HSBC HOLDINGS PLC
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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 March

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

1 March 2010

HANG SENG BANK LIMITED
2009 RESULTS - HIGHLIGHTS

- Operating profit down 2.9 per cent to HK$13,324 million (HK$13,725 million in 2008).
- Operating profit excluding loan impairment charges and other credit risk provisions down 14.3 per cent to HK$14,136 million (HK$16,501 million in 2008).
- Profit before tax down 2.5 per cent to HK$15,477 million (HK$15,878 million in 2008).
- Attributable profit down 6.2 per cent to HK$13,221 million (HK$14,099 million in 2008).
- Return on average shareholders' funds of 24.6 per cent (26.0 per cent in 2008).
- Assets up 8.4 per cent to HK$826.0 billion (HK$762.2 billion at 31 December 2008).
- Earnings per share down 6.1 per cent to HK$6.92 per share (HK$7.37 per share in 2008).
- Fourth interim dividend of HK$1.90 per share; total dividends of HK$5.20 per share for 2009 (HK$6.30 per share in 2008).
- Capital adequacy ratio of 15.8 per cent (12.5 per cent at 31 December 2008); core capital ratio of 12.8 per cent (9.5 per cent at 31 December 2008).
- Cost efficiency ratio of 32.1 per cent (29.2 per cent in 2008).

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

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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 and associates ('the group') for the year ended 31 December 2009.

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Comment by Raymond Ch'ien, Chairman

The effects of the global financial crisis continued to dominate operating conditions in 2009.

In the unstable economic environment, we remained focused on our long-term growth objectives, taking steps to support both personal and commercial customers while better aligning our business for future expansion.

We helped promote economic recovery through active involvement in Hong Kong Government-led lending schemes for small and medium-sized enterprises and by facilitating trade with a wide range of cross-border renminbi services.

Capitalising on our strong wealth management capabilities, we developed investment and insurance solutions that provided greater financial peace of mind in uncertain markets.

We leveraged our trusted brand and time-to-market advantage to maintain momentum in core areas of business, serve the diverse needs and interests of investors, and lay the groundwork for future development in new markets.

Our efforts have earned us the continuing loyalty of existing customers and are helping us build bridges to new ones, which will prove important business drivers as the economy returns to a firmer footing.

We remain committed to enhancing shareholder value through careful risk management and cost control while investing in our operations to promote sustainable growth over the long term.

Financial Performance

Operating profit excluding loan impairment charges and other credit risk provisions was down 14.3 per cent at HK$14,136 million. Operating profit declined by 2.9 per cent to HK$13,324 million, with good credit risk management and improving economic conditions in the second half leading to a significant drop in loan impairment charges and other credit risk provisions.

Profit before tax fell by 2.5 per cent to HK$15,477 million.

Profit attributable to shareholders was down 6.2 per cent at HK$13,221 million. Earnings per share were HK$6.92 – a drop of 6.1 per cent compared with a year earlier.

Lower staff-related expenses and further emphasis on cost containment resulted in a 1.8 per cent reduction in operating expenses to HK$6,676 million. However, net operating income before loan impairment charges and other credit risk provisions was down 10.7 per cent at HK$20,812 million, due mainly to the adverse impact of low interest rates on deposit spreads and mortgage portfolio pricing. With the reduction in operating expenses outpaced by the drop in income, our cost efficiency ratio rose to 32.1 per cent.

Return on average shareholders' funds was 24.6 per cent, compared with 26.0 per cent in 2008. Return on average total assets was down 0.2 percentage points at 1.7 per cent.

On 31 December 2009, our capital adequacy and core capital ratios were 15.8 per cent and 12.8 per cent respectively, as calculated using the 'advanced internal ratings-based approach' under Basel II, compared with 12.5 per cent and 9.5 per cent respectively as calculated using the 'foundation internal ratings-based approach' under Basel II at the end of 2008.

After careful consideration of our capital needs for future business opportunities, particularly in mainland China, as well as additional capital requirements under potential changes in the regulatory environment, the Directors have declared a fourth interim dividend of HK$1.90 per share, payable on 31 March 2010. This brings the total distribution for 2009 to HK$5.20 per share.

Outlook

Following the implementation of unprecedented monetary and fiscal stimulus programmes by many of the world's leading economies, we are starting to see tentative signs of broad-based recovery.

Hong Kong's key economic indicators have begun to improve, with the domestic sector taking the lead. Exports registered a year-on-year increase in November 2009 after 12 consecutive months of contraction. However, the pace of expansion in many major economies will be modest at best in 2010 with external demand remaining subdued. A sustained upturn in external sector activity will be crucial in getting Hong Kong's outward-facing economy back on a solid growth track.

Supported by the Central Government's RMB4 trillion package of economic stimulus initiatives, domestic demand has driven continued growth on the Mainland – albeit at a more moderate pace than pre-crisis levels. The relatively loose monetary and fiscal policies in place during 2009 have led to surging asset prices and concerns about overheating. But with economic recovery still in its infancy, the government will likely continue to fine-tune current policies rather than make dramatic changes that may undermine growth.

Against this backdrop, we are cautiously optimistic for 2010. The global recovery will bring new and renewed business opportunities. At the same time, challenges remain. The low interest rates that are likely to persist until at least the second half of this year and keen competition in the financial sector will continue to put pressure on margins.

We will use our competitive strengths – including our widely respected brand, customer service excellence and efficient business model – to deepen customer relationships, reinforce our strong market position and take advantage of new avenues of business growth.

Review by Margaret Leung, Vice-Chairman and Chief Executive

The economic environment in 2009 created both challenges and opportunities for Hang Seng.

Despite difficult operating conditions, our long-term goals continued to guide our strategy. We made good use of our competitive strengths to serve the different financial needs of our customers, maintain momentum in core areas of business and strengthen our platform for future growth.

Competitive pressures grew during the year as banks sought to capture business flows in recovering market segments. New rules on the physical segregation of investment and banking services in Hong Kong necessitated the reorganisation of wealth management services during the second half of the year. Assisted by our strong brand, we emphasised service excellence in differentiating ourselves from our peers.

With continued financial market uncertainty in the first half of the year, we provided enhanced insurance protection offerings and defensive investment opportunities. As the outlook of investors improved during the second half, we capitalised on our time-to-market advantage to launch products in line with changing trends and to tap new areas of business with good growth potential.

Leveraging our strong balance sheet and good credit risk management capabilities, we assisted customers through the prudent expansion of our lending portfolios. Deposits also increased but low interest rates put significant downward pressure on spreads.

Our early actions to tackle the challenges created by the global financial crisis as well as the improving economic conditions resulted in better performances by our core revenue drivers in the second half of 2009 compared with the first half.

We also worked to provide greater choice over when and where customers manage their finances, particularly by enhancing our online and mobile phone platforms. The number of Personal e-Banking and Business e-Banking customers grew by 12.8 per cent and 19.0 per cent respectively.

In mainland China, our subsidiary bank, Hang Seng Bank (China) Limited, extended its service reach by adding outlets and building new business alliances. Close collaboration between colleagues on the Mainland and in Hong Kong led to new wealth management products and the strengthening of cross-border capabilities – supporting good growth in the mainland customer base.

Customer Groups

Personal Financial Services recorded an 11.9 per cent decline in operating profit excluding loan impairment charges to HK$7,457 million and a 13.7 per cent fall in profit before tax to HK$7,258 million.

Operating profit excluding loan impairment charges and profit before tax for the second half of 2009 were up 8.4 per cent and 9.3 per cent respectively compared with the first half.

Although customer deposits and advances to individuals both increased, interest margins on deposits and the mortgage portfolio fell, resulting in a 5.8 per cent reduction in Personal Financial Services' net interest income to HK$8,195 million.

Despite subdued investment sentiment, we kept wealth management income broadly steady at HK$4,672 million – down 2.4 per cent compared with 2008. Revenue from wealth management in the second half of 2009 increased by

14.7 per cent compared with the first half.

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With continuing economic uncertainty in the first half of the year, we emphasised financial security, shifting our sales focus to personal insurance protection and lower-risk investment products.

As market conditions began to stabilise, we used our new Securities Select Customer Trading Centre and attractive IPO investment services to capitalise on renewed interest in securities trading, increasing our market share and the number of securities accounts. We launched new Hang Seng-branded funds with China themes that were well received by customers. These actions helped drive a 36.8 per cent rise in investment income in the second half of the year compared with the first half, with increases across all major revenue streams.

In August, we became the first Hong Kong financial institution to achieve a dual listing of exchange-traded funds (ETFs) in Taiwan, increasing our profile and opening up a new avenue of future business.

Overall, investment income dropped by 23.2 per cent for 2009. The 15.2 per cent growth in revenue from stockbroking and related services was outweighed by declines in income from investment funds and structured investment products, which fell by 49.1 per cent and 57.1 per cent respectively. Private Banking service fee income dropped by 38.9 per cent, reflecting the reduced level of investment activity.

New and enhanced insurance products offered protection strategies for a diverse range of life stages. Total policies in-force increased by 10.1 per cent and annualised premiums rose by 14.7 per cent to HK$13.7 billion.

Life insurance income rose by 46.8 per cent, due mainly to our proactive management of the life insurance funds investment portfolio - which resulted in a HK$17 million investment gain for 2009 compared with a HK$1,063 million loss in 2008 - as well as the increase in net interest income arising from the growth in the portfolio and asset re-allocation.

Effective promotional campaigns drove good all-round growth in our credit card business. The card base increased by 6.5 per cent to 1.85 million cards in use and we increased our market share. Card receivables and spending rose by 7.6 per cent and 9.1 per cent respectively.

A wide range of mortgage loan offers and our convenient e-Mortgage channel helped us retain a strong position in the highly competitive residential mortgage sector.

Commercial Banking’s profit before tax was up 6.8 per cent at HK$2,637 million. Operating profit excluding loan impairment charges fell by 15.5 per cent, due mainly to the 16.6 per cent drop in net interest income. Operating profit increased by 14.0 per cent, with effective management of credit risk and improvements in the economic environment supporting a 67.4 per cent reduction in loan impairment charges.

Operating profit excluding loan impairment charges and profit before tax for the second half of 2009 rose by 9.1 per cent and 44.2 per cent respectively compared with the first half.

We continued to assist small and medium-sized enterprises in Hong Kong through our participation in government-guaranteed lending schemes, under which we have now approved over 5,000 applications with loans totalling more than HK$14.2 billion. Advances to customers rose by 12.1 per cent. Along with improved loan spreads, this supported a 15.4 per cent increase in net interest income from lending.

The establishment of a dedicated deposit service team drove a 26.0 per cent increase in deposits, but this only partly offset the effects of narrowing deposit spreads, with net interest income from deposits down by 47.7 per cent.

Income from our strengthened portfolio of corporate life insurance products rose by 103.1 per cent, sustaining corporate wealth management revenue – which fell by just 1.8 per cent despite the less favourable environment for investment business.

Good business synergy between commercial banking teams in Hong Kong and on the Mainland, the launch of renminbi trade settlement services and new business relationships with strategic mainland partners have enhanced our ability to capture an increasing share of cross-border business flows.

Corporate Banking achieved a 20.1 per cent increase in operating profit excluding loan impairment charges to HK$979 million.

A significant improvement in loan impairment charges saw operating profit grow by 46.7 per cent to HK$901 million. Profit before tax was HK$915 million – an increase of 41.9 per cent.

Total operating income grew by 15.4 per cent, supported mainly by the 17.2 per cent growth in net interest income.

Advances to customers declined by 5.6 per cent, reflecting weaker investment appetite and stronger financial discipline by corporate customers during the international financial crisis. We capitalised on our balance sheet strength and good understanding of local markets to assist corporate customers with new and renewed facilities while adjusting pricing in line with the credit environment, resulting in a 41.5 per cent rise in net interest income from customer advances.

The low interest rate environment drove a marked customer preference for greater liquidity, with the increase in current account and savings account deposits more than offset by the drop in time deposits. Net interest income from deposits fell by 36.4 per cent.

Treasury's operating profit excluding credit risk provisions declined by 3.9 per cent to HK$2,918 million.

We continued with our prudent risk management strategy, enhancing the portfolio mix through investment in high-quality debt securities and selectively disposing of negotiable instruments as market conditions changed.

Low interest rates kept the cost of funds down but also limited yields on new deployments of funds and balance sheet management investments. Net interest income fell by 19.4 per cent.

Net trading income grew by 64.4 per cent to HK$1,054 million, due mainly to a net increase in funding swap income.

We enhanced the infrastructure for customer-driven business, strengthening Treasury's product development capabilities and sales synergy with other customer groups. With weak investor demand for equity and interest rate-linked products, we successfully maintained business momentum by enhancing the features of our foreign exchange-linked investment offerings.

Treasury's profit before tax increased by 48.9 per cent, due mainly to the non-recurrence of the HK$1,375 million credit risk provisions booked in 2008.

Mainland Business

Including a cross-location sub-branch that opened in Guangdong province under CEPA VI in January 2010, Hang Seng China now has 37 outlets across 12 cities.

Hang Seng China's profit before tax achieved steady growth, underpinned by an increase in total operating income as well as reductions in both operating expenses and loan impairment charges.

Total operating income grew by 3.9 per cent, supported by a 1.3 per cent rise in net interest income.

We contained costs through effective deployment of resources to record a 0.9 per cent reduction in operating expenses despite expanding our network during the year.

Our attractive range of products and enhancements to service delivery across a variety of channels helped drive an 18.3 per cent year-on-year rise in the mainland customer base. Deposits grew by 35.9 per cent compared with a year earlier, supporting further improvement in our balance sheet strength.

Government policies to promote economic recovery increased opportunities for banks to expand lending, creating downward pressure on pricing. We maintained a prudent approach to credit risk control – focusing on the quality rather than the size of our loans portfolio. Advances to customers rose by 5.2 per cent.

Leveraging in part on our wealth management experience in Hong Kong, we offered new investment products aimed at affluent customers, achieving a 25.2 per cent expansion in the number of mainland Prestige Banking accounts.

Our growing range of cross-border services helped drive a 10.9 per cent increase in the number of commercial customers.

We built new alliances with external partners such as China Export and Credit Insurance Corporation and China UnionPay to good business effect.

Collaborative initiatives with strategic partners Industrial Bank and Yantai Bank continued to provide synergy in key areas of business and extend our reach in regions with strong economic growth potential.

Including the share of profits from mainland associates, our mainland business contributed 13.3 per cent to total profit before tax, compared with 11.9 per cent a year earlier.

Moving Ahead

In a year marked by economic uncertainty, Hang Seng remained committed to a forward-looking strategy that focuses on the long term. We have continued to support customers, sustain the momentum of growth drivers and establish new avenues of revenue generation.

Investors are placing greater emphasis on personalised financial services and the timely provision of information. Businesses facing difficult operating conditions are demanding one-stop financial assistance with fast and efficient delivery channels that can give them an edge over their competitors.

Hang Seng's strengths – including service excellence, time-to-market capabilities and a strong distribution network – will continue to serve us well in meeting these needs, helping us deepen existing customer relationships and acquire new ones.

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Our diverse portfolio of investment and insurance products enables us to provide tailored wealth management solutions for a wide range of market conditions and financial needs. Our wealth management business – particularly sales of investment funds – has gained strong momentum during the first two months of 2010 and we will build on this with new products and services.

With deep roots in our communities, our local knowledge allows us to identify emerging trends ahead of the curve to the mutual benefit of our customers and our business. Following on from our ground-breaking dual listing of ETFs in Taiwan last year, we will work to develop additional new revenue streams that support our core business lines.

Commercial Banking's growing range of cross-border services and corporate wealth management offerings will help us strengthen ties with customers and attract new business. We will further enhance cross-selling and leverage our multi-channel platforms and payment and cash management capabilities in Hong Kong and on the Mainland as part of our new customer acquisition strategy.

Our support of Corporate Banking clients in challenging economic times puts us in a good position to deepen these partnerships as market conditions improve.

We will take advantage of opportunities to expand our renminbi services for commercial and corporate customers in Hong Kong following new measures announced by the Hong Kong Monetary Authority last month that widen the scope of renminbi business.

Treasury will continue to prudently manage its investment portfolio to strike a good balance between risk and return. We will further enhance Treasury's service infrastructure and product development capabilities to strengthen fee-earning potential.

We will upgrade and expand our service delivery channels to provide customers with greater efficiency and convenience in managing their financial needs.

Hang Seng China will further grow its brand on the Mainland, make good use of its strategic alliances and extend its business reach in high-potential locations – including Guangdong under the favourable policies of CEPA VI.

Supported by Hang Seng's strong capabilities in Hong Kong, we will expand our mainland wealth management offerings to attract more customers in target segments. We will promote our comprehensive cross-border services to increase the mainland commercial customer base. These initiatives will help drive deposits growth, providing important support for business expansion.

On top of our investments in Industrial Bank and Yantai Bank, we are actively looking for strategic partners in wealth management industries on the Mainland.

We will continue to invest in staff capabilities, technology and initiatives that enhance our reputation as a leading provider of Greater China financial expertise.

The past year has been a challenging one but we are looking ahead – to identify new opportunities and ensure our strategic decisions best serve our long-term goals.

Supported by our trusted brand and solid financial fundamentals, we will reinforce our leadership in traditional lines, build momentum in areas with good potential for further business expansion, and explore new markets and customer segments in order to deliver sustainable growth.

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Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries and associates ('the group') reported an audited profit attributable to shareholders of HK$13,221 million for 2009, down by 6.2 per cent compared with 2008. Earnings per share were HK$6.92, down HK$0.45 from 2008. Attributable profit to shareholders for the second half of 2009 rose by HK$319 million, or 4.9 per cent, when compared with the first half.

Operating profit excluding loan impairment charges and other credit risk provisions fell by HK$2,365 million, or 14.3 per cent, to HK$14,136 million. Although the economic environment in Hong Kong began to show signs of gradual recovery and market sentiment improved during the second half of the year, operating conditions in 2009 were challenging. The continuing low interest rate environment had a significant adverse impact on net interest income. Non-interest income also fell although there was notable growth in the second half of the year compared with the first half. Operating expenses were contained at a lower level than in 2008.

Net interest income decreased by HK$2,209 million, or 13.6 per cent. Net interest margin for 2009 was 1.90 per cent – down 46 basis points compared with 2008. Net interest spread dropped by 31 basis points to 1.84 per cent and the contribution from net free funds declined by 15 basis points to 0.06 per cent. Although average interest-earning assets increased by 7.1 per cent, there was a shift towards more liquid assets with a lower yield. Markedly reduced deposit spreads and the reduction in contribution from net free funds in the near-zero interest rate environment outweighed the benefits of improved loan spreads.

Net fees and commissions dropped by HK$648 million, or 13.0 per cent, to HK$4,321 million, as demand for wealth management products was lower than in 2008, reflecting weak investor sentiment. The more buoyant stock market, improving economic conditions and the improvement in investor outlook towards the end of the year helped support the 24.4 per cent growth in net fees and commissions in the second half compared with the first half. Income from sales of retail investment funds and third-party structured investment products fell by 44.3 per cent and 91.8 per cent respectively. There was a reduction in private banking service fee income, reflecting diminished customer appetite for trading and structured products. Fee income from stockbroking and related services rose by 15.2 per cent, driven by the 25.7 per cent increase in turnover, which significantly outperformed the 12.1 per cent drop in Hong Kong market turnover. In the uncertain economic conditions, the group's comprehensive range of health and wealth insurance solutions offered good personal coverage to customers at all life stages. This drove a significant 93.9 per cent rise in insurance fee income, mainly contributed by strong sales of the HSBC Jade Global Universal Life product. Credit card business continued to gain market share in terms of cards in issue, spending and receivables, and achieved a strong 8.4 per cent growth in fee income.

Trading income improved by HK$468 million, or 32.2 per cent, to HK$1,923 million. Foreign exchange income registered significant growth of HK$408 million, or 29.5 per cent, attributable partly to increased net interest income from funding swaps and the continued strong customer demand for foreign exchange-linked structured products. The rise was also driven by reduced losses on the revaluation of certain US dollar capital funds – maintained in the bank's mainland subsidiary bank and subject to regulatory controls – against the renminbi.

Income from insurance business (included within 'net interest income', 'net fee income', 'net income from financial instruments designated at fair value', 'net earned insurance premiums', 'movement in present value of in-force insurance business' within 'other operating income', and after deducting 'net insurance claims incurred and movement in policyholders' liabilities') grew by HK$710 million, or 41.8 per cent, to HK$2,407 million. To cater for the increase in customer concerns about health issues, more emphasis was placed on products offering greater protection and medical coverage. Net interest income and fee income from life insurance business grew by 43.7 per cent, attributable mainly to the increase in the size and asset reallocation of the life insurance funds investment portfolio. The investment return on the life insurance funds investment portfolio also improved significantly from a loss of HK$1,065 million in 2008 to a gain of HK$17 million in 2009.

Net operating income before loan impairment charges and other credit risk provisions decreased by HK$2,484 million, or 10.7 per cent, to HK$20,812 million.

Operating expenses dropped by HK$119 million, or 1.8 per cent, to HK$6,676 million, with costs at the bank's Hong Kong operations and mainland operations falling by 2.0 per cent and 0.3 per cent respectively. The total drop was largely attributable to decreased headcount through natural attrition, reduced performance-related expenses and good cost containment in areas such as marketing expenditure.

Loan impairment charges and other credit risk provisions improved significantly, falling by HK$1,964 million, or 70.7 per cent, to HK$812 million. Individually assessed impairment charges dropped by HK$615 million, or 66.5 per cent, primarily due to lower new and additional impairment charges and a higher net release on the accounts of certain corporate and commercial banking customers. Collectively assessed allowances rose slightly by HK$26 million owing to higher charges on the credit card and personal loans portfolios. There were no impairment losses or provisions against available-for-sale debt securities in 2009, compared with an impairment charge of HK$1,375 million in 2008 when the bank wrote down the carrying value of certain available-for-sale debt securities following the outbreak of the global financial crisis. Compared with the first half of 2009, loan impairment charges and other credit risk provisions fell significantly by HK$430 million, or 69.2 per cent, in the second half as a result of improved economic conditions and the bank's good credit risk management.

Operating profit was down HK$401 million, or 2.9 per cent, at HK$13,324 million.

Profit before tax dropped by 2.5 per cent to HK$15,477 million after taking the following items into account:

- HK$140 million increase in net surplus on property revaluation;
- HK$81 million fall in gains less losses from financial investments and fixed assets; and
- HK$59 million drop in share of profits from associates, mainly from Industrial Bank.

Consolidated financial position and key ratios

Total assets increased by HK$63.8 billion, or 8.4 per cent, to HK$826.0 billion. In light of the weak global economy and the fact that financial markets were still recovering from the credit crisis, Treasury continued to take a highly prudent approach in managing its balance sheet management investments. Surplus funds arising from trading assets that matured in 2009 were redeployed to interbank placements and appropriate available-for-sale debt securities to attain yield enhancement. As a result, financial investments – primarily high-quality debt securities which included government-guaranteed debt securities – rose by 33.3 per cent. Customer advances recorded encouraging growth of 4.7 per cent. Despite intense market competition, the group was able to sustain a leading position and maintained its growth momentum in residential mortgage lending and other personal lending. Mainland lending grew moderately with Hang Seng China continuing to emphasise lending quality over business expansion. Customer deposits and certificates of deposit and other debt securities in issue rose by HK$59.2 billion, or 9.8 per cent, to HK$663.7 billion, reflecting customers' lukewarm attitude towards investment and preference for liquidity in the uncertain market conditions. At 31 December 2009, the advances-to-deposits ratio was 51.9 per cent, compared with 54.4 per cent at the end of 2008.

At 31 December 2009, shareholders' funds (excluding proposed dividends) were HK$54,591 million, an increase of HK$8,701 million, or 19.0 per cent. Retained profits rose by HK$5,201 million, mainly reflecting the growth in 2009 profit after the appropriation of interim dividends and the increase in actuarial gains under the defined benefit scheme. The available-for-sale investments reserve showed a deficit of HK$257 million compared with a deficit of HK$3,823 million in 2008, due mainly to the narrowing of credit spreads as a result of the stabilisation in credit markets.

The return on average total assets was 1.7 per cent (1.9 per cent for 2008). The return on average shareholders' funds was 24.6 per cent (26.0 per cent for 2008).

At 31 December 2009, the capital adequacy ratio was 15.8 per cent, up from 12.5 per cent at the end of 2008. The core capital ratio was 12.8 per cent, up from 9.5 per cent. The ratios were calculated in accordance with the internal ratings-based approach under the Banking (Capital) Rules issued by the Hong Kong Monetary Authority for the implementation of Basel II. Effective 1 January 2009, the bank migrated to the 'advanced internal ratings-based approach' under the Basel II framework to calculate its capital ratios. The capital adequacy ratio and core capital ratio at 31 December 2008 were calculated using the 'foundation internal ratings-based approach'. The strengthening of these ratios largely reflects profit growth after accounting for dividends in the year, the improvement in the available-for-sale debt securities reserve due to the narrowing of credit spreads and the change in calculation methodology.

The bank maintained a strong liquidity position. The average liquidity ratio for 2009 was 48.1 per cent (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance), compared with 46.4 per cent for 2008.

The cost efficiency ratio for 2009 was 32.1 per cent, compared with 29.2 per cent in 2008.

Dividends

The Directors have declared a fourth interim dividend of HK$1.90 per share, which will be payable on 31 March 2010 to shareholders on the register of shareholders as of 16 March 2010. Together with the interim dividends for the first three quarters, the total distribution for 2009 will be HK$5.20 per share.

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Customer group performance

Figures in HK$m	Personal Financial Services	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segments	Inter-segment elimination	Total
Year ended 31 December 2009								
Net interest income	8,195	2,011	1,158	2,162	497	14,023	—	14,023
Net fee income/(expense)	3,000	1,114	145	(35)	97	4,321	—	4,321
Trading income/(loss)	662	245	8	1,054	(46)	1,923	—	1,923
Net (loss)/income from financial instruments designated at fair value	(54)	—	—	5	(26)	(75)	—	(75)
Dividend income	2	6	—	—	8	16	—	16
Net earned insurance premiums	11,293	225	1	—	—	11,519	–	11,519
Other operating income	898	29	1	—	632	1,560	(471)	1,089
Total operating income	23,996	3,630	1,313	3,186	1,162	33,287	(471)	32,816
Net insurance claims incurred and movement in policyholders' liabilities	(11,868)	(134)	(2)	—	—	(12,004)	—	(12,004)
Net operating income before loan impairment charges and other credit risk provisions	12,128	3,496	1,311	3,186	1,162	21,283	(471)	20,812
Loan impairment charges and other credit risk provisions	(454)	(278)	(78)	(2)	—	(812)	—	(812)
Net operating income	11,674	3,218	1,233	3,184	1,162	20,471	(471)	20,000
Total operating expenses W	(4,671)	(1,507)	(332)	(268)	(369)	(7,147)	471	(6,676)
Operating profit	7,003	1,711	901	2,916	793	13,324	—	13,324
Gains less losses from financial investments and fixed assets	96	53	14	(152)	175	186	—	186
Net surplus on property revaluation	—	—	—	—	219	219	—	219
Share of profits from associates	159	873	—	629	87	1,748	—	1,748
Profit before tax	7,258	2,637	915	3,393	1,274	15,477	—	15,477
Share of profit before tax	46.9 %	17.0 %	5.9 %	21.9 %	8.3 %	100.0 %	–	100.0 %
Operating profit excluding loan impairment charges and other credit risk								

provisions	7,457	1,989	979	2,918	793	14,136	—	14,136
WDepreciation/amortisation included in total operating expenses	(173)	(31)	(7)	(4)	(335)	(550)	–	(550)
At 31 December 2009								
Total assets	234,723	96,490	88,135	377,561	29,059	825,968	—	825,968
Total liabilities	554,357	123,996	37,477	21,503	30,411	767,744	—	767,744
Investments in associates	847	4,284	—	2,707	2,388	10,226	—	10,226
Capital expenditure incurred during the year	181	34	5	—	92	312	—	312

Figures in HK$m	Personal Financial Services	Commercial Banking	Corporate Banking	Treasury	Other	Total reportable segments	Inter-segment elimination	Total
Year ended 31 December 2008								
Net interest income	8,700	2,411	988	2,682	1,451	16,232	—	16,232
Net fee income/(expense)	3,696	1,066	127	(33)	113	4,969	—	4,969
Trading income/(loss)	743	245	18	641	(192)	1,455	—	1,455
Net (loss)/income from financial instruments designated at fair value	(1,043)	(2)	—	(10)	24	(1,031)	—	(1,031)
Dividend income	25	10	—	—	47	82	—	82
Net earned insurance premiums	12,135	213	3	—	—	12,351	—	12,351
Other operating income	439	54	2	4	671	1,170	(469)	701
Total operating income	24,695	3,997	1,138	3,284	2,114	35,228	(469)	34,759
Net insurance claims incurred and movement in policyholders' liabilities	(11,349)	(113)	(1)	—	—	(11,463)	—	(11,463)
Net operating income before loan impairment charges and other credit risk provisions	13,346	3,884	1,137	3,284	2,114	23,765	(469)	23,296
Loan impairment charges and other credit risk provisions	(347)	(853)	(201)	(1,375)	—	(2,776)	—	(2,776)
Net operating income	12,999	3,031	936	1,909	2,114	20,989	(469)	20,520
Total operating expenses W	(4,879)	(1,530)	(322)	(247)	(286)	(7,264)	469	(6,795)
Operating profit	8,120	1,501	614	1,662	1,828	13,725	—	13,725
Gains less losses from financial investments and fixed assets	156	85	31	(84)	79	267	—	267
Net surplus on property revaluation	—	—	—	—	79	79	—	79
Share of profits from associates	134	884	—	701	88	1,807	—	1,807
Profit before tax	8,410	2,470	645	2,279	2,074	15,878	—	15,878
Share of profit before tax	52.9%	15.6%	4.1%	14.4%	13.0%	100.0%	—	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	8,467	2,354	815	3,037	1,828	16,501	—	16,501

WDepreciation/amortisation included in total operating expenses	(140)	(24)	(7)	(3)	(318)	(492)	—	(492)
At 31 December 2008								
Total assets	211,092	85,791	93,570	345,920	25,795	762,168	—	762,168
Total liabilities	508,596	96,905	41,981	34,575	28,485	710,542	—	710,542
Investments in associates	501	3,194	—	2,784	2,391	8,870	—	8,870
Capital expenditure incurred during the year	374	52	14	3	223	666	—	666

Personal Financial Services (‘PFS’) reported a profit before tax of HK$7,258 million for 2009, 13.7 per cent lower than in 2008. Operating profit excluding loan impairment charges was down 11.9 per cent at HK$7,457 million. In the second half of 2009, the business experienced a moderate rebound amid steadying economic conditions and improving market sentiment. Profit before tax and operating profit excluding loan impairment charges for the second half of 2009 were up 9.3 per cent and 8.4 per cent respectively compared with the first half.

Despite the excessive liquidity driving down market interest rates, PFS managed to partly offset the effect of compressed deposit spreads and the repricing of the mortgage portfolio by successfully deploying the commercial surplus to achieve growth in the secured and unsecured lending portfolios. Net interest income for the year declined by 5.8 per cent, but increased by 4.1 per cent in the second half compared with the first half.

Total operating income from unsecured lending business recorded year-on-year growth of 16.0 per cent, underpinned by the increase in the number of credit cards in force as well as card spending and receivables. Effective marketing campaigns helped the bank gain market share and the card base grew by 6.5 per cent to 1.85 million cards in use. Card receivables rose by 7.6 per cent compared with a year earlier to HK$13.8 billion, outperforming market peers. Personal lending was up 9.3 per cent, with a total loan balance of HK$3.6 billion.

The bank’s residential mortgage business sustained its market leadership in the active property sector and gained market share despite intense competition. The bank ranked second for the provision of equitable mortgages in Hong Kong throughout 2009 and, at 31 December 2009, its market share in terms of total mortgage loans stood at 15.1 per cent.

PFS’ prudent credit strategy and improvements in unemployment and bankruptcy trends beginning in mid-2009 saw loan impairment charges drop by 34.3 per cent in the second half of the year compared with the first half.

Against the backdrop of new rules governing the physical segregation of banking and investment services, the improving market sentiment in the second half of the year helped support investment business momentum. Securities brokerage business and investment funds business registered a 29.3 per cent and 236.1 per cent increase in turnover in the second half of 2009 compared with the first half of 2009. Although non-interest income fell by 15.4 per cent compared with 2008, growth of 13.5 per cent and 52.7 per cent was achieved in the second half of 2009 compared with the first half of 2009 and the second half of 2008 respectively.

Wealth management income was broadly in line with 2008 at HK$4,672 million, representing a slight drop of 2.4 per cent.

Sales of wealth management products improved as the effects of financial stimulus policies introduced in Hong Kong started to take effect and help stabilise market conditions. In the very low interest rate environment, the bank capitalised on growing investor appetite for lower-risk yield-enhancement opportunities. Turnover of our foreign exchange-linked investment deposits in 2009 exceeded HK$130 billion – more than triple that recorded in 2008.

Income from life insurance business grew by 46.8 per cent. Diversification of the product range with the launch of new plans that offer improved protection propositions proved effective in driving sales. Total policies in-force and total annualised premiums rose by 10.1 per cent and 14.7 per cent respectively.

Personal e-Banking continued to grow steadily with over 980,000 registered customers at 31 December 2009 – a 12.8 per cent increase compared with the end of 2008. Customers continued to support the bank's environmental protection efforts with a 54.5 per cent increase in the number of accounts switching to the e-statement service during the year to reach more than 330,000. Hang Seng was among the first banks in Hong Kong to launch a mobile phone-based travel insurance application service and introduce touch screen technology in its network of self-service terminals.

Commercial Banking ('CMB') reported a 6.8 per cent increase in profit before tax to reach HK$2,637 million in the face of challenging market conditions. CMB's contribution to the bank's total profit before tax increased to 17.0 per cent, up 1.4 percentage points from a year earlier. Operating profit excluding loan impairment charges was down 15.5 per cent at HK$1,989 million, due mainly to falling deposit spreads in the low interest rate environment. On the back of improving market conditions and a continuing emphasis on vigilant risk management, loan impairment charges fell significantly by 67.4 per cent.

With upturns in economic activity and the property market during the second half of 2009, customer advances rose by 12.1 per cent. Assisted by the establishment of a dedicated deposit service team and the influx of liquidity into the market, customer deposits recorded notable growth of 26.0 per cent. However, the positive impact of this growth in advances and deposits was more than offset by continuing pressure on deposit margins, resulting in a year-on-year decline of 16.6 per cent in net interest income.

CMB continued to develop its corporate wealth management business, enjoying particular success with corporate life insurance products which offered customers diversified insurance solutions, comprehensive protection, customised benefits and flexible payment options. An Executive Retention Insurance Plan for business owners who want to retain key executives with additional benefits was launched towards the end of the year. Income from corporate life insurance recorded impressive growth of 103.1 per cent. Business momentum was sustained in investment services with more defensive investment instruments and treasury hedging solutions that served customers' business needs in the prevailing economic conditions. These initiatives helped mitigate the unfavourable impact of the overall fall in investment activity, with corporate wealth management income recording a small decline of 1.8 per cent. Corporate wealth management income contributed 13.2 per cent to CMB's total operating income in 2009.

In response to the announcement of the pilot Renminbi Trade Settlement Scheme by the Central Government on the Mainland, CMB launched a series of renminbi trade settlement services in July to support the cross-border renminbi trade between Hong Kong companies and designated mainland enterprises in the five pilot cities (Shanghai, Shenzhen, Guangzhou, Dongguan and Zhuhai). This enhanced product suite was further supported by an agreement signed with China Export and Credit Insurance Corporation (SINOSURE) in December, which reinforces CMB's capability to offer one-stop buyer credit protection and accounts receivable financial solutions. Close collaboration with Hang Seng China and the bank's strategic partners on the Mainland also put CMB in a stronger position to capture a growing share of cross-border business flows.

With strong roots in its local communities, the bank continued to be an active player in government-backed schemes to support small and medium-sized enterprises facing tough economic times. Since the launch of the SME Loan Guarantee Scheme and Special Loan Guarantee Scheme in late 2008, the bank has approved over 5,000 applications with a total loan amount of more than HK$14.2 billion and with market shares in the SME Loan and Special Loan schemes of 33.3 per cent and 15.2 per cent respectively.

CMB customers continued to switch to online and automated banking channels. In December, CMB enhanced its Business e-Banking proposition with the launch of online investment fund trading services. At 31 December 2009, over 77,000 customers had registered for the bank's Business e-Banking service, up 19.0 per cent compared with a year earlier. The number of online business transactions grew by 13.3 per cent. Branch counter transactions fell by 14.6 per cent compared with 2008.

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Corporate Banking ('CIB') capitalised on its in-depth understanding of the market and its customers to support funding needs in a tight credit market, particularly in early 2009. As the economic environment stabilised, more lenders returned to the market, leading to keener competition for loans business. Despite this, CIB managed to maintain good loan asset portfolios – priced in line with conditions in the credit market – both in Hong Kong and on the Mainland, resulting in a 41.5 per cent increase in loan interest income compared with 2008 despite a 5.6 per cent decline in the total loan balance.

Competition for deposits business remained intense throughout the year. In the low interest rate environment, CIB recorded a 40.8 per cent drop in its time deposits balance. However, due to strong customer service relationships and CIB's customer profile, current and savings account deposits increased. The total deposit balance at end of 2009 was down 9.4 per cent compared with a year earlier. Deposit net interest income declined by 36.4 per cent.

Net operating income before loan impairment charges was HK$1,311 million – a year-on-year increase of 15.3 per cent. With the improved loan assets portfolio, loan impairment charges for both Hong Kong and mainland loan books were lower than in 2008. Net operating income after loan impairment charges was up 31.7 per cent at HK$1,233 million.

Treasury ('TRY') reported relatively stable operating income in 2009, recording a drop of 3.0 per cent. The favourable interest rate environment and ample liquidity in the market enabled TRY to maintain the cost of funds at a relatively low level during the year. However, the low interest rates also limited the yields that could be generated from fund deployment and balance sheet management investments. Net interest income was HK$2,162 million, down 19.4 per cent compared to 2008.

Net trading income increased substantially by HK$413 million, or 64.4 per cent, to reach HK$1,054 million, mainly attributable to a HK$462 million net increase in funding swapW income (described below). For income from sales and trading other than from funding swaps, TRY maintained business momentum by strengthening sales of foreign exchange-linked products to offset weak customer appetite for more sophisticated equity-linked and interest rate-linked structured products.

TRY maintained a prudent risk management strategy, with investment focused mainly on high-quality debt securities, particularly government-guaranteed papers and high-quality corporate securities. The credit quality of the balance sheet management portfolio improved significantly during the year, resulting in a HK$1,373 million reduction in credit risk provisions compared with 2008. This underpinned the increase of 66.8 per cent, or HK$1,275 million, in net operating income after credit risk provisions.

TRY captured opportunities in the market during the year to dispose of selected securities to achieve an improved mix of investments in the balance sheet management portfolio. While this action was in line with the bank's prudent risk management strategy, the accompanying disposal loss of HK$152 million partly offset growth in net operating income. Profit before tax was up 48.9 per cent at HK$3,393 million, representing 21.9 per cent of the bank's total profit before tax.

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

Mainland business

Hang Seng Bank (China) Limited (‘Hang Seng China’) opened three new outlets on the Mainland in 2009. Including a cross-city sub-branch that opened in Guangdong province under CEPA VI in January 2010, Hang Seng China now operates a network of 37 outlets in Beijing, Shanghai, Guangzhou, Dongguan, Shenzhen, Fuzhou, Nanjing, Hangzhou, Ningbo, Tianjin, Kunming, and Foshan. The bank has a branch in Shenzhen for foreign currency wholesale business and a representative office in Xiamen.

Despite the mainland economy displaying good resilience against the effects of the global financial crisis, the economic outlook – particularly in the first half of the year – remained uncertain. Against the backdrop of a large-scale stimulus package implemented in 2009, Hang Seng China recorded notable loan growth in the second half of the year. At 31 December 2009, lending was up 5.2 per cent compared with a year earlier. With the further development of wealth management business and Commercial Banking’s growing service capabilities, Hang Seng China’s customer base recorded solid growth of 18.3 per cent when compared with the end of 2008, including a 25.2 per cent increase in the total number of Prestige Banking customers. These increases helped underpin a 35.9 per cent rise in the deposit base. Total operating income increased by 3.9 per cent, benefiting from the 1.3 per cent growth in net interest income. Reduced exchange losses from the revaluation of US dollar capital funds against the renminbi were partly offset by the reduction in other operating income during the year.

Hang Seng China continued to further enrich and diversify its product offerings to cater for different market conditions and to promote wealth management awareness among target customer segments. Hang Seng China has also signed an agreement with China Export and Credit Insurance Corporation (SINOSURE) that will enhance its cross-border service proposition for commercial customers.

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

The bank remains firmly committed to developing its mainland business, through both Hang Seng China and long-term relationships with mainland partners. The bank’s strategic alliance with Industrial Bank Co., Ltd. (‘Industrial Bank’) reached its fifth anniversary in April 2009 and continues to yield good results. Including the bank’s share of profit from Industrial Bank and Yantai Bank Co., Ltd. (‘Yantai Bank’), mainland business contributed 13.3 per cent of total profit before tax, compared with 11.9 per cent in 2008.

Consolidated Income Statement

Figures in HK$m	Year ended 31 December 2009	2008
Interest income	16,390	26,172
Interest expense	(2,367)	(9,940)
Net interest income	14,023	16,232
Fee income	5,190	5,704
Fee expense	(869)	(735)
Net fee income	4,321	4,969
Trading income	1,923	1,455
Net loss from financial instruments designated at fair value	(75)	(1,031)
Dividend income	16	82
Net earned insurance premiums	11,519	12,351
Other operating income	1,089	701
Total operating income	32,816	34,759
Net insurance claims incurred and movement in policyholders' liabilities	(12,004)	(11,463)
Net operating income before loan impairment charges and other credit risk provisions	20,812	23,296
Loan impairment charges and other credit risk provisions	(812)	(2,776)
Net operating income	20,000	20,520
Employee compensation and benefits	(3,378)	(3,452)
General and administrative expenses	(2,748)	(2,851)
Depreciation of premises, plant and equipment	(466)	(432)
Amortisation of intangible assets	(84)	(60)
Total operating expenses	(6,676)	(6,795)
Operating profit	13,324	13,725
Gains less losses from financial investments and fixed assets	186	267
Net surplus on property revaluation	219	79
Share of profits from associates	1,748	1,807
Profit before tax	15,477	15,878
Tax expense	(2,256)	(1,779)
Profit for the year	13,221	14,099
Profit attributable to shareholders	13,221	14,099
Earnings per share (in HK$)	6.92	7.37

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).

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

Figures in HK$m	2009	2008
Interest income	15,950	25,599
Interest expense	(1,813)	(8,366)
Net interest income	14,137	17,233
Net interest income and expense reported as 'Net trading income'	(234)	(1,211)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	120	210

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Consolidated Statement of Comprehensive Income

Figures in HK$m	Year ended 31 December 2009	2008
Profit for the year	13,221	14,099
Other comprehensive income		
Premises:		
- unrealised surplus on revaluation of premises	700	171
- deferred taxes	(72)	(24)
Available-for-sale investments reserve:		
- fair value changes taken to/(from) equity:		
-- on debt securities	3,908	(3,627)
-- on equity shares	80	(1,937)
- fair value changes transferred from/(to) income statement:		
-- on impairment	4	555
-- on hedged items	81	(496)
-- on disposal	(9)	(563)
- share of changes in equity of associates		
-- fair value changes	(26)	(63)
- deferred taxes	(472)	417
Cash flow hedging reserve:		
- fair value changes taken to equity	407	870
- fair value changes transferred to income statement	(864)	(376)
- deferred taxes	69	(76)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	1,877	(3,016)
- deferred taxes	(309)	497
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	3	622
- others	10	5
Effect of decrease in tax rate on deferred tax balance at 1 January 2008	—	30
Other comprehensive income for the year, net of tax	5,387	(7,011)
Total comprehensive income for the year	18,608	7,088
Total comprehensive income for the year attributable to shareholders	18,608	7,088

Consolidated Statement of Financial Position

Figures in HK$m	At 31 December 2009	At 31 December 2008
Assets		
Cash and balances with banks and		
other financial institutions	22,086	24,822
Placings with and advances to banks and		
other financial institutions	104,551	69,579
Trading assets	66,597	108,389
Financial assets designated at fair value	5,450	7,798
Derivative financial instruments	5,050	7,104
Advances to customers	344,621	329,121
Financial investments	241,502	181,159
Investments in associates	10,226	8,870
Investment properties	2,872	2,593
Premises, plant and equipment	7,178	7,090
Interest in leasehold land held for own use		
under operating lease	536	551
Intangible assets	4,214	3,385
Other assets	11,069	11,506
Deferred tax assets	16	201
Total assets	825,968	762,168
LIABILITIES AND EQUITY		
Liabilities		
Current, savings and other deposit accounts	636,369	562,183
Deposits from banks	4,870	11,556
Trading liabilities	38,391	48,282
Financial liabilities designated at fair value	1,456	1,407
Derivative financial instruments	4,251	14,945
Certificates of deposit and other		
debt securities in issue	1,826	2,772
Other liabilities	15,285	15,448
Liabilities to customers under insurance contracts	54,240	43,835
Current tax liabilities	52	94
Deferred tax liabilities	1,684	711
Subordinated liabilities	9,320	9,309
Total liabilities	767,744	710,542
Equity		
Share capital	9,559	9,559
Retained profits	37,719	32,518
Other reserves	7,313	3,813
Proposed dividends	3,633	5,736

Shareholders’ funds	58,224	51,626
Total equity and liabilities	825,968	762,168

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Consolidated Statement of Changes in Equity

Figures in HK$m	Year ended 31 December 2009	2008
Share capital		
At beginning and end of year	9,559	9,559
Retained profits (including proposed dividends)		
At beginning of year	38,254	38,609
Dividends to shareholders		
- Dividends approved in respect of the previous year	(5,736)	(5,736)
- Dividends declared in respect of the current year	(6,309)	(6,309)
Transfer	345	121
Total comprehensive income for the year	14,798	11,569
	41,352	38,254
Other reserves		
Premises revaluation reserve		
At beginning of year	3,711	3,639
Transfer	(345)	(121)
Total comprehensive income for the year	628	193
	3,994	3,711
Available–for–sale investment reserve		
At beginning of year	(3,823)	1,892
Total comprehensive income for the year	3,566	(5,715)
	(257)	(3,823)
Cash flow hedging reserve		
At beginning of year	562	144
Total comprehensive income for the year	(388)	418
	174	562
Foreign exchange reserve		
At beginning of year	1,379	757
Total comprehensive income for the year	3	622
	1,382	1,379

Figures in HK$m	Year ended 31 December 2009	2008
Other reserve		
At beginning of year	1,984	1,856
Cost of share-based payment arrangements	35	127
Total comprehensive income for the year	1	1
	2,020	1,984
Total equity		
At beginning of year	51,626	56,456
Dividends to shareholders	(12,045)	(12,045)
Cost of share-based payment arrangements	35	127
Total comprehensive income for the year	18,608	7,088
	58,224	51,626

Consolidated Cash Flow Statement

Figures in HK$m	Year ended 31 December 2009	2008
Net cash inflow/(outflow) from operating activities	65,815	(86,830)
Cash flows from investing activities		
Dividends received from associates	380	287
Purchase of an interest in an associate	(3)	(909)
Purchase of available-for-sale investments	(49,642)	(79,103)
Purchase of held-to-maturity debt securities	(513)	(198)
Proceeds from sale or redemption of available-for-sale investments	48,615	136,534
Proceeds from redemption of held-to-maturity debt securities	182	123
Purchase of fixed assets and intangible assets	(312)	(666)
Proceeds from sale of fixed assets and assets held for sale	443	272
Interest received from available-for-sale investments	4,429	8,188
Dividends received from available-for-sale investments	13	80
Net cash inflow from investing activities	3,592	64,608
Cash flows from financing activities		
Dividends paid	(12,045)	(12,045)
Interest paid for subordinated liabilities	(126)	(396)
Net cash outflow from financing activities	(12,171)	(12,441)
Increase/(decrease) in cash and cash equivalents	57,236	(34,663)
Cash and cash equivalents at 1 January	76,116	113,474
Effect of foreign exchange rate changes	3,407	(2,695)
Cash and cash equivalents at 31 December	136,759	76,116

Financial Review

Net interest income

Figures in HK$m	2009	2008
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	14,151	17,277
- trading assets and liabilities	(234)	(1,211)
- financial instruments designated at fair value	106	166
	14,023	16,232
Average interest-earning assets	736,953	688,252
Net interest spread	1.84%	2.15%
Net interest margin	1.90%	2.36%

Net interest income fell by HK$2,209 million, or 13.6 per cent, due mainly to the adverse impact of the low interest rate environment. While average interest-earning assets increased by HK$48.7 billion, or 7.1 per cent, funds were deployed into high quality but low yield liquid assets to reduce risk. Net interest income was also affected by the repricing of assets due to the decline in interest rates.

Net interest margin decreased by 46 basis points to 1.90 per cent compared with 2008. Net interest spread declined by 31 basis points to 1.84 per cent, attributable mainly to compressed deposit margins in the low interest rate environment which offered little room for the reduction of interest rates paid to customers. Treasury balance sheet management income was also affected by the repricing of assets as interest rates fell. Volume growth was noted in the average balance of mortgage lending, offsetting the effect of tighter spreads on mortgages in an intensely competitive market. The increase in the higher-yielding credit card business also helped support net interest income revenue streams. The group has grown its life insurance business and changed the mix of the assets held in the life insurance funds investment portfolio to held-to-maturity securities, increasing its contribution to interest income by 38.1 per cent compared with 2008.

The contribution from net free funds dropped by 15 basis points to 0.06 per cent as a consequence of the low interest rate environment.

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	2009	2008
Net interest income	14,137	17,233
Average interest-earning assets	670,321	664,750
Net interest spread	2.06%	2.34%
Net interest margin	2.11%	2.59%

Net fee income

Figures in HK$m	2009	2008
- Stockbroking and related services	1,566	1,359
- Retail investment funds	604	1,084
- Structured investment products	28	341
- Insurance	190	98
- Account services	291	282
- Private banking service fee	129	234
- Remittances	217	212
- Cards	1,413	1,304
- Credit facilities	135	132
- Trade services	379	409
- Other	238	249
Fee income	5,190	5,704
Fee expense	(869)	(735)
	4,321	4,969

Net fee income fell by HK$648 million, or 13.0 per cent, to HK$4,321 million, compared with 2008.

Although the economic environment began to improve in the second half of 2009, investor demand for retail investment funds and structured investment products remained weak, resulting in declines in income of 44.3 per cent and 91.8 per cent respectively. Income from stockbroking and related services registered encouraging growth of 15.2 per cent on the back of the 25.7 per cent increase in stock trading turnover – a significant outperformance of the Hong Kong stock market. Private banking services fee income fell, reflecting reduced customer appetite for trading and structured investment products.

Card services income was 8.4 per cent higher than in 2008 and was broadly in line with the growth in average card balances. The bank's effective customer loyalty scheme and card utilisation promotions helped drive up Hang Seng card spending in 2009 to outperform the shrinking market. The increase in card income was also supported by year-on-year increases of 6.5 per cent in the number of cards in circulation and 9.1 per cent in cardholder spending.

Insurance fee income rose by 93.9 per cent, mainly contributed by strong sales of the HSBC Jade Global Universal Life product.

Compared with the first half of 2009, net fee income grew by HK$469 million, or 24.4 per cent, in the second half, partly reflecting increased demand for wealth management products coupled with renewed activity in the stock market. Higher income was recorded from retail investment funds with the timely launch of a China Index-linked fund and a global high-yield bond fund. Income from stockbroking and related services benefitted from the rebound in the stock market and increased IPO activity. Income from card services, private banking and trade services also registered solid growth in the second half of 2009 as compared to the first half.

Trading income

Figures in HK$m	2009	2008
Trading income:		
- foreign exchange	1,792	1,384
- securities, derivatives and other trading activities	131	71
	1,923	1,455

Trading income rose significantly by HK$468 million, or 32.2 per cent, to HK$1,923 million. Foreign exchange income increased by 29.5 per cent, mainly due to the combined effect of the favourable increase in net interest income from funding swapsW and the reduction in exchange losses on Hang Seng China's US dollar capital funds upon revaluation against the renminbi. Normal foreign exchange trading, however, fell by 14.2 per cent.

Income from securities, derivatives and other trading activities increased by HK$60 million, or 84.5 per cent. This was the net result of the improvement in securities trading activities and the decreased customer appetite for equity-linked structured products.

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 HKAS39, the exchange difference of the spot and forward contracts is required to be recognised as foreign exchange gain/loss, while the corresponding interest differential between the original and swap funding is reflected in net interest income.

Net loss from financial instruments designated at fair value

Figures in HK$m	2009	2008
Net loss on assets designated at fair value which back insurance and investment contracts	(54)	(1,045)
Net change in fair value of other financial instruments designated at fair value	(21)	14
	(75)	(1,031)

Net loss from financial instruments designated at fair value improved by HK$956 million, or 92.7 per cent, to HK$75 million, when compared with 2008, reflecting the improved financial markets in 2009 and the switching of the equity component of the investment assets of the life insurance funds investment portfolio for high-quality debt securities in the second half of 2008.

Other operating income

Figures in HK$m	2009	2008
Rental income from investment properties	149	138
Movement in present value of in-force long-term insurance business	760	382
Other	180	181
	1,089	701

Analysis of income from wealth management business

Figures in HK$m	2009	2008
Investment income:		
- retail investment funds	604	1,084
- structured investment productsW	473	882
- private banking service feeWW	158	248
- stockbroking and related services	1,566	1,359
- margin trading and others	141	119
	2,942	3,692
Insurance income:		
- life insurance	2,070	1,383
- general insurance and others	337	314
	2,407	1,697
Total	5,349	5,389

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.

Wealth management business income was broadly in line with 2008, falling by HK$40 million, or 0.7 per cent. The investment climate in 2009 remained weak, although there was an upturn in demand for wealth management products during the second half of the year. To cater for changing customer demands in uncertain financial markets, the group rapidly shifted its focus to personal insurance protection and lower-risk investment products. This resulted in an encouraging growth of 41.8 per cent in insurance income which partly offset the 20.3 per cent decline in investment income.

Income from retail investment funds and structured products was adversely affected by the unfavourable investment climate and equity markets volatility that took hold in the second half of 2008. However, as economic conditions stabilised during 2009, effective actions to support improving investor sentiment led to a solid increase in investment income in the second half of the year compared with the first half. The bank capitalised on opportunities to promote yield-enhancing investment products in the context of the low interest rate environment. The launch of the Hang Seng China Index Linked Fund and Hang Seng Global Financial Sector Bond Fund boosted investment funds sales during the second half but this only partly offset the overall decline in demand for investment funds, with investment funds turnover and income 41.0 per cent and 44.3 per cent respectively for the year. Structured investment products income declined by 46.4 per cent.

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Income from stockbroking and related services rose by 15.2 per cent on the back of the bank's efforts to grow its market share to capitalise on the stock market rebound in the second half of 2009. The bank captured additional sales opportunities by offering professional and convenient trading services to customers via its new Securities Select Customer Trading Centre. These efforts helped increase year-on-year securities turnover by 25.7 per cent.

Private Banking service fee income was lower than in 2008, affected by the weak investment sentiment and lower volume of customer transactions. The bank expanded its business by strengthening its relationship management team, enhancing investment services support and implementing a variety of wealth management initiatives that will ensure it can take better advantage of medium and long-term business opportunities.

To meet customers' increased focus on wealth preservation in the changing economic conditions, the group diversified its insurance product range and introduced new plans with improved protection propositions. In the intensely competitive operating environment, the group recorded an increase in renewal business but new business declined, with net earned life insurance premiums down by 6.9 per cent. With the bank having shifted the portfolio mix away from equities to debt securities in the second half of 2008, the investment returns improved from an investment loss of HK$1,065 million in 2008 to an investment gain of HK$17 million in 2009. Net interest income and fee income from the life insurance funds investment portfolio rose by 43.7 per cent, contributed by the growth in the life insurance funds investment portfolio and asset reallocation. The increase more than offset the rise in net insurance claims incurred and movement in policyholders' liabilities.

General insurance income increased by 7.3 per cent to HK$337 million.

Figures in HK$m	2009	2008
Life insurance:		
- net interest income and fee income	2,012	1,400
- investment returns on life insurance funds	17	(1,065)
- net earned insurance premiums	11,193	12,023
- net insurance claims incurred and movement in policyholders' liabilitiesW	(11,912)	(11,357)
- movement in present value of in-force long-term insurance business	760	382
	2,070	1,383
General insurance and others	337	314
Total	2,407	1,697

W Including premium and investment reserves

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Loan impairment charges and other credit risk provisions

Figures in HK$m	2009	2008
Loan impairment charges:		
- individually assessed	(310)	(925)
- collectively assessed		