HSBC HOLDINGS PLC
Form 6-K
February 27, 2012

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 X Form 40-F ......

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Yes....... No X

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

27 February 2012

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
2011 CONSOLIDATED RESULTS - HIGHLIGHTS

· Net operating income before loan impairment charges and other credit risk provisions up 12% to HK$147,170m (HK$131,566m in 2010).

· Pre-tax profit up 17% to HK$91,370m (HK$77,885m in 2010).

· Attributable profit up 17% to HK$67,591m (HK$57,597m in 2010).

· Return on average shareholders' equity of 21.6% (21.1% in 2010).

· Assets up 11% to HK$5,607bn (HK$5,040bn at 31 December 2010).

· Capital adequacy ratio of 14.6%; core capital ratio of 12.4%. (Capital adequacy ratio of 14.7%; core capital ratio of 11.7% at 31 December 2010).

· Cost efficiency ratio of 46.1% (45.8% for 2010).

Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

Comment by Stuart Gulliver, Chairman

In an environment of increasing concern over sovereign debt and the health of Western economies, particularly those in Europe, growth in Asia slowed during 2011 and is likely to dip further in the first half of 2012. Trade activity and domestic demand have both suffered, impacting investment and consumer spending. China, the region's largest economy, is shifting from monetary tightening to easing, but here as in India, inflationary pressures remain. Despite these headwinds, Asia's economies are nevertheless likely to continue to expand, generating attractive opportunities for us to grow our business, increase market share and deepen customer relationships.

Against the challenging backdrop of 2011, The Hongkong and Shanghai Banking Corporation Limited delivered a robust and broadly based performance. Profit before tax for the year was a record HK$91,370m, 17% higher than in 2010. Hong Kong maintained a high level of profitability, while growth was particularly strong in the Rest of Asia-Pacific. The contribution to profits from outside Hong Kong increased during the year to 53% from 46%, reflecting our investment in the region, particularly in mainland China and India, and also in our other key target markets of Singapore, Malaysia, Indonesia and Australia.

During 2011 we delivered on our strategy to grow high quality lending and non-interest income, and increase international cross-sell activity across our businesses and in a broad range of products and services. These included in particular trade, payments and cash management, foreign exchange and wealth management. Customer loans grew by 13% during the year, although the pace of growth slowed in the second half following significant growth in 2010 and the first half of 2011, as customer demand reduced particularly in Hong Kong. Deposits grew by 8% and, at the year-end, the loans to deposits ratio stood at 60%.

In competitive markets for both loans and deposits, margins remained stable during the year. We maintained tight control of operating expenses while continuing to invest for future growth, and the cost efficiency ratio was relatively unchanged at 46.1%. We continued to focus on maintaining strong asset quality, and growth in risk weighted assets at 4% was lower than that of loans. The loan impairment charge was lower than in 2010, assisted by releases and recoveries. Recent moves to reduce exposures to unsecured personal lending, grow mortgages and further improve the credit grade of our corporate loan books position our loan portfolio strongly for the coming year.

During 2011 the internationalisation of the renminbi ('RMB') continued to develop and HSBC further consolidated its position as a leader in the provision of RMB denominated products and services. We maintained our dominant market share as book-runner of offshore RMB bonds during the period, and were joint lead arranger for the first offshore RMB equity IPO. We led the market in RMB-related securities services, with the Chinese government's retail offshore RMB bond issue, the largest to date. Our RMB trade settlement capability continued to expand and now covers 58 countries. As Hong Kong continues to play a leading role in the development of RMB denominated products, and becomes a key offshore centre for the currency, we aim to consolidate our position as the international bank best-placed to meet our customers' needs.

In Retail Banking and Wealth Management ('RBWM'), profits increased by 11%, driven by good revenue growth, particularly from increased sales of wealth management products. While we continued to expand our sales capacity through adding relationship managers, costs were well contained. Loan impairments fell, due mainly to the reduction of unsecured lending portfolios in India. With growth in lending across the region principally focused on residential mortgages, the book is well positioned for the coming year. In Hong Kong, while market conditions remained competitive, we maintained our number one positions in Deposits, Mortgages, Cards, Life Insurance and Unit Trusts. In the Rest of Asia-Pacific, our strategy of improving efficiency and growing lending and wealth business delivered strong results, and profits grew by 94%, with notably strong performances by India and mainland China, where we continued to broaden our product range. In line with our strategy, we announced the sale of our private banking business in Japan in December and, since the year-end, the sale of our RBWM business in Thailand and discontinuation of Premier in Japan.

Commercial Banking ('CMB') continued to experience strong and sustained business momentum during the year, and profits increased by 33%, driven by healthy growth in assets and non-interest income, both in Hong Kong and the Rest of Asia Pacific. Trade revenues grew strongly as we continued to focus on cross-border and cross-sell activity. Revenues also benefited from increased collaboration with Global Banking and Markets ('GB&M') with a significant increase in GB&M products sold to CMB customers. Loans and advances to customers increased by 17%, while non-interest income was 14% above the previous year. Our focus remained on supporting our customers in growing their businesses, particularly through financing their international trade, payments, foreign exchange and cash management and providing advisory services. We also selectively attracted new customers around the region. Revenue growth exceeded that of costs, despite inflationary pressures and increased headcount, and the cost income ratio improved by 2.1% to 37.7%. Loan impairment charges increased from a very low base, but remained low as a percentage of customer loans, and we maintained our cautious stance on asset quality.

Global Banking and Markets delivered a robust business performance, and profits increased by 17%. Loan growth remained strong as we continued to support our customers' financing needs, and there were good performances in Foreign Exchange, Equities and Fixed Income, which led to increased trading revenues. Our global products, geographical spread and ability to provide a comprehensive service to our clients proved advantageous during the year. We maintained a strong focus on asset quality, and loan impairment charges remained very low. The positive results of recent investments were evident in a number of significant league table gains, in particular Equities, in which our AsiaMoney ranking rose from 12th to 5th overall. During the year we maintained our number one market position for Asia-Pacific ex-Japan bonds, Asian local currency bonds, Hong Kong bonds and offshore renminbi bonds. We also achieved market recognition with several prestigious awards, including Euromoney's Best Flow House and Best Debt Capital Markets House in Asia, and The Banker's Investment Banking Award for Most Innovative Investment Bank for Sovereign Advisory.

The outlook for Asia's economies remains mixed in 2012, with uncertainties likely to continue concerning rates of growth in GDP and trade. Economic activity will also be influenced by developments in Europe and North America and the ability of China to sustain its economic expansion. Despite these challenges, we expect China to achieve a soft landing and growth to continue throughout the Asia region, along with still healthy international trade volumes.

HSBC enters 2012 with business momentum, albeit at slower rates, and strong capital and liquidity which will enable us to continue connecting customers to opportunities through our unrivalled network in both established and faster growing markets. We remain ideally placed to enable businesses to thrive and economies to prosper, and ultimately to help people realise their ambitions.

Results by Geographic Region

Geographical regions	Hong Kong HK$m	Rest of Asia-Pacific HK$m	Intra- segment elimination HK$m	Total HK$m
Year ended 31 December 2011				
Net interest income	35,274	40,396	2	75,672
Net fee income	22,860	15,435	-	38,295
Net trading income	7,691	12,510	(2)	20,199
Net expense from financial instruments designated at fair value	(4,230)	(293)	-	(4,523)
Gains less losses from financial investments	310	(182)	-	128
Dividend income	723	6	-	729
Net earned insurance premiums	39,738	5,932	-	45,670
Other operating income	13,229	2,674	(4,514)	11,389
Total operating income	115,595	76,478	(4,514)	187,559
Net insurance claims incurred and movement in	(35,778)	(4,611)	-	(40,389)

policyholders' liabilities				
Net operating income before loan impairment charges and other credit risk provisions	79,817	71,867	(4,514)	147,170
Loan impairment charges and other credit risk provisions	(938)	(2,121)	-	(3,059)
Net operating income	78,879	69,746	(4,514)	144,111
Operating expenses	(36,106)	(36,232)	4,514	(67,824)
Operating profit	42,773	33,514	-	76,287
Share of profit in associates and joint ventures	424	14,659	-	15,083
Profit before tax	43,197	48,173	-	91,370
Share of profit before tax	47.3%	52.7%	-	100.0%
Cost efficiency ratio	45.2%	50.4%	-	46.1%
Net loans and advances to customers	1,182,442	948,429	-	2,130,871
Total assets	3,594,991	2,429,228	(416,739)	5,607,480
Customer accounts	2,297,212	1,267,789	-	3,565,001

Geographical regions	Hong Kong HK$m	Rest of Asia-Pacific HK$m	Intra-segment elimination HK$m	Total HK$m
Year ended 31 December 2010				
Net interest income	31,736	30,123	17	61,876
Net fee income	21,080	14,203	-	35,283
Net trading income	8,699	12,034	(17)	20,716
Net income from financial instruments designated at	3,454	303	-	3,757

fair value				
Gains less losses from financial investments	937	1,079	-	2,016
Dividend income	545	19	-	564
Net earned insurance premiums	33,713	3,480	-	37,193
Other operating income	12,714	2,282	(4,992)	10,004
Total operating income	112,878	63,523	(4,992)	171,409
Net insurance claims incurred and movement in policyholders' liabilities	(37,022)	(2,821)	-	(39,843)
Net operating income before loan impairment charges and other credit risk provisions	75,856	60,702	(4,992)	131,566
Loan impairment charges and other credit risk provisions	(883)	(3,736)	-	(4,619)
Net operating income	74,973	56,966	(4,992)	126,947
Operating expenses	(33,053)	(32,183)	4,992	(60,244)
Operating profit	41,920	24,783	-	66,703
Share of profit in associates and joint ventures	270	10,912	-	11,182
Profit before tax	42,190	35,695	-	77,885
Share of profit before tax	54.2%	45.8%	-	100.0%
Cost efficiency ratio	43.6%	53.0%	-	45.8%
Net loans and advances to customers	1,056,595	834,465	-	1,891,060
Total assets	3,276,432	2,117,894	(354,408)	5,039,918
Customer accounts	2,162,796	1,150,448	-	3,313,244

Results by Geographic Global Business

Hong Kong

	Retail Banking and Wealth Management HK$m	Commercial Banking HK$m	Global Banking & Markets HK$m	Other HK$m	Intra-segment elimination HK$m	Total HK$m
Year ended 31 December 2011						
Net interest income/(expense)	20,114	10,251	8,189	(3,613)	333	35,274
Net fee income	13,551	5,501	3,693	115	-	22,860
Net trading income/(expense)	753	1,322	6,916	(965)	(335)	7,691
Net expense from financial instruments designated at fair value	(3,612)	(565)	(39)	(16)	2	(4,230)
Gains less losses from financial investments	19	78	162	51	-	310
Dividend income	1	10	118	594	-	723
Net earned insurance premiums	33,626	5,968	144	-	-	39,738
Other operating income	3,928	1,359	606	9,212	(1,876)	13,229
Total operating income	68,380	23,924	19,789	5,378	(1,876)	115,595
Net insurance claims incurred and movement in policyholders' liabilities	(30,243)	(5,429)	(106)	-	-	(35,778)

Net operating income before loan impairment charges and other credit risk provisions	38,137	18,495	19,683	5,378	(1,876)	79,817
Loan impairment (charges)/ releases and other credit risk provisions	(601)	(513)	176	-	-	(938)
Net operating income	37,536	17,982	19,859	5,378	(1,876)	78,879
Operating expenses	(14,121)	(5,540)	(9,700)	(8,621)	1,876	(36,106)
Operating profit/(loss)	23,415	12,442	10,159	(3,243)	-	42,773
Share of profit in associates and joint ventures	47	69	32	276	-	424
Profit/(loss) before tax	23,462	12,511	10,191	(2,967)	-	43,197
Share of profit before tax	25.7%	13.7%	11.2%	(3.3)%	-	47.3%
Net loans and advances to customers	437,309	427,140	308,134	9,859	-	1,182,442
Total assets	672,402	493,407	1,881,469	707,130	(159,417)	3,594,991
Customer accounts	1,408,484	615,431	274,080	(783)	-	2,297,212

Hong Kong

	Retail Banking and Wealth Management HK$m	Commercial Banking HK$m	Global Banking & Markets HK$m	Other HK$m	Intra-segment elimination HK$m	Total HK$m

Year ended 31 December 2010

Net interest income/(expense)	20,332	8,595	7,101	(3,597)	(695)	31,736
Net fee income	12,408	4,922	3,639	111	-	21,080
Net trading income/(expense)	1,089	941	5,977	(1)	693	8,699
Net income/(expense) from financial instruments designated at fair value	3,113	(74)	470	(57)	2	3,454
Gains less losses from financial investments	(5)	-	454	488	-	937
Dividend income	1	10	79	455	-	545
Net earned insurance premiums	28,409	5,171	133	-	-	33,713
Other operating income	3,978	525	1,210	8,938	(1,937)	12,714
Total operating income	69,325	20,090	19,063	6,337	(1,937)	112,878
Net insurance claims incurred and movement in policyholders' liabilities	(32,576)	(4,346)	(100)	-	-	(37,022)
Net operating income before loan impairment charges and other credit risk provisions	36,749	15,744	18,963	6,337	(1,937)	75,856
Loan impairment (charges)/ releases and other credit risk provisions	(585)	(219)	(80)	1	-	(883)
Net operating income	36,164	15,525	18,883	6,338	(1,937)	74,973
Operating expenses	(13,008)	(5,077)	(8,571)	(8,334)	1,937	(33,053)

Operating profit/(loss)	23,156	10,448	10,312	(1,996)	-	41,920
Share of profit in associates and joint ventures	43	56	26	145	-	270
Profit/(loss) before tax	23,199	10,504	10,338	(1,851)	-	42,190
Share of profit before tax	29.8%	13.5%	13.3%	(2.4)%	-	54.2%
Net loans and advances to customers	396,294	378,314	268,098	13,889	-	1,056,595
Total assets	602,973	427,763	1,734,575	576,115	(64,994)	3,276,432
Customer accounts	1,375,521	553,507	228,434	5,334	-	2,162,796

Rest of Asia-Pacific

	Retail Banking and Wealth Management HK$m	Commercial Banking HK$m	Global Banking & Markets HK$m	Global Private Banking HK$m	Other HK$m	Intra-segment elimination HK$m	Total HK$m
Year ended 31 December 2011							
Net interest income	14,312	9,757	16,835	176	831	(1,515)	40,396
Net fee income/(expense)	6,753	3,992	4,613	155	(78)	-	15,435
Net trading income/(expense)	714	1,222	9,492	58	(491)	1,515	12,510
Net income/(expense) from financial instruments designated at fair	(295)	12	7	-	(17)	-	(293)

value							
Gains less losses from financial investments	(3)	16	(190)	-	(5)	-	(182)
Dividend income	(1)	1	-	-	6	-	6
Net earned insurance premiums	3,840	2,092	-	-	-	-	5,932
Other operating income	1,121	562	511	10	955	(485)	2,674
Total operating income	26,441	17,654	31,268	399	1,201	(485)	76,478
Net insurance claims incurred and movement in policyholders' liabilities	(2,727)	(1,884)	-	-	-	-	(4,611)
Net operating income before loan impairment charges and other credit risk provisions	23,714	15,770	31,268	399	1,201	(485)	71,867
Loan impairment (charges) /releases and other credit risk provisions	(1,731)	53	(443)	2	(2)	-	(2,121)
Net operating income	21,983	15,823	30,825	401	1,199	(485)	69,746
Operating expenses	(18,504)	(7,367)	(9,594)	(470)	(782)	485	(36,232)
Operating profit/(loss)	3,479	8,456	21,231	(69)	417	-	33,514
Share of profit in associates and joint ventures	1,887	8,994	3,756	-	22	-	14,659
Profit/(loss) before tax	5,366	17,450	24,987	(69)	439	-	48,173

Share of profit before tax	5.9%	19.1%	27.3%	-	0.4%	-	52.7%
Net loans and advances to customers	318,257	298,326	326,666	3,706	1,474	-	948,429
Total assets	377,128	393,895	1,584,049	8,606	152,807	(87,257)	2,429,228
Customer accounts	472,761	314,314	473,635	6,113	966	-	1,267,789

Rest of Asia-Pacific

	Retail Banking and Wealth Management HK$m	Commercial Banking HK$m	Global Banking & Markets HK$m	Global Private Banking HK$m	Other HK$m	Intra-segment elimination HK$m	Total HK$m
Year ended 31 December 2010							
Net interest income	12,283	7,281	12,163	127	390	(2,121)	30,123
Net fee income/(expense)	6,159	3,432	4,567	144	(99)	-	14,203
Net trading income/(expense)	626	1,003	8,576	48	(340)	2,121	12,034
Net income/(expense) from financial instruments designated at fair value	319	14	(7)	-	(23)	-	303
Gains less losses from financial investments	1	21	395	-	662	-	1,079
Dividend income	2	-	1	-	16	-	19
Net earned insurance premiums	2,994	486	-	-	-	-	3,480

Other operating income	844	676	376	9	820	(443)	2,282
Total operating income	23,228	12,913	26,071	328	1,426	(443)	63,523
Net insurance claims incurred and movement in policyholders' liabilities	(2,514)	(307)	-	-	-	-	(2,821)
Net operating income before loan impairment charges and other credit risk provisions	20,714	12,606	26,071	328	1,426	(443)	60,702
Loan impairment (charges)/ releases and other credit risk provisions	(2,315)	(209)	(1,209)	(5)	2	-	(3,736)
Net operating income	18,399	12,397	24,862	323	1,428	(443)	56,966
Operating expenses	(17,105)	(6,207)	(8,252)	(348)	(714)	443	(32,183)
Operating profit/(loss)	1,294	6,190	16,610	(25)	714	-	24,783
Share of profit in associates and joint ventures	1,471	5,833	3,077	-	531	-	10,912
Profit/(loss) before tax	2,765	12,023	19,687	(25)	1,245	-	35,695
Share of profit before tax	3.5%	15.4%	25.3%	-	1.6%	-	45.8%
Net loans and advances to customers	294,061	244,302	286,569	8,150	1,383	-	834,465
Total assets	346,188	323,323	1,371,451	8,361	146,599	(78,028)	2,117,894
	425,975	287,629	418,953	16,280	1,611	-	1,150,448

Customer accounts

Results by Geographic Region

Hong Kong

Our operations in Hong Kong reported pre-tax profits of HK$43,197m compared with HK$42,190m in 2010, an increase of 2%. The increase in profitability was driven by higher revenues from increased customer lending which reflected growth in trade flows, coupled with strong demand for wealth management products. This was partly offset by a rise in staff and support costs, notably in GB&M and RBWM, reflecting wage inflation and higher business volumes in 2011. Following significant loan growth in 2010 and the first half of 2011, we experienced slower growth in our businesses during the second half of 2011.

We retained market leadership across our key products. In residential mortgages we retained the number one market position as we continued to provide competitive products for our customers. Our leading market share in life insurance reflected our strong customer focus and diverse product offerings. We maintained our number one position in cards reflecting the success of various marketing campaigns and our customer focus.

We maintained our number one market position in Hong Kong dollar bond issuance and acted as a joint lead manager on the government's first inflation-linked bond issue, the largest ever retail bond issue in Hong Kong. We also continued to enhance our equity capital markets capabilities, expanded our equity research team and were bookrunner in six of the ten largest initial public offerings ('IPOs') in Hong Kong this year. We continued to reinforce our position as a leading international renminbi bank and became the market leader in offshore renminbi bond issuance and won awards from both Finance Asia and IFR Asia for Best Offshore Renminbi Bond House. We arranged the first ever renminbi subordinated bank bond and participated in the largest ever offshore renminbi bond deal by a sovereign issuer, demonstrating the depth and diversity of our involvement in this market.

Net interest income was 11% higher than in 2010, driven by the income from strong lending growth during 2010 and the first half of 2011 which reflected increased trade flows and demand for credit. We saw more moderate loan growth in GB&M and RBWM in the second half of 2011, which was more than offset by a reduction in certain trade finance loans in CMB. The Hong Kong property market slowed in the second half of 2011 and we continued to lend conservatively, with average loan to value ratios of 49% on new residential mortgage draw-downs and an estimated 37% on the portfolio as a whole.

Spreads narrowed in RBWM due to a shift in the product mix to lower yielding HIBOR-linked mortgages and in CMB as growth was concentrated in lower margin trade financing and HIBOR-linked loans. HIBOR-linked spreads began to improve marginally in the second half of the year due to product repricing.

Average customer deposit balances rose despite a highly competitive environment, supported by the opening of new business centres, growth in the offshore renminbi market and our comprehensive suite of renminbi solutions across the Trade and Supply Chain and Payments and Cash Management businesses.

Net fee income increased by 8% as a result of higher sales of wealth management products, particularly unit trusts, reflecting increased product offerings, competitive pricing and ongoing marketing campaigns. This was achieved in the low interest rate environment in which clients sought products which could increase their returns. Card transactions grew, reflecting higher retail spending in 2011, supported by marketing campaigns. Underwriting fees rose due to our participation in many of the largest equity capital market transactions in 2011, supported by the continued enhancement of our equity market capabilities. Remittances and trade-related fees also increased reflecting higher cross-border trade volumes. This was partly offset by lower broking income, notably towards the end of the year due to increased competition.

Net trading income reduced by 12%. We recorded adverse fair value movements on derivatives relating to certain provident funds as long-term investment returns fell. We also incurred losses on equity options backing an endowment product in RBWM due to unfavourable movements in the underlying equity indices, which resulted in a corresponding decrease in 'Net insurance claims incurred and movement in liabilities to policyholders'. These losses were partly offset by higher trading income in GB&M due to a rise in net interest income from trading Asian government debt securities and corporate bonds. Net trading income was also impacted by lower revenues in credit trading as credit spreads widened in some markets. This was partly offset by higher revenues in foreign exchange following greater market volatility in the region along supported by the collaboration between CMB and GB&M. In addition, revenues in Equities increased in line with improved volumes in the business.

Net expense from financial instruments designated at fair value was HK$4,230m compared with gains in 2010, due to investment losses on assets held by the insurance business as a result of negative movements in the equity market during the second half of 2011. To the extent that these investment losses were attributed to policyholders, there was a corresponding decrease in 'Net insurance claims incurred and movement in liabilities to policyholders'.

Net earned insurance premiums increased by 18% as a result of successful sales initiatives for deferred annuities, unit-linked products and a universal life insurance product aimed at high net worth individuals. This reflected our strategic focus on wealth management, of which insurance is a key part. The growth in premiums resulted in a corresponding increase in 'Net insurance claims incurred and movement in liabilities to policyholders'.

Other operating income increased by HK$515m largely due to an increase in the present value of in force insurance business ('PVIF') and higher revaluation gains on investment properties. PVIF rose as a result of higher life insurance sales and the refinement to the PVIF calculation during the year, to bring greater comparability and consistency across our insurance operations, offset by the impact of revised assumptions reflecting the low interest rate environment.

Loan impairment charges and other credit risk provisions increased by HK$55m from a low base due to a specific impairment charge against one customer and higher collective impairment charges in CMB resulting from lending growth. These were partly offset by releases in GB&M relating to specific impairment charges raised in 2010.

Operating expenses rose by HK$3,053m due to higher staff costs across the business reflecting wage inflation in a competitive labour market and a rise in average staff numbers to support increased business activity. Performance costs increased in GB&M due to higher amortisation charges for previous years' performance shares and an acceleration in the expense recognition of current year deferred bonus awards.

Rest of Asia-Pacific

Our operations in the Rest of Asia-Pacific region reported pre-tax profits of HK$48,173m compared with HK$35,695m in 2010, an increase of 35%. The growth in profitability in the region reflected strong lending and deposit growth during 2010 and 2011, coupled with widening deposit spreads due to higher interest rates in certain countries, notably India and mainland China. Loan impairment charges improved as a result of the non-recurrence of a number of individual impairments and the reduction of certain unsecured lending portfolios. Costs increased, though to a lesser extent than revenues, to support business expansion, notably in mainland China, and maintain our competitive position in our other strategic markets. The contribution from our associates in mainland China also grew, benefiting from continued loan growth and increased income from fee-based revenue streams.

Trade revenues grew in most of our sites and we were awarded the 'Best Trade Finance Bank in Asia Pacific' by FinanceAsia for the fourteenth consecutive year. We continued to invest in building our franchise in mainland China where we remained the leading foreign bank by network size. Trade-related lending grew strongly in Singapore as we continued to enhance our trade finance capabilities. In Malaysia we expanded our branch network through the launch of new Amanah branches and experienced strong commercial lending growth. In India, we were ranked the number one foreign bank by Bloomberg for domestic bonds in 2011 and issued the first and only offshore renminbi bond in the country.

As part of our strategic review process, in December 2011 we announced the sale of our private banking operations in Japan and, in January 2012, we announced the sale of the RBWM operations in Thailand. We expect to complete these transactions during 2012. In February 2012, we announced the discontinuation of Premier in Japan.

Net interest income increased by 34%. Average lending balances grew, most notably in CMB and GB&M, particularly in mainland China and Singapore, as we captured inbound and outbound trade flows and as demand for credit in the region increased. In RBWM mortgage lending balances rose, notably in Singapore and Australia, driven by competitive product offerings and strong property markets. This was partly offset by continued pressure on asset spreads, most notably in RBWM due to competitive pressures and growth in residential mortgage lending at lower spreads.

Customer deposit balances rose across most of the region, notably in Payments and Cash Management reflecting our investment in infrastructure as part of a targeted strategy to support growth in customer lending. Deposit spreads increased as interest rates rose in a number of countries, particularly in mainland China and India.

Net interest income from Balance Sheet Management was higher than in 2010 reflecting increased interest rates and the widening of onshore US dollar lending spreads in mainland China, and a higher return from short-term lending and growth in the balance sheet in Singapore.

Net fee income increased by 9% primarily from trade-related fees as we targeted asset growth and trade activity largely in mainland China, Bangladesh and Singapore, supported by marketing activities, customer acquisition and a rise in transactions from existing customers. Card fees rose, notably in Australia, from the increased issuance of our co-branded credit cards, higher retail spending, and more customers converting to a higher card status.

Net trading income of HK$12,510m was broadly unchanged compared with 2010. Net interest income on trading activities was lower as we progressively reduced our positions in government debt securities following increased market volatility in bond markets and from growth in structured deposits where the related income is recorded under 'Net interest income'. This was offset by higher Foreign Exchange trading income due to increased customer transaction volumes resulting from the collaboration between GB&M and CMB and as more clients sought protection from volatility in the markets.

Net expense from financial instruments designated at fair value was HK$293m compared with income of HK$303m in 2010. This was due to investment losses on assets held by the insurance business, primarily in Singapore, as a result of negative equity market movements during the second half of 2011. To the extent that these investment losses were attributed to policyholders, there was a corresponding decrease in 'Net insurance claims incurred and movement in liabilities to policyholders'.

Losses from financial investments were HK$182m compared with gains of HK$1,079m in 2010, due to an impairment loss on an equity investment in 2011 in GB&M, lower gains on the disposal of government debt securities across the region and the non-recurrence of a gain on disposal of an equity investment in a Singaporean property company in 2010.

Net earned insurance premiums increased by 70% to HK$5,932m as a result of successful sales initiatives, most notably resulting in improved sales in Singapore of a universal life insurance product aimed at high net worth individuals. The growth in premiums resulted in a corresponding increase in 'Net insurance claims incurred and movement in liabilities to policyholders'.

Other operating income increased by HK$392m largely due to a rise in the PVIF asset in Singapore as a result of higher life insurance sales and a one-off gain recognised upon the refinement of the calculation of the PVIF asset. This was offset by lower recoveries against initial fair value on loan portfolios acquired from The Chinese Bank Co., Ltd in Taiwan.

Loan impairment charges and other credit risk provisions decreased by 43% to HK$2,121m as a result of the non-recurrence of a number of individual loan impairment charges in GB&M on a small number of accounts, coupled with the ongoing reduction of unsecured lending portfolios in India. We remain cautious on the outlook for credit quality and sustained our focus on maintaining high levels of underwriting and asset quality.

Operating expenses increased by 13% due to wage inflation which reflected the competitive labour market, along with an increase in average staff numbers, notably in mainland China. Increased business volumes across the region led to higher support costs. Premises and equipment costs also rose in certain countries, reflecting increased rental expenses resulting from lease renewals and new branch openings.

Share of profit from associates and joint ventures increased by 34%. The contribution from Bank of Communications rose, driven by strong loan growth, wider deposit spreads following interest rate increases in mainland China and higher fee income, notably from investment banking and cards. Income from Industrial Bank also increased as a result of strong growth in customer lending, a rise in fee-based revenue and a fall in loan impairment charges.

Consolidated Income Statement