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Good afternoon, ladies and gentlemen. I am delighted to have the opportunity to speak with you today on Hang Seng Bank's business strategy and financial performance.

Before we start, please note the cautionary words on forward-looking statements on the screen. All figures in this presentation are in Hong Kong dollars unless otherwise stated.

Let's look at the macro environment and the challenges and opportunities we are facing. Global economic prospects continue to remain uncertain, especially for many advanced economies, notably the US credit downgrade and the EU sovereign debt problem, leading to high unemployment rate and weak domestic demand.

This has resulted in reduced exports from mainland China and Hong Kong. Overall GDP growth for both places is forecast to decelerate from last year. Inflation in the region has been surging, and is likely to remain a major concern in the coming months as both imported and domestically-generated price pressures continue to mount. Persistent capital inflow to the Mainland from trade surplus and investment and the continuous growth in national reserves will put further upward pressure on the RMB exchange rate. However, income and employment growth remain steady and domestic demand is expected to remain strong.

Hong Kong's growth potential will rise under the Mainland's 12th Five-year Plan and the measures announced by Vice Premier Li Keqiang in mid-July this year. With the support of the Central Government, Hong Kong's development as an offshore RMB centre is set to speed up. This will create a win-win situation helping to accelerate the pace of the internationalisation of the RMB and consolidate Hong Kong's position as an international financial centre.

With the new measures, Hong Kong will benefit from the further opening of the China market, Hong Kong institutions can invest more resources in developing services on the Mainland, and Hong Kong institutions will be the preferred partners for Mainland institutions wishing to expand overseas. The uprising of the middle-income group on the Mainland will also mean more demand on wealth management products and services.

Now, let us go through Hang Seng's performance in the first half of 2011. During the financial period, Hong Kong banks came under pressure as net interest margins narrowed amid intense competition and low interest rates. Hang Seng enhanced its performance by shifting resources towards business where returns are commensurate with the risks.

By building on our comprehensive wealth management capabilities, our position as a preferred partner for trade-related services and our leadership in renminbi businesses, we grew both net interest income, and net fees and commissions. Our efforts to develop and diversify our business continued to yield good results. Moreover, with our prudent financial policy, we were able to improve asset quality and keep the impaired loan ratio low.

In the first half, operating profit excluding loan impairment charges rose by 6.4% to $7,287 million over the same period last year. The increase was driven by the growth in net interest income, partly offset by the increase in operating expenses.

Operating profit, at $7,129 million, grew by 6.5% from the first half of last year.

Profit before tax was $9,320 million — up 15% from the first half of 2010.

Profit attributable to shareholders rose to $8,057 million, an increase of 15.7% compared with the same period last year.

The Bank's continued investments to support business growth, capture business opportunities and increase employee compensation saw an 11% rise in operating expenses to $3,888 million from the first half of 2010. Compared with the second half of last year, operating expenses were broadly unchanged. Our cost efficiency ratio was 34.6%, compared with 33.8% for the first half of last year.

Earnings per share increased to $4.21, up 15.7% compared with the first half last year.

The total distribution of dividend for the first half of 2011 was $2.20 per share – the same as in the first half of last year.

The return on average shareholders' funds was 22.7%, compared with 22.8% for the same period last year. The return on average total assets was maintained at 1.7%.

Total assets increased by 6.1% to $973.2 billion as we continued to grow customer advances prudently.

At 30 June 2011, our capital adequacy ratio was 13.8%, compared with 13.6% at the last year-end. The core capital ratio stood at 11%, slightly above the 10.8% at the end of last year.

Net interest income rose by 13.8% to $7,637 million compared with the same period last year, driven by the growth in average balances of trade finance, and corporate and personal lending. Average interest-earning assets were at $878.5 billion, an increase of 14.6%.

The net interest margin for the first half of 2011 was 1.75%, down 2 basis points compared with the same period last year. The figure was partly affected by the narrowed deposit spread and the dilutive effect of the increase in lower yielding renminbi funds placed with the local clearing bank.

Net fees and commissions increased across most core businesses and grew by 7% to $2,536 million. We continued to build on our wealth management strengths. Income from sales of retail investment funds increased by 12.2% in the first half of 2011. Stockbroking and related services income rose by 3.4%. Fee income from private banking grew by 25.4%. Fee income from our credit card business increased by 6.7%. By leveraging global trade demand, our income from trade financing and remittance services recorded solid growth of 21.5% and 8.2% respectively.

Trading income rose by 4.6% to $931 million compared with the first half of last year.

Net operating income before loan impairment charges grew by 8.7% to $11,253 million. Loan impairment charges rose by $5 million year-on-year to $158 million. Reflecting our good credit risk management, total loan impairment allowances as a percentage of gross advances improved by 6 basis points to 0.33% at 30 June 2011.

Gross advances continued to grow prudently, by 6.5%, to $505.3 billion compared with the end of last year as we increased our focus on trade finance and lending on the Mainland.

Loans for use in Hong Kong rose by 0.5% to $350.4 billion, with lending to the industrial, commercial and financial sectors growing by 3.8%.

Lending to individuals decreased by 3.5% from the last year-end. Residential mortgage lending to individuals declined by 5.8% as a result of the Bank’s move towards prime-based mortgage lending and government measures to cool the property market. Credit card advances grew by 4%.

Trade finance lending rose by 26%. The Bank was an active participant in Hong Kong government-organised schemes to support SMEs.

Loans for use outside Hong Kong rose by 19.9% compared with the end of 2010, driven partly by lending by Hang Seng China.

Deposits, including certificates of deposit and other debt securities in issue, rose by 4.3% from the end of last year to $740.8 billion at 30 June this year.

Let me elaborate on the performance of our key business segments, i.e. Retail Banking & Wealth Management, Commercial Banking, Corporate Banking and Treasury.

Retail Banking and Wealth Management achieved sales growth in various business areas despite the challenging operating environment. It reported profit before tax of $3,457 million in the first half of 2011.

Although top line business momentum sustained good performance, operating income excluding loan impairment charges declined by 3.5% year-on-year to $6,062 million. This was due to the higher cost of deposits, the holding back of growth of mortgage loans and the lower investment return of the life insurance portfolio.

In the strongly competitive environment, Hang Seng had to offer high interest rates to maintain customer relationships. The impact on our deposit income saw net interest income from deposits drop by 17.1% compared with the same period last year.

Total operating income from unsecured lending was up 10% year-on-year, benefiting from a high quality credit card customer base and targeted marketing campaigns. The increase in card income was supported by a year-on-year increase of 14.7% in the number of cards in circulation to 2.19 million and a 17.5% rise in card spending to $38 billion. Compared with the end of last year, card receivables grew by 4% to $16.4 billion.

Despite intense market competition, our mortgage business remained third in the market in terms of new mortgage registrations for the first half of this year. As the pricing of HIBOR-based mortgages fell to unprecedented low levels, we switched our focus to prime-based lending. Income from secured lending recorded a year-on-year decline as a result.

Net fee income and trading income grew by 12.3% and 4.8% respectively year-on-year. In particular, investment businesses remained a strong income driver and investment fund subscriptions grew by 30.8% to reach $21 billion. Given our all-weather strategy, strong sales momentum was maintained even when market uncertainties emerged. Funds under management, including private banking, rose by 5% from the end of last year and exceeded $160 billion for the first time.

With efficient distribution channels and timely promotion offers, life insurance registered good sales results in the first half of 2011. Annualised new premiums grew by 24% compared with the same period last year. Total policies in force achieved year-on-year growth of 8%. However, due to lower investment returns, insurance income declined 9% year-on-year.

Commercial Banking delivered a 34% increase in profit before tax, reaching $2,389 million.

Operating profit excluding loan impairment charges grew by 30.8% to $1,631 million.

This respectable growth resulted from our focus on account acquisition, further enhancement of our cross-border services, and provision of competitive corporate wealth management products to customers to meet their needs.

In line with the increase in the loan portfolio both in Hong Kong and the Mainland, net interest income from advances increased by 50.4%.

Non-interest income increased by 11.5%. We achieved healthy growth in deposits of 10.1% compared with the end of last year.

The Bank has an edge in cross-border transactions. The co-operation between our Hong Kong and Mainland teams, and the alliance with several strategic partners on the Mainland, supported customers in growing their cross-border business, and the establishment of a dynamic customer referral channel.

At the end of June this year, the number of commercial renminbi accounts exceeded 65,000.

Corporate Banking posted a 61.6% growth in profit before tax to $905 million compared with the first half of last year. Operating profit excluding loan impairment charges was up 54.5% at $859 million. This strong profit growth was mainly attributable to an increase in net interest income arising from an increase in the loan portfolio.

Corporate Banking sought to diversify its customer advances portfolio. Against a backdrop of tightening market liquidity, it leveraged its strong industry knowledge, effective risk management and dedicated business teams in Hong Kong and on the Mainland, to achieve selective growth of 7.9% in customer advances from the end of last year.

By offering total solutions to customers and capitalising on the Bank’s efficient cross-border relationship management system, its deposits grew by 26.8% despite fierce competition.

Treasury registered an increase in profit before tax of 31% to $1,873 million compared with the same period last year. The strong performance is the result of net interest income growth and an increase in its share of profits from associates, which offset decreases in trading income and disposal gains. Operating profit rose by 38.5% to $1,284 million.

Global interest rates remained at low levels and yield curves were relatively flat in the first half of 2011. Nevertheless, net interest income still increased by 69.5% to $1,032 million, mainly due to our strategy of actively managing our balance sheet.

Foreign exchange as well as securities and derivatives trading achieved strong growth, boosted largely by rising demand for renminbi products. Due to a decline in income from funding swaps, however, trading income decreased by 15% to $430 million.

On the Mainland, Hang Seng China’s profit before tax recorded growth of 160.1% compared with the first half of last year, driven by strong revenue growth.

In the very challenging market, Hang Seng China increased its deposit base, acquired new customers, widened the loan margin and boosted other operating income. Advances rose by 10.5% to $40.2 billion from the end of last year. With solid growth in the customer base, total deposits increased by 20.5% compared with the last year-end.

The number of personal customers jumped by 22.2% year-on-year. Targeting customers with cross-border renminbi business and trade services needs, the number of corporate customers also grew by 13.3% year-on-year.

Total operating income rose by 43.9% over the same period last year, supported by the increase in both net interest income and other operating income.

Our strategic alliance with Industrial Bank continued to support the Bank's long-term growth on the Mainland. Our share of profit from associates grew by 49.6% to $1,771 million, mainly from Industrial Bank.

In March, the Bank signed a memorandum of understanding with Industrial Bank to further strengthen bilateral cooperation.

In May, Hang Seng China moved into its new headquarters located in Shanghai's Lujiazui financial district, which we acquired last year. This important milestone demonstrates our long-term commitment to our business and our customers on the Mainland.

At the end of last month, we opened a cross-city sub-branch in Huizhou, Guangdong. The Bank will also establish a branch in Xiamen.

Looking ahead, Hang Seng Bank will continue to build on its competitive strengths which include:

1. A trusted brand
2. A loyal customer base
3. Leading position in key market segments
4. Excellent cross-border market knowledge and time-to-market capabilities
5. Strong cost control capability
6. Strong capital position

We seek to ensure the high quality of our assets and enhance relationships with our loyal customer base. Growing our fee income will also remain important.

We will continue to enhance cost-efficiency through re-engineering, resource optimisation and further developing our technology platform while investing for future growth.

For the 11th year, Hang Seng has been named the "Best Domestic Bank in Hong Kong" by *The Asset*. We aim at upholding this leadership position and maintaining our excellent service standard. In our retail banking business, we will continue to expand our wealth management services and private banking. We will also strengthen our presence in the SME segment.

In light of Hong Kong's intense competition and mature marketplace, the Bank is building on its presence on the Mainland to support growth. As Hong Kong strengthens its role as the major offshore RMB centre, we will seek to capture more personal and corporate customers by further expanding our range of renminbi products and services both on the Mainland and Hong Kong.

We will continue to enhance our cross-border services that provide a valuable source of referral business.

Our service quality will never be compromised as we work towards our goal of becoming the leading personal and private bank for affluent and middle-class customers in Hong Kong and on the Mainland, and the leading trade bank in Greater China.

Thank you.