong increased strongly by HK\$26.0bn, or 41.6%, compared with the end of 2010. This was due largely to the 23.0% expansion of mainland loan portfolios, which reached HK\$44.7bn at 31 December 2011. Strong growth was recorded in corporate lending, driven mainly by renminbi loans. The group remained vigilant in assessing credit risk in increasing lending on the Mainland.

Financial investments

At 31 December

At 31 December

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| Figures in HK\$m | 2011 | 2010 |
|--|---------|---------|
| Available-for-sale at fair value: | | |
| - debt securities | 149,020 | 142,732 |
| - equity shares | 259 | 326 |
| Held-to-maturity debt securities at amortised cost | 59,911 | 56,301 |
| | 209,190 | 199,359 |
| Fair value of held-to-maturity debt securities | 63,396 | 58,327 |
| Treasury bills | 43,296 | 18,010 |
| Certificates of deposit | 9,386 | 6,713 |
| Other debt securities | 156,249 | 174,310 |
| Debt securities | 208,931 | 199,033 |
| Equity shares | 259 | 326 |
| | 209,190 | 199,359 |
| Debt securities: | | |
| - listed in Hong Kong | 21,141 | 9,783 |
| - listed outside Hong Kong | 40,027 | 67,139 |
| | 61,168 | 76,922 |
| - unlisted | 147,763 | 122,111 |
| | 208,931 | 199,033 |
| Equity shares: | | |
| - listed in Hong Kong | 48 | 47 |
| - listed outside Hong Kong | 18 | 64 |
| | 66 | 111 |
| - unlisted | 193 | 215 |
| | 259 | 326 |
| | 209,190 | 199,359 |
| Fair value of listed financial investments | 61,902 | 77,403 |
| Debt securities: | | |
| Issued by public bodies: | | |
| - central governments and central banks | 78,659 | 39,007 |
| - other public sector entities | 26,021 | 23,041 |
| | 104,680 | 62,048 |
| Issued by other bodies: | | |
| - banks | 85,251 | 119,300 |
| - corporate entities | 19,000 | 17,685 |
| | 104,251 | 136,985 |
| | 208,931 | 199,033 |
| Equity shares: | | |
| Issued by corporate entities | 259 | 326 |
| | 209,190 | 199,359 |

Debt securities by rating agency designation

At 31 December

At 31 December

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| Figures in HK\$m | 2011 | 2010 |
|------------------|---------|---------|
| AA- to AAA | 165,370 | 138,970 |
| A- to A+ | 35,167 | 54,927 |
| B+ to BBB+ | 6,680 | 3,072 |
| Unrated | 1,714 | 2,064 |
| | 208,931 | 199,033 |

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

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

Financial investments rose by HK\$9,831m, or 4.9%, compared with the end of 2010. The increase in financial investments was primarily in government treasury bills, reflecting the deployment of funds from matured assets to high quality government debt securities. At 31 December 2011, about 99.0% of the group's holdings of debt securities were assigned with investment grade ratings by rating agencies. The unrated debt securities were issued by subsidiaries of investment-grade banks and were guaranteed by their corresponding holding companies. Those notes rank pari passu with all of the respective guarantor's other senior debt obligations. The group did not hold any investments in structured investment vehicles or any sub-prime related assets.

Amounts due from/to immediate holding company and fellow subsidiary companies

The amounts due from/to the bank's immediate holding company and fellow subsidiary companies included in the assets and liabilities balances of the consolidated balance sheet are as follows:

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Amounts due from: | | |
| Cash and balances with banks and other financial institutions | 5,360 | 2,544 |
| Placings with and advances to banks and other financial institutions | 3,412 | 8,915 |
| Financial assets designated at fair value | 3,539 | 3,541 |
| Derivative financial instruments | 284 | 605 |
| Financial investments | 243 | 334 |
| Other assets | 53 | 64 |
| | 12,891 | 16,003 |
| Amounts due to: | | |
| Customer accounts | 126 | 332 |
| Deposits from banks | 829 | 2,492 |
| Derivative financial instruments | 647 | 553 |
| Subordinated liabilities | 9,518 | 6,025 |

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| | | |
|-------------------|--------|-------|
| Other liabilities | 435 | 393 |
| | 11,555 | 9,795 |

Interest in associates

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---------------------|------------------------|------------------------|
| Share of net assets | 18,875 | 15,119 |
| Intangibles | 57 | 84 |
| Goodwill | 475 | 463 |
| | 19,407 | 15,666 |

Interest in associates increased by HK\$3,741m, or 23.9%, due mainly to the increase in the bank's share of net assets of Industrial Bank.

Intangible assets

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Present value of in-force long-term insurance business | 5,188 | 4,593 |
| Internally developed software | 399 | 429 |
| Acquired software | 46 | 43 |
| Goodwill | 329 | 329 |
| | 5,962 | 5,394 |

Other assets

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Items in the course of collection from other banks | 4,513 | 4,673 |
| Prepayments and accrued income | 2,844 | 2,259 |
| Assets held for sale | | |
| - Repossessed assets | 3 | 12 |
| - Other assets held for sale | 35 | 206 |

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| | | |
|------------------------------|--------|--------|
| Acceptances and endorsements | 4,697 | 3,751 |
| Retirement benefit assets | 34 | 95 |
| Other accounts | 1,637 | 1,310 |
| | 13,763 | 12,306 |

Current, savings and other deposit accounts

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---|------------------------|------------------------|
| Current, savings and other deposit accounts: | | |
| - as stated in consolidated balance sheet | 699,857 | 683,628 |
| - structured deposits reported as trading liabilities | 30,923 | 20,852 |
| | 730,780 | 704,480 |
| By type: | | |
| - demand and current accounts | 57,977 | 59,116 |
| - savings accounts | 431,863 | 466,158 |
| - time and other deposits | 240,940 | 179,206 |
| | 730,780 | 704,480 |

Certificates of deposit and other debt securities in issue

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---|------------------------|------------------------|
| Certificates of deposit and other debt securities in issue: | | |
| - as stated in consolidated balance sheet | 9,284 | 3,095 |
| - structured certificates of deposit and other debt securities in issue reported as trading liabilities | 3,183 | 2,738 |
| | 12,467 | 5,833 |
| By type: | | |
| - certificates of deposit in issue | 11,925 | 3,121 |
| - other debt securities in issue | 542 | 2,712 |
| | 12,467 | 5,833 |

Customer deposits, including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue, stood at HK\$743.2bn at 31 December 2011, an increase of 4.6% over the end of 2010. In the low interest rate environment with keen market competition, most customers shifted deposits from savings accounts to time deposits. Certificates of deposit and structured deposit instruments with yield enhancement features also gained popularity. Hang Seng China achieved deposit growth of 34.1%, mainly in renminbi deposits.

Trading liabilities

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Structured certificates of deposit and other debt securities in issue | 3,183 | 2,738 |
| Structured deposits | 30,923 | 20,852 |
| Short positions in securities and others | 25,606 | 18,991 |
| | 59,712 | 42,581 |

Trading liabilities include customer deposits and certificates of deposit with embedded options or other derivatives, the market risk of which is managed in the trading book.

Other liabilities

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---|------------------------|------------------------|
| Items in the course of transmission to other banks | 7,027 | 7,208 |
| Accruals | 2,956 | 2,385 |
| Acceptances and endorsements | 4,697 | 3,751 |
| Retirement benefit liabilities | 3,260 | 1,718 |
| Other | 2,198 | 1,956 |
| | 20,138 | 17,018 |

Subordinated liabilities

| Figures in HK\$m | | At 31 December 2011 | At 31 December 2010 |
|------------------------------|--|------------------------|------------------------|
| Nominal value | Description | | |
| Amount owed to third parties | | | |
| US\$450m | Callable floating rate subordinated notes due July 2016W | — | 3,495 |
| US\$300m | Callable floating rate subordinated notes due July 2017 | 2,328 | 2,328 |

Amount owed to HSBC Group undertakings

| | | | |
|------------------------------|--|------------------|------------------|
| US\$775m | Floating rate subordinated loan debt due December 2020 | 6,022 | 6,025 |
| US\$450m | Floating rate subordinated loan debt due July 2021W | 3,496 11,846 | — 11,848 |
| Representing: | | | |
| - measured at amortised cost | | 11,846 11,846 | 11,848 11,848 |

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

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

Shareholders' funds

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---------------------------------------|------------------------|------------------------|
| Share capital | 9,559 | 9,559 |
| Retained profits | 48,640 | 42,966 |
| Premises revaluation reserve | 12,280 | 9,426 |
| Cash flow hedging reserve | 6 | 72 |
| Available-for-sale investment reserve | | |
| - on debt securities | (756) | (25) |
| - on equity securities | 195 | 227 |
| Capital redemption reserve | 99 | 99 |
| Other reserves | 5,099 | 4,055 |
| Total reserves | 65,563 | 56,820 |
| | 75,122 | 66,379 |
| Proposed dividends | 3,633 | 3,633 |
| Shareholders' funds | 78,755 | 70,012 |
| Return on average shareholders' funds | 22.6% | 22.8% |

Shareholders' funds (excluding proposed dividends) grew by HK\$8,743m, or 13.2%, to HK\$75,122m at 31 December 2011. Retained profits rose by HK\$5,674m, mainly reflecting growth as a result of the 2011 profit after the appropriation of interim dividends. The premises revaluation reserve increased by HK\$2,854m, or 30.3%, attributable to the buoyant commercial property market.

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The available-for-sale investment reserve for debt securities recorded a deficit of HK\$756m compared with a deficit of HK\$25m at the end of 2010, reflecting the general widening of the credit spread. The group assessed that there were no impaired debt securities during the year, and accordingly, no impairment loss has been recognised.

The return on average shareholders' funds was 22.6%, compared with 22.8% for 2010.

Excluding the redemption of all the US\$450m floating rate subordinated notes due 2016 at par on 6 July 2011, there was no purchase, sale or redemption by the bank, or any of its subsidiaries, of the bank's securities during 2011.

Capital resources management

Analysis of capital base and risk-weighted assets

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---|------------------------|------------------------|
| Core capital: | | |
| Paid-up ordinary share capital | 9,559 | 9,559 |
| - Reserves per balance sheet | 65,563 | 56,820 |
| - Unconsolidated subsidiaries | (7,234) | (6,268) |
| - Cash flow hedging reserve | (6) | (72) |
| - Regulatory reserve | (4,226) | (1,654) |
| - Reserves arising from revaluation of property and unrealised gains on available-for-sale equities and debt securities | (15,860) | (13,585) |
| Total reserves included in core capital | 38,237 | 35,241 |
| - Goodwill and intangible assets | (977) | (1,019) |
| - 50% of unconsolidated investments | (11,304) | (9,725) |
| - 50% of securitisation positions and other deductions | (158) | (158) |
| Deductions | (12,439) | (10,902) |
| Total core capital | 35,357 | 33,898 |
| Supplementary capital: | | |
| - Term subordinated debt | 11,846 | 11,848 |
| - Property revaluation reserves 1 | 5,894 | 5,894 |
| - Available-for-sale investments revaluation reserves 2 | 117 | 396 |
| - Regulatory reserve 3 | 296 | 182 |
| - Collective impairment allowances 3 | 54 | 77 |
| - Excess impairment allowances over expected losses 4 | 1,522 | 306 |
| Supplementary capital before deductions | 19,729 | 18,703 |
| - 50% of unconsolidated investments | (11,304) | (9,725) |
| - 50% of securitisation positions and other deductions | (158) | (158) |
| Deductions | (11,462) | (9,883) |

| | | |
|-----------------------------|---------|---------|
| Total supplementary capital | 8,267 | 8,820 |
| Capital base | 43,624 | 42,718 |
| Risk-weighted assets | | |
| - Credit risk | 266,567 | 274,969 |
| - Market risk | 2,054 | 1,615 |
| - Operational risk | 35,649 | 36,853 |
| | 304,270 | 313,437 |
| Capital adequacy ratio | 14.3% | 13.6% |
| Core capital ratio | 11.6% | 10.8 % |

Reserves and deductible items

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|---|------------------------|------------------------|
| Published reserves | 31,640 | 31,741 |
| Profit and loss account | 6,597 | 3,500 |
| Total reserves included in core capital | 38,237 | 35,241 |
| Total of items deductible 50% from core capital and 50% from supplementary capital | 22,924 | 19,766 |

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

2 Includes adjustments made in accordance with 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 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 31 December 2011 were compiled in accordance with the Banking (Capital) Rules ('the Capital Rules') under section 98A of the Hong Kong Banking Ordinance for the implementation of Basel II, which came into effect on 1 January 2007. The bank used the advanced internal ratings-based approach to calculate its credit risk exposure which was approved by the HKMA on 1 January 2009. The standardised (operational risk) approach and internal models approach were used to calculate the bank's operational risk and market risk respectively.

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At 31 December 2011, the capital adequacy ratio and core capital ratio were 14.3% and 11.6% respectively, compared with 13.6% and 10.8% at the year-end of 2010.

Capital adequacy and core capital ratios rose slightly by 0.7 percentage point and 0.8 percentage point respectively, mainly due to the combined effect of the increase in profit after accounting for dividends during the year and the decrease in risk-weighted assets.

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

To satisfy the provisions of the Hong Kong Banking Ordinance and regulatory requirements for prudent supervision purposes, the group has earmarked a regulatory reserve from retained profits. In accordance with updated guidance from the HKMA, the regulatory reserve has been increased to HK\$4,226m (HK\$1,654m at 31 December 2010).

Liquidity ratio

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

| | 2011 | 2010 |
|--|-------|-------|
| The bank and its subsidiaries designated by the HKMA | 33.6% | 38.1% |

Reconciliation of cash flow statement

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

| Figures in HK\$m | 2011 | 2010 |
|--|----------|----------|
| Operating profit | 14,181 | 14,085 |
| Net interest income | (15,736) | (14,300) |
| Dividend income | (17) | (14) |
| Loan impairment charges | 440 | 390 |
| Impairment loss of intangible assets | 78 | — |
| Depreciation | 700 | 619 |
| Amortisation of intangible assets | 119 | 102 |
| Amortisation of available-for-sale investments | (24) | 80 |
| Amortisation of held-to-maturity debt securities | 5 | 5 |
| Advances written off net of recoveries | (607) | (510) |
| Interest received | 18,403 | 15,219 |
| Interest paid | (4,439) | (2,301) |
| Operating profit before changes in working capital | 13,103 | 13,375 |
| Change in treasury bills and certificates of deposit | | |

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| | | |
|--|----------|-----------|
| with original maturity more than three months | (24,344) | 32,409 |
| Change in placings with and advances to banks maturing after one month | 4,801 | (26,155) |
| Change in trading assets | (34,947) | 24,451 |
| Change in financial assets designated at fair value | 150 | 501 |
| Change in derivative financial instruments | 1,048 | (111) |
| Change in advances to customers | (13,419) | (127,906) |
| Change in other assets | (7,715) | (15,680) |
| Change in financial liabilities designated at fair value | — | (2) |
| Change in current, savings and other deposit accounts | 16,229 | 47,259 |
| Change in deposits from banks | (1,582) | 10,716 |
| Change in trading liabilities | 17,131 | 4,190 |
| Change in certificates of deposit and other debt securities in issue | 6,189 | 1,269 |
| Change in other liabilities | 10,659 | 15,448 |
| Elimination of exchange differences and other non-cash items | (4,836) | (8,158) |
| Cash used in operating activities | (17,533) | (28,394) |
| Taxation paid | (2,044) | (1,704) |
| Net cash outflow from operating activities | (19,577) | (30,098) |

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

| Figures in HK\$m | At 31 December 2011 | At 31 December 2010 |
|--|------------------------|------------------------|
| Cash and balances with banks and other financial institutions | 39,533 | 44,411 |
| Placings with and advances to banks and other financial institutions maturing within one month | 54,049 | 53,457 |
| Treasury bills | 23,738 | 20,692 |
| Certificates of deposit | 3,149 | — |
| | 120,469 | 118,560 |

Contingent liabilities, commitments and derivatives

| Figures in HK\$m | Contract amount | Credit equivalent amount | Risk- weighted amount |
|-----------------------------------|--------------------|--------------------------------|-----------------------------|
| At 31 December 2011 | | | |
| Direct credit substitutes | 5,438 | 5,308 | 3,426 |
| Transaction-related contingencies | 1,220 | 138 | 72 |
| Trade-related contingencies | 9,807 | 979 | 532 |

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| | | | |
|--|---------|--------|--------|
| Forward asset purchases | 35 | 35 | 35 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable | 31,311 | 15,081 | 5,384 |
| - unconditionally cancellable | 232,469 | 76,890 | 23,420 |
| | 280,280 | 98,431 | 32,869 |
| Exchange rate contracts: | | | |
| Spot and forward foreign exchange | 493,588 | 2,441 | 1,169 |
| Other exchange rate contracts | 91,963 | 2,475 | 1,766 |
| | 585,551 | 4,916 | 2,935 |
| Interest rate contracts: | | | |
| Interest rate swaps | 342,801 | 2,624 | 950 |
| Other interest rate contracts | — | — | — |
| | 342,801 | 2,624 | 950 |
| Other derivative contracts | 5,473 | 371 | 114 |

W The contract amount for undrawn formal standby facilities, credit lines and other commitments to lend with an original maturity of 'not more than one year' and 'more than one year' were HK\$11,487m and HK\$19,824m respectively.

| Figures in HK\$m | Contract amount | Credit equivalent amount | Risk-weighted amount |
|--|-----------------|--------------------------|----------------------|
| At 31 December 2010 | | | |
| Direct credit substitutes | 4,365 | 4,220 | 3,231 |
| Transaction-related contingencies | 455 | 337 | 168 |
| Trade-related contingencies | 10,593 | 3,516 | 2,008 |
| Forward asset purchases | 51 | 51 | 51 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | |
| - not unconditionally cancellable | 38,273 | 17,788 | 7,479 |
| - unconditionally cancellable | 198,724 | 66,852 | 20,649 |
| | 252,461 | 92,764 | 33,586 |
| Exchange rate contracts: | | | |
| Spot and forward foreign exchange | 431,732 | 2,738 | 1,417 |
| Other exchange rate contracts | 59,222 | 1,258 | 712 |
| | 490,954 | 3,996 | 2,129 |
| Interest rate contracts: | | | |
| Interest rate swaps | 340,076 | 2,522 | 602 |

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| | | | |
|-------------------------------|---------|-------|-----|
| Other interest rate contracts | 25 | — | — |
| | 340,101 | 2,522 | 602 |
| Other derivative contracts | 7,729 | 505 | 137 |

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. Those 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 does not represent 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 31 December 2011 | | | At 31 December 2010 | | |
|----------------------------|---------------------|--------------------------------|---------|---------------------|--------------------------------|---------|
| | Trading | Designated at fair value | Hedging | Trading | Designated at fair value | Hedging |
| Contract amounts: | | | | | | |
| Interest rate contracts | 275,776 | 140 | 75,431 | 236,030 | 140 | 105,511 |
| Exchange rate contracts | 706,521 | — | — | 601,220 | 769 | — |
| Other derivative contracts | 21,032 | — | — | 16,891 | — | — |
| | 1,003,329 | 140 | 75,431 | 854,141 | 909 | 105,511 |
| Derivative assets: | | | | | | |
| Interest rate contracts | 2,043 | — | 179 | 1,748 | — | 511 |
| Exchange rate contracts | 2,246 | — | — | 2,721 | — | — |
| Other derivative contracts | 242 | — | — | 613 | — | — |
| | 4,531 | — | 179 | 5,082 | — | 511 |
| Derivative liabilities: | | | | | | |
| Interest rate contracts | 1,590 | 3 | 1,340 | 1,557 | 9 | 974 |
| Exchange rate contracts | 1,582 | — | — | 2,031 | 3 | — |
| Other derivative contracts | 333 | — | — | 109 | — | — |
| | 3,505 | 3 | 1,340 | 3,697 | 12 | 974 |

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 does not constitute statutory accounts.

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2011 ('2011 accounts'), which will be delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 27 February 2012.

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

The 2011 accounts and this news release have been prepared on a basis consistent with the accounting policies adopted in 2010.

The group adopted a number of Hong Kong Financial Reporting Standards ('HKFRSs') or amendments to HKFRSs which had an insignificant or no effect on the consolidated financial statements. Those are described under note 5 of the 2011 Annual Report and Accounts.

2. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

3. Property revaluation

The group's premises and investment properties were revalued at 30 November 2011 and updated for any material changes at 31 December 2011 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of premises was open market value for existing use and the basis of valuation for investment properties was open market value. The net revaluation surplus for group premises amounted to HK\$3,731m, of which HK\$3,729m was credited to premises revaluation reserve and HK\$2m was credited to the income statement. Revaluation gains of HK\$982m on investment properties were recognised through the income statement. The related deferred tax provisions for group premises and investment properties were HK\$610m and HK\$162m respectively.

The revaluation exercise also covered business premises/investment properties reclassified as properties held for sale. The revaluation gain of HK\$8m was recognised through the income statement.

4. Foreign currency positions

Foreign currency exposures include those arising from trading, non-trading and structural positions. Net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. At 31 December 2011, the US dollar ('US\$'), Chinese renminbi ('RMB') and Euro ('EUR') 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 | JPY | EUR | CAD | GBP | CHF | AUD | NZD | GOL | Other foreign | Tota foreign |
|---------------------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|------------------|-----------------|

At 31
December
2011

Non-structural
position

| | | | | | | | | | | | | |
|------------------|-----------|-----------|---------|----------|----------|----------|-------|----------|----------|---------|---------|-----------|
| Spot assets | 149,152 | 123,061 | 32,344 | 9,119 | 13,405 | 12,922 | 117 | 46,562 | 7,576 | 4,341 | 941 | 399,540 |
| Spot liabilities | (128,778) | (124,005) | (1,930) | (11,097) | (16,447) | (15,234) | (601) | (48,899) | (10,897) | (4,524) | (1,397) | (363,809) |

F o r w a r d

| | | | | | | | | | | | | |
|---------------|-----------|----------|----------|---------|-------|---------|-------|---------|---------|---------|-------|-----------|
| purchases | 265,328 | 87,981 | 4,122 | 4,699 | 3,358 | 4,121 | 1,089 | 9,464 | 5,134 | 2,248 | 1,393 | 388,930 |
| Forward sales | (284,172) | (85,934) | (34,510) | (3,061) | (313) | (1,783) | (635) | (7,265) | (1,829) | (2,014) | (956) | (422,472) |

Net option

| | | | | | | | | | | | | |
|----------|-----|-------|---|------|---|---|---|----|------|---|---|---|
| position | 147 | (124) | 2 | (24) | — | — | — | 20 | (18) | — | — | 1 |
|----------|-----|-------|---|------|---|---|---|----|------|---|---|---|

Net
long/(short)

non-structural

| | | | | | | | | | | | | |
|----------|-------|-----|----|-------|---|----|------|-------|------|----|------|-------|
| position | 1,677 | 979 | 28 | (364) | 3 | 26 | (30) | (118) | (34) | 51 | (19) | 2,199 |
|----------|-------|-----|----|-------|---|----|------|-------|------|----|------|-------|

S t r u c t u r a l
positions

| | | | | | | | | | | | | |
|--|-----|--------|---|---|---|---|---|---|---|---|-----|--------|
| | 206 | 24,850 | — | — | — | — | — | — | — | — | 305 | 25,360 |
|--|-----|--------|---|---|---|---|---|---|---|---|-----|--------|

At 31
December
2010

Non-structural
position

| | | | | | | | | | | | | |
|------------------|-----------|----------|---------|----------|----------|----------|-------|----------|----------|---------|---------|-----------|
| Spot assets | 246,638 | 93,067 | 8,985 | 11,068 | 13,933 | 13,026 | 191 | 43,643 | 9,017 | 2,169 | 974 | 442,710 |
| Spot liabilities | (155,377) | (88,666) | (1,912) | (12,393) | (14,882) | (15,470) | (549) | (41,953) | (11,658) | (3,404) | (3,034) | (349,299) |

F o r w a r d

| | | | | | | | | | | | | |
|---------------|-----------|----------|----------|---------|---------|---------|-------|---------|---------|---------|---------|-----------|
| purchases | 228,982 | 72,661 | 8,932 | 3,735 | 2,431 | 7,130 | 1,347 | 8,340 | 3,909 | 2,919 | 3,423 | 343,809 |
| Forward sales | (319,494) | (77,799) | (16,151) | (2,497) | (1,449) | (4,810) | (964) | (9,885) | (1,341) | (1,559) | (1,359) | (437,308) |

Net option

| | | | | | | | | | | | | |
|----------|-----|------|-----|------|-----|---|---|------|----|---|---|----|
| position | 133 | (41) | (5) | (55) | (7) | — | — | (71) | 60 | — | — | 14 |
|----------|-----|------|-----|------|-----|---|---|------|----|---|---|----|

Net
long/(short)

non-structural
position

| | | | | | | | | | | | | |
|--|-----|-------|-------|-------|----|-------|----|----|------|-----|---|------|
| | 882 | (778) | (151) | (142) | 26 | (124) | 25 | 74 | (13) | 125 | 4 | (72) |
|--|-----|-------|-------|-------|----|-------|----|----|------|-----|---|------|

S t r u c t u r a l
positions

| | | | | | | | | | | | | |
|--|-----|--------|---|---|---|---|---|---|---|---|-----|--------|
| | 206 | 20,124 | — | — | — | — | — | — | — | — | 238 | 20,560 |
|--|-----|--------|---|---|---|---|---|---|---|---|-----|--------|

5. Ultimate holding company

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

6. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 14 March 2012, during which no transfer of shares can be registered. In order to qualify for the fourth interim dividend for 2011, all transfers, accompanied by the relevant share certificates, must be lodged with the bank's registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 13 March 2012. The fourth interim dividend will be payable on Thursday, 29 March 2012 to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 14 March 2012. Shares of the bank will be traded ex-dividend as from Monday, 12 March 2012.

7. Proposed timetable for 2012 quarterly dividends

| | First interim dividend | Second interim dividend | Third interim dividend | Fourth interim dividend |
|-------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
| Announcement | 30 April 2012 | 30 July 2012 | 9 October 2012 | 4 March 2013 |
| Book close and record date | 17 May 2012 | 15 August 2012 | 26 October 2012 | 20 March 2013 |
| Payment date | 31 May 2012 | 30 August 2012 | 13 November 2012 | 3 April 2013 |

8. Code on Corporate Governance Practices

The bank is committed to high standards of corporate governance. 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 all the code provisions and most of the recommended best practices set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2011.

The Audit Committee of the bank has reviewed the results for the year ended 31 December 2011.

9. Board of Directors

At 27 February 2012, the Board of Directors of the bank comprises Dr Raymond K F Ch'ien* (Chairman), Mrs Margaret Leung (Vice-Chairman and Chief Executive), Dr John C C Chan*, Dr Marvin K T Cheung*, Ms L Y Chiang*, Mr Andrew H C Fung, Ms Anita Y M Fung#, Dr Fred Zulu Hu*, Mr Jenkin Hui*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mrs Dorothy K Y P Sit#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent Non-executive Directors

Non-executive Directors

10. News release

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

The 2011 Annual Report and Financial Statements, 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 issue of this news release. Printed copies of the 2011 Annual Report will be sent to shareholders in late-March 2012.

Media enquiries to:

Walter Cheung

Ruby Chan

Telephone: (852) 2198 4020

Telephone: (852) 2198 4236

SIGNATURE

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

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 27 February, 2012