HSBC HOLDINGS PLC
Form 6-K
August 05, 2015
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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 August 2015

Commission File Number: 001-14930

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 if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

(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-).

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2015, except for the Group Chairman s Statement, the Group Chief Executive s Review, the table on page 12 of this Report on Form 6-K (under Strategy Update Strategic Actions) and Strategy Update Targets, is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158054, 333-158065, 333-162565, 333-17025, 333-176732, 333-180288, 333-183806, 333-197839 and 333-202420.

The Group Chairman s Statement, the Group Chief Executive s Review, the table on page 12 of this Report on Form 6-K (under Strategy Update Strategic Actions) and Strategy Update Targets furnished herewith in this Report on Form 6-K shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934, and are not incorporated by reference to this Report on Form 6-K nor any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing. In addition, this Report on Form 6-K contains references to the Registrant s website. The Registrant is not incorporating by reference any information posted on such website.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 6-K and that it has duly caused and authorized the undersigned to sign this interim report on its behalf.

HSBC Holdings plc

By: /s/ Iain J Mackay
Name: Iain J Mackay
Title: Group Finance Director

Dated: 5 August 2015

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Certain defined terms

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC , the Group , we , us our refer to HSBC Holdings together with its subsidiaries. Within this document, the Hong Kong Special Administrative Region of the People s Republic of China is referred to as Hong Kong . When used in the terms shareholders equity and total shareholders equity , shareholders means holders of HSBC Holdings ordinary shares a those preference shares and capital securities classified as equity. The abbreviations $m and $bn represent millions and billions (thousands of millions) of US dollars, respectively.

Interim financial statements and notes

HSBC s interim consolidated Financial Statements and Notes thereon, as set out on pages 101 to 139, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed International Financial Reporting Standards (IFRSs) may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU.

At 31 December 2014 there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB. The consolidated financial statements of HSBC at 31 December 2014 were therefore prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. At 30 June 2015, there were no unendorsed standards effective for the period ended 30 June 2015 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

HSBC uses the US dollar as its presentation currency because the US dollar and currencies linked to it form the major currency bloc in which HSBC transacts and funds its business. Unless otherwise stated, the information presented in this document has been measured in accordance with IFRSs.

Reference to adjusted in tables and commentaries indicates that reported results have been adjusted for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons as described on page 16. The adjusted return on risk-weighted assets is defined and reconciled on page 31.

We have enhanced the document to concentrate on events and transactions that are significant to an understanding of the changes in our financial position and performance since the *Annual Report and Accounts 2014* and to provide information we consider most relevant to decision-making by users of the document. As a result, our business performance commentary has been streamlined to remove duplication and selected Risk sections and Notes on the Financial Statements have been refined or removed to focus on information that is material in the context of interim reporting.

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Who we are

HSBC is one of the largest

banking and financial

services organisations

in the world.

Customers:

48m

Served by:

268,543

employees (259,788 FTE)

Through four global businesses:

Retail Banking and Wealth Management

Commercial Banking

Global Banking and Markets

Global Private Banking

Located in:

72

countries and territories

Across five geographical regions:

Europe

Asia

Middle East and North Africa

North America

Latin America

Offices:

Around 6,100

Global headquarters:

London

Market capitalisation:

$175bn

Listed on stock exchanges in:

London

Hong Kong

New York

Paris

Bermuda

Shareholders:

213,000 in 131

countries and territories

Our purpose

Our purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

Our strategy

We aim to be the world s leading and most respected international bank. We will achieve this by focusing on the needs of our customers and the societies we serve, thereby delivering long-term sustainable value to all our stakeholders.

Our two-part strategy reflects our purpose and competitive advantages:

A network of businesses connecting the world: HSBC is well positioned to capture the growing international trade and capital flows. Our global reach and range of services place us in a strong position to serve clients as they grow from small enterprises into large multinationals.

Wealth management and retail with local scale: we aim to capture opportunities arising from social mobility and wealth creation in our priority growth markets, through our Premier proposition and Global Private Banking business. We will invest in full-scale retail businesses only in markets where we can achieve profitable scale.

How we measure performance

We track our progress in implementing our strategy with a range of financial and non-financial measures or key performance indicators. From 2015, we have revised our targets to better reflect the changing regulatory and operating environment.

Highlights of the first half of 2015 are shown on page 2.

For further information on our new targets see page 13.

Rewarding performance

The remuneration of all staff within the Group, including executive Directors, is based on the achievement of financial and non-financial objectives. These objectives, which are aligned with the Group s strategy, are detailed in individuals annual scorecards. To be considered for a variable pay award, an individual must have fully complied with HSBC Values. Our Values are described on page 10 of the *Annual Report and Accounts 2014*.

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Overview (continued)

Highlights

Financial (in respect of 1H15)	**Profit before tax** Reported profit before tax of $13,628m, up $1,288m or 10% compared with 1H14 Increase in adjusted profit before tax of $280m or 2% on 1H14, driven by a strong performance in Asia **Revenue** Increase in adjusted revenue of $1,316m or 4% on 1H14 Growth in adjusted revenue driven by client-facing GB&M, Principal RBWM and CMB **Operating expenses** Adjusted operating expenses increased by $1,206m or 7% from higher staff costs **Capital** Strong capital base with a common equity tier 1 ratio of 11.6% and two interim dividends declared amounting to $0.20 per ordinary share in respect of the first half of 2015

Strategy execution	**Clearly defined actions to capture value from our global network in a changed world**
	Growth of 6% in global business revenue synergies, demonstrating the strength of our universal banking model
	Revenue from transaction banking products grew 8% highlighting the value and potential of our international network
	Progress on reducing Group RWAs with a $50bn reduction relating mainly to GB&M
	Entered into an agreement to sell entire business in Brazil*
	Commenced initiatives to reduce costs

**We plan to maintain a corporate presence in Brazil to serve our international clients*

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For the half-year to 30 June 2015

Profit before taxation (reported basis)

($bn)

Adjusted profit (before taxation)

($bn)

At 30 June 2015

Total equity

($bn)

Annualised return on average ordinary shareholders equity

(%)

Total assets

($bn)

Common equity tier 1 ratio (end point)

(%)

Risk-weighted assets

($bn)

Pre-tax return on average RWAs

(%)

Share information at 30 June 2015

$0.50 ordinary shares in issue	**Market capitalisation**	Closing market price: London	Closing market price: Hong Kong	Closing market price: American Depositary Share
19,516m	$175bn	£5.70	HK$70.15	$44.81
30 Jun 2014: 19,071m	30 Jun 2014: $193bn	30 Jun 2014: £5.93	30 Jun 2014: HK$78.60	30 Jun 2014: $50.80
31 Dec 2014: 19,218m	31 Dec 2014: $182bn	31 Dec 2014: £6.09	31 Dec 2014: HK$74.00	31 Dec 2014: $47.23

	Total shareholder return Over 1 year	Over 3 years	Over 5 years
To 30 June 2015	102	119	119
Benchmark:			
Morgan Stanley Capital International Index Banks	99	152	159

HSBC HOLDINGS PLC

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Overview (continued)

Global Business Snapshot

(Comments on adjusted basis)

Retail Banking and Wealth Management (RBWM)

Profit before taxation ($bn)

(Reported: Adjusted)

PBT in Principal RBWM up 2%

Total RBWM PBT was broadly in line with 1H14 as PBT growth in Principal RBWM was largely offset by the continued reduction of the US run-off portfolio.

The PBT growth in Principal RBWM of $70m or 2% was driven by increased revenues ($472m) and lower LICs ($48m), partly offset by a rise in operating expenses ($445m), notably from higher staff costs.

Revenue growth was driven by increased Wealth Management income, notably in Asia.

Commercial Banking (CMB)

Profit before taxation ($bn)

(Reported: Adjusted)

Revenue synergies between CMB & GB&M up 9%

PBT was broadly in line with 1H14 as growth in revenues was broadly offset by a rise in LICs from a small number of specific impairments and higher operating expenses.

Revenue growth of $320m or 4% was driven by Credit and Lending and Payments and Cash Management balances, notably in Hong Kong and the UK.

Revenue synergies arising from the cross-selling to CMB customers of GB&M products was up 9%.

Global Banking and Markets (GB&M)

Profit before taxation ($bn) (Reported: Adjusted)	**Double digit revenue growth** PBT increased by $589m or 12% on 1H14 from revenue growth, partly offset by higher costs. Revenue grew by $932m or 10%, driven by client-facing GB&M, notably Equities and Foreign Exchange, and by Balance Sheet Management. RWAs reduced, in part from management actions, of which $14bn related to mitigation in respect of legacy credit.

Global Private Banking (GPB)

Profit before taxation ($bn) (Reported: Adjusted)	**Continued repositioning of the business** PBT of $321m was $12m or 4% lower than in 1H14, driven by higher operating expenses of $9m due to the non-recurrence of a provision release in 1H14. Revenue was broadly unchanged as lower revenue from the ongoing repositioning of the business was offset by a rise in client volumes and increased market volatility in Hong Kong, along with the effect of net new money in 2014.

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Regional Snapshot (Comments on adjusted basis)

Europe

Profit before taxation ($bn)

(Reported: Adjusted)

Continued investment in regulatory programmes and compliance

PBT was $182m or 6% lower than in 1H14 as revenue growth in GB&M was more than offset by increased operating expenses from regulatory programmes and compliance costs.

Revenue increased by $463m or 4%, driven by client-facing businesses and Balance Sheet Management in GB&M.

Asia

Profit before taxation ($bn)

(Reported: Adjusted)

Revenue growth across all global businesses

PBT of $7,989m was $553m or 7% higher than in 1H14 as revenue growth across all the global businesses was partly offset by increased staff costs.

Revenue increased by $1,127m or 10%, notably in Hong Kong from Wealth Management products in RBWM and client-facing GB&M.

Middle East and North Africa

Profit before taxation ($bn)

(Reported: Adjusted)

Loan impairment charges compared with a net release in 1H14

PBT of $899m was $74m or 8% lower than in 1H14. This was primarily due to an adverse movement in LICs of $82m, reflecting individually assessed impairment charges in 1H15 compared with a net release in 1H14, mainly on UAE-related exposures in CMB and GB&M.

North America

Profit before taxation ($bn) (Reported: Adjusted)	**Continued run-off of the CML portfolio** PBT of $931m was $106m or 10% lower than in 1H14, driven by lower revenue and higher costs reflecting investment in CMB and GB&M growth initiatives, partly offset by lower LICs. Revenue decreased by $239m or 6%, reflecting the continued run-off and loan sales of the Consumer and Mortgage Lending (CML) portfolio. LICs decreased by $252m or 62%, primarily as a result of lower levels of delinquency and reduced lending balances in the CML portfolio.

Latin America

Profit before taxation ($bn) (Reported: Adjusted)	**Revenue growth driven by CMB** PBT was $89m or 26% higher than in 1H14 due to higher revenues and lower LICs, partly offset by higher costs from inflationary pressures. Revenue increased by $83m or 2%, primarily in CMB. LICs reduced by $73m or 9% mainly in RBWM, in Mexico due to lower delinquency rates, and in Brazil mainly due to the non-recurrence of charges related to model changes in 1H14.

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Overview (continued)

Cautionary statement regarding forward-looking statements

The *Interim Report 2015* contains certain forward-looking statements with respect to HSBC s financial condition, results of operations and business.

Statements that are not historical facts, including statements about HSBC s beliefs and expectations, are forward-looking statements. Words such as expects , targets , anticipates , intends , plans , believes , seeks , e potential and reasonably possible , variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC s Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;

changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and

factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the US DPA.

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Overview (continued)

Group Chairman s Statement

We have had an encouraging start to 2015 with the interim results once again demonstrating the resilience and balance inherent within HSBC s geographically diversified universal banking model. Particularly encouraging was the revenue growth from areas we have been investing in to offset the understandable decline in revenues from our run-off portfolios and divestments.

We are continuing to invest to capture the opportunities which are arising from changing trade and investment flows and from the clear momentum in greater customer adoption of mobile and digital banking. In the continuing low interest rate environment, it is essential we build these incremental revenues and use technology and process improvement to generate further cost savings to offset the growing expenditure needed to embed regulatory changes and provide greater assurance over financial crime risks. These factors provided much of the context to our Investor Update in June, when Stuart Gulliver and his senior management team laid out very clearly the priorities and objectives being set to build sustainable value for you, our shareholders.

Pre-tax profits in the first six months of 2015 on a reported basis of $13.6bn were 10% higher than those delivered in the first half of 2014. On the adjusted basis, which is one of the key metrics used by the Board to assess current management performance, pre-tax profits were 2% better at $13.0bn, with the difference explained by the reconciliations on pages 50 to 55. Earnings per share were $0.48, providing more than twice cover for

the first two interim dividends per ordinary share in respect of 2015 amounting to $0.20 in aggregate (2014: $0.50 and $0.20, respectively).

The Group s capital position remains strong, benefiting from a higher than normal scrip dividend take-up in the period and from actions taken to manage down risk-weighted assets. At 30 June 2015, our end point common equity tier 1 ratio stood at 11.6% compared with 11.1% at the beginning of the year and 11.3% a year ago.

In the following pages, Stuart Gulliver, in his Group Chief Executive s Review reflects on the key drivers of first half performance and summarises the actions presented in the Investor Update which underpin the Group s target to deliver a return on equity in excess of 10% by the end of 2017.

Board oversight of management is now tightly focused on the delivery of the actions set out in this plan and management performance scorecards have been adjusted to reflect this. Initial progress is encouraging with the highlight clearly being the agreement reached for the sale of our Brazilian operations. I want to underscore three points which are crucial to achieving what is a challenging set of objectives.

An ever more connected world needs international banking and within this, a diversified universal banking model promotes revenue synergies and resilience.

What drives HSBC s rating as one of the two most systemically important banks in the world is the extent to which we do business outside the country from which we are regulated on a consolidated basis; we see this as a strength in a globalised world. As many banks shrink to domestic or regional bases, our international network and product capabilities are demonstrating significant competitive advantages as we pick up cross-border business. This was the key message from our Investor Update and, as Stuart illustrates in his review, the depth and breadth of the network are creating value in terms of revenue growth. In the first half of this year, transaction banking, which captures trade and investment flows, grew revenues by 8%. Further collaboration between our global businesses drove revenue synergies by 6%.

Nothing illustrates the importance of trade corridors better than the focus of China on its One Belt, One Road initiative. This, together with the creation of the Asian Infrastructure Investment Bank, led by China but now with 57 founding member states, is planned to create opportunities for infrastructure investment coupled with green technology on a massive global scale. HSBC s presence along the trade corridor, as well as at both ends, places it in a strong position to partner with participating firms. As investment grows, this will also accelerate the use of the renminbi as a global currency, an area where HSBC is the leading international bank.

The current period also illustrates convincingly the benefits of our international universal banking model and the revenue synergies noted above. A few examples will illustrate the point.

While eurozone anxieties over Greece dampened trade flows and falls in commodity prices led to a lower value of commodity related trade finance, the resultant volatility in foreign exchange led to a greater volume of activity through our dealing rooms. Although equity flows into emerging markets retreated, equity volumes in Hong Kong and mainland China expanded markedly with the Shanghai-Hong Kong stock connect system surpassing all expectations in terms of flows in both directions. As a result, HSBC s Wealth Management revenues in Hong Kong from equities, mutual funds and asset management increased significantly.

Finally and importantly, the significant progress made in resolution planning, both by international and national regulatory bodies and by firms themselves, means that the contingent risk to home country taxpayers from international business activities has markedly reduced. This should allow international firms like HSBC to grow faster than the economies that host them without undue concerns being raised.

Technology is changing the shape of banking at a rapid pace

There is no doubt that banking is in a period of fundamental change as a consequence of technological developments that, firstly, allow storage and analysis of an almost unlimited amount of data and, secondly, allow customers to directly access third party providers when transacting or investing.

The opportunities are exciting; the risks are not insignificant.

The benefits to customers and society are potentially substantial. Better use of data will allow more accurate knowledge about the customer to be built, leading to improved customer segmentation and therefore less risk of mis-selling in the future. The same data, together with transaction monitoring, will enhance our ability to identify bad actors within the system, so reducing financial crime. A lower cost of delivery will flow through to lower intermediation costs for customers and allow banking services to reach communities currently under-served.

The nature, scale and pace of change do, however, pose a number of public policy questions still under review as well as highlighting new risks to financial stability that need to be addressed. The sheer scale of data to be collected and stored demands clarity over responsibility for data

security and transparency over who has access to that data and for what purpose. Customers need to understand the value of their data so that they can assess the bargain that is being offered by non-traditional providers in return for their financial footprint. Customers also need to know in a disaggregated service model to whom they should complain if a transaction goes awry. Finally, ever larger digital databases of financial credentials and transaction data will need best-in-class protection from cyber crime. This will require even greater co-operation between the industry and public sector law enforcement and intelligence services than exists today.

Restoring trust is essential

One of the most encouraging observations in the first half of 2015 was the growing emphasis in public policy and regulatory consultations and proposals on looking forwards not back. Much of the focus was on setting clarity over the behaviours expected of individuals within our industry and of those charged with supervising or providing governance over their activities.

We welcomed the Fair and Effective Markets Review conducted jointly by the Bank of England, HM Treasury and the Financial Conduct Authority to reinforce confidence in wholesale markets in light of the serious misconduct evidenced in recent years. The consequential creation of an FICC Markets Standards Board to sit alongside the Banking Standards Board which came into being in April is a further contribution to creating a framework capable of reassuring market participants of the integrity of financial markets.

The focus of both these bodies, together with the Senior Managers Regime which comes into force next year, is to stress personal accountability for conduct within markets and in relation to consumers of financial products. Recent instances of misconduct have highlighted the inadequacy of legal and regulatory frameworks to attach appropriate sanctions in a timely way to responsible individuals, leaving shareholders to bear the burden of penalties imposed on the employing institutions, in many

cases long after the events in question occurred and where the evidence is either insufficient or too dated to pursue the individuals concerned. This is not a sustainable or a desirable model.

We absolutely concur, therefore, with this emphasis on personal responsibility and accountability. It is essential that regulatory governance in this area is seen to be transparent, fair and proportionate. However, the potential benefits are significant and we believe that if the clarity intended from the greater focus being given through these initiatives to expected behaviours is achieved, then this, together with the discipline derived from the greater incidence of deferred remuneration, will greatly enhance the prospects for the restoration of trust.

That restoration of trust will of course only be earned over time by the actions of firms being increasingly recognised by market participants and consumers as appropriate to the circumstances, balancing the interests of the firm with those of the customer.

Again actions speak louder than words. By way of example, in the first half of 2015, measures taken to assist customers in the UK to manage their financial affairs better delivered improved outcomes for customers and reduced a source of recurring frustration. These actions formed part of a comprehensive review of value exchange within RBWM conducted over the past year. As a consequence overdraft fees in the UK fell by some $88m, reflecting lower pricing and fewer instances of unauthorised overdrawn accounts, which was prompted by a new policy of text messaging when customers approached their agreed limits.

Three other areas are worthy of comment.

Progress on Global Standards and regulatory change

We are now firmly in the second phase of the Global Standards initiative, moving from design to implementation and assurance. Virtually all of the recommendations in the Monitor s initial report have now been actioned with those remaining not due until later this year. Further recommendations for improvement, as they arise from the

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Overview (continued)

Monitor s update reviews, regular regulatory examinations and the work of our own internal audit function, will continue to be incorporated as they arise. Similarly, in the area of regulatory change the focus is now firmly on embedding the changes now finalised.

The global functions and our operations and technology teams continued to add resources to meet the demands of the Global Standards programme and of continuing regulatory change. In the first half of 2015, the Group s headcount increased by some 2,200. Reflecting the prioritisation being given to the above programmes, more than this number were in fact recruited into Compliance, principally in Financial Crime Compliance and to address the regulatory change programmes. As systems are upgraded we should realise planned productivity improvements to release resources currently allocated to manual processes and parallel working.

The above comments illustrate how the cost dynamics of our business model are clearly changing, and we are challenging afresh the sustainability of some of our smaller operations in light of the cost burdens they are now facing. This analysis, as was highlighted in the Investor Update, will inform some further streamlining of our geographical footprint over the next few years.

UK ring-fencing

During the period, the business design of the ring-fenced bank was settled and Birmingham was chosen as its headquarters location. A new HQ building is being constructed which will be available in 2018. Both the ring-fenced bank and the remaining activities outside the ring fence will be served by a new service company which will host shared infrastructure and employees. 22,000 UK employees of our UK bank will migrate to this new employer by the end of this year.

Review of headquarters location

Following the announcement at the Annual General Meeting that we would embark upon a review of the optimal location for our global headquarters, detailed work has commenced in line with the criteria laid out in the June Investor Update. It remains the Board s

intention to conclude the review by the end of this year.

Board changes

Since the AGM we have announced two new members of the Board.

Irene Lee brings to the Board considerable banking experience and knowledge of Asia and joined the Board on 1 July, having served as a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and of Hang Seng Bank Limited since 2013 and 2014, respectively.

Irene is currently Executive Chairman of Hysan Development Company Limited and a non-executive director of Cathay Pacific Airways Limited, China Light & Power Holdings Limited and Noble Group Limited. She has over 30 years of finance industry experience, having held senior positions in investment banking and fund management in the UK, USA and Australia with the Commonwealth Bank of Australia, SealCorp Holdings Limited and Citibank.

Pauline van der Meer Mohr brings to the Board considerable legal and human resources experience and will join the Board on 1 September. Pauline is currently president of the Executive Board of Erasmus University Rotterdam, a role which she has held since 2010. Pauline began her career in the legal profession and held several legal and management positions with the Royal Dutch Shell Group from 1989 to 2004, rising to become HR Director, Information Technology. In 2004, she was appointed group human resources director at TNT NV before moving to become senior executive vice president and head of group human resources at ABN AMRO Bank NV in 2006. Pauline also served as a member of the Dutch Banking Code Monitoring Commission, which was aimed at restoring trust in the Dutch banking sector.

Looking forward

The environment for banking remains challenging. As Stuart points out in his review, economic conditions remain uncertain in many parts of the world, in particular in the eurozone and in China. On top of this, geopolitical risks are heightened. Regulatory workloads have never been higher as we embed structural change, build systems to

respond to demands for greater transparency, and augment stress testing models and reinforce business continuity design as part of recovery and resolution planning. Technology is empowering disruptive business models and facilitating new entrants whilst also offering good opportunities to improve efficiency and build better customer propositions. Responsibilities to protect the financial system from bad actors and from cyber threats are expanding at the same time as concerns are raised over risks of consequential financial exclusion.

Yet there are also observable mega-trends supportive of financial system growth. Growing urbanisation across Asia, infrastructure development in both emerging and developed markets, investment in new technology to address environmental efficiency and the development of capital market solutions to add fresh financing capabilities and contribute to the financial needs of an ageing population all have positive implications for the role and profitability of the financial system. Additionally, central banks remain determined to maintain a policy environment that facilitates the resumption of sustainable economic growth.

As set out by Stuart in the June Investor Update, our positioning across the major trade and investment corridors of the world is a privileged position from which to plan our future. We have the financial strength and the right people at all levels of the firm to make the most of the opportunities open to us. We look forward to reporting on progress.

D J Flint

Group Chairman

3 August 2015

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Group Chief Executive s Review

Our performance in the first half of 2015 demonstrated the underlying strength of our business. Our diversified, universal model enabled the Group to deliver increased profitability in spite of slow global growth. In particular, a strong revenue performance across our Asia businesses helped drive increased profits and Global Banking and Markets had a good six months.

In June we announced a series of strategic actions to capture the value of our international network in a much changed world. These actions are designed to maximise revenue, significantly reduce our operating expenses and meet our obligations regarding the structure of the Group.

We are executing these plans and have significant momentum moving into the second half of the year.

First half of 2015

Reported profit before tax was $13.6bn, 10% higher than for the equivalent period in 2014.

Adjusted pre-tax profit, which excludes the period-on-period effects of currency translation differences and significant items, was $13.0bn, 2% higher than in the first half of 2014. This reflected growth in revenue and lower loan impairment charges, partially offset by increased costs.

Global Banking and Markets maintained its good start to the year, especially in our client-facing Markets businesses. Equities and Foreign Exchange were the main drivers of revenue growth.

Commercial Banking revenue continued to grow, particularly in Hong Kong and the UK.

Principal Retail Banking & Wealth Management generated increased revenue following a strong performance in our Wealth Management business in Asia.

There was a 6% increase in revenue arising from cross-selling between our global businesses, demonstrating the strength of our universal banking model.

Loan impairment charges continued to fall, driven particularly by reductions in North America and Latin America.

Operating expenses increased, although they were broadly flat relative to the second half of 2014, excluding the effect of the UK bank levy.

The common equity tier 1 ratio on a CRD IV end point basis was 11.6%.

Annualised return on equity was 10.6%, exceeding our target of 10%.

Maximising value from our international network

We continue to invest in the strategic product areas that benefit most from our international network. The positive impact of this investment was again apparent in the first half of the year.

Foreign Exchange revenue grew by 21% compared with the first half of 2014

and Payments and Cash Management revenue increased by 4%.

Global Trade & Receivables Finance continued to grow, and HSBC was named Best Trade Bank in the World , Best Trade Bank in Asia Pacific and Best Trade Bank in the Middle East in the *Trade and Forfaiting Review* Excellence Awards 2015.

We maintained our leadership position in international renminbi services, growing revenue by 9% compared with the first half of 2014. HSBC also received the *Asiamoney* Best Overall Offshore RMB Products and Services award for the fourth year in a row.

In *FinanceAsia* s International Banking Awards 2015, HSBC was the winner of the Best Foreign Bank awards for China, Indonesia, Malaysia, Vietnam, Korea, Sri Lanka and Bangladesh. HSBC was also named Best Bank in Hong Kong for the 12th consecutive year.

Investor Update

Our *Annual Report and Accounts 2014* outlined some of the considerable changes to our operating environment that have occurred since 2011. In response to these changes the Board set a new Group target of a return on equity of more than 10% by the end of 2017.

At our Investor Update in June, we set out the actions that will enable us to meet this goal.

We intend to:

- reduce risk-weighted assets across the Group by at least 25%, re-deploy some of these risk-weighted assets towards higher performing businesses and return Global Banking and Markets to Group target profitability;

- sell underperforming operations in Turkey and Brazil, and keep our network under review using our six-filter process;

- exploit the strategic opportunity in the region covered by the North American Free Trade Agreement to rebuild profitability in Mexico and deliver satisfactory returns in the US;

- set up a UK ring-fenced bank by 2018;

- realise $4.5-5.0bn in cost savings and return operating expenses to 2014 levels by the end of 2017;

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Overview (continued)

deliver revenue growth greater than GDP growth from our international network;

capture growth opportunities in Asia, including in China s Pearl River Delta and the Association of Southeast Asian Nations, and in our Asset Management and Insurance businesses;

generate $2.0-2.5bn revenue from our global leadership position in business arising from the internationalisation of the Chinese currency, the renminbi; and

complete the implementation of Global Standards, our globally consistent and rigorous financial crime controls.

Delivering these actions will create value for our customers and shareholders, and enable us to meet global standards while driving business success. It will also help us to continue to adapt to the structural changes that are asked of us by regulators and legislators.

Meeting our targets

We will update shareholders on progress in executing these actions every quarter, beginning with our third quarter results in November. Delivery is our number one priority.

Work is proceeding on all of our actions, in particular those aimed at reducing risk-weighted assets (RWAs), cutting costs and turning around or disposing of underperforming parts of the business.

Reducing RWAs will be a gradual process, but we have made a good start in the first half of the year. We reduced RWAs by $50bn, largely through asset sales in the Global Banking and Markets legacy book, the sale of part of our shareholding in Industrial Bank, and more detailed mapping within RWA calculations and improved recognition of collateral. We have redeployed $30bn RWAs into higher returning areas. I am confident that we will continue to make significant progress on this in the remainder of 2015.

Over the next two years we will continue to build our capital base and redeploy some of the RWAs that we take out of the business in line with the priorities we outlined in June.

Although we are aiming to pivot our business towards profitable growth opportunities in Asia, Asia is not the exclusive focus of reinvestment. In order to maintain broad-based growth and a diversified risk profile, we expect around half of incremental RWAs to be redeployed to Asia, with the rest spread across Europe, the Middle East and North Africa, North America and Mexico. If we cannot find strategic opportunities to deploy capital with a return on equity above 10% we will return the capital to shareholders, subject to regulatory approval.

We have commenced our work to reduce costs and expect to be able to demonstrate tangible progress in the coming quarters. Fulfilling these actions will also entail a number of one-off transformation costs, some of which will be incurred during the second half

of 2015. We expect the largest portion of these costs to fall in 2016.

On 31 July we agreed to sell our Brazil business to Banco Bradesco S.A. for $5.2bn. As we said at our Investor Update, we plan to maintain a modest corporate banking presence in Brazil to serve our international clients in the country. This transaction delivers excellent value for shareholders and represents significant delivery against the actions we outlined in June.

Summary and outlook

We are hopeful for a modest improvement in the world economy in the second half of the year. More accommodating monetary conditions should help the mainland Chinese economy to stabilise after first half challenges. US economic growth is also likely to accelerate. Thanks to lower oil prices, real incomes are rising across much of the eurozone and in the UK. Key uncertainties include the pace of recovery in capital spending, the timing of any US monetary tightening and ongoing challenges in the eurozone.

Our performance in July was satisfactory. Our focus is on making significant progress in executing our strategic actions during the remainder of the year.

S T Gulliver

Group Chief Executive

3 August 2015

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Strategy update

Strategy update

Distinctive advantages

Throughout our 150-year history, HSBC has been where the growth is, connecting customers to opportunities.

Our strategy is to maintain an international network to connect faster-growing and developed markets. We seek to develop our Wealth business and invest in Retail Banking only in markets where we can achieve profitable scale.

HSBC has three distinctive advantages that bring value to our customers, shareholders and other stakeholders:

- an unrivalled global presence;
- a diversified universal banking model; and
- strong capital generation.

Unrivalled global presence

Our network covers more than 85% of global trade and capital flows, and we provide clients and investors with access to the most attractive global growth opportunities.

We expect global trade to continue to grow faster than global gross domestic product (GDP). We are a leading provider of transaction banking products which support global economic flows, including Payments and Cash Management, Global Trade and Receivables Finance, Foreign Exchange and Securities Services. We estimate that approximately 40% of our client revenues are linked to our international network.

Our strong presence in key trade corridors includes the largest and fastest-growing. Trade between mainland China and the US, for example, is expected to grow at an average of about 10% a year to 2020.

We have banking operations in the fastest-growing locations, particularly in Asia. In the first half of 2015 (1H15) revenues from Asia and the Middle East and North Africa contributed about 45% of adjusted Group revenues. The breadth and scale of our coverage permits deeper client relationships and generates higher revenue per client served across multiple geographical regions.

Diversified universal banking model

We generate revenues through four global businesses Retail Banking and Wealth Management (RBWM); Commercial Banking (CMB); Global Banking and Markets (GB&M) and Global Private Banking (GPB) with the first three each contributing 25% to 40% of total revenues.

Diversification keeps the Group s earnings volatility at low levels and, through diverse business activities, we maintain a lower risk profile than our global and regional competitors (see footnote 1 on page 56). For example, the percentage of loan impairment charges to loans and advances to customers on an adjusted basis fell to 30bps in 1H15, down from 33bps in the first half of 2014 (1H14). Our large deposit base provides stable and inexpensive funding for our lending activities.

Our universal banking model provides benefits from shared resources and product capabilities. Synergies across global businesses generated $6.1bn of revenue for the Group (18% of the total) in 1H15. We realised particular growth in revenues from GB&M products provided to CMB clients, which increased by 9% compared with 1H14.

Strong capital generation

From 2011 to 2014, HSBC generated an average of $9.1bn of capital each year. Strong capital generation enables us to meet increasing regulatory requirements while continuing a long-term trend of progressive dividend payments to shareholders. We are among the top five dividend payers of major stock exchanges worldwide.

Our common equity tier 1 (CET1) ratio (end point) at 30 June 2015 was 11.6% compared with 11.3% at 30 June 2014. We declared first and second interim dividends totalling $3.9bn in 1H15, compared with $3.8bn in 1H14.

Strategic actions

The environment in which HSBC operates is dynamic, with macroeconomic, technology and regulatory changes reshaping the competitive landscape.

At our Investor Update in June 2015 (Investor Update), we announced a series of strategic actions to capture the value of our global network and adapt to structural changes in the operating environment. We also announced a review of the Group headquarters location to be completed by the end of 2015. These strategic actions are shown in the table below. For further information and full Investor Update materials see www.hsbc.com/investor-relations.

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Strategy update (continued)

Strategic actions to be completed by 2017 unless otherwise stated

	Targeted outcomes
1. Reduce RWAs across the Group by 25% or more[2] and reinvest the capital in higher-performing businesses. Reducing RWAs will help GB&M reach profitability targets	$290bn reduction in Group RWAs GB&M return to Group target profitability; <1/3 of Group RWAs
2. Continue to optimise our global network and reduce complexity through the ongoing application of the six-filter process that guides our decisions on where we do business	Reduced footprint
3. Leverage our international network and strategic opportunity in the area covered by the North American Free Trade Agreement to rebuild profitability in Mexico and deliver satisfactory returns in the US	Profit before tax: US: about $2bn Mexico: about $0.6bn
4. Set up a UK ring-fenced bank	Completion by 2018
5. Deliver $4.5-5.0bn in cost savings	2017 exit rate equal to 2014 operating expenses
6. Deliver revenue growth above GDP growth from our international network	Revenue growth of international network above GDP growth
7. Capture growth opportunities in Asia including in China s Pearl River Delta, in the Association of Southeast Asian Nations, and in our Asset Management and Insurance businesses	Market share gains About 10% growth per annum in assets under management in Asia

8. Grow business from our global leadership position in the internationalisation of the Chinese currency, the renminbi	$2.0-2.5bn revenue
9. Implement Global Standards, our globally consistent and rigorous financial crime controls	Completion by end of 2017
10. Review the location of the Group s headquarters	Completion by end of 2015

For footnote, see page 56.

Global footprint and six filters review

At 30 June 2015, we were present in 72 markets, of which 18 are priority markets.

Priority markets represent about 85% of Group revenues but cover only 55-60% of world GDP, trade and capital flows. Our other markets cover an additional 25-30% of global economic flows. Our presence in these network markets allows us to serve clients as a provider of global trade and payments services across a truly international network.

We conduct a periodic review of our markets using six filters to guide our decisions about when and where to invest. At the Investor Update, we announced our intention to sell our operations in Turkey and Brazil, though we plan to maintain a presence in Brazil to serve large corporate clients international needs.

Structural reform and resolution planning

We continue to work with our primary regulators to develop and agree a resolution strategy for HSBC. It is our view that a strategy by which the Group breaks up at a subsidiary bank level at the point of resolution (referred to as a Multiple Point of Entry strategy) is the optimal approach as it is aligned to our existing legal and business structure. We are engaging with our regulators to address inter-dependencies between different subsidiary banking entities in order to enhance resolution.

In the first half of 2015, we continued to progress our plans to establish a separately incorporated group of service companies (ServCo group) in order to remove operational dependencies where one subsidiary bank provides critical services to another. In the UK, we have commenced the transfer of critical services, including associated employees

and assets, from each of HSBC Bank plc and HSBC Holdings to the ServCo group. Similar transfers are planned to begin in Hong Kong soon.

The Group presented an updated ring-fencing project plan to regulators in May 2015. The plan provides for the transfer into a separate subsidiary of the HSBC Group, the qualifying components of HSBC Bank plc s UK RBWM, CMB and GPB businesses. The plan remains subject to further planning and approvals internally and is ultimately subject to the approval of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and other applicable regulators. The Group announced in March 2015 that the headquarters of the new UK ring-fenced bank will be located in Birmingham.

Global Standards implementation

We are at the midpoint of our five-year programme to implement the highest or most effective standards to combat financial crime and transform the way that we manage financial crime risk.

On 31 March 2015, we put in place enhanced procedures everywhere we do business to help us detect, deter and protect against financial crime. These procedures cover how we meet the requirements of our global anti-money laundering (AML) and sanctions policies our Global Standards.

Through the adoption of these Global Standards, we aim to deliver a consistent, comprehensive approach to managing financial crime risk in all our markets. In many instances, the policies extend beyond what we are required to do under local laws and regulations, reflecting the fact that HSBC has no appetite for business with illicit actors.

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We continue to deliver infrastructure changes and systems enhancements that support the effective and sustainable operation of our financial crime controls.

In this respect, we have made significant progress since the beginning of 2015, including:

- deploying enhanced customer due diligence by GPB in their 18 markets;
- specific deployments of enhanced customer due diligence by other lines of business in the United Arab Emirates (UAE), the US, Lebanon, Hong Kong, Singapore, Russia and Germany;
- completing targeted training for those identified as being in the highest risk roles;
- moving Financial Intelligence Units from the Global Standards programme to business as usual management. This establishes a new strategic capability to identify and analyse significant financial crime cases, trends and strategic issues and share information across HSBC; and
- commencing the roll-out of strategic technology that supports our customer selection decisions, including how we exit business relationships that exceed our risk appetite.

The Monitor

An independent compliance monitor (the Monitor) was appointed in 2012 under the agreements entered into with the US Department of Justice, the UK FCA and the US Federal Reserve Board to produce regular assessments of the effectiveness of our financial crime compliance procedures and controls. The work of the Monitor is described on page 27 of the *Annual Report and Accounts 2014*. We are working to implement the agreed recommendations flowing from the Monitor s 2013 and 2014 reviews. We recognise we are only half-way through our five-year Deferred Prosecution Agreement (US DPA) and look forward to maintaining a strong, collaborative relationship with the Monitor and his team.

Targets

The strategic actions announced in our Investor Update will help the Group achieve the targets set out in the *Annual Report and Accounts 2014*.

We aim to achieve a return on equity of more than 10% by 2017, with momentum for higher returns in the future. We aim to grow business revenues faster than operating expenses on an adjusted basis. We are also committed to delivering a progressive dividend consistent with the growth of the overall profitability of the Group and predicated on our ability to meet regulatory capital requirements in a timely manner.

Delivering these actions will create value for our customers and shareholders and contribute to the long-term sustainability of HSBC. In the process, we shall maintain a robust, resilient and environmentally sustainable business in which our customers can have confidence, our employees can take pride, and our communities can trust.

Risk

All our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks.

As a provider of banking and financial services, we actively manage risk as a core part of our day-to-day activities. Our risk management framework seeks to ensure we have a robust and consistent approach to risk management at all levels of the organisation and across all risk types. This is described on page 24 of the *Annual Report and Accounts 2014.*

The principal risks associated with our banking and insurance manufacturing operations are listed on page 114 of the *Annual Report and Accounts 2014*.

Identifying and monitoring current and forward-looking risks is integral to our approach to risk management. During the first half of 2015, senior management paid particular attention to the top and emerging risks that are described on page 57.

The chart below provides a high level guide to how our business activities are reflected in our risk measures and in the Group s balance sheet at 30 June 2015. The assets and liabilities indicate the contribution each business makes to the balance sheet, while RWAs illustrate the relative size of the risks incurred for each business.

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Strategy update (continued)

Exposure to risks arising from the business activities of global businesses

For footnote, see page 56.

Risk appetite

We define risk appetite as the type and quantum of risks that we are willing to accept in achieving our medium- and long-term strategic goals. It is a key component of our management of risk, is set on a time horizon consistent with the strategic planning period and is reviewed on an ongoing basis, with a formal review every six months. Our approach to risk appetite is described on page 25 of the *Annual Report and Accounts 2014*.

Changes to key metrics of the Group Risk Appetite Statement for 2015 include:

- the risk appetite threshold for returns has been updated to reflect the Group s revised financial targets as announced in the *Annual Report and Accounts 2014* and re-affirmed at the Investor Update;
- positive adjusted jaws will be used as a single measure to assess cost efficiency; and
- cost of risk has been replaced with two new measures to monitor loan impairment charges as a percentage of gross retail and wholesale advances. This better aligns with existing risk management practices and reflects the increased focus on credit risk due to slowing global growth and the low interest rate environment.

Key metrics that were measured, monitored and presented monthly to the Risk Management Meeting of the Group Management Board during 1H15 are tabulated below:

Key risk appetite metrics

Component	**Measure**	**Risk Appetite**	**30 June 2015**
Returns	Return on average ordinary shareholders equity	≥10%	**10.6%**

Cost efficiency	Adjusted jaws[4]	Positive	**(2.9)%**
Capital	Common equity tier 1 ratio CRD IV basis	≥10%	**11.6%**
Liquidity	HSBC consolidated balance sheet advances-to-deposits ratio	≤90%	**71.4%**
Loan impairment charges	Retail (Principal RBWM see page 34) loan impairment charges as % of advances	<0.65%	**0.53%**
	Wholesale loan impairment charges as % of advances	<0.45%	**0.29%**

For footnote, see page 56.

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Financial summary

Financial summary

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Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 101. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures.

Non-GAAP financial measures that we use throughout the Interim Management Report are described below. Non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons.

We use the term significant items to collectively describe the group of individual adjustments which are excluded from reported results when arriving at adjusted performance. Significant items, which are detailed below, are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business.

We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believe to be significant and providing insight into how management assesses period-on-period performance.

Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies for the half-year to 30 June 2015. We exclude the translation differences when deriving constant currency data because using this data allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for the half-years to 30 June 2014 and 31 December 2014 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2014 and 31 December 2014 at the average rates of exchange for the half-year to 30 June 2015; and

- the balance sheets at 30 June 2014 and 31 December 2014 at the prevailing rates of exchange on 30 June 2015.

No adjustment has been made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates. When reference is made to foreign currency translation differences in tables or commentaries, comparative data reported in the functional currencies of HSBC s operations have been translated at the appropriate exchange rates applied in the current period on the basis described above.

Significant items

The tables on pages 50 to 55 detail the effect of significant items on each of our geographical segments and global businesses during the first half of 2015 and the two halves of 2014.

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Financial summary (continued)

Consolidated income statement

Summary consolidated income statement

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Net interest income	**16,444**	17,405	17,300
Net fee income	**7,725**	8,177	7,780
Net trading income	**4,573**	3,275	3,485
Net income from financial instruments designated at fair value	**2,666**	1,660	813
Gains less losses from financial investments	**1,874**	946	389
Dividend income	**68**	88	223
Net insurance premium income	**5,607**	6,137	5,784
Other operating income	**836**	538	593
Total operating income	**39,793**	38,226	36,367
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(6,850)**	(7,059)	(6,286)
Net operating income before loan impairment charges and other credit risk provisions	**32,943**	31,167	30,081
Loan impairment charges and other credit risk provisions	**(1,439)**	(1,841)	(2,010)
Net operating income	**31,504**	29,326	28,071
Total operating expenses	**(19,187)**	(18,266)	(22,983)
Operating profit	**12,317**	11,060	5,088
Share of profit in associates and joint ventures	**1,311**	1,280	1,252
Profit before tax	**13,628**	12,340	6,340
Tax expense	**(2,907)**	(2,022)	(1,953)
Profit for the period	**10,721**	10,318	4,387
Profit attributable to shareholders of the parent company	**9,618**	9,746	3,942
Profit attributable to non-controlling interests	**1,103**	572	445
Average foreign exchange translation rates to $:			
$1: £	**0.657**	0.599	0.615
$1:	**0.897**	0.730	0.777

Reported performance

Reported profit before tax of $13.6bn in the first half of 2015 (1H15) was $1.3bn or 10% higher than in the first half of 2014 (1H14). This was primarily driven by a net favourable movement in significant items partly offset by the adverse effects of currency translation between the periods.

Reported net operating income before loan impairment charges and other credit risk provisions (revenue) of $32.9bn was $1.8bn or 6% higher than in 1H14. Revenue was affected by significant items including, in 1H15, a $1.4bn gain on the partial sale of our shareholding in Industrial Bank Co. Ltd (Industrial Bank) and positive favourable fair value movements on our own debt designated at fair value of $0.7bn compared with adverse movements of $0.2bn and a gain of $0.4bn recorded on the sale of our shareholding in Bank of Shanghai in 1H14. The overall favourable movement in significant items was largely offset by the adverse effects of currency translation between the periods. Excluding these items, the increase in revenue was primarily driven by growth in client-facing GB&M (see footnote 5 on page 56), Principal RBWM (see page 34) and CMB.

Reported loan impairment charges and other credit risk provisions (LICs) of $1.4bn were $0.4bn or 22% lower than in 1H14, notably in North America and Latin America, partly offset in Middle East and North Africa.

Reported operating expenses of $19.2bn were $0.9bn or 5% higher than in 1H14, with 1H15 significant items, which included $1.1bn relating to settlements and provisions in connection with legal matters, more than offset by the positive effects of currency translation between the periods of $1.5bn.

Income from associates of $1.3bn increased marginally compared with 1H14.

On 3 August 2015, the Board announced the second interim dividend for 2015 of $0.10 per ordinary share.

Adjusted performance

For further information on non-GAAP financial measures, see page 15.

From reported results to adjusted performance

To arrive at adjusted performance, we adjust for:

- the period-on-period effects of currency translation; and
- the effect of significant items.

Reconciliations of our reported and adjusted results are provided on pages 50 to 55.

On an adjusted basis, profit before tax of $13.0bn in 1H15 rose by $0.3bn compared with 1H14. Higher revenue, notably in client-facing GB&M, Principal RBWM and CMB, and lower LICs were partly offset by higher operating expenses.

The following commentary is on an adjusted basis.

Revenue was 4% higher with growth in client-facing GB&M, Principal RBWM and CMB

Revenue rose by $1.3bn to $30.8bn reflecting global business performance as follows:

In GB&M, total revenue was $0.9bn or 10% higher. This was driven by an increase of $0.8bn or 10% in client-facing GB&M, mainly in Europe, and an increase of $0.2bn in Balance Sheet Management (BSM), in part driven by increased gains on disposal of available-for-sale debt securities. The rise in client-facing GB&M was notably in Markets, where revenue rose in Equities by $0.5bn and in Foreign Exchange by $0.3bn following increased volatility in the period. Equities also benefited from higher client flows and favourable movements on own credit spreads compared with minimal movements in 1H14. By contrast, revenue fell in Principal Investments reflecting lower gains on disposal than in 1H14. Legacy credit also fell from reduced revaluation gains.

In RBWM, revenue was $0.2bn or 2% higher driven by Principal RBWM (up $0.5bn) partly offset by the run-off of our US Consumer and Mortgage Lending (CML) portfolio ($0.2bn lower). In our Principal RBWM business, revenue increased by 4%, mainly driven by higher income across all Wealth Management products, notably in Hong Kong from equities and mutual funds products in Investment Distribution as a result of higher stock market turnover. The increase also reflected a net favourable valuation movement in our life insurance manufacturing business following increasing interest rates in the eurozone compared with falling rates in 1H14, and improved equity market performance in Asia. Current accounts, savings and deposit revenues were up by 2%, mainly due to customer account balances increasing by 4%, principally in the UK and Hong Kong. By contrast, personal lending revenues decreased by 2% despite higher balances, driven lower in the UK by a reduction in overdraft fees reflecting re-pricing and the introduction in November 2014 of a text message alert service for customers, and reduced spreads on mortgages.

In CMB, revenue rose by $0.3bn or 4%, primarily due to higher net interest income in Credit and Lending and Payments and Cash Management, mainly in Hong Kong and the UK. In Hong Kong, this reflected average balance sheet growth and wider lending spreads, while in the UK it reflected continued balance sheet growth, notably from lending in our Large Corporate and Middle-Market Enterprises (MME) segments. In addition, revenue increased in the US, primarily from lending growth to Large Corporate customers, and in Argentina, in part reflecting wider deposit spreads.

In GPB, revenue was broadly unchanged as a decrease arising from the managed reduction in client assets from the ongoing repositioning of our business, notably in Europe, was offset by an increase in revenue in Hong Kong which reflected a rise in client transaction volumes and higher market volatility, coupled with the effect of positive net new money in 2014. We continued to grow the parts of the business that fit our target model, attracting net new money of $7bn in 1H15, mainly in Hong Kong, the US and the UK, over 45% of which was driven by referrals from our three other global businesses.

LICs fell by 8%, primarily in North America and Latin America, partly offset in Middle East and North Africa, Europe and Asia

LICs reduced by $0.1bn.

- In North America, LICs continued to fall in the US CML portfolio in RBWM, driven by reduced levels of delinquency and new impaired loans in addition to lower lending balances from the continued run-off and loan sales. The reduction also reflected the non-recurrence of impairment charges recorded in CMB and GB&M in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. These factors were partly offset by lower favourable market value adjustments of underlying properties in the CML portfolio as improvements in housing market conditions were less pronounced in 1H15 than in 1H14.

- In Latin America, LICs decreased, mainly due to lower collectively assessed impairment charges in RBWM in Brazil, in part due to the non-recurrence of charges from refinements made in 1H14 to the impairment model for non-restructured loan portfolios, and in Mexico reflecting lower delinquency rates on personal lending, payroll and card portfolios.

However, LICs increased:

- in Middle East and North Africa, where the adverse movement reflected individually assessed impairment charges in 1H15 compared with a net release in 1H14, primarily on UAE-related exposures in CMB and GB&M;

- in Europe, primarily in GB&M reflecting lower releases of available-for-sale asset-backed securities (ABS s) and higher impairment charges relating to Greek exposures, partly offset by lower individually assessed impairment charges notably in GB&M in the UK; and

- in Asia, mainly reflecting a specific CMB impairment charge in Indonesia in 1H15.

Operating expenses were 7% higher in 1H15

On an adjusted basis, operating expenses increased by $1.2bn or 7% reflecting increases in both run-the-bank and change-the-bank costs. For further information on the categorisation of operating expenses as run-the-bank and change-the-bank costs, see page 26.

The rise in run-the-bank costs of $0.8bn was primarily driven by staff costs, reflecting wage inflation, principally in Latin America and Hong Kong, and a targeted increase in the number of staff to support growth initiatives in the global businesses. The increase in staff numbers included:

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Financial summary (continued)

- in GB&M, investment in our Payments and Cash Management business in North America, Asia and Europe;
- in CMB, investment in Payments and Cash Management in North America and organic growth initiatives in Asia and Europe; and
- in RBWM, additional FTEs in Asia to support revenue growth.

This investment was in line with our strategic objectives to prioritise growth in Asia and achieve revenue growth above GDP from our international network. Run-the-bank costs also increased due to higher Regulatory Programmes and Compliance costs as a result of our ongoing focus on Global Standards, particularly in the area of financial crime and compliance.

The increase in change-the-bank costs of $0.4bn was also driven by inflation and higher regulatory and compliance costs. This was a result of the continued focus on Global Standards, including the Group-wide roll out of the new AML and sanctions policy procedures and the ongoing parallel deployment of enhanced customer due diligence and financial crime compliance infrastructure. These actions are in line with our strategic target to complete the implementation of Global Standards by the end of 2017.

The number of employees, expressed in full-time equivalent numbers (FTE s), increased by 2,186 during 1H15 to 259,788. The average number of FTEs adjusted for business disposals increased by 2% compared with 1H14 due to additional FTE requirements for regulatory programmes and compliance and business growth in GB&M.

Income from associates

Income from associates of $1.3bn increased marginally compared with 1H14.

Effective tax rate

The effective tax rate was 21.3% compared with 16.4% in 1H14.

The effective tax rate for 1H14 was significantly lower principally due to prior year adjustments.

Brazil and Turkey

We intend to dispose of our operations in Brazil and Turkey as part of the plans to re-size and simplify the business announced in our Investor Update. A presence in Brazil will be maintained to serve large corporate clients with respect to their international needs. We expect that the sales will have a significant effect on the future trading results of the Group, in particular the disposal of Brazil (see page 47 for further details).

The assets and liabilities relating to Brazil have been classified as held for sale on the Group balance sheet in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations .

There is no separate presentation in the income statement.

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Group performance by income and expense item

For further financial performance data for each geographical region and global business, see pages 33 to 41 and 42 to 49, respectively.

Net interest income

	Half-year to		
	30 June 2015 $m	30 June 2014 $m	31 December 2014 $m
Interest income	**24,019**	25,435	25,520
Interest expense	**(7,575)**	(8,030)	(8,220)
Net interest income[6]	**16,444**	17,405	17,300
Average interest-earning assets	**1,730,663**	1,801,862	1,771,460
Gross interest yield[7]	**2.80%**	2.85%	2.86%
Cost of funds	**(1.03%)**	(1.03%)	(1.07%)
Net interest spread[8]	**1.77%**	1.82%	1.79%
Net interest margin[8]	**1.92%**	1.95%	1.94%

For footnotes, see page 56.

Reported net interest income of $16.4bn decreased by $1.0bn or 6% compared with 1H14. This was driven by the currency translation and significant items summarised in

the table below. On an adjusted basis, net interest income was broadly unchanged compared with 1H14.

Significant items and currency translation

	Half-year to		
	30 June 2015 $m	30 June 2014 $m	31 December 2014

			$m
Significant items			
releases/(provisions) arising from the ongoing review of compliance with the Consumer Credit Act in the UK	**12**	(367)	(265)
acquisitions, disposals and dilutions		34	4
	12	(333)	(261)
Currency translation		1,356	1,069
Total	**12**	1,023	808

On a reported basis, net interest spread and margin were marginally lower in 1H15 due to reduced yields on customer lending in Europe, Latin America and North America. In addition, there were lower yields on short-term funds and financial investments.

Interest income

Reported interest income decreased by $1.4bn compared with 1H14 due to lower interest income on loans and advances to customers. The decrease was driven by currency translation, notably in Latin America and Europe, although this was partly offset in Europe as 1H14 included the effect of UK Consumer Credit Act (CCA) provisions. Excluding these factors, interest income on loans and advances to customers was broadly unchanged as higher interest income in Asia and Latin America was broadly offset in Europe and North America.

In Asia, the rise in interest income was driven by growth in average term lending balances, the effect of which was partly offset by compressed yields on customer lending in mainland China due to central bank rate reductions. In Latin America, the increase was primarily in Brazil and Argentina driven by average balance sheet growth and,

additionally, in Brazil, by the effect of successive increases in central bank interest rates since late 2014.

By contrast, in Europe, the reduction in interest income was driven by lower average balances and yields on mortgages in the UK in line with competitive pricing, and the effect of downward movements in market interest rates in the eurozone. Interest income also decreased in North America as new lending to customers in RBWM and CMB was at reduced yields in the current low interest rate environment, and the CML portfolio continued to decrease from run-off and sales.

Interest income on short-term funds and financial investments in BSM decreased, due to currency translation in Latin America, notably in Brazil, and in Europe. Excluding this, interest income rose, primarily in Latin America due to an increase in average balances and the effect of central bank rate rises in Brazil. These rate rises also drove increased interest income on reverse repurchase agreements. The rise in Latin America was partly offset by falls in Europe due to a managed reduction in average balances and, to a lesser extent, in Asia reflecting movement in central bank interest rates in mainland China and changes in the currency mix of the overall portfolio.

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Financial summary (continued)

Interest expense

Reported interest expense decreased by $0.5bn compared with 1H14, primarily on customer accounts, reflecting currency translation, primarily in Latin America and Europe. Excluding this, interest expense on customer accounts rose in Latin America notably in Brazil, driven by increases in the central bank interest rate and growth in average balances.

In North America, other interest expense increased as 1H14 benefited from the release of accrued interest associated with uncertain tax positions.

Interest expense on debt issued also increased, excluding the effects of currency translation. This was largely in Latin America, notably Brazil, in line with central bank interest rate rises, coupled with an increase in average balances. These factors were partly offset in Europe, as new debt was issued at lower prevailing rates and average outstanding balances fell as a result of net redemptions.

Net fee income

	Half-year to		
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Account services	**1,383**	1,734	1,673
Funds under management	**1,310**	1,283	1,375
Cards	**1,120**	1,210	1,250
Credit facilities	**989**	963	927
Broking income	**817**	664	707
Unit trusts	**595**	518	487
Imports/exports	**485**	558	557
Underwriting	**450**	536	336
Remittances	**387**	411	422
Global custody	**371**	359	367
Insurance agency commission	**284**	302	214
Other	**1,181**	1,493	1,199
Fee income	**9,372**	10,031	9,514

Less: fee expense	**(1,647)**	(1,854)	(1,734)
Net fee income	**7,725**	8,177	7,780

Reported net fee income fell by $452m compared with 1H14, primarily reflecting the adverse effects of currency translation of $598m between the periods, notably in Europe and Latin America.

On an adjusted basis, net fee income increased by $156m or 2%. This reflected higher net fee income in Asia and North America, mainly in RBWM, partly offset by a reduction in Europe, primarily within GB&M and RBWM.

Fee income from both broking and unit trusts grew strongly, mainly in Hong Kong, driven by higher sales of equities and mutual funds in RBWM. This reflected higher stock market turnover, in part facilitated by the Shanghai-Hong Kong Stock Connect platform following a relaxation of certain restrictions in 1H15 by the regulator in mainland China, and higher investor appetite following improvements in Asian equity markets notwithstanding the weakness experienced in the latter part of June 2015.

Fee income from funds under management also increased in Asia, Europe and North America. In our Global Asset Management business, management fees increased in Hong Kong, France and the US driven by volume growth, in part due to higher net inflows of fixed income products, and stronger equity market performance, notably in Europe

and Asia. Fee income from funds under management also increased in Germany reflecting business growth in GB&M.

In addition, fee income from credit facilities increased, mainly in North America, reflecting continued lending growth in CMB through our focus on internationally connected cities.

By contrast, account services fee income decreased, primarily in the UK in RBWM where lower overdraft fees reflected re-pricing and fewer overdrawn balances following the introduction in November 2014 of a text-alert service for customers. Account services fees also reduced in Switzerland due to the continued repositioning of our GPB business.

In addition, underwriting fee income decreased, mainly in Hong Kong in GB&M reflecting reduced activity in equity capital markets, although this was partly offset by higher volumes of debt issuances in the US.

Fee expenses were marginally lower by $15m or 1%, compared with 1H14, primarily in the US reflecting favourable adjustments to mortgage servicing rights valuations following mortgage interest rate increases in 1H15 compared with decreases in 1H14.

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Net trading income

	Half-year to		
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
Trading activities	**3,553**	2,666	2,753
Net interest income on trading activities	**1,053**	913	994
Gain/(loss) on termination of hedges	**(8)**	(4)	5
Other trading income/(expense) hedge ineffectiveness:			
on cash flow hedges	**4**	15	19
on fair value hedges	**26**	22	(3)
Adverse fair value movement on non-qualifying hedges	**(55)**	(337)	(283)
Net trading income	**4,573**	3,275	3,485

Reported net trading income of $4.6bn was $1.3bn higher compared with 1H14, predominantly in Asia and Europe. The movement in net trading income in part reflected the

following significant items and currency translation summarised in the table below.

Significant items and currency translation

	Half-year to		
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
Included within trading activities:			
favourable/(adverse) debit valuation adjustment on derivative contracts	**165**	(155)	(177)
Other significant items:			
adverse fair value movements on non-qualifying hedges	**(45)**	(322)	(219)

acquisitions, disposals and dilutions		2	
	120	(475)	(396)
Currency translation		240	207
Total	**120**	(235)	(189)

On an adjusted basis, excluding the significant items and currency translation tabulated above, net trading income from trading activities increased by $943m compared with 1H14, notably in client-facing GB&M driven by our Equities and Foreign Exchange businesses, primarily in the UK, following a rise in volatility in 1H15. Equities also benefited from increased client activity and favourable

movements on own credit spreads compared with minimal movements in 1H14.

Net interest income from trading activities grew, mainly in Asia from increased average balances of trading assets, and in North America from a change in portfolio mix towards higher-yielding debt securities.

Net income from financial instruments designated at fair value

		Half-year to	
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**1,615**	1,396	904
liabilities to customers under investment contracts	**(301)**	(231)	(204)
HSBC s long-term debt issued and related derivatives	**1,324**	438	70
change in own credit spread on long-term debt	**650**	(215)	632
other changes in fair value	**674**	653	(562)
other instruments designated at fair value and related derivatives	**28**	57	43
Net income from financial instruments designated at fair value	**2,666**	1,660	813

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Financial summary (continued)

Assets and liabilities from which net income from financial instruments designated at fair value arose

	At		
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
Financial assets designated at fair value	**25,168**	31,823	29,037
Financial liabilities designated at fair value	**69,485**	82,968	76,153
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DPF	**11,341**	11,906	10,650
unit-linked insurance and other insurance and investment contracts	**12,297**	16,927	16,333
Long-term debt issues designated at fair value	**62,962**	75,740	69,681

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issues and are managed in conjunction with interest rate swaps as part of our interest rate management strategy. These liabilities are discussed further on page 50 of the *Annual Report and Accounts 2014*.

Reported net income from financial instruments designated at fair value was $2.7bn in 1H15, compared with $1.7bn in 1H14. The former included favourable movements in the fair value of our own long-term debt of $650m due to changes in credit spread, compared with adverse movements of $215m in the latter period.

On an adjusted basis, which excludes changes in own credit spread and the net adverse effect of currency translation of $226m, net income from financial instruments designated at fair value increased by $367m.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts of $1.6bn was $387m higher than in 1H14. This primarily

reflected stronger equity market performance, notably in Hong Kong, mainland China and France.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back investment contracts, the corresponding movement in liabilities to customers is also recorded under Net income/(expense) from financial instruments designated at fair value . This is in contrast to gains or losses related to assets held to back insurance contracts or investment contracts with discretionary participation features (DPF), where the corresponding movement in liabilities to customers is recorded under Net insurance claims and benefits paid and movement in liabilities to policyholders .

Net income from Other changes in fair value increased mainly reflecting a net favourable movement of $73m due to interest and exchange rate hedging ineffectiveness.

Gains less losses from financial investments

	Half-year to		
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Net gains from disposal of:			
debt securities	**310**	185	480
equity securities	**1,578**	782	255
other financial investments	**4**	2	4
	1,892	969	739
Impairment of available-for-sale equity securities	**(18)**	(23)	(350)
Gains less losses from financial investments	**1,874**	946	389

In 1H15, gains less losses from financial investments increased by $928m on a reported basis compared with 1H14, driven by the significant items and currency translation tabulated below, notably the gain on the partial sale of our shareholding in Industrial Bank ($1.4bn).

On an adjusted basis, excluding all significant items and currency translation tabulated below, gains less losses from

financial investments increased by $46m, driven by an increase from the disposal of available-for-sale debt securities in Europe, Asia and North America. This was partly offset by lower gains on disposal in Principal Investments in the UK.

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Significant items and currency translation

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Significant items			
gain on the partial sale of shareholding in Industrial Bank	**1,372**		
gain on sale of shareholding in Bank of Shanghai		428	
impairment on our investment in Industrial Bank			(271)
	1,372	428	(271)
Currency translation		62	26
Total	**1,372**	490	(245)

Net insurance premium income

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Gross insurance premium income	**5,855**	6,358	6,012
Reinsurance premiums	**(248)**	(221)	(228)
Net insurance premium income	**5,607**	6,137	5,784

Reported net insurance premium income decreased by $530m compared with 1H14, mainly reflecting the adverse effect of currency translation of $448m. On an adjusted basis, net insurance premium income fell marginally by $82m or 1%, driven by a reduction in Asia partly offset by higher premium income in Europe and Latin America.

In Asia, premium income fell, primarily in Hong Kong from lower unit-linked contract premiums and lower sales of endowment products.

In Europe, premium income increased, driven by France, where there were higher sales of investment contracts with DPF reflecting customer demand, partly offset in the UK by lower pension premiums following a decision to exit the commercial pensions market in 2014.

Net insurance premium income also increased in Latin America, primarily in Brazil due to higher volumes of new business reflecting sales campaigns.

Other operating income

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Rent received	**84**	82	80
Gains recognised on assets held for sale	**34**	10	210
Gains on investment properties	**33**	71	49
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**26**	3	29
Change in present value of in-force long-term insurance business	**438**	200	61
Other	**221**	172	164
Other operating income	**836**	538	593

Change in present value of in-force long-term insurance business

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Value of new business	**438**	479	391
Expected return	**(279)**	(286)	(259)
Assumption changes and experience variances	**241**	(3)	(113)
Other adjustments	**38**	10	42
Change in present value of in-force long-term insurance business	**438**	200	61

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Financial summary (continued)

Reported other operating income of $836m increased by $298m compared with 1H14. This was in part due to the significant items and currency translation summarised in the table below.

Significant items and currency translation

	Half year to		
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
Significant items			
Included within gains recognised on assets held for sale:			
gain/(loss) on sale of several tranches of real estate secured accounts in the US	**17**	(15)	183
Included within the remaining line items:			
acquisitions, disposals and dilutions		(14)	(27)
	17	(29)	156
Currency translation		(45)	(28)
Total	**17**	(74)	128

On an adjusted basis, excluding the significant items and currency translation tabulated above, other operating income increased by $207m compared with 1H14. This was primarily due to higher favourable movements in the present value of in force long-term insurance business (PVIF) in RBWM, partly offset by lower disposal and revaluation gains on investment properties in 1H15.

The higher favourable movement in the PVIF balance was driven by positive investment assumption changes

in France due to rising interest rates in 1H15, compared with falling rates in 1H14. In addition, positive experience variances were reported in Hong Kong, though they were offset by an increase in liabilities to policyholders following a change in the regulatory discount rate. The overall increases were partially offset by a reduction in the value of new business driven mainly by a change in business mix in Hong Kong.

Net insurance claims and benefits paid and movement in liabilities to policyholders

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Insurance claims and benefits paid and movement in liabilities to policyholders:			
gross	**7,099**	7,212	6,511
reinsurers share	**(249)**	(153)	(225)
Net total	**6,850**	7,059	6,286

Reported net insurance claims and benefits paid and movement in liabilities to policyholders were $209m lower than in 1H14, mainly reflecting the effect of currency translation of $562m. On an adjusted basis, net insurance claims and benefits paid and movement in liabilities to policyholders were $353m higher.

The increase was mainly driven by higher investment returns on the assets held to support liabilities under contracts where the policyholder bears investment risk. Notably, this included stronger equity market performance in France. The gains or losses recognised on the financial assets designated at fair value held to support these

insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

In addition, there was a one-off increase in liabilities to policyholders in Hong Kong following a change in the regulatory discount rate applied to the liabilities which is offset by the corresponding PVIF experience variance noted above.

These increases were partially offset by lower net insurance premium income as described above.

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Loan impairment charges and other credit risk provisions

	30 June	Half-year to 30 June	31 December
	2015	2014	2014
	$m	$m	$m
Loan impairment charges			
new allowances net of allowance releases	**1,797**	2,581	2,429
recoveries of amounts previously written off	**(350)**	(556)	(399)
	1,447	2,025	2,030
individually assessed allowances	**480**	558	1,222
collectively assessed allowances	**967**	1,467	808
Releases of impairment allowances of available-for-sale debt securities	**(38)**	(214)	(105)
Other credit risk provisions	**30**	30	85
Loan impairment charges and other credit risk provisions	**1,439**	1,841	2,010
	%	%	%
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised)	**0.31**	0.44	0.43

Reported loan impairment charges and other credit risk provisions (LICs) of $1.4bn were $402m lower than in 1H14, in part reflecting the favourable effect of currency translation of $267m, notably in Latin America and Europe.

On an adjusted basis, LICs decreased by $133m or 8%, primarily within North America and Latin America, partly offset in Middle East and North Africa, Europe and Asia. The percentage of impairment charges to average gross loans and advances to customers fell to 30bps in 1H15 from 33bps in 1H14.

Collectively assessed impairment charges fell by $303m, mainly in North America and Latin America, partly offset in Europe.

In North America, impairment charges continued to fall in the US CML portfolio in RBWM, reflecting reduced levels of delinquency and new impaired loans in addition to lower lending balances from the continued run-off and loan sales. The reduction also reflected the non-recurrence of impairment charges recorded in CMB and GB&M in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. These factors were partly offset by lower favourable market value adjustments of underlying properties in the CML portfolio as

- improvements in housing market conditions were less pronounced in 1H15 than in 1H14; and

- in Latin America, the decrease primarily reflected lower impairment charges in RBWM in Brazil, in part due to the non-recurrence of charges from refinements made in 1H14 to the impairment model for non-restructured loan portfolios, and in Mexico reflecting lower delinquency rates on personal lending, payroll and card portfolios.

These were partly offset:

- in Europe, where the increase primarily reflected higher impairment charges relating to Greek exposures in GB&M, RBWM and CMB (see page 74 for further details).

Individually assessed impairment charges were broadly unchanged, as increases in Middle East and North Africa, Latin America and Asia were largely offset by a reduction in Europe.

- In Middle East and North Africa, the increase reflected impairment charges in 1H15 compared with a net release in 1H14, primarily on UAE-related exposures in CMB and GB&M;

- in Latin America, impairment charges rose, notably in CMB in Brazil; and

- in Asia, the increase reflected a specific CMB impairment charge in Indonesia in 1H15.

These factors were broadly offset:

- in Europe, where the reduction primarily reflected lower impairment charges notably in GB&M in the UK.

Net releases of credit risk provisions decreased by $161m, mainly in the UK driven by lower releases of available-for-sale ABSs in the GB&M legacy portfolio.

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Financial summary (continued)

Operating expenses

In addition to detailing operating expense items by category, as set out in the table below, we also categorise adjusted expenses as follows:

run-the-bank costs comprise business as usual running costs that keep operations functioning at the required quality and standard year-on-year, maintain IT infrastructure and support revenue growth;

change-the-bank costs comprise expenses relating to the implementation of mandatory regulatory changes and other investment costs incurred relating to projects to change business as usual activity to enhance future operating capabilities.

Change-the-bank costs do not include one-off transformation costs incurred to deliver the cost reduction and productivity outcomes outlined in the Investor Update; and

the UK bank levy is reported as a separate category.

Run-the-bank costs are split between front office and back office reflecting the way the Group is organised into four global businesses (front office), supported by the global functions (back office).

	Half-year to		
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
By expense category			
Employee compensation and benefits	**10,041**	9,978	10,388
Premises and equipment (excluding depreciation and impairment)	**1,939**	2,092	2,112
General and administrative expenses	**6,190**	5,035	9,326
Administrative expenses	**18,170**	17,105	21,826
Depreciation and impairment of property, plant and equipment	**604**	712	670
Amortisation and impairment of intangible assets	**413**	449	487

Operating expenses	**19,187**	18,266	22,983

Staff numbers (full-time equivalent)

	At		
	30 June 2015	30 June 2014	31 December 2014
Geographical regions			
Europe	**69,867**	69,642	69,363
Asia	**120,588**	115,111	118,322
Middle East and North Africa	**8,208**	8,530	8,305
North America	**20,338**	20,649	20,412
Latin America	**40,787**	42,157	41,201
Staff numbers	**259,788**	256,089	257,603

Reported operating expenses of $19.2bn were $0.9bn or 5% higher than in 1H14, with the increase in significant items in 1H15 more than offset by the positive effects of currency translation.

Significant items and currency translation

	Half-year to		
	30 June 2015	30 June 2014	31 December 2014
	$m	$m	$m
Significant items			
charge in relation to the settlement agreement with Federal Housing Finance Authority			550
settlements and provisions in connection with legal matters	**1,144**		1,187
regulatory provisions in GPB	**147**		65
UK customer redress programmes	**137**	234	1,041
restructuring and other related costs	**117**	82	196
acquisitions, disposals and dilutions		35	5
	1,545	351	3,044
Currency translation		1,479	1,287
Total	**1,545**	1,830	4,331

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	Half-year to		
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
By expense group			
Run-the-bank front office	**8,027**	7,448	7,746
Run-the-bank back office	**7,924**	7,680	8,273
Change-the-bank	**1,736**	1,353	1,525
Bank levy	**(45)**	(45)	1,108
Significant items	**1,545**	351	3,044
Currency translation		1,479	1,287
Operating expenses	**19,187**	18,266	22,983

On an adjusted basis, excluding the significant items and currency translation tabulated above, operating expenses in 1H15 were $1.2bn or 7% higher than in 1H14 reflecting increases in both run-the-bank and change-the-bank costs.

Front office run-the-bank costs totalled $8.0bn in 1H15, an increase of $0.6bn (8%) on 1H14. This was primarily driven by higher staff costs reflecting wage inflation, principally in Argentina, Brazil and Hong Kong, and a targeted increase in the number of staff to support growth as follows:

- in line with our strategic target to achieve revenue growth above GDP from our international network, in CMB and GB&M we invested in Payments and Cash Management in North America, Asia and Europe; and

- in RBWM we invested in additional FTEs, mainly in Asia to support revenue growth.

Back office run-the-bank costs totalled $7.9bn in 1H15, an increase of $0.2bn (3%) on 1H14 in part driven by both wage inflation and non-wage inflation such as rental costs in Asia.

Regulatory Programmes and Compliance costs increased as a result of our ongoing focus on Global Standards, as part of which we continue to improve our compliance capabilities, particularly in the area of financial crime compliance. Additionally, we are delivering infrastructure changes and systems enhancements that support the effective and efficient operation of our financial crime controls. This supports ongoing delivery of HSBC s external commitments and enhances the quality of customer data and the operation of our financial crime control environment. We also continued our investment to strengthen the identification, analysis and mitigation of risk.

Change-the-bank costs totalled $1.7bn in 1H15, an increase of $0.4bn (28%) on 1H14. The increase was primarily driven by higher regulatory and compliance costs which included the bank-wide roll out of the new AML and sanctions policy procedures and the ongoing parallel deployment of enhanced customer due diligence and financial crime compliance infrastructure. These actions were in line with our strategic target to complete the implementation of Global Standards by the end of 2017.

The number of employees, expressed in FTEs, increased by 2,185 during 1H15 to 259,788. The average number of FTEs adjusted for business disposals increased by 2% compared with 1H14, primarily due to additional FTE requirements for regulatory programmes and compliance.

Reported cost efficiency ratios

	Half-year to		
	30 June 2015	30 June 2014	31 December 2014
	%	%	%
HSBC	**58.2**	58.6	76.4
Geographical regions			
Europe	**78.3**	76.8	110.9
Asia	**38.8**	41.4	46.8
Middle East and North Africa	**48.4**	47.4	48.0
North America	**79.7**	69.8	87.9
Latin America	**67.6**	67.8	75.8
Global businesses			
Retail Banking and Wealth Management[9]	**67.1**	67.6	75.8
Commercial Banking[9]	**44.1**	42.5	46.1
Global Banking and Markets	**56.4**	50.6	88.5
Global Private Banking	**85.0**	70.6	79.3

For footnote, see page 56.

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Financial summary (continued)

Share of profit in associates and joint ventures

	Half-year to		
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Associates			
Bank of Communications Co., Limited	**1,021**	978	996
The Saudi British Bank	**240**	239	216
Other	**25**	37	27
Share of profit in associates	**1,286**	1,254	1,239
Share of profit in joint ventures	**25**	26	13
Share of profit in associates and joint ventures	**1,311**	1,280	1,252

HSBC s share of profit in associates and joint ventures of $1.3bn increased marginally compared with 1H14 driven by a higher contribution from Bank of Communications Co., Limited (BoCom).

Our share of profit from BoCom rose as a result of balance sheet growth, increased fee income and a reduction in loan impairment charges, partly offset by higher operating expenses.

At 30 June 2015, we performed an impairment review of our investment in BoCom and concluded that it was not impaired based on our value in use calculation (see Note 14 in the Financial Statements for further details). The continued uncertainty regarding future movements in the value in use and the expectations around increases in the carrying amount are discussed further on page 55 of the *Annual Report and Accounts 2014*.

Tax expense

	Half-year to		
	30 June	30 June	31 December
	2015	2014	2014

	$m	$m	$m
Profit before tax	**13,628**	12,340	6,340
Tax expense	**(2,907)**	(2,022)	(1,953)
Profit after tax	**10,721**	10,318	4,387
Effective tax rate	**21.3%**	16.4%	30.8%

The effective tax rate for the first half of the year of 21.3% was slightly higher than the UK corporation tax rate of 20.25% principally due to non-deductible regulatory settlements and provisions.

The effective tax rate for 1H14 was significantly lower, principally due to prior year adjustments.

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Consolidated balance sheet

Summary consolidated balance sheet

	At 30 June 2015	At 30 June 2014	At 31 December 2014
	$m	$m	$m
ASSETS			
Cash and balances at central banks	**144,324**	132,137	129,957
Trading assets	**283,138**	347,106	304,193
Financial assets designated at fair value	**25,168**	31,823	29,037
Derivatives	**296,942**	269,839	345,008
Loans and advances to banks	**109,405**	127,387	112,149
Loans and advances to customers	**953,985**	1,047,241	974,660
Reverse repurchase agreements non-trading	**149,384**	198,301	161,713
Financial investments	**404,682**	423,710	415,467
Assets held for sale	**60,929**	10,248	7,647
Other assets	**143,756**	165,801	154,308
Total assets	**2,571,713**	2,753,593	2,634,139
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**71,140**	92,764	77,426
Customer accounts	**1,335,800**	1,415,705	1,350,642
Repurchase agreements non-trading	**81,506**	165,506	107,432
Trading liabilities	**181,435**	228,135	190,572
Financial liabilities designated at fair value	**69,485**	82,968	76,153
Derivatives	**289,984**	263,494	340,669
Debt securities in issue	**102,656**	96,397	95,947
Liabilities under insurance contracts	**69,494**	75,223	73,861
Liabilities of disposal groups held for sale	**53,226**	12,361	6,934
Other liabilities	**115,605**	122,318	114,525
Total liabilities	**2,370,331**	2,554,871	2,434,161
Equity			
Total shareholders equity	**192,427**	190,281	190,447
Non-controlling interests	**8,955**	8,441	9,531
Total equity	**201,382**	198,722	199,978
Total liabilities and equity	**2,571,713**	2,753,593	2,634,139

Selected financial information

	At 30 June 2015	At 30 June 2014	At 31 December 2014
	$m	$m	$m
Called up share capital	**9,758**	9,535	9,609
Total regulatory capital	**195,110**	192,834	190,730
Undated subordinated loan capital	**2,771**	2,777	2,773
Preferred securities and dated subordinated loan capital	**44,852**	49,644	47,208
Risk-weighted assets	**1,193,154**	1,248,572	1,219,765
Financial statistics			
Loans and advances to customers as a percentage of customer accounts	**71.4**	74.0	72.2
Average total shareholders equity to average total assets	**7.1**	6.9	7.0
Net asset value per ordinary share at period-end ($)	**9.11**	9.64	9.28
Number of $0.50 ordinary shares in issue (millions)	**19,516**	19,071	19,218
Closing foreign exchange translation rates to $:			
$1: £	**0.635**	0.586	0.642
$1:	**0.893**	0.732	0.823

A more detailed consolidated balance sheet is contained in the Financial Statements on page 101.

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Financial summary (continued)

Combined view of customer lending and customer deposits

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$m	$m	$m
Loans and advances to customers	**953,985**	1,047,241	974,660
Loans and advances to customers reported in Assets held for sale	**21,024**	1,658	577
Brazil	**20,827**		
other	**197**	1,658	577
Combined customer lending	**975,009**	1,048,899	975,237
Customer accounts	**1,335,800**	1,415,705	1,350,642
Customer accounts reported in Liabilities of disposal groups held for sale	**19,432**	4,880	145
Brazil	**19,432**		
other		4,880	145
Combined customer deposits	**1,355,232**	1,420,585	1,350,787

Movement from 31 December 2014 to 30 June 2015

Total reported assets of $2.6 trillion were 2% lower than at 31 December 2014. On a constant currency basis, total assets were broadly unchanged.

Our ratio of customer advances to customer accounts was 71%. Both customer loans and customer accounts were lower on a reported basis with these movements including:

- adverse currency translation movements of $12bn and $14bn, respectively;

- the transfer to Assets held for sale and Liabilities of disposal groups held for sale of balances relating to the planned disposal of our operations in Brazil of $21bn and $19bn, respectively; and

- a $10bn reduction in corporate overdraft and current account balances relating to a small number of clients in our Payments and Cash Management business in the UK who settled their overdraft and deposit balances on a net basis. During 2014 we made our approach to our Payments and Cash Management business more globally consistent, with customers increasing the frequency with which they settled their overdraft and deposit positions.

Excluding these movements, customer lending grew by $22bn and customer accounts grew by $29bn, notably in Asia in each case.

Assets

Cash and balances at central banks increased by $14bn, primarily in Asia, notably Hong Kong, and in Europe, partly offset by a fall in North America as we managed the balance of our liquid asset portfolios across our regions.

Trading assets decreased by $21bn despite a rise in settlement accounts of $12bn, driven by reduced holdings of debt securities across Europe, Asia and North America, as we looked to maximise the effectiveness of our asset deployment.

Derivative assets decreased by $48bn or 14%, notably in Europe relating to interest rate contracts reflecting movements in yield curves.

Loans and advances to customers decreased by $21bn driven by Latin America and Europe. This included the following items:

- adverse currency translation movements of $12bn;
- reclassification of $21bn to Assets held for sale relating to Brazil; and
- a $10bn reduction in corporate overdraft balances in Europe, with a corresponding fall in corporate customer accounts.

Excluding these factors, customer lending balances grew by $22bn or 3%, largely from growth in Asia of $12bn, North America $5bn and Europe $3bn.

In Asia, term lending to GB&M and CMB customers grew, primarily in Hong Kong, which included growth in lending to the property sector. Residential mortgage balances also increased, mainly in Hong Kong and mainland China. In North America the growth in balances was driven by increased term lending to corporate and commercial customers in CMB and GB&M, and in Europe, the growth in CMB was mainly driven by an increase in term lending, notably in the UK and Germany.

Liabilities

Repurchase agreements decreased by $26bn or 24%, driven by falls in Europe, notably in the UK and France, and in North America. We continued to closely manage these balances, as we reassessed the overall returns on these activities in light of new regulatory requirements.

Customer accounts decreased by $15bn and included the following items:

adverse currency translation movements of $14bn;

reclassification of over $19bn to Liabilities of disposal groups held for sale relating to Brazil; and

a $10bn reduction in corporate current account balances, in line with the fall in corporate overdraft positions. Excluding these factors, customer accounts grew by $29bn, notably in Asia in the second quarter, reflecting growth in our Payments and Cash Management and Securities Services businesses in CMB and GB&M, respectively, together with a rise in RBWM from increased savings balances by new and existing Premier customers.

Balances in Europe were broadly unchanged. Growth in our Payments and Cash Management business in CMB and a rise in RBWM balances reflecting customers continued preference for holding balances in current and savings accounts were broadly offset by a fall in GB&M relating to a small number of clients.

The decrease in *derivative liabilities* was in line with that of Derivative assets as the underlying risk is broadly matched.

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Equity

Total shareholders equity rose by $2bn driven by profits generated in the period which were partly offset by dividends paid. In addition, shareholders equity increased from the issue of new contingent convertible securities of $2.5bn. These movements were partly offset by a reduction of $3.2bn in our foreign exchange reserve reflecting the weakening of a number of global currencies, notably the euro, partly offset by the strengthening of sterling against the US dollar.

Customer accounts by country

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$m	$m	$m
Europe	**536,251**	614,776	545,959
UK	**435,958**	499,295	439,313
France	**35,713**	47,347	40,750
Germany	**15,741**	15,912	15,757
Switzerland	**10,887**	11,073	11,058
other	**37,952**	41,149	39,081
Asia	**599,940**	570,221	577,491
Hong Kong	**412,652**	381,058	389,094
Australia	**18,214**	20,803	19,312
India	**11,372**	12,155	11,678
Indonesia	**6,087**	5,979	5,788
Mainland China	**47,348**	41,198	46,588
Malaysia	**15,942**	17,570	16,292
Singapore	**43,889**	45,885	43,731
Taiwan	**13,014**	14,609	14,901
other	**31,422**	30,964	30,107
Middle East and North Africa (excluding Saudi Arabia)	**38,186**	40,082	39,720
Egypt	**6,638**	6,945	7,663
United Arab Emirates	**19,864**	19,840	19,771
other	**11,684**	13,297	12,286
North America	**137,296**	136,774	138,884
US	**85,360**	79,536	84,894
Canada	**40,548**	46,197	43,871
other	**11,388**	11,041	10,119
Latin America	**24,127**	53,852	48,588

Mexico	**17,112**	20,112	18,360
other	**7,015**	33,740	30,228
included in other: Brazil[10]		27,068	23,204
At end of period	**1,335,800**	1,415,705	1,350,642

For footnote, see page 56.

Risk-weighted assets

Risk-weighted assets totalled $1,193bn at 30 June 2015, a decrease of $27bn or 2% from 31 December 2014, reflecting targeted RWA initiatives and the effects of currency translation, partly offset by business growth. In 1H15, RWA initiatives resulted in a reduction of $50bn and included asset sales in the GB&M legacy book, the sale of part of our shareholding in Industrial Bank, and recognition of collateral and more detailed mapping in RWA calculations. Excluding associates, we achieved business growth in RWAs of $22bn, primarily in corporate lending across CMB and GB&M across Asia, Europe and North America.

Reconciliation of RoRWA measures

Performance Management

We target a return on average ordinary shareholders equity of greater than 10% by the end of 2017. For internal management purposes we monitor global businesses and geographical regions by pre-tax return on average risk-weighted assets (RoRWA), a metric which combines return on equity and regulatory capital efficiency objectives. In addition to measuring RoRWA, we measure our performance internally using the non-GAAP measure of adjusted RoRWA, which is adjusted profit before tax as a percentage of average risk-weighted assets (RWA s) which are adjusted for the effects of foreign currency translation differences and acquisitions and disposals. Excluded from adjusted RoRWA are certain items which distort period-on-period performance as explained on page 15.

We also present the non-GAAP measure of adjusted RoRWA excluding run-off portfolios, in which adjusted RoRWA is further amended to exclude the run-off portfolios and the Card and Retail Services (CRS) business which was sold in May 2012.

The CRS average RWAs as at 30 June 2014 in the table below represent the average of the associated operational risk RWAs that were not immediately released on disposal and were not adjusted for as part of the adjusted RoRWA calculation. These RWAs are now fully amortised.

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Financial Summary (continued)

Reconciliation of adjusted RoRWA (excluding run-off portfolios and Card and Retail Services)

	Half-year to 30 June 2015		
	Pre-tax return	Average RWAs	RoRWA[11]
	$m	$bn	%
Reported	**13,628**	**1,208**	**2.3**
Adjusted[11]	**13,002**	**1,203**	**2.2**
Run-off portfolios	**275**	**91**	**0.6**
legacy credit in GB&M	**71**	**38**	**0.4**
US CML and other	**204**	**53**	**0.8**
Card and Retail Services			
Adjusted (excluding run-off portfolios and Card and Retail Services)	**12,727**	**1,112**	**2.3**

	Half-year to 30 June 2014			Half-year to 31 December 2014		
	Pre-tax return	Average RWAs	RoRWA[11]	Pre-tax return	Average RWAs	RoRWA[11]
	$m	$bn	%	$m	$bn	%
Reported	12,340	1,200	2.1	6,340	1,232	1.0
Adjusted[11]	12,722	1,146	2.2	9,387	1,190	1.6
Run-off portfolios	528	122	0.9	318	110	0.6
legacy credit in GB&M	286	48	1.2	(138)	49	(0.6)
US CML and other	242	74	0.7	456	61	1.5
Card and Retail Services		1				
Adjusted (excluding run-off portfolios and Card and Retail Services)	12,194	1,023	2.4	9,069	1,080	1.7

For footnote, see page 56.

Reconciliation of reported and adjusted average risk-weighted assets

	Half-year to					
	30 Jun 2015	30 Jun 2014	Change	**30 Jun 2015**	31 Dec 2014	Change
	$bn	$bn	%	**$bn**	$bn	%
Average reported RWAs	**1,208**	1,200	1	**1,208**	1,232	(2)
Currency translation adjustment[12]		(46)	(100)		(32)	(100)
Acquisitions, disposals and dilutions	**(5)**	(8)	(38)	**(5)**	(10)	(50)
Average adjusted RWAs	**1,203**	1,146	5	**1,203**	1,190	1

For footnote, see page 56.

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Interim Management Report (continued)

Ratios of earnings to combined fixed charges

(and preference share dividends)

	Half-year to 30 June 2015	Year ended 31 December 2014	2013	2012	2011	2010
Ratios of earnings to combined fixed charges:[1]						
excluding interest on deposits	**4.99**	3.39	3.84	3.03	2.82	2.71
including interest on deposits	**2.47**	1.86	2.09	1.76	1.68	1.73
Ratios of earnings to combined fixed charges and preference share dividends:[1]						
excluding interest on deposits	**4.28**	3.07	3.50	2.79	2.64	2.56
including interest on deposits	**2.33**	1.79	2.01	1.71	1.64	1.69

1 *For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and non-controlling interest plus fixed charges and after deduction of the unremitted pre-tax income of associated undertakings. Fixed charges consist of total interest expense, including or excluding interest on deposits, as appropriate, dividends on preference shares and other equity instruments, as applicable, and the proportion of rental expense deemed representative of the interest factor.*

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Global businesses

Global businesses

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Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business.

We present global businesses followed by geographical regions because certain strategic themes, business initiatives and trends affect more than one geographical region.

Basis of preparation

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of some support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Those costs which are not allocated to global businesses are included in Other .

Where relevant, income and expense amounts presented include the results of inter-segment funding as well as inter-company and inter-business line transactions. All such transactions are undertaken on arm s length terms.

The expense of the UK bank levy is included in the Europe geographical region as we regard the levy as a cost of being headquartered in the UK. For the purposes of the segmentation by global businesses, the cost of the levy is included in Other .

Profit/(loss) before tax

	Half-year to					
	30 June 2015		30 June 2014		31 December 2014	
	$m	%	$m	%	$m	%
Retail Banking and Wealth Management[9]	**3,362**	**24.7**	3,002	24.4	2,579	40.7
Commercial Banking[9]	**4,523**	**33.2**	4,814	39.0	4,000	63.1
Global Banking and Markets	**4,754**	**34.9**	5,033	40.8	856	13.5
Global Private Banking	**180**	**1.3**	364	2.9	262	4.1
Other[13]	**809**	**5.9**	(873)	(7.1)	(1,357)	(21.4)
	13,628	**100.0**	12,340	100.0	6,340	100.0

Total assets[14]

	At					
	30 June 2015		30 June 2014		31 December 2014	
	$m	%	$m	%	$m	%
Retail Banking and Wealth Management[9]	**497,199**	**19.3**	526,089	19.1	500,864	19.0
Commercial Banking[9]	**378,641**	**14.7**	375,014	13.6	370,958	14.1
Global Banking and Markets	**1,790,461**	**69.6**	2,043,767	74.2	1,839,644	69.8
Global Private Banking	**85,740**	**3.3**	99,379	3.6	88,342	3.4
Other	**167,946**	**6.5**	170,802	6.2	164,537	6.2
Intra-HSBC items	**(348,274)**	**(13.4)**	(461,458)	(16.7)	(330,206)	(12.5)
	2,571,713	**100.0**	2,753,593	100.0	2,634,139	100.0

Risk-weighted assets

	At					
	30 June 2015		30 June 2014		31 December 2014	
	$bn	%	$bn	%	$bn	%
Retail Banking and Wealth Management[9]	**204.6**	**17.2**	225.4	18.1	207.2	17.0
Commercial Banking[9]	**439.6**	**36.8**	422.5	33.8	430.3	35.3
Global Banking and Markets	**491.0**	**41.1**	537.3	43.0	516.1	42.3
Global Private Banking	**21.1**	**1.8**	22.1	1.8	20.8	1.7
Other	**36.9**	**3.1**	41.3	3.3	45.4	3.7
	1,193.2	**100.0**	1,248.6	100.0	1,219.8	100.0

For footnotes, see page 56.

Global Banking and Markets client-facing and BSM

The GB&M client-facing and BSM businesses measure (see page 36) excludes the effects of the legacy credit portfolio and income from associates. We believe that highlighting the

client-facing and BSM businesses allows GB&M management to more clearly discuss the cause of material changes from period-to-period in the ongoing businesses and to assess the factors and trends in the businesses which are expected to have a material effect in future years.

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Global businesses (continued)

Retail Banking and Wealth Management

RBWM provides banking and wealth management services for our personal customers to help them secure their future prosperity and realise their ambitions.

	Total RBWM $m	US run-off portfolio $m	Principal RBWM[16] $m
Half-year to 30 June 2015			
Net interest income	**8,054**	**536**	**7,518**
Net fee income/(expense)	**3,334**	**(2)**	**3,336**
Other income	**1,054**	**46**	**1,008**
Net operating income[15]	**12,442**	**580**	**11,862**
LICs	**(934)**	**(47)**	**(887)**
Net operating income	**11,508**	**533**	**10,975**
Total operating expenses	**(8,354)**	**(688)**	**(7,666)**
Operating profit/(loss)	**3,154**	**(155)**	**3,309**
Income from associates	**208**		**208**
Profit/(loss) before tax	**3,362**	**(155)**	**3,517**
RoRWA	**3.3%**	**(0.6)%**	**4.6%**
Half-year to 30 June 2014[9]			
Net interest income	8,617	750	7,867
Net fee income/(expense)	3,377	(1)	3,378
Other income/(expense)	622	(149)	771
Net operating income[15]	12,616	600	12,016
LICs	(1,299)	(180)	(1,119)
Net operating income	11,317	420	10,897
Total operating expenses	(8,530)	(361)	(8,169)
Operating profit	2,787	59	2,728
Income from associates	215		215
Profit before tax	3,002	59	2,943
RoRWA	2.6%	0.2%	3.8%

Half-year to 31 December 2014[9]			
Net interest income	8,513	640	7,873
Net fee income/(expense)	3,459	(3)	3,462
Other income	561	100	461
Net operating income[15]	12,533	737	11,796
LICs	(637)	150	(787)
Net operating income	11,896	887	11,009
Total operating expenses	(9,500)	(377)	(9,123)
Operating profit	2,396	510	1,886
Income from associates	183		183
Profit before tax	2,579	510	2,069
RoRWA	2.4%	1.7%	2.7%

For footnotes, see page 56.

For details of significant items, see page 53.

Principal RBWM[16] performance

Management view of adjusted revenue[15]

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Current accounts, savings and deposits	**2,815**	2,766	2,845
Wealth Management products	**3,605**	3,008	2,879
investment distribution	**1,966**	1,635	1,666
life insurance manufacturing	**1,080**	866	681
asset management	**559**	507	532
Personal lending	**5,101**	5,222	5,210
mortgages	**1,432**	1,491	1,494
credit cards	**1,995**	1,992	2,037
other personal lending	**1,674**	1,739	1,679
Other	**321**	374	395
Net operating income[15]	**11,842**	11,370	11,329

For footnotes, see page 56.

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

HSBC HOLDINGS PLC

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Commercial Banking

CMB offers a full range of financial services and tailored solutions to almost three million customers ranging from small and medium-sized enterprises to publicly quoted companies in around 55 countries.

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014[9] $m	31 Dec 2014[9] $m
Net interest income	**4,892**	4,994	5,164
Net fee income	**2,168**	2,327	2,243
Other income	**474**	502	518
Net operating income[15]	**7,534**	7,823	7,925
LICs	**(511)**	(488)	(1,070)
Net operating income	**7,023**	7,335	6,855
Total operating expenses	**(3,321)**	(3,327)	(3,654)
Operating profit	**3,702**	4,008	3,201
Income from associates	**821**	806	799
Profit before tax	**4,523**	4,814	4,000
RoRWA	**2.1%**	2.4%	1.9%

Management view of adjusted revenue[15]

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014[9] $m	31 Dec 2014[9] $m
Global Trade and Receivables Finance	**1,219**	1,214	1,266
Credit and Lending	**2,982**	2,747	2,925
Payments and Cash Management, current accounts and savings deposits	**2,262**	2,184	2,287
Markets products, Insurance and Investments and Other	**1,071**	1,069	996
Net operating income[15]	**7,534**	7,214	7,474

For footnotes, see page 56.

For details of significant items, see page 53.

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

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Global businesses (continued)

Global Banking and Markets

GB&M provides tailored financial solutions to major government, corporate and institutional clients worldwide.

	Total GB&M $m	Legacy $m	GB&M client facing and BSM $m
Half-year to 30 June 2015			
Net interest income	**3,629**	**114**	**3,515**
Net fee income/(expense)	**1,711**	**(6)**	**1,717**
Net trading income/(expense)[6]	**3,743**	**(1)**	**3,744**
Other income/(expense)	**1,178**	**(10)**	**1,188**
Net operating income[15]	**10,261**	**97**	**10,164**
LICs	**11**	**15**	**(4)**
Net operating income	**10,272**	**112**	**10,160**
Total operating expenses	**(5,790)**	**(41)**	**(5,749)**
Operating profit	**4,482**	**71**	**4,411**
Income from associates	**272**		
Profit before tax	**4,754**		
RoRWA	**1.9%**	**0.4%**	**2.0%**
Half-year to 30 June 2014			
Net interest income/(expense)	3,602	(19)	3,621
Net fee income	1,939	4	1,935
Net trading income[6]	2,790	51	2,739
Other income	1,460	140	1,320
Net operating income[15]	9,791	176	9,615
LICs	(49)	217	(266)
Net operating income	9,742	393	9,349
Total operating expenses	(4,958)	(86)	(4,872)
Operating profit	4,784	307	4,477

Income from associates	249		
Profit before tax	5,033		
RoRWA	2.0%	1.3%	2.1%
Half-year to 31 December 2014			
Net interest income/(expense)	3,420	(153)	3,573
Net fee income/(expense)	1,621	(11)	1,632
Net trading income/(expense)[6]	3,071	(106)	3,177
Other income/(expense)	(125)	92	(217)
Net operating income/(expense)[15]	7,987	(178)	8,165
LICs	(316)	132	(448)
Net operating income/(expense)	7,671	(46)	7,717
Total operating expenses	(7,070)	(622)	(6,448)
Operating profit/(loss)	601	(668)	1,269
Income from associates	255		
Profit/(loss) before tax	856		
RoRWA	0.3%	(2.7)%	0.6%

For footnotes, see page 56.

For details of significant items, see page 53.

Total GB&M performance

Management view of adjusted revenue[15]

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Markets	**4,372**	3,557	2,261
Legacy credit	**97**	161	(177)
Credit	**492**	395	138
Rates	**1,006**	1,027	395
Foreign Exchange	**1,670**	1,343	1,411
Equities	**1,107**	631	494
Capital Financing	**1,881**	1,922	1,891
Payments and Cash Management	**899**	851	849
Securities Services	**865**	792	814
Global Trade and Receivables Finance	**370**	359	353
Balance Sheet Management	**1,588**	1,369	1,508
Principal Investments	**128**	318	182
Other[17]	**15**	18	(83)
Net operating income[15]	**10,118**	9,186	7,775

For footnotes, see page 56.

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

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Global Private Banking

GPB serves high net worth individuals and families with complex and international financial needs within the Group s priority markets.

		Half-year to	
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Net interest income	**454**	536	458
Net fee income	**527**	533	523
Other income/(expense)	**196**	161	166
Net operating income[15]	**1,177**	1,230	1,147
LICs	**(5)**	(6)	14
Net operating income	**1,172**	1,224	1,161
Total operating expenses	**(1,001)**	(868)	(910)
Operating profit	**171**	356	251
Income from associates	**9**	8	11
Profit before tax	**180**	364	262
RoRWA	**1.8%**	3.3%	2.4%

Client assets[18]

		Half-year to	
	30 Jun 2015 $bn	30 Jun 2014 $bn	31 Dec 2014 $bn
At beginning of period	**365**	382	384
Net new money	**(1)**	(3)	
of which: areas targeted for growth	**7**	5	9
Value change	**9**	6	2
Exchange and other	**(3)**	(1)	(21)
At end of period	**370**	384	365

For footnotes, see page 56.

For details of significant items, see page 53.

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

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Global businesses (continued)

Other[13]

Other contains the results of HSBC s holding company and financing operations, central support and functional costs with associated recoveries, unallocated investment activities, centrally held investment companies, certain property transactions and movements in fair value of own debt.

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Net interest expense	**(397)**	(221)	(280)
Net fee income/(expense)	**(15)**	1	(66)
Net trading income/(expense)	**(123)**	(120)	28
changes in fair value of long-term debt issued and related derivatives	**1,324**	438	70
changes in other financial instruments designated at fair value	**(661)**	(719)	710
Net income/(expense) from financial instruments designated at fair value	**663**	(281)	780
Other income	**4,559**	3,279	3,245
Net operating income	**4,687**	2,658	3,707
Total operating expenses	**(3,879)**	(3,533)	(5,068)
Operating profit/(loss)	**808**	(875)	(1,361)
Income from associates	**1**	2	4
Profit/(loss) before tax	**809**	(873)	(1,357)

For footnotes, see page 56.

For details of significant items, see page 53.

Profit/(loss) before tax ($m)

Revenue ($m)

Operating expenses ($m)

HSBC HOLDINGS PLC

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Analysis by global business

HSBC profit/(loss) before tax and balance sheet data

	Half-year to 30 June 2015						
	Retail Banking and Wealth Management $m	**Commercial Banking $m**	**Global Banking and Markets $m**	**Global Private Banking $m**	**Other[13] $m**	**Inter-segment elimination[19] $m**	**To**
t before tax							
nterest me/(expense)	**8,054**	**4,892**	**3,629**	**454**	**(397)**	**(188)**	**16,4**
ee me/(expense)	**3,334**	**2,168**	**1,711**	**527**	**(15)**		**7,7**
ding me/(expense) uding net est income	**295**	**308**	**2,880**	**175**	**(138)**		**3,5**
t interest me/(expense) on ng activities	**(5)**	**(7)**	**863**	**(1)**	**15**	**188**	**1,0**
rading me/(expense)[6]	**290**	**301**	**3,743**	**174**	**(123)**	**188**	**4,5**
ncome from cial instruments gnated at value	**1,237**	**128**	**638**		**663**		**2,0**
s less losses financial stments	**51**	**27**	**402**	**24**	**1,370**		**1,8**
dend income	**11**	**10**	**17**	**4**	**26**		
nsurance ium income	**4,950**	**624**	**3**	**30**			**5,0**
r operating me	**609**	**100**	**120**	**2**	**3,163**	**(3,158)**	**8**
l operating me	**18,536**	**8,250**	**10,263**	**1,215**	**4,687**	**(3,158)**	**39,7**

nsurance claims	(6,094)	(716)	(2)	(38)			(6,8
operating me[15]	12,442	7,534	10,261	1,177	4,687	(3,158)	32,9
impairment ges)/recoveries other credit risk sions	(934)	(511)	11	(5)			(1,4
operating me	11,508	7,023	10,272	1,172	4,687	(3,158)	31,5
ployee nses[20]	(2,571)	(1,171)	(1,994)	(350)	(3,955)		(10,0
er operating me/(expense)	(5,783)	(2,150)	(3,796)	(651)	76	3,158	(9,1
operating nses	(8,354)	(3,321)	(5,790)	(1,001)	(3,879)	3,158	(19,1
rating profit	3,154	3,702	4,482	171	808		12,3
e of profit in ciates and joint ures	208	821	272	9	1		1,3
it before tax	3,362	4,523	4,754	180	809		13,0
	%	%	%	%	%		
e of HSBC s t before tax	24.7	33.2	34.9	1.3	5.9		10
efficiency ratio	67.1	44.1	56.4	85.0	82.8		5
nce sheet data[14]							
	$m	$m	$m	$m	$m		
s and advances stomers (net)	352,189	310,256	244,321	44,242	2,977		953,9
rted in held for	6,640	10,325	4,016	43			21,0
assets	497,199	378,641	1,790,461	85,740	167,946	(348,274)	2,571,7
omer accounts	589,715	362,069	299,181	82,878	1,957		1,335,8
rted in held for	9,549	4,694	3,438	1,751			19,4

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Global businesses (continued)

HSBC profit/(loss) before tax and balance sheet data (continued)

	Half-year to 30 June 2014						
	Retail Banking and Wealth Management[9]	Commercial Banking[9]	Global Banking and Markets	Global Private Banking	Other[13]	Inter-segment elimination[19]	Tot
	$m	$m	$m	$m	$m	$m	$
fit/(loss) before							
interest ome/(expense)	8,617	4,994	3,602	536	(221)	(123)	17,40
fee income	3,377	2,327	1,939	533	1		8,17
rading ome/(expense) luding net erest income	(12)	338	2,001	161	(126)		2,36
et interest ome/(expense) on ling activities	1	(4)	789	(2)	6	123	91
trading ome/(expense)[6]	(11)	334	2,790	159	(120)	123	3,27
ome/(expense) m financial ruments ignated at fair ue	1,078	119	743	1	(281)		1,66
ns less losses m financial estments	7	25	462	12	440		94
idend income	15	14	32	3	24		8
insurance mium income	5,501	615	2	19			6,13
er operating ome/(expense)	378	81	222	(7)	2,814	(2,950)	53
	18,962	8,509	9,792	1,256	2,657	(2,950)	38,22

al operating ome insurance claims	(6,346)	(686)	(1)	(26)			(7,05
operating ome[15]	12,616	7,823	9,791	1,230	2,657	(2,950)	31,16
an impairment arges)/recoveries other credit risk visions	(1,299)	(488)	(49)	(6)	1		(1,84
operating ome	11,317	7,335	9,742	1,224	2,658	(2,950)	29,32
mployee enses[20]	(2,544)	(1,147)	(1,806)	(363)	(4,118)		(9,97
ther operating ome/(expense)	(5,986)	(2,180)	(3,152)	(505)	585	2,950	(8,28
al operating enses	(8,530)	(3,327)	(4,958)	(868)	(3,533)	2,950	(18,26
erating fit/(loss)	2,787	4,008	4,784	356	(875)		11,06
re of profit in ociates and joint tures	215	806	249	8	2		1,28
fit/(loss) before	3,002	4,814	5,033	364	(873)		12,34
	%	%	%	%	%		
re of HSBC s fit before tax	24.4	39.0	40.8	2.9	(7.1)		100
st efficiency ratio	67.6	42.5	50.6	70.6	133.0		58
ance sheet data[14]							
	$m	$m	$m	$m	$m		$
ans and advances ustomers (net)	381,353	315,001	303,133	45,131	2,623		1,047,24
ported in held for e	380	157	82	972			1,59
al assets	526,089	375,014	2,043,767	99,379	170,802	(461,458)	2,753,59
stomer accounts	600,650	363,235	360,732	89,641	1,447		1,415,70
ported in held for e	181	485	373	3,841			4,88

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	Half-year to 31 December 2014						
	Retail Banking and Wealth Management[9]	Commercial Banking[9]	Global Banking and Markets	Global Private Banking	Other[13]	Inter-segment elimination[19]	Tota
	$m	$m	$m	$m	$m	$m	$r
fit/(loss) before							
t interest ome/(expense)	8,513	5,164	3,420	458	(280)	25	17,30
t fee ome/(expense)	3,459	2,243	1,621	523	(66)		7,78
rading income luding net erest income	(14)	280	2,062	137	26		2,49
et interest ome/(expense) on ding activities	8	2	1,009	(2)	2	(25)	99
t trading ome/(expense)[6]	(6)	282	3,071	135	28	(25)	3,48
t ome/(expense) m financial truments ignated at fair ue	606	160	(731)	(2)	780		81
ins less losses m financial estments	7	6	655	(3)	(276)		38
vidend income	9	4	48	2	160		22
t insurance mium income	5,108	642	3	31			5,78
her operating ome/(expense)	348	160	(98)	40	3,362	(3,219)	59
tal operating ome	18,044	8,661	7,989	1,184	3,708	(3,219)	36,36
t insurance claims	(5,511)	(736)	(2)	(37)			(6,28
	12,533	7,925	7,987	1,147	3,708	(3,219)	30,08

t operating ome[15]							
an impairment arges)/recoveries l other credit risk visions	(637)	(1,070)	(316)	14	(1)		(2,01
t operating ome	11,896	6,855	7,671	1,161	3,707	(3,219)	28,07
mployee benses[20]	(2,582)	(1,204)	(1,849)	(369)	(4,384)		(10,38
ther operating benses	(6,918)	(2,450)	(5,221)	(541)	(684)	3,219	(12,59
tal operating benses	(9,500)	(3,654)	(7,070)	(910)	(5,068)	3,219	(22,98
erating fit/(loss)	2,396	3,201	601	251	(1,361)		5,08
are of profit in ociates and joint tures	183	799	255	11	4		1,25
fit/(loss) before	2,579	4,000	856	262	(1,357)		6,34
	%	%	%	%	%		
are of HSBC s fit before tax	40.7	63.1	13.5	4.1	(21.4)		100.
st efficiency ratio	75.8	46.1	88.5	79.3	136.7		76.
lance sheet data[14]							
	$m	$m	$m	$m	$m		$
ans and advances customers (net)	360,704	313,039	254,463	44,102	2,352		974,66
ported in held for e	198		288	91			57
tal assets	500,864	370,958	1,839,644	88,342	164,537	(330,206)	2,634,13
stomer accounts	583,757	361,318	319,121	85,465	981		1,350,64
ported in held for e				145			14

For footnotes, see page 56.

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Geographical regions

Geographical regions

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Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business.

In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of $1,564m (first half of 2014: $1,439m; second half of 2014: $1,533m).

Profit/(loss) before tax

	Half-year to 30 June 2015		30 June 2014		31 December 2014	
	$m	%	$m	%	$m	%
Europe	**2,205**	**16.2**	2,258	18.3	(1,662)	(26.2)
Asia	**9,400**	**69.0**	7,894	64.0	6,731	106.2
Middle East and North Africa	**901**	**6.6**	989	8.0	837	13.2
North America	**690**	**5.1**	825	6.7	592	9.3
Latin America	**432**	**3.1**	374	3.0	(158)	(2.5)
Profit before tax	**13,628**	**100.0**	12,340	100.0	6,340	100.0

Total assets[14]

	At 30 June 2015		At 30 June 2014		At 31 December 2014	
	$m	**%**	$m	%	$m	%
Europe	**1,236,270**	**48.1**	1,430,863	52.0	1,290,926	49.0
Asia	**917,489**	**35.7**	874,334	31.8	878,723	33.4
Middle East and North Africa	**61,625**	**2.4**	61,289	2.2	62,417	2.4
North America	**411,601**	**16.0**	437,706	15.9	436,859	16.6
Latin America	**104,203**	**4.1**	125,630	4.6	115,354	4.4
Intra-HSBC items	**(159,475)**	**(6.3)**	(176,229)	(6.5)	(150,140)	(5.8)
Total assets	**2,571,713**	**100.0**	2,753,593	100.0	2,634,139	100.0

Risk-weighted assets[21]

	At 30 June 2015		At 30 June 2014		At 31 December 2014	
	$bn	**%**	$bn	%	$bn	%
Total RWAs	**1,193.2**		1,248.6		1,219.8	
Europe	**369.5**	**30.3**	393.6	31.0	375.4	30.1
Asia	**487.4**	**40.0**	481.1	37.9	499.8	40.0
Middle East and North Africa	**63.1**	**5.2**	62.7	4.9	63.0	5.0
North America	**215.7**	**17.7**	236.9	18.6	221.4	17.8
Latin America	**82.3**	**6.8**	96.8	7.6	88.8	7.1

For footnotes, see page 56.

Europe

Our principal banking operations in Europe are HSBC Bank plc in the UK, HSBC France, HSBC Private Bank (Suisse) SA and HSBC Trinkaus & Burkhardt AG. Through these operations we provide a wide range of banking, treasury and financial services to personal, commercial and corporate customers across Europe.

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Net interest income	**5,115**	5,244	5,367
Net fee income	**2,447**	3,188	2,854
Net trading income	**1,913**	982	1,552
Other income	**1,994**	1,459	925
Net operating income[15]	**11,469**	10,873	10,698
LICs	**(288)**	(266)	(498)
Net operating income	**11,181**	10,607	10,200
Total operating expenses	**(8,978)**	(8,352)	(11,865)
Operating profit/(loss)	**2,203**	2,255	(1,665)
Income from associates	**2**	3	3
Profit/(loss) before tax	**2,205**	2,258	(1,662)
Loans and advances to customers (net)	**400,452**	479,670	409,733
Customer accounts	**536,251**	614,776	545,959
RoRWA	**1.2%**	1.2%	(0.9)%
Cost efficiency ratio	**78.3%**	76.8%	110.9%
Period-end staff numbers	**69,867**	69,642	69,363

For footnote, see page 56.

Country view of adjusted revenue

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
UK	**7,707**	7,655	7,363

France	**1,619**	1,289	1,198
Germany	**417**	405	384
Switzerland	**360**	341	379
Other	**786**	736	611
	10,889	10,426	9,935

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

For details of significant items, see page 50.

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Geographical regions (continued)

Asia

Our principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in Asia.

We offer a wide range of banking and financial services in mainland China through our local subsidiaries, HSBC Bank (China) Company Limited and Hang Seng Bank (China) Limited. We also participate indirectly in mainland China through our associate, Bank of Communications.

Outside Hong Kong and mainland China in Asia, we conduct business in 18 countries and territories, with particularly strong coverage in Australia, India, Indonesia, Malaysia, Singapore and Taiwan.

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Net interest income	**6,060**	6,090	6,183
Net fee income	**3,291**	2,966	2,944
Net trading income	**1,779**	1,329	1,293
Other income	**2,935**	1,722	1,150
Net operating income[15]	**14,065**	12,107	11,570
LICs	**(246)**	(216)	(431)
Net operating income	**13,819**	11,891	11,139
Total operating expenses	**(5,457)**	(5,009)	(5,418)
Operating profit	**8,362**	6,882	5,721
Income from associates	**1,038**	1,012	1,010
Profit before tax	**9,400**	7,894	6,731
Loans and advances to customers (net)	**371,639**	362,387	362,955
Customer accounts	**599,940**	570,221	577,491
RoRWA	**3.8%**	3.4%	2.7%
Cost efficiency ratio	**38.8%**	41.4%	46.8%
Period-end staff numbers	**120,588**	115,111	118,322

For footnote, see page 56.

Country view of adjusted revenue

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Hong Kong	**7,750**	6,820	6,908
Australia	**421**	420	424
India	**929**	870	896
Indonesia	**267**	252	258
Mainland China	**1,331**	1,214	1,234
Malaysia	**519**	473	484
Singapore	**653**	620	640
Taiwan	**218**	262	217
Other	**558**	588	566
	12,646	11,519	11,627

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

For details of significant items, see page 50.

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Middle East and North Africa

The network of branches of HSBC Bank Middle East Limited, together with HSBC s subsidiaries and associates, gives us wide coverage in the region. Our associate in Saudi Arabia, The Saudi British Bank (40% owned), is the Kingdom s fifth largest bank by total assets.

		Half-year to	
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Net interest income	**758**	736	783
Net fee income	**325**	335	315
Net trading income	**167**	193	121
Other income	**39**	30	35
Net operating income[15]	**1,289**	1,294	1,254
LICs	**(31)**	50	(44)
Net operating income	**1,258**	1,344	1,210
Total operating expenses	**(624)**	(614)	(602)
Operating profit	**634**	730	608
Income from associates	**267**	259	229
Profit before tax	**901**	989	837
Loans and advances to customers (net)	**31,207**	28,910	29,063
Customer accounts	**38,186**	40,082	39,720
RoRWA	**2.9%**	3.2%	2.7%
Cost efficiency ratio	**48.4%**	47.4%	48.0%
Period-end staff numbers	**8,208**	8,530	8,305

For footnote, see page 56.

Country view of adjusted revenue

		Half-year to	
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
UAE	**716**	732	660

Egypt	**301**	235	266
Other	**269**	277	334
	1,286	1,244	1,260

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

For details of significant items, see page 50.

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Geographical regions (continued)

North America

Our North American businesses are principally located in the US and Canada. Operations in the US are primarily conducted through HSBC Bank USA, N.A. and HSBC Finance Corporation, a national consumer finance company. HSBC Markets (USA) Inc. is the intermediate holding company of, *inter alia*, HSBC Securities (USA) Inc. Canadian operations are conducted through HSBC Bank Canada.

		Half-year to	
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Net interest income	**2,278**	2,635	2,380
Net fee income	**1,057**	991	949
Net trading income	**296**	228	183
Other income	**495**	213	573
Net operating income[15]	**4,126**	4,067	4,085
LICs	**(153)**	(411)	89
Net operating income	**3,973**	3,656	4,174
Total operating expenses	**(3,287)**	(2,837)	(3,592)
Operating profit	**686**	819	582
Income from associates	**4**	6	10
Profit before tax	**690**	825	592
Loans and advances to customers (net)	**132,340**	129,620	129,787
Customer accounts	**137,296**	136,774	138,884
RoRWA	**0.6%**	0.7%	0.5%
Cost efficiency ratio	**79.7%**	69.8%	87.9%
Period-end staff numbers	**20,338**	20,649	20,412

For footnote, see page 56.

Country view of adjusted revenue

		Half-year to	
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m

US	**3,011**	3,194	2,889
Canada	**852**	878	844
Other	**106**	136	132
	3,969	4,208	3,865

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

For details of significant items, see page 50.

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Latin America

	Total Latin America $m	Brazil $m	Other Latin America $m
Half year to 30 June 2015			
Net interest income	**2,249**	**1,214**	**1,035**
Net fee income	**605**	**307**	**298**
Net trading income	**402**	**242**	**160**
Other income	**302**	**279**	**23**
Net operating income[15]	**3,558**	**2,042**	**1,516**
LICs	**(721)**	**(498)**	**(223)**
Net operating income	**2,837**	**1,544**	**1,293**
Total operating expenses	**(2,405)**	**(1,353)**	**(1,052)**
Operating profit	**432**	**191**	**241**
Income from associates			
Profit before tax	**432**	**191**	**241**
Loans and advances to customers (net)	**18,347**		**18,347**
reported in held for sale	**20,827**	**20,827**	
Customer accounts	**24,127**		**24,127**
reported in held for sale	**19,432**	**19,432**	
RoRWA	**1.0%**	**0.8%**	**1.3%**
Cost efficiency ratio	**67.6%**	**66.3%**	**69.4%**
Period-end staff numbers	**40,787**	**19,641**	**21,146**
Half-year to 30 June 2014			
Net interest income	2,700	1,572	1,128
Net fee income	697	365	332
Net trading income	543	246	297
Other income	325	290	35
Net operating income[15]	4,265	2,473	1,792
LICs	(998)	(684)	(314)
Net operating income	3,267	1,789	1,478
Total operating expenses	(2,893)	(1,734)	(1,159)
Operating profit	374	55	319
Income from associates			

Profit before tax	374	55	319
Loans and advances to customers (net)	46,654	27,515	19,139
Customer accounts	53,852	27,068	26,784
Cost efficiency ratio	67.8%	70.1%	64.7%
RoRWA	0.8%	0.2%	1.6%
Period-end staff numbers	42,157	19,881	22,276
Half-year to 31 December 2014			
Net interest income	2,610	1,468	1,142
Net fee income	718	376	342
Net trading income	313	206	107
Other income	366	296	70
Net operating income[15]	4,007	2,346	1,661
LICs	(1,126)	(815)	(311)
Net operating income	2,881	1,531	1,350
Total operating expenses	(3,039)	(1,833)	(1,206)
Operating profit/(loss)	(158)	(302)	144
Income from associates			
Profit/(loss) before tax	(158)	(302)	144
Loans and advances to customers (net)	43,122	23,749	19,373
Customer accounts	48,588	23,204	25,384
RoRWA	(0.3)%	(1.1)%	0.7%
Cost efficiency ratio	75.8%	78.1%	72.6%
Period-end staff numbers	41,201	19,564	21,637

For footnote, see page 56.

Our operations in Latin America principally comprise HSBC Bank Brasil S.A.-Banco Múltiplo and HSBC México, S.A. In addition to banking services, we operate insurance businesses in Brazil, Mexico and Argentina. During the period our operations in Brazil were classified as held for sale.

Country view of adjusted revenue

	Half-year to		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Mexico	**1,018**	1,027	979
Other	**2,528**	2,436	2,353
included in Other: Brazil	**2,031**	1,916	1,832
	3,546	3,463	3,332

Profit before tax ($m)

Revenue ($m)

Operating expenses ($m)

For details of significant items, see page 50.

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Geographical regions (continued)

Analysis by country

Profit/(loss) before tax by priority growth markets within global businesses

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Global Private Banking $m	Other $m	Total $m
Europe	863	1,287	905	(23)	(827)	2,205
UK	633	1,115	398	100	(821)	1,425
France	284	83	241	10	5	623
Germany	12	30	74	12	(14)	114
Switzerland		3	1	(162)		(158)
other	(66)	56	191	17	3	201
Asia	2,531	2,404	2,683	156	1,626	9,400
Hong Kong	2,172	1,239	1,238	120	1,464	6,233
Australia	24	61	128		(7)	206
India	(3)	46	195	7	90	335
Indonesia		(29)	38		17	26
Mainland China	184	817	544	(1)	38	1,582
Malaysia	67	60	105		8	240
Singapore	45	63	139	31	(17)	261
Taiwan	11	12	66		(5)	84
other	31	135	230	(1)	38	433
Middle East and North Africa	172	273	470	8	(22)	901
Egypt	26	50	128		(1)	203
Saudi Arabia	54	82	118	10		264
UAE	83	76	157	(1)	(21)	294
other	9	65	67	(1)		140
	(172)	423	356	37	46	690

North America						
Canada	**33**	**206**	**142**		**(17)**	**364**
USA	**(219)**	**204**	**190**	**37**	**70**	**282**
other	**14**	**13**	**24**		**(7)**	**44**
Latin America	**(32)**	**136**	**340**	**2**	**(14)**	**432**
Mexico	**33**	**28**	**56**		**1**	**118**
other	**(65)**	**108**	**284**	**2**	**(15)**	**314**
included in other: Brazil[10]	**(74)**	**32**	**208**	**2**	**23**	**191**
Half-year to 30 June 2015	**3,362**	**4,523**	**4,754**	**180**	**809**	**13,628**
Europe	480	1,551	1,425	176	(1,374)	2,258
UK	565	1,324	887	112	(1,192)	1,696
France	(39)	123	237	(2)	(115)	204
Germany	14	38	86	17	(7)	148
Switzerland		2	1	14	(2)	15
other	(60)	64	214	35	(58)	195
Asia	2,339	2,372	2,415	133	635	7,894
Hong Kong	1,928	1,125	977	99	419	4,548
Australia	49	62	92		(5)	198
India	6	59	243	5	67	380
Indonesia	2	43	62		6	113
Mainland China	140	797	515	(2)	94	1,544
Malaysia	90	54	90		12	246
Singapore	71	75	127	30	(7)	296
Taiwan	18	19	101		2	140
other	35	138	208	1	47	429

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	Retail Banking and Wealth Management[9] $m	Commercial Banking[9] $m	Global Banking and Markets $m	Global Private Banking $m	Other $m	Total $m
Middle East and North Africa	182	356	477	9	(35)	989
Egypt	33	46	71		(1)	149
Saudi Arabia	55	94	99	9	1	258
UAE	82	133	203		(35)	383
other	12	83	104			199
North America	130	386	314	51	(56)	825
Canada	35	280	130		(6)	439
USA	80	110	162	50	(50)	352
other	15	(4)	22	1		34
Latin America	(129)	149	402	(5)	(43)	374
Mexico	(18)	12	73	(1)	(7)	59
other	(111)	137	329	(4)	(36)	315
included in other:						
Brazil[10]	(161)	54	175	(6)	(7)	55
Half-year to 30 June 2014	3,002	4,814	5,033	364	(873)	12,340
Europe	(166)	997	(1,376)	139	(1,256)	(1,662)
UK	24	869	(1,688)	79	(1,036)	(1,752)
France	(142)	117	117	2	(84)	10
Germany	14	33	76	10	(3)	130
Switzerland		3	1	24	(1)	27
other	(62)	(25)	118	24	(132)	(77)
Asia	2,133	2,370	2,161	78	(11)	6,731
Hong Kong	1,799	1,139	830	47	(221)	3,594
Australia	29	64	140		1	234
India	(2)	62	199	6	55	320
Indonesia	8	10	48		19	85
Mainland	152	736	439	(1)	81	1,407

China						
Malaysia	66	68	100		16	250
Singapore	58	93	116	27	(1)	293
Taiwan	1	16	65		(1)	81
other	22	182	224	(1)	40	467
Middle East and North Africa	141	248	449	10	(11)	837
Egypt	31	48	106		1	186
Saudi Arabia	36	74	104	10	4	228
UAE	72	57	161		(11)	279
other	2	69	78		(5)	144
North America	502	527	(426)	34	(45)	592
Canada	61	234	112		(17)	390
USA	433	290	(565)	32	(10)	180
other	8	3	27	2	(18)	22
Latin America	(31)	(142)	48	1	(34)	(158)
Mexico	25	(35)	16	(1)	(13)	(8)
other	(56)	(107)	32	2	(21)	(150)
included in other:						
Brazil[10]	(69)	(151)	(60)	4	(26)	(302)
Half-year to 31 December 2014	2,579	4,000	856	262	(1,357)	6,340

For footnotes, see page 56.

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Interim Management Report (continued)

Half-year to 30 June 2015

Europe

Reported profit before tax of $2.2bn was $53m (2.3%) lower than in 1H14. The effect of currency translation between the periods and the net movement in significant items had a favourable effect of $129m on the reported profit before tax. The movement in significant items included favourable fair value movements on our own debt designated at fair value of $512m compared with adverse movements of $159m in 1H14; a release of $12m from the ongoing review of compliance with the Consumer Credit Act in the UK compared with a $367m provision in 2014; UK customer redress costs of $137m compared with $234m in 1H14; and regulatory provisions in GPB of $147m in 1H15.

On an adjusted basis, profit before tax of $2.8bn in 1H15 was $182m (6.2%) lower than in 1H14.

Adjusted revenue was US$0.5bn higher, primarily in GB&M and notably in Markets in the UK where revenue rose in Equities and Foreign Exchange from growth in client flows and increased volatility, respectively. In addition, Balance Sheet Management revenue rose, in part driven by increased gains on disposal of available-for-sale debt securities. Revenue also increased in CMB, mainly in Credit and Lending and Payments and Cash Management, driven by continued balance sheet growth in the UK.

LICs were $72m higher, reflecting lower releases of available-for-sale asset-backed securities (ABS s) and higher impairment charges relating to Greek exposures ($92m in 1H15), partly offset by lower individually assessed charges in 1H14 in the UK.

Adjusted operating expenses increased by $0.6bn primarily due to higher Regulatory Programmes and Compliance costs across GB&M, RBWM and CMB.

Asia

Reported profit before tax of $9.4bn was $1.5bn (19.1%) higher than in 1H14. The effect of currency translation between periods and the net movement in significant items together contributed $953m of the increase in reported profit before tax. The movement in significant items included a gain on partial sale of our shareholding in Industrial Bank of $1.4bn in 1H15; a gain on sale of our shareholding in Bank of Shanghai of $428m in 1H14, and favourable movements on the debit valuation adjustment on derivative contracts of $50m in 1H15 compared with adverse movements of $53m in 1H14.

On an adjusted basis, profit before tax of $8.0bn was $0.6bn higher than in 1H14.

Adjusted revenue was $1.1bn higher, primarily in RBWM and notably from the investment distribution of equities and mutual funds products as a result of higher stock market turnover. In addition, revenue growth in RBWM reflected increased current accounts, savings and deposit revenue from growth in customer account balances.
In GB&M, revenue increased mainly in Markets from

favourable equity market conditions and increased Foreign Exchange and Rates income in Hong Kong, while in CMB revenue reflected increased interest income from growth in term lending and deposit balances coupled with improved lending spreads, notably in Hong Kong.

LICs increased by $38m reflecting a specific CMB impairment charge in Indonesia in 1H15.

Adjusted operating expenses increased by $571m, primarily due to higher staff costs from wage inflation and increased FTEs in the Risk and Compliance functions, and to support business growth.

Middle East and North Africa

Reported profit before tax of $901m was $88m lower than in 1H14. The effect of currency translation and the net movement in significant items contributed $14m to the decrease in profit before tax.

On an adjusted basis, profit before tax of $899m was $74m lower than in 1H14.

Adjusted revenue was US$42m higher, primarily in Egypt, in part due to increased investment in treasury bills in Balance Sheet Management and growth in customer advances in GB&M and RBWM.

LICs were $82m higher, mainly due to increased individually assessed impairment charges in 1H15 compared with a net release in 1H14, primarily on UAE-related exposures in CMB and GB&M.

Operating expenses increased by $42m primarily due to higher staff costs driven by an increase in FTE and wage inflation.

North America

Reported profit before tax of $690m in 1H15 was $135m (16.4%) lower than in 1H14. The effect of currency translation between the periods and the net movement in significant items together contributed $30m to the decrease in reported profit before tax. The movement in significant items included settlements and provisions in connection with legal matters of $364m in 1H15; favourable fair value movements on our own debt designated at fair value of $139m compared with adverse movements of $45m in 1H14; and a decrease in the adverse movements on the fair value of non-qualifying hedges of $21m compared with $174m in 1H14.

On an adjusted basis, profit before tax of $931m in 1H15 was $106m lower than in 1H14.

Adjusted revenue was $239m lower, reflecting reduced average lending balances due to the continued run-off of and sales in the CML portfolio in RBWM. In addition, 1H14 included a release of accrued interest relating to an uncertain tax position. This was partly offset by an increase in revenue in GB&M, in part reflecting higher gains on available-for-sale debt securities and improved net interest income due to larger investment portfolio and financial investments made in higher yielding assets in Balance Sheet Management in the US.

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Interim Management Report (continued)

LICs were $252m lower, mainly in the US CML portfolio in RBWM driven by reduced levels of delinquency and new impaired loans in addition to lower lending balances from the continued run-off and loan sales. The reduction also reflected the non-recurrence of impairment charges recorded in CMB and GB&M in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. These factors were partly offset by lower favourable market value adjustments of underlying properties as improvements in housing market conditions were less pronounced in 1H15 than in 1H14.

Adjusted operating expenses increased by $118m, primarily due to higher staff costs reflecting growth initiatives across GB&M and CMB. These factors were partly offset by lower average staff numbers and costs resulting from the run-off and loan portfolio sales in the CML portfolio.

Latin America

Reported profit before tax of $432m was $58m (15.5%) higher than in 1H14. The effect of currency translation between the periods and the net movement in significant items had an adverse effect of $31m on the reported profit before tax.

On an adjusted basis, profit before tax of $426m was $89m higher than in 1H14.

Adjusted revenue was US$83m higher, primarily in CMB and notably in Brazil and Argentina where higher interest income was driven by deposit growth. In addition, revenue increased in RBWM reflecting higher sales of credit cards and increased investment income in the insurance business. GB&M revenue was broadly unchanged.

LICs were $73m lower, mainly due to lower collectively assessed impairment charges in RBWM in Brazil, in part due to the non-recurrence of charges from refinements made in 1H14 to the impairment model for non-restructured loan portfolios, and in Mexico reflecting lower delinquency rates on personal lending, payroll and card portfolios.

Adjusted operating expenses increased by $67m primarily due to wage inflation, partly offset by cost efficiency programmes including a reduction in staff numbers.

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Other information

Other information

Funds under management

	30 Jun 2015	Half-year to 30 Jun 2014	31 Dec 2014
	$bn	$bn	$bn
Funds under management by business			
Global Asset Management	**440**	465	445
Global Private Banking	**280**	286	275
Affiliates	**6**	6	5
Other	**237**	207	229
	963	964	954
At beginning of period	**954**	921	964
Net new money	**3**	18	20
Value change	**32**	21	19
Exchange and other	**(26)**	4	(49)
At end of period	**963**	964	954

Reconciliation of reported results to adjusted performance

Reconciliation of reported results to adjusted performance geographical regions

	Half-year to 30 June 2015							
	Europe	Asia	MENA	North America	Latin America	Total	UK	Hong Kong
	$m	$m	$m	$m	$m	$m	$m	$m
Revenue[15]								
Reported	**11,469**	**14,065**	**1,289**	**4,126**	**3,558**	**32,943**	**8,246**	**9,130**
Significant items	**(580)**	**(1,419)**	**(3)**	**(157)**	**(12)**	**(2,171)**	**(539)**	**(1,380)**
debit valuation adjustment (DVA) on derivative contracts	**(79)**	**(50)**	**(1)**	**(22)**	**(13)**	**(165)**	**(67)**	**(14)**
fair value movements on non-qualifying	**23**			**21**	**1**	**45**	**44**	**5**

hedges[22]								
releases arising from the ongoing review of compliance with the Consumer Credit Act in the UK	**(12)**					**(12)**	**(12)**	
gain on the partial sale of shareholding in Industrial Bank		**(1,372)**				**(1,372)**		**(1,372)**
gain on sale of several tranches of real estate secured accounts in the US				**(17)**		**(17)**		
own credit spread[23]	**(512)**	**3**	**(2)**	**(139)**		**(650)**	**(504)**	**1**
Adjusted	**10,889**	**12,646**	**1,286**	**3,969**	**3,546**	**30,772**	**7,707**	**7,750**
Loan impairment charges and other credit risk provisions (LIC s)								
Reported	**(288)**	**(246)**	**(31)**	**(153)**	**(721)**	**(1,439)**	**(72)**	**(58)**
Adjusted	**(288)**	**(246)**	**(31)**	**(153)**	**(721)**	**(1,439)**	**(72)**	**(58)**
Operating expenses								
Reported	**(8,978)**	**(5,457)**	**(624)**	**(3,287)**	**(2,405)**	**(19,187)**	**(6,753)**	**(2,855)**
Significant items	**1,132**	**8**	**1**	**398**	**6**	**1,545**	**967**	**6**
restructuring and other related costs	**68**	**8**	**1**	**34**	**6**	**117**	**50**	**6**
regulatory provisions in GPB	**147**					**147**		
settlements and provisions in connection with legal matters	**780**			**364**		**1,144**	**780**	
UK customer redress programmes	**137**					**137**	**137**	

Adjusted	**(7,846)**	**(5,449)**	**(623)**	**(2,889)**	**(2,399)**	**(17,642)**	**(5,786)**	**(2,849)**
Share of profit in associates and joint ventures								
Reported	**2**	**1,038**	**267**	**4**		**1,311**	**4**	**16**
Adjusted	**2**	**1,038**	**267**	**4**		**1,311**	**4**	**16**
Profit before tax								
Reported	**2,205**	**9,400**	**901**	**690**	**432**	**13,628**	**1,425**	**6,233**
Significant items	**552**	**(1,411)**	**(2)**	**241**	**(6)**	**(626)**	**428**	**(1,374)**
revenue	**(580)**	**(1,419)**	**(3)**	**(157)**	**(12)**	**(2,171)**	**(539)**	**(1,380)**
operating expenses	**1,132**	**8**	**1**	**398**	**6**	**1,545**	**967**	**6**
Adjusted	**2,757**	**7,989**	**899**	**931**	**426**	**13,002**	**1,853**	**4,859**

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	Half-year to 30 June 2014							
	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m	UK $m	Hong Kong $m
Revenue[15]								
Reported	10,873	12,107	1,294	4,067	4,265	31,167	7,658	7,220
Currency translation[24]	(1,196)	(254)	(23)	(107)	(781)	(2,326)	(646)	4
Significant items	749	(334)	(27)	248	(21)	615	643	(404)
DVA on derivative contracts	79	53	3	14	6	155	57	15
fair value movements on non-qualifying hedges[22]	144	4		174		322	94	10
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	367					367	367	
own credit spread[23]	159	5	6	45		215	125	(1)
loss on sale of several tranches of real estate secured accounts in the US				15		15		
gain on sale of shareholding in Bank of Shanghai		(428)				(428)		(428)
gain on sale arising from HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Colombia) S.A. (HSBC					(18)	(18)		

Colombia)								
reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence		32				32		
trading results HSBC Colombia					(9)	(9)		
trading results HSBC Bank Middle East Limited s Pakistan operations			(8)			(8)		
trading results HSBC Bank Middle East Limited s banking business in Jordan			(28)			(28)		
Adjusted	10,426	11,519	1,244	4,208	3,463	29,456	7,655	6,820
LICs								
Reported	(266)	(216)	50	(411)	(998)	(1,841)	30	(100)
Currency translation	50	8	1	6	202	267	(2)	
Significant items					2	2		
trading results HSBC Colombia					2	2		
Adjusted	(216)	(208)	51	(405)	(794)	(1,572)	28	(100)
Operating expenses								
Reported	(8,352)	(5,009)	(614)	(2,837)	(2,893)	(18,266)	(5,995)	(2,597)
Currency translation[24]	787	129	7	53	538	1,479	415	
Significant items	287	2	26	13	23	351	274	3
restructuring and other related costs	53	2		13	14	82	40	3
UK customer redress programmes	234					234	234	

trading results								
HSBC Colombia trading results					9	9		
HSBC Bank Middle East Limited s Pakistan operations trading results			9			9		
HSBC Bank Middle East Limited s banking business in Jordan			17			17		
Adjusted	(7,278)	(4,878)	(581)	(2,771)	(2,332)	(16,436)	(5,306)	(2,594)
Share of profit in associates and joint ventures								
Reported	3	1,012	259	6		1,280	3	25
Currency translation	4	(9)		(1)		(6)	2	
Adjusted	7	1,003	259	5		1,274	5	25
Profit before tax								
Reported	2,258	7,894	989	825	374	12,340	1,696	4,548
Currency translation	(355)	(126)	(15)	(49)	(41)	(586)	(231)	4
Significant items	1,036	(332)	(1)	261	4	968	917	(401)
revenue	749	(334)	(27)	248	(21)	615	643	(404)
LICs					2	2		
operating expenses	287	2	26	13	23	351	274	3
Adjusted	2,939	7,436	973	1,037	337	12,722	2,382	4,151

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Other information (continued)

Reconciliation of reported results to adjusted performance geographical regions (continued)

	Half-year to 31 December 2014 Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m	UK $m	Hong Kong $m
Revenue[15]								
Reported	10,698	11,570	1,254	4,085	4,007	30,081	8,069	6,624
Currency translation[24]	(722)	(229)	(18)	(88)	(677)	(1,698)	(416)	(1)
Significant items	(41)	286	24	(132)	2	139	(290)	285
DVA on derivative contracts	155	16	2	2	2	177	146	11
fair value movements on non-qualifying hedges[22]	91			128		219	(102)	1
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	265					265	265	
impairment of our investment in Industrial Bank		271				271		271
own credit spread[23]	(552)	(1)		(79)		(632)	(599)	2
gain on sale of several tranches of real estate secured accounts in the				(183)		(183)		

US loss on sale arising from HSBC Bank Middle East Limited s disposal of its operations in Pakistan			27			27		
trading results HSBC Bank Middle East Limited s Pakistan operations			(5)			(5)		
Adjusted	9,935	11,627	1,260	3,865	3,332	28,522	7,363	6,908
LICs								
Reported	(498)	(431)	(44)	89	(1,126)	(2,010)	(244)	(220)
Currency translation	69	10	(2)	4	204	285	28	
Significant items			(2)			(2)		
trading results HSBC Bank Middle East Limited s Pakistan operations			(2)			(2)		
Adjusted	(429)	(421)	(48)	93	(922)	(1,727)	(216)	(220)
Operating expenses								
Reported	(11,865)	(5,418)	(602)	(3,592)	(3,039)	(22,983)	(9,581)	(2,827)
Currency translation[24]	637	118	6	46	516	1,287	395	
Significant items	2,314	56	7	565	102	3,044	2,279	53
restructuring and other related costs	70	7	2	15	102	196	51	4
regulatory provisions in GPB	16	49				65		49
UK customer redress programmes	1,041					1,041	1,041	
charge in relation to the				550		550		

settlement agreement with the Federal Housing Finance Authority								
settlements and provisions in connection with legal matters	1,187					1,187	1,187	
trading results HSBC Bank Middle East Limited s Pakistan operations			5			5		
Adjusted	(8,914)	(5,244)	(589)	(2,981)	(2,421)	(18,652)	(6,907)	(2,774)
Share of profit in associates and joint ventures								
Reported	3	1,010	229	10		1,252	4	17
Currency translation	1	(8)		(1)		(8)		(1)
Adjusted	4	1,002	229	9		1,244	4	16
Profit before tax								
Reported	(1,662)	6,731	837	592	(158)	6,340	(1,752)	3,594
Currency translation	(15)	(109)	(14)	(39)	43	(134)	7	(2)
Significant items	2,273	342	29	433	104	3,181	1,989	338
revenue	(41)	286	24	(132)	2	139	(290)	285
LICs			(2)			(2)		
operating expenses	2,314	56	7	565	102	3,044	2,279	53
Adjusted	596	6,964	852	986	(11)	9,387	244	3,930

For footnotes, see page 56.

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Reconciliation of reported results to adjusted performance global businesses

	Half-year to 30 June 2015					
	RBWM $m	CMB $m	GB&M $m	GPB $m	Other $m	Total $m
Revenue[15]						
Reported	12,442	7,534	10,261	1,177	4,687	32,943
Significant items	(23)		(143)	(24)	(1,981)	(2,171)
DVA on derivative contracts			(165)			(165)
fair value movements on non-qualifying hedges[22]	(18)		22		41	45
provisions/(releases) arising from the ongoing review of compliance with the Consumer Credit Act in the UK	12			(24)		(12)
gain on the partial sale of shareholding in Industrial Bank					(1,372)	(1,372)
gain on sale of several tranches of real estate secured accounts in the US	(17)					(17)
own credit spread[23]					(650)	(650)
Adjusted	12,419	7,534	10,118	1,153	2,706	30,772
LICs						
Reported	(934)	(511)	11	(5)		(1,439)
Adjusted	(934)	(511)	11	(5)		(1,439)
Operating expenses						
Reported	(8,354)	(3,321)	(5,790)	(1,001)	(3,879)	(19,187)
Significant items	472	52	816	165	40	1,545
restructuring and other related costs	32	5	22	18	40	117
regulatory provisions in GPB				147		147
settlements and provisions in connection with legal matters	350		794			1,144
UK customer redress programmes	90	47				137
Adjusted	(7,882)	(3,269)	(4,974)	(836)	(3,839)	(17,642)
Share of profit in associates and joint ventures						
Reported	208	821	272	9	1	1,311

Adjusted	**208**	**821**	**272**	**9**	**1**	**1,311**
Profit before tax						
Reported	**3,362**	**4,523**	**4,754**	**180**	**809**	**13,628**
Significant items	**449**	**52**	**673**	**141**	**(1,941)**	**(626)**
revenue	**(23)**		**(143)**	**(24)**	**(1,981)**	**(2,171)**
operating expenses	**472**	**52**	**816**	**165**	**40**	**1,545**
Adjusted	**3,811**	**4,575**	**5,427**	**321**	**(1,132)**	**13,002**

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Other information (continued)

Reconciliation of reported results to adjusted performance global businesses (continued)

	Half-year to 30 June 2014					
	RBWM	CMB	GB&M	GPB	Other	Total
	$m	$m	$m	$m	$m	$m
Revenue[15]						
Reported	12,616	7,823	9,791	1,230	2,657	31,167
Currency translation[24]	(1,020)	(599)	(698)	(75)	(48)	(2,326)
Significant items	576	(10)	93		(44)	615
DVA on derivative contracts			155			155
fair value movements on non-qualifying hedges[22]	234		(50)		138	322
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	353	14				367
own credit spread[23]			2		213	215
loss on sale of several tranches of real estate secured accounts in the US	15					15
gain on sale of shareholding in Bank of Shanghai					(428)	(428)
(gain)/loss on sale arising from HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Colombia) S.A. (HSBC Colombia)	(7)	(7)	(5)		1	(18)
reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence					32	32
trading results HSBC Colombia	(6)	(1)	(2)			(9)
trading results HSBC Bank Middle East Limited s Pakistan operations	(2)	(4)	(2)			(8)
trading results HSBC Bank Middle East Limited s banking business in Jordan	(11)	(12)	(5)			(28)
Adjusted	12,172	7,214	9,186	1,155	2,565	29,456
LICs						
Reported	(1,299)	(488)	(49)	(6)	1	(1,841)

Currency translation	181	66	18	2		267
Significant items	3	(1)				2
trading results HSBC Colombia	2					2
trading results HSBC Bank Middle East Limited s banking business in Jordan	1	(1)				
Adjusted	(1,115)	(423)	(31)	(4)	1	(1,572)
Operating expenses						
Reported	(8,530)	(3,327)	(4,958)	(868)	(3,533)	(18,266)
Currency translation[24]	812	291	360	39	91	1,479
Significant items	235	38	33	2	43	351
restructuring and other related costs	22	6	9	2	43	82
UK customer redress programmes	194	20	20			234
trading results HSBC Colombia	6	1	2			9
trading results HSBC Bank Middle East Limited s Pakistan operations	4	4	1			9
trading results HSBC Bank Middle East Limited s banking business in Jordan	9	7	1			17
Adjusted	(7,483)	(2,998)	(4,565)	(827)	(3,399)	(16,436)
Share of profit in associates and joint ventures						
Reported	215	806	249	8	2	1,280
Currency translation	(1)	(8)	(1)	1	3	(6)
Adjusted	214	798	248	9	5	1,274
Profit before tax						
Reported	3,002	4,814	5,033	364	(873)	12,340
Currency translation	(28)	(250)	(321)	(33)	46	(586)
Significant items	814	27	126	2	(1)	968
revenue	576	(10)	93		(44)	615
LICs	3	(1)				2
operating expenses	235	38	33	2	43	351
Adjusted	3,788	4,591	4,838	333	(828)	12,722

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	Half-year to 31 December 2014					
	RBWM	CMB	GB&M	GPB	Other	Total
	$m	$m	$m	$m	$m	$m
Revenue[15]						
Reported	12,533	7,925	7,987	1,147	3,708	30,081
Currency translation[24]	(821)	(470)	(449)	9	(70)	(1,698)
Significant items	301	19	237	41	(459)	139
DVA on derivative contracts			177			177
fair value movements on non-qualifying hedges[22]	259	(1)	58	1	(98)	219
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	215	10		40		265
impairment of our investment in Industrial Bank					271	271
own credit spread[23]					(632)	(632)
gain on sale of several tranches of real estate secured accounts in the US	(183)					(183)
loss on sale arising from HSBC Bank Middle East Limited s disposal of its operations in Pakistan	11	13	3			27
trading results HSBC Bank Middle East Limited s Pakistan operations	(1)	(3)	(1)			(5)
Adjusted	12,013	7,474	7,775	1,197	3,179	28,522
LICs						
Reported	(637)	(1,070)	(316)	14	(1)	(2,010)
Currency translation	100	120	67	(2)		285
Significant items	(1)	(1)				(2)
trading results HSBC Bank Middle East Limited s Pakistan operations	(1)	(1)				(2)
Adjusted	(538)	(951)	(249)	12	(1)	(1,727)
Operating expenses						
Reported	(9,500)	(3,654)	(7,070)	(910)	(5,068)	(22,983)
Currency translation[24]	739	243	352	11	45	1,287
Significant items	883	151	1,864	69	77	3,044
restructuring and other related costs	66	31	18	4	77	196
regulatory provisions in GPB				65		65
UK customer redress programmes	798	118	125			1,041
charge in relation to the settlement agreement with the Federal Housing Finance Authority	17		533			550

settlements and provisions in connection with legal matters			1,187			1,187
trading results HSBC Bank Middle East Limited s Pakistan operations	2	2	1			5
Adjusted	(7,878)	(3,260)	(4,854)	(830)	(4,946)	(18,652)
Share of profit in associates and joint ventures						
Reported	183	799	255	11	4	1,252
Currency translation	(1)	(4)	(3)			(8)
Adjusted	182	795	252	11	4	1,244
Profit before tax						
Reported	2,579	4,000	856	262	(1,357)	6,340
Currency translation	17	(111)	(33)	18	(25)	(134)
Significant items	1,183	169	2,101	110	(382)	3,181
revenue	301	19	237	41	(459)	139
LICs	(1)	(1)				(2)
operating expenses	883	151	1,864	69	77	3,044
Adjusted	3,779	4,058	2,924	390	(1,764)	9,387

For footnotes, see page 56.

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Other information (continued)

Footnotes to pages 2 to 55

1 *The risk profile measures HSBC against a peer group average from a sample set of five global banks and five regional banks measured by: (a) the ratio of gross loans and advances to customers versus deposits; (b) the ratio of LICs to loans and advances to customers; and (c) the leverage ratio.*
2 *2014 pro forma basis ex associates; excluding business growth.*
3 *The sum of balances presented does not agree to consolidated amounts because inter-company eliminations are not presented here.*
4 *Adjusted jaws is the difference between the percentage rate of growth of revenue and the percentage rate of growth of operating expenses, both on an adjusted basis.*
5 *Client-facing GB&M refers to GB&M excluding associates, legacy credit and Balance Sheet Management. The GB&M client-facing and BSM businesses measure excludes the effects of the legacy credit portfolio and income from associates. We believe that looking at the client-facing and BSM businesses allows GB&M management to more clearly discuss the cause of material changes from period-to-period in the ongoing businesses and to assess the factors and trends in the business which are expected to have a material effect in future years.*
6 *Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within GB&M s net trading income as an interest expense. In the statutory presentation, internal interest income and expense are eliminated.*
7 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets (AIEA).*
8 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds. Net interest margin is net interest income expressed as an annualised percentage of AIEA.*
9 *In the first half of 2015, a portfolio of customers was transferred from CMB to RBWM in Latin America in order to better align the combined banking needs of the customers with our established global businesses. Comparative data have been re-presented accordingly.*
10 *During the first half of 2015 our operations in Brazil were classified as held for sale. As a result, balance sheet accounts have been classified to assets held for sale and liabilities of disposal groups held for sale . There is no separate income statement classification.*
11 *Adjusted RoRWA is calculated using adjusted pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals. RoRWAs are calculated using annualised PBT and average RWAs on a CRD IV basis for all periods from 1 January 2014 and on a Basel 2.5 basis at 31 December 2013.*
12 *Currency translation adjustment is the effect of translating the assets and liabilities of subsidiaries and associates for the previous period-end at the rates of exchange applicable at the current period-end.*
13 *The main items reported under Other are the results of HSBC s holding company and financing operations, which includes net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, along with the costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries. The results also include fines and penalties as part of the settlement of investigations into past inadequate compliance with anti-money laundering and sanctions laws, the UK bank levy together with unallocated investment activities, centrally held*

investment companies, gains arising from the dilution of interests in associates and joint ventures and certain property transactions. In addition, Other also includes part of the movement in the fair value of long-term debt designated at fair value (the remainder of the Group s movement on own debt is included in GB&M).

14 *Assets by geographical region and global businesses include intra-HSBC items. These items are eliminated, where appropriate, under the headings Intra-HSBC items or Inter-segment elimination , as appropriate.*

15 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*

16 *The Principal RBWM business measure excludes the effects of the US run-off portfolio. We believe that looking at the Principal RBWM business allows management to more clearly discuss the cause of material changes from period-to-period in the ongoing business and to assess the factors and trends in the business which are expected to have a material effect in future years.*

17 *Other in GB&M includes net interest earned on free capital held in the global business not assigned to products and gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRSs basis, the offset to these tax credits are included within Other .*

18 *Client assets are translated at the rates of exchange applicable for their respective period-ends, with the effects of currency translation reported separately. The main components of client assets are funds under management, which are not reported on the Group s balance sheet, and customer deposits, which are reported on the Group s balance sheet.*

19 *Inter-segment elimination comprises (i) the costs of shared services and Group Service Centres included within Other which are recovered from global businesses, and (ii) the intra-segment funding costs of trading activities undertaken within GB&M. The Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M s net trading income on a fully funded basis, Net interest income/(expense) and Net interest income/(expense) on trading activities are grossed up to reflect internal funding transactions prior to their elimination in the inter-segment column.*

20 *Employee expenses comprises costs directly incurred by each global business. The reallocation and recharging of employee and other expenses directly incurred in the Other category is shown in Other operating expenses .*

21 *RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.*

22 *Excludes items where there are substantial offsets in the income statement for the same period.*

23 *Own credit spread includes the fair value movements on our long-term debt attributable to credit spread where the net result of such movements will be zero upon maturity of the debt. This does not include fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities.*

24 *Currency translations are non-additive across geographical regions and global businesses due to inter-company transactions within the Group.*

Risk

Risk

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There have been no material changes to the policies and practices regarding risk management and governance described in the *Annual Report and Accounts 2014* with the exception of the implementation of the new AML and sanctions policy procedures outlined on page 83.

A description of our principal risks and uncertainties for the remaining six months of 2015 is discussed in top and emerging risks below.

A summary of our current policies and practices regarding risk is provided in the Appendix to Risk on page 204 of the Annual Report and Accounts 2014.

Risk profile

Managing our risk profile

- A strong balance sheet remains core to our philosophy.
- Our portfolios continue to be aligned to our risk appetite and strategy.
- Our risk management framework is supported by strong forward-looking risk identification.
- We manage and reduce financial crime compliance risk with defined global standards programme.

Maintaining capital strength and a strong liquidity position

- Our common equity tier 1 capital ratio remained strong at 11.6%.
- We sustained our strong liquidity position throughout the first half of 2015.
- The ratio of customer advances to deposits remained significantly below 90%.

Strong governance

- Robust risk governance and accountability is embedded across the Group.
- The Board, advised by the Group Risk Committee, approves our risk appetite.
- Our global risk operating model supports adherence to globally consistent standards and risk management policies across the Group.

Managing risk

Our established framework ensures appropriate oversight of and accountability for the effective management of risk.

We employ a risk management framework at all levels of the organisation and across all risk types, fostering a continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. It is underpinned by a strong risk culture and reinforced by HSBC Values and our Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Our risk management framework is set out on page 24 of the *Annual Report and Accounts 2014.*

Risk factors

Our businesses are exposed to a broad range of risks that could potentially affect the results of our operations or financial condition. These risk factors are summarised on page 113 of the *Annual Report and Accounts 2014*. They inform the ongoing assessment of our top and emerging risks, which may result in our risk appetite being revised.

Top and emerging risks

Our top and emerging risk framework enables us to identify, continuously monitor and manage current and forward-looking risks to ensure our risk appetite remains appropriate.

The ongoing assessment of our top and emerging risks, which is informed by analysis of our risk factors and the results of our stress testing programme, may result in our risk appetite being revised. Our approach to identifying and monitoring top and emerging risks is described on page 22 of the *Annual Report and Accounts 2014.*

During 1H15, senior management paid particular attention to those risks which were identified as top or emerging, and made one change to them during the period to reflect our assessment of their effect on HSBC. Internet crime and fraud was removed as a top risk as mitigating actions taken have reduced losses through digital channels. HSBC remains a target for cyber-attacks, which is noted as a top risk under Information security risk .

Economic outlook heightened in 1H15. Expectations of divergent monetary policies increased market volatility and resulted in changes in capital flows. The impact of the turmoil in Greece is discussed further on page 74.

Our current top and emerging risks are summarised overleaf.

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Risk (continued)

Top and emerging risks /

Risk	Description	Mitigants
Macroeconomic and geopolitical risk		
Economic outlook	Weak economic growth in both developed and emerging market countries could adversely affect global trade and capital flows and our profits from operations in those countries.	We closely monitor economic developments in key markets and take appropriate action as circumstances evolve. We use stress testing, both internal and regulatory programmes, to assess the effect of changes in economic conditions on our operations.
Increased geopolitical risk	Our operations are exposed to risks arising from political instability and civil unrest in a number of countries. This may have a wider effect on regional stability and regional and global economies.	We continuously monitor the geopolitical and economic outlook, particularly in countries where we have material exposures and/or a physical presence.
Macro-prudential, regulatory and legal risks to our business model		
Regulatory developments affecting our business model and Group profitability	Governments and regulators continue to develop and implement policies which impose new or additional requirements, particularly in the areas of capital and liquidity management and our business, governance and corporate structure.	We actively assess and consider the impact of relevant developments and engage closely with governments and regulators in the countries in which we operate. We seek to ensure that requirements are considered properly and implemented in an effective manner.
Regulatory and other investigations, fines, sanctions, commitments and other requirements relating to conduct of business and financial crime	Financial service providers are at risk of regulatory and other sanctions or fines related to conduct of business and financial crime. These can take significant time both to crystallise and to resolve. Breach of the US DPA may allow the US authorities to prosecute HSBC with respect to matters	We actively seek to manage and defend HSBC s interests in those investigations. Significant programmes to enhance the management of conduct and financial crime risks are progressing in all global businesses and functions and we have significantly enhanced our financial crime

negatively affecting our results and brand	covered thereunder.	and regulatory compliance controls and resources. We continue to take steps to address the requirements of the US DPA and other consent orders in consultation with the relevant regulatory agencies.
Dispute risk	HSBC is party to legal proceedings arising out of its normal business operations which could give rise to potential financial loss and significant reputational damage.	We continue to focus on identifying emerging regulatory and judicial trends in order to limit exposure to litigation or regulatory enforcement action in the future.
Risks related to our business operations, governance and internal control systems		
Heightened execution risk	The execution of the Group s strategy requires the management of complex projects that are resource demanding and time sensitive. The size and scope of actions to meet regulatory demands and risks from business and portfolio disposals may affect our ability to execute our strategy.	We have strengthened our prioritisation and governance processes for significant projects and have invested in our project implementation and IT capabilities.
People risk	Regulatory reform and remediation are placing significant demands on the human capital of the Group.	We continuously review our remuneration policy to ensure we remain competitive and attract and retain key talent. We have increased the level of specialist resources in key areas. We are embedding a learning-based culture to improve employee capability, collaboration and engagement.
Third-party risk management	Risks arising from the use of third-party service providers may be less transparent and more challenging to manage or influence.	We continue to strengthen our risk management processes and procedures in relation to the use and monitoring of third-party service providers.
Information security risk	HSBC and other multinational organisations continue to be the targets of cyber-attacks.	We continue to improve our governance and controls framework to protect HSBC information and technical infrastructure against ever-increasing and sophisticated cyber-threats.
Data management	Regulatory requirements necessitate more frequent and granular data submissions, which must be produced on a consistent, accurate and timely basis.	A number of key initiatives and projects are in progress to implement our data strategy to enable consistent data aggregation, reporting and management.
Model risk	Adverse consequences could result from decisions based on incorrect model outputs or from models that are poorly developed, implemented or used. The regulatory environment and supervisory concerns	The development, usage and validation of models used for a range of purposes including regulatory and economic capital calculations, stress testing, granting credit and pricing are subject to increased

over banks use of internal models to determine regulatory capital further contribute to model risk.	governance and independent review.

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Areas of special interest

During 1H15, we considered a number of particular areas because of the effect they may have on the Group. While some of these areas may have already been identified in top and emerging risks, further details of the actions taken in 1H15 are provided below.

Financial crime compliance and regulatory compliance

We have experienced increasing levels of compliance risk in recent years as regulators and other agencies pursued investigations into historical activities, for example, investigations regarding inadequate compliance with AML and sanctions law (giving rise to the US DPA), mis-selling in the UK of payment protection insurance (PPI) policies, investigations in connection with the setting of Libor and other benchmark interest rates, and activities related to foreign exchange, precious metals and credit default swaps. Details of these investigations and legal proceedings can be found in Note 19 on the Financial Statements and the work of the Monitor, who has been appointed to assess our progress against our various obligations in the US DPA is discussed on page 13.

The level of inherent compliance risk remained high in 1H15 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision. Further information about the Group s compliance risk management may be found on page 83.

Swiss Private Bank

Various tax administration, regulatory and law enforcement authorities around the world are conducting investigations and reviews of HSBC Swiss Private Bank in connection with past practices at the bank and the financial affairs of some of its clients. Details of these investigations and reviews may be found in Note 19 on the Financial Statements. We are cooperating with the relevant authorities.

Regulatory stress tests

Stress testing is an important tool for regulators to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments. The results inform the regulators view of the capital adequacy of individual institutions and could have a significant effect on capital requirements, risk and capital management practices and planned capital actions, including the payment of dividends, going forward.

The Group is participating in the 2015 PRA concurrent stress test programme, which involves all major UK banks. The scenarios for the 2015 stress test incorporate a synchronised global downturn affecting Asia, Brazil and the eurozone in particular, a reduction in global risk appetite and market liquidity, and a slowdown in the UK

driven by a downturn in its trading partners. The results will be published by the Bank of England alongside the Financial Stability Report in the fourth quarter of 2015.

HSBC North America Holdings Inc. (HNAH) participated in the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Testing (DFAST) 2015 programmes of the Federal Reserve Board (FRB); HSBC Bank USA N.A. (HSBC Bank USA) participated in the DFAST 2015 programme of the Office of the Comptroller of the Currency. Submissions were made on 5 January 2015 and summaries of the results of the stress test were disclosed on 5 March 2015. On 11 March 2015, HNAH received the FRB s non-objection to its 2015 CCAR submission and its capital plan, and on 16 July 2015, it disclosed a summary of the results of its DFAST 2015 company-run mid-cycle stress test.

Other entities in the Group, including the Hongkong and Shanghai Banking Corporation Limited, continue to participate in regional regulatory stress tests activities.

A summary of our approach to stress testing and scenario analysis programme is provided on page 117 of the Annual Report and Accounts 2014.

Oil and gas prices

Oil and commodity prices declined significantly during 2014 as a result of increasing global supply and demand imbalances and changes in market sentiment. During 1H15 oil prices increased compared with 2014. At the prices prevailing during 1H15 the pressure on large integrated producers and Middle Eastern economies was somewhat reduced. Higher cost non-integrated producers remained relatively weaker while we expect that infrastructure and services providers will continue to come under pressure due to reduced capital expenditure across the industry.

Our diversified lending portfolio was resilient during 1H15; impairments as a result of the lower oil and gas prices were insignificant. The sector remains under enhanced monitoring with risk appetite and new lending carefully monitored.

Greece

In light of recent developments in Greece we invoked our long-established major incident crisis management procedures and continue to monitor the situation carefully.

The rest of the eurozone, including Italy, Ireland, Portugal and Spain, has remained resilient. Various indicators such as credit default swap prices and interest rate spreads suggest that the risk of contagion to other peripheral eurozone countries has been successfully contained.

As a result of the unfolding crisis we have raised additional loan impairment charges and other credit risk provisions amounting to $0.1bn. Exposures to Greece are described in further detail on page 74.

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Risk (continued)

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

There have been no material changes to the policies and practices for the management of credit risk summarised in the credit risk section on page 127 and the Appendix to Risk on page 206 of the *Annual Report and Accounts 2014*.

Credit risk in the first half of 2015

An update on the effect of oil and gas prices is provided in Areas of special interest on page 59, and our exposures to Greece are set out on page 74.

Reported gross loans and advances declined by $26bn. During 1H15, the assets of our Brazilian operations were reclassified as Assets held for sale (see Note 12 on the Financial Statements), which reduced reported gross loans and advances by $31bn as detailed on page 62. Foreign exchange differences reduced reported gross loans and advances by a further $11bn. Excluding these adjustments, lending grew in both wholesale and personal lending.

Loan impairment charges reduced by 25% compared with 1H14 with notable decreases in Latin America, North America and Europe.

Information on constant currency movements is provided on page 71. The commentary that follows is on a constant currency basis, while tables are presented on a reported basis.

Excluding the Brazilian reclassification, wholesale gross loans grew by $13bn. Balances in Asia grew by $12bn, mainly in other property and international trade and services, and in North America by $5.6bn, mainly in manufacturing and commercial real estate, though this growth was partly offset by a $4.0bn reduction in Europe.

Excluding the Brazilian reclassification and the ongoing run-off of the US CML portfolio, personal lending balances grew by $4.5bn in 1H15. This was mainly due to increased mortgage and other lending in Asia, other personal lending in Mexico and growth in the Premier mortgage portfolio in the US.

Summary of credit risk

	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$bn	$bn	$bn

At end of period			
Maximum exposure to credit risk			
total assets subject to credit risk	**2,373**	2,546	2,434
off-balance sheet commitments subject to credit risk	**699**	688	699
	3,072	3,234	3,133
Gross loans and advances			
personal lending	**385**	416	393
wholesale lending	**688**	773	706
	1,073	1,189	1,099
Impaired loans			
personal lending	**13**	18	15
wholesale lending	**12**	16	14
	25	34	29
Impaired loans as a % of gross loans and advances			
personal lending	**3.4%**	4.2%	3.9%
wholesale lending	**1.7%**	2.1%	2.0%
total	**2.3%**	2.9%	2.7%
	$bn	$bn	$bn
Impairment allowances			
personal lending	**3.3**	5.9	4.6
wholesale lending	**6.4**	8.1	7.8
	9.7	14.0	12.4
Loans and advances net of impairment allowances	**1,063**	1,175	1,087
For the period ended			
Loan impairment charges			
personal lending	**0.9**	1.2	0.6
wholesale lending	**0.6**	0.8	1.5
	1.5	2.0	2.1

For footnote, see page 86.

Loans and advances

The following table analyses loans and advances by industry sector and by the location of the principal operations of the lending subsidiary or, in the case of the operations of The Hongkong and Shanghai Banking Corporation, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA, by the location of the lending branch. The distribution of loans across geographical regions and industries remained similar to last year.

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Risk (continued)

Gross loans and advances by industry sector and by geographical region

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m	As a % of total gross loans
At 30 June 2015							
Personal	**177,311**	**132,375**	**6,648**	**62,990**	**5,976**	**385,300**	**35.9**
first lien residential mortgages	**130,909**	**95,176**	**2,642**	**53,995**	**2,031**	**284,753**	**26.5**
other personal	**46,402**	**37,199**	**4,006**	**8,995**	**3,945**	**100,547**	**9.4**
Wholesale							
Corporate and commercial	**200,188**	**225,249**	**22,833**	**63,524**	**12,413**	**524,207**	**48.9**
manufacturing	**43,465**	**35,599**	**2,570**	**17,392**	**3,072**	**102,098**	**9.5**
international trade and services	**65,459**	**76,683**	**10,109**	**13,720**	**3,508**	**169,479**	**15.8**
commercial real estate	**26,925**	**34,249**	**721**	**7,444**	**1,418**	**70,757**	**6.6**
other property-related	**8,209**	**39,518**	**1,691**	**9,652**	**39**	**59,109**	**5.5**
government	**2,260**	**1,117**	**1,552**	**164**	**947**	**6,040**	**0.6**
other commercial[2]	**53,870**	**38,083**	**6,190**	**15,152**	**3,429**	**116,724**	**10.9**
Financial	**27,163**	**15,413**	**2,896**	**8,055**	**691**	**54,218**	**5.0**
Banks	**23,460**	**66,286**	**9,014**	**7,372**	**3,311**	**109,443**	**10.2**
Total gross loans and advances	**428,122**	**439,323**	**41,391**	**141,941**	**22,391**	**1,073,168**	**100.0**
Percentage of total	**39.9%**	**40.9%**	**3.9%**	**13.2%**	**2.1%**	**100.0%**	
At 30 June 2014							
Personal	194,898	129,680	6,553	69,573	15,048	415,752	35.0
	144,225	95,489	2,543	58,677	4,501	305,435	25.7

first lien residential mortgages							
other personal	50,673	34,191	4,010	10,896	10,547	110,317	9.3
Wholesale							
Corporate and commercial	260,097	221,852	20,983	56,054	32,965	591,951	49.8
manufacturing	65,374	35,210	2,445	12,941	14,196	130,166	10.9
international trade and services	79,981	80,574	10,072	13,087	8,534	192,248	16.2
commercial real estate	30,935	34,727	434	6,677	2,492	75,265	6.3
other property-related	7,444	32,730	1,593	8,644	348	50,759	4.3
government	2,404	1,082	1,696	568	1,007	6,757	0.6
other commercial[2]	73,959	37,529	4,743	14,137	6,388	136,756	11.5
Financial	29,603	12,091	2,838	7,579	1,397	53,508	4.5
Banks	27,763	72,222	8,644	6,252	12,569	127,450	10.7
Total gross loans and advances	512,361	435,845	39,018	139,458	61,979	1,188,661	100.0
Percentage of total	43.1%	36.7%	3.3%	11.7%	5.2%	100.0%	
At 31 December 2014							
Personal	178,531	129,515	6,571	65,400	13,537	393,554	35.8
first lien residential mortgages	131,000	93,147	2,647	55,577	4,153	286,524	26.1
other personal	47,531	36,368	3,924	9,823	9,384	107,030	9.7
Wholesale							
Corporate and commercial	212,523	220,799	20,588	57,993	30,722	542,625	49.4
manufacturing	39,456	37,767	2,413	15,299	12,051	106,986	9.7
international trade and services	76,629	72,814	9,675	13,484	8,189	180,791	16.4
commercial real estate	28,187	35,678	579	6,558	2,291	73,293	6.7
other property-related	7,126	34,379	1,667	8,934	281	52,387	4.8
government	2,264	1,195	1,552	164	968	6,143	0.6
other commercial[2]	58,861	38,966	4,702	13,554	6,942	123,025	11.2
Financial	23,103	13,997	3,291	9,034	1,393	50,818	4.6
Banks	21,978	62,960	10,495	7,405	9,360	112,198	10.2
Total gross loans and	436,135	427,271	40,945	139,832	55,012	1,099,195	100.0

advances						
Percentage of total	39.7%	38.9%	3.7%	12.7%	5.0%	100.0%

For footnote, see page 86.

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Risk (continued)

Assets held for sale

During 1H15, gross loans and advances and related impairment allowances arising in our Brazilian operations were reclassified from Loans and advances to customers and Loans and advances to banks to Assets held for sale in the balance sheet. There was no separate income statement reclassification. As a result, charges for loan impairment losses shown in the credit risk disclosures include loan impairment charges relating to financial assets classified as Assets held for sale .

Loans and advances to banks and customers measured at amortised cost

	Total gross loans and advances $m	Impairment allowances on loans and advances $m
As reported	**1,073,168**	**(9,778)**
Reported in Assets held for sale	**26,883**	**(1,666)**
At 30 June 2015	**1,100,051**	**(11,444)**

At 31 December 2014, the gross loans and advances and related impairment allowances of our Brazilian operations were $31bn and $1.7bn, respectively. Gross loans and advances reduced by $4.3bn mainly as a result of foreign exchange movements.

Gross loans and impairment allowances on loans and advances to customers and banks reported in Assets held for sale

	Brazil $m	Other $m	Total $m
Gross loans			
Loans and advances to customers	**22,460**	**230**	**22,690**
personal	**6,749**	**182**	**6,931**
corporate and commercial	**15,403**	**48**	**15,451**
financial	**308**		**308**
Loans and advances to banks	**4,193**		**4,193**

At 30 June 2015	**26,653**	**230**	**26,883**
Impairment allowances			
Loans and advances to customers	**(1,632)**	**(34)**	**(1,666)**
personal	**(713)**	**(16)**	**(729)**
corporate and commercial	**(918)**	**(18)**	**(936)**
financial	**(1)**		**(1)**
Loans and advances to banks			
At 30 June 2015	**(1,632)**	**(34)**	**(1,666)**

The table below analyses the amount of LICs arising from assets held for sale. They primarily relate to the Brazilian operations.

Loan impairment charges and other credit risk provisions

	Total $m
LICs arising from:	
assets held for sale	**478**
assets not held for sale	**961**
Half-year to 30 June 2015	**1,439**

Credit quality of financial instruments

We assess credit quality on all financial instruments which bear credit risk. The distribution of financial instruments by credit quality is tabulated below.

Distribution of total financial instruments exposed to credit risk by credit quality

	Neither past due nor impaired								
	Strong $m	**Good $m**	**Satis-factory $m**	**Sub-standard $m**	**Past due but not impaired $m**	**Impaired $m**	**Total gross amount $m**	**Impairment allowances $m**	**Total $m**
At 30 June 2015	**1,599,418**	**410,280**	**303,630**	**28,141**	**13,282**	**29,569**	**2,384,320**	**(11,445)**	**2,372,875**
At 30 June 2014	1,677,301	456,507	335,139	40,041	14,163	37,112	2,560,263	(14,109)	2,546,154
At 31 December 2014	1,631,391	421,563	315,958	31,530	13,568	32,492	2,446,502	(12,402)	2,434,100
	%	*%*	*%*	*%*	*%*	*%*	*%*		

At 30 June 2015	**67.1**	**17.2**	**12.7**	**1.2**	**0.6**	**1.2**	**100.0**
At 30 June 2014	65.5	17.8	13.1	1.6	0.6	1.4	100.0
At 31 December 2014	66.7	17.2	12.9	1.3	0.6	1.3	100.0

This table shows the credit quality distribution for all assets exposed to credit risk, including the balances relating to our Brazilian operations. Within past due but not impaired

amounts at 30 June 2015, 99% were less than 90 days past due in line with previous periods.

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Risk (continued)

Distribution of loans and advances held at amortised cost by credit quality

	Neither past due nor impaired								
	Strong $m	Good $m	Satis-factory $m	Sub-standard $m	Past due but not impaired $m	Impaired $m	Total gross amount $m	Impairment allowances $m	Total $m
30 June 15									
ans and vances to stomers[3]	**478,003**	**234,178**	**196,723**	**17,463**	**12,248**	**25,110**	**963,725**	**(9,740)**	**953,985**
ersonal	**316,984**	**31,572**	**14,715**	**975**	**7,817**	**13,237**	**385,300**	**(3,339)**	**381,961**
corporate d mmercial	**133,683**	**186,759**	**172,404**	**15,960**	**3,834**	**11,567**	**524,207**	**(6,127)**	**518,080**
inancial	**27,336**	**15,847**	**9,604**	**528**	**597**	**306**	**54,218**	**(274)**	**53,944**
ans and vances to nks	**86,768**	**17,655**	**4,571**	**404**	**1**	**44**	**109,443**	**(38)**	**109,405**
30 June 14									
ans and vances to stomers[3]	501,162	274,776	212,714	24,712	13,967	33,880	1,061,211	(13,970)	1,047,241
ersonal	332,045	38,673	16,847	1,366	9,283	17,538	415,752	(5,906)	409,846
corporate d mmercial	140,941	222,982	185,541	22,450	4,327	15,710	591,951	(7,686)	584,265
inancial	28,176	13,121	10,326	896	357	632	53,508	(378)	53,130
ans and vances to nks	96,849	21,948	6,986	1,599	12	56	127,450	(63)	127,387
December 14									

ans and vances to stomers[3]	487,734	239,136	196,685	20,802	13,357	29,283	986,997	(12,337)	974,660
ersonal	320,678	32,601	15,109	1,130	8,876	15,160	393,554	(4,600)	388,954
orporate d mmercial	141,375	192,799	171,748	18,986	3,922	13,795	542,625	(7,441)	535,184
inancial	25,681	13,736	9,828	686	559	328	50,818	(296)	50,522
ans and vances to nks	83,766	19,525	7,945	914	1	47	112,198	(49)	112,149

For footnote, see page 86.

This table shows loans and advances held at amortised cost by credit quality distribution. Assets of our Brazilian operations are not included in the 30 June 2015 balances following their classification as Assets held for sale .

Impaired loans

Impaired gross loans and advances to customers and banks by industry sector

	Impaired loans and advances at 30 June 2015			Impaired loans and advances at 30 June 2014			Impaired loans and advances at 31 December 2014		
	Individ-ually assessed $m	**Collect-ively assessed $m**	**Total $m**	Individ-ually assessed $m	Collect-ively assessed $m	Total $m	Individ-ually assessed $m	Collect-ively assessed $m	Total $m
Banks	**44**		**44**	56		56	47		47
Customers	**14,122**	**10,988**	**25,110**	18,076	15,804	33,880	15,879	13,404	29,283
personal	**2,334**	**10,903**	**13,237**	2,171	15,367	17,538	2,096	13,064	15,160
corporate and commercial	**11,482**	**85**	**11,567**	15,274	436	15,710	13,456	339	13,795
financial	**306**		**306**	631	1	632	327	1	328
	14,166	**10,988**	**25,154**	18,132	15,804	33,936	15,926	13,404	29,330

On a reported basis, during 1H15 impaired gross loans and advances declined by $4.2bn. The classification of the assets of our Brazilian operations as Assets held for sale reduced personal collectively assessed impaired loan balances by $0.7bn. The continued run-off of the US CML portfolio reduced personal collectively assessed impaired loan balances by a further $0.9bn. Personal individually assessed impaired loans increased, largely due to enhancements to the identification of impaired UK residential mortgages and the calculation of allowances on individual loans rather than on a collective basis. Corporate and commercial impaired loans reduced by $2.2bn mainly due to the Brazilian reclassification. Corporate and commercial impaired loans also decreased as a result of write-offs in Europe and Middle East and North Africa.

Renegotiated loans and forbearance

The most significant portfolio of renegotiated loans remained in North America, substantially all of which were personal loans held by HSBC Finance Corporation (HSBC Finance). On a reported basis, during 1H15, total renegotiated loans decreased by $1.9bn to $25.6bn. The Brazilian reclassification reduced reported renegotiated loans by $1.0bn. The ongoing run-off of the US CML portfolio reduced renegotiated loans by a further $0.9bn, and new renegotiated loans and delinquency in the US CML portfolio diminished as a result of improvements in the US housing market and economic conditions.

The following tables show the gross carrying amounts of the Group s holdings of renegotiated loans and advances to customers by industry sector, geography and credit quality classification.

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Risk (continued)

Renegotiated loans and advances to customers by geographical region

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
First lien residential mortgages	1,586	82	49	12,828	44	14,589
neither past due nor impaired	568	55	26	3,680	28	4,357
past due but not impaired	213	6	1	1,822	6	2,048
impaired	805	21	22	7,326	10	8,184
Other personal lending	318	280	23	1,166	41	1,828
neither past due nor impaired	183	160	14	446	13	816
past due but not impaired	39	18	4	198	1	260
impaired	96	102	5	522	27	752
Corporate and commercial[4]	5,468	471	1,394	430	648	8,411
neither past due nor impaired	1,290	76	344	39	262	2,011
past due but not impaired	42	1	24		4	71
impaired	4,136	394	1,026	391	382	6,329
Financial[5]	444	4	282			730
neither past due nor impaired	222		282			504
past due but not impaired						
impaired	222	4				226

Renegotiated loans at 30 June 2015	**7,816**	**837**	**1,748**	**14,424**	**733**	**25,558**
neither past due nor impaired	**2,263**	**291**	**666**	**4,165**	**303**	**7,688**
past due but not impaired	**294**	**25**	**29**	**2,020**	**11**	**2,379**
impaired	**5,259**	**521**	**1,053**	**8,239**	**419**	**15,491**
Impairment allowances on renegotiated loans	**1,458**	**158**	**513**	**1,246**	**146**	**3,521**
renegotiated loans as % of total gross loans	**1.9%**	**0.2%**	**5.4%**	**10.7%**	**3.8%**	**2.7%**
First lien residential mortgages	1,743	107	69	15,034	74	17,027
neither past due nor impaired	593	72	22	3,827	36	4,550
past due but not impaired	296	13	10	2,032	5	2,356
impaired	854	22	37	9,175	33	10,121
Other personal lending	423	311	54	1,376	457	2,621
neither past due nor impaired	287	201	31	468	15	1,002
past due but not impaired	28	24	17	234	2	305
impaired	108	86	6	674	440	1,314
Corporate and commercial[4]	7,064	454	1,579	508	2,024	11,629
neither past due nor impaired	1,559	124	689	41	436	2,849
past due but not impaired	145	2	95	2	35	279
impaired	5,360	328	795	465	1,553	8,501
Financial[5]	287	5	356	1	1	650

neither past due nor impaired	93		265			358
past due but not impaired						
impaired	194	5	91	1	1	292
Renegotiated loans at 30 June 2014	9,517	877	2,058	16,919	2,556	31,927
neither past due nor impaired	2,532	396	1,007	4,336	488	8,759
past due but not impaired	470	39	121	2,268	42	2,940
impaired	6,515	442	930	10,315	2,026	20,228
Impairment allowances on renegotiated loans	1,355	73	436	2,025	893	4,782
renegotiated loans as % of total gross loans	2.0%	0.2%	6.8%	12.7%	5.2%	3.0%

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Risk (continued)

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
First lien residential mortgages	1,605	94	58	13,540	60	15,357
neither past due nor impaired	529	63	19	3,695	32	4,338
past due but not impaired	221	8	1	1,894	5	2,129
impaired	855	23	38	7,951	23	8,890
Other personal lending	324	292	27	1,267	326	2,236
neither past due nor impaired	184	173	16	453	14	840
past due but not impaired	40	22	5	214	1	282
impaired	100	97	6	600	311	1,114
Corporate and commercial[4]	5,469	501	1,439	427	1,324	9,160
neither past due nor impaired	1,383	102	483	36	303	2,307
past due but not impaired	68		31	1	1	101
impaired	4,018	399	925	390	1,020	6,752
Financial[5]	413	4	323	1	1	742
neither past due nor impaired	219		305			524
past due but not impaired						
impaired	194	4	18	1	1	218
Renegotiated loans at 31 December 2014	7,811	891	1,847	15,235	1,711	27,495

neither past due nor impaired	2,315	338	823	4,184	349	8,009
past due but not impaired	329	30	37	2,109	7	2,512
impaired	5,167	523	987	8,942	1,355	16,974
Impairment allowances on renegotiated loans	1,458	170	458	1,499	704	4,289
renegotiated loans as % of total gross loans	1.9%	0.2%	6.1%	11.5%	3.7%	2.8%

For footnotes, see page 86.

Loan impairment in the first half of 2015

On a reported basis, loan impairment charges of $1.4bn were $578m lower than in 1H14, in part reflecting the favourable effect of foreign currency movements of $282m, mainly in Latin America and, to a lesser extent, in Europe.

The following commentary is on a constant currency basis. Loan impairment charges decreased by $296m or 17%, primarily in North America, Europe and Latin America partly offset in Middle East and North Africa.

In North America, loan impairment charges decreased for both personal and corporate and commercial lending. The decrease in corporate and commercial lending impairment charges mainly reflected charges recorded in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. Personal lending loan impairment charges fell mainly due to lower collectively assessed charges on first lien mortgages, primarily in the US CML portfolio. This decline reflected reduced levels of delinquency and lower new impaired loans in addition

to lower lending balances from the continued run-off and loan sales. These factors were partly offset by lower favourable market value adjustments of underlying properties as improvements in housing market conditions were less pronounced in 1H15 than in 1H14.

In Europe, the reduction was driven by lower impairment charges on corporate and commercial lending. This primarily reflected the lower individually assessed loan impairment charge in the UK in 1H14, partly offset by $92m of loan impairments charges relating to Greek exposures during 1H15. An additional $19m of other credit risk provisions were taken in relation to off-balance sheet exposures to Greece.

In Latin America, loan impairment charges decreased by $88m, primarily in personal lending in Brazil due to the non-recurrence of loan impairment charges from refinements made in 1H14 to the impairment model for non-restructured loan portfolios, and in Mexico, reflecting lower delinquency rates on personal lending, payroll and card portfolios.

These factors were partly offset in Middle East and North Africa, reflecting higher individually assessed loan impairment charges in 1H15 compared with a net release in 1H14, primarily on commercial exposures in the UAE.

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Risk (continued)

Loan impairment charge to the income statement by industry sector

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
Personal	**113**	**145**	**24**	**101**	**488**	**871**
first lien residential mortgages	**(32)**	**2**	**(7)**	**68**	**33**	**64**
other personal	**145**	**143**	**31**	**33**	**455**	**807**
Corporate and commercial	**214**	**97**	**21**	**50**	**216**	**598**
manufacturing and international trade and services	**103**	**109**	**(11)**	**9**	**175**	**385**
commercial real estate and other property-related	**(10)**	**13**	**25**	**1**	**17**	**46**
other commercial[2]	**121**	**(25)**	**7**	**40**	**24**	**167**
Financial[5]	**(6)**		**(12)**	**(3)**	**(1)**	**(22)**
Total loan impairment charge for the half-year to 30 June 2015	**321**	**242**	**33**	**148**	**703**	**1,447**
Personal	122	155	15	225	701	1,218
first lien residential mortgages	(37)	(2)	(5)	168	12	136
other personal	159	157	20	57	689	1,082
Corporate and commercial	329	63	(44)	141	290	779
manufacturing and international trade and services	291	61	(8)	79	141	564

commercial real estate and other property-related	(17)	(9)	(30)	23	59	26
other commercial[2]	55	11	(6)	39	90	189
Financial[5]	28	(2)	(28)	29	1	28
Total loan impairment charge for the half-year to 30 June 2014	479	216	(57)	395	992	2,025
Personal	123	166	10	(108)	394	585
first lien residential mortgages	(38)	8	(19)	(142)	3	(188)
other personal	161	158	29	34	391	773
Corporate and commercial	461	264	50	55	647	1,477
manufacturing and international trade and services	229	136	44	37	241	687
commercial real estate and other property-related	95	38	2	4	117	256
other commercial[2]	137	90	4	14	289	534
Financial[5]	16	(2)	(4)	(42)		(32)
Total loan impairment charge for the half-year to 31 December 2014	600	428	56	(95)	1,041	2,030

For footnotes, see page 86.

Movement in impairment allowances on loans and advances to customers and banks

	Banks individually assessed $m	Customers Individually assessed $m	Collectively assessed $m	Total $m
At 1 January 2015	**49**	**6,195**	**6,142**	**12,386**
Amounts written off		**(727)**	**(1,463)**	**(2,190)**
Recoveries of loans and advances previously written off		**23**	**327**	**350**

Charge to income statement	**(8)**	**488**	**967**	**1,447**
Reclassified to held for sale		**(656)**	**(1,047)**	**(1,703)**
Exchange and other movements	**(3)**	**(124)**	**(385)**	**(512)**
At 30 June 2015	**38**	**5,199**	**4,541**	**9,778**
Impairment allowances:				
on loans and advances to customers		**5,199**	**4,541**	**9,740**
personal		**425**	**2,914**	**3,339**
corporate and commercial		**4,587**	**1,540**	**6,127**
financial		**187**	**87**	**274**
as a percentage of gross loans and advances	**0.04%**	**0.54%**	**0.47%**	**0.92%**

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Risk (continued)

	Banks individually assessed $m	Customers Individually assessed $m	Customers Collectively assessed $m	Total $m
At 1 January 2014	58	7,072	8,071	15,201
Amounts written off	(6)	(1,276)	(2,288)	(3,570)
Recoveries of loans and advances previously written off		74	483	557
Charge to income statement	10	548	1,467	2,025
Reclassified to held for sale			(160)	(160)
Exchange and other movements	1	73	(94)	(20)
At 30 June 2014	63	6,491	7,479	14,033
Impairment allowances:				
on loans and advances to customers		6,491	7,479	13,970
personal		534	5,372	5,906
corporate and commercial		5,708	1,978	7,686
financial		249	129	378
as a percentage of gross loans and advances	0.05%	0.61%	0.71%	1.19%
At 1 July 2014	63	6,491	7,479	14,033
Amounts written off		(1,037)	(1,772)	(2,809)
Recoveries of loans and advances previously written off		40	358	398
Charge to income statement	(6)	1,228	808	2,030
Reclassified to held for sale		(50)	(144)	(194)
Exchange and other movements	(8)	(477)	(587)	(1,072)
At 31 December 2014	49	6,195	6,142	12,386
Impairment allowances:				
on loans and advances to customers		6,195	6,142	12,337
personal		468	4,132	4,600
corporate and commercial		5,532	1,909	7,441
financial		195	101	296
as a percentage of gross loans and advances	0.04%	0.63%	0.62%	1.13%

Charge for impairment losses as a percentage of average gross loans and advances to customers by geographical region

	Europe	Asia	MENA	North America	Latin America	Total

	%	%	%	%	%	%
Half-year to 30 June 2015						
New allowances net of allowance releases	**0.27**	**0.18**	**0.32**	**0.29**	**3.65**	**0.39**
Recoveries	**(0.09)**	**(0.04)**	**(0.11)**	**(0.06)**	**(0.30)**	**(0.08)**
Total charge for impairment losses	**0.18**	**0.14**	**0.21**	**0.23**	**3.35**	**0.31**
Amount written off net of recoveries	**0.22**	**0.09**	**1.67**	**0.57**	**3.19**	**0.40**
Half-year to 30 June 2014						
New allowances net of allowance releases	0.39	0.17	(0.23)	0.71	4.72	0.55
Recoveries	(0.15)	(0.04)	(0.17)	(0.10)	(0.49)	(0.12)
Total charge for impairment losses	0.24	0.13	(0.40)	0.61	4.23	0.43
Amount written off net of recoveries	0.61	0.11	0.38	1.11	3.74	0.65
Half-year to 31 December 2014						
New allowances net of allowance releases	0.34	0.29	0.51	(0.07)	5.38	0.52
Recoveries	(0.02)	(0.04)	(0.12)	(0.07)	(0.96)	(0.09)
Total charge for impairment losses	0.32	0.25	0.39	(0.14)	4.42	0.43
Amount written off net of recoveries	0.36	0.15	0.79	0.83	3.52	0.52

Risk (continued)

Wholesale lending

Wholesale lending covers the range of credit facilities granted to sovereign borrowers, banks, non-bank financial institutions, corporate entities and commercial borrowers.

Total wholesale lending

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
Corporate and commercial	**200,188**	**225,249**	**22,833**	**63,524**	**12,413**	**524,207**
manufacturing	**43,465**	**35,599**	**2,570**	**17,392**	**3,072**	**102,098**
international trade and services	**65,459**	**76,683**	**10,109**	**13,720**	**3,508**	**169,479**
commercial real estate	**26,925**	**34,249**	**721**	**7,444**	**1,418**	**70,757**
other property-related	**8,209**	**39,518**	**1,691**	**9,652**	**39**	**59,109**
government	**2,260**	**1,117**	**1,552**	**164**	**947**	**6,040**
other commercial[2]	**53,870**	**38,083**	**6,190**	**15,152**	**3,429**	**116,724**
Financial	**27,163**	**15,413**	**2,896**	**8,055**	**691**	**54,218**
Loans and advances to banks	**23,460**	**66,286**	**9,014**	**7,372**	**3,311**	**109,443**
Gross loans at 30 June 2015	**250,811**	**306,948**	**34,743**	**78,951**	**16,415**	**687,868**
Impairment allowances on wholesale lending						
Corporate and commercial	**2,927**	**1,138**	**983**	**561**	**518**	**6,127**
manufacturing	**563**	**266**	**134**	**134**	**50**	**1,147**
international trade and	**823**	**589**	**330**	**139**	**48**	**1,929**

services						
commercial real estate	**819**	**33**	**146**	**92**	**364**	**1,454**
other property-related	**151**	**71**	**236**	**34**	**1**	**493**
government	**7**			**1**		**8**
other commercial	**564**	**179**	**137**	**161**	**55**	**1,096**
Financial	**216**	**13**	**10**	**35**		**274**
Loans and advances to banks	**20**		**18**			**38**
Impairment allowances at 30 June 2015	**3,163**	**1,151**	**1,011**	**596**	**518**	**6,439**
Corporate and commercial	260,097	221,852	20,983	56,054	32,965	591,951
manufacturing	65,374	35,210	2,445	12,941	14,196	130,166
international trade and services	79,981	80,574	10,072	13,087	8,534	192,248
commercial real estate	30,935	34,727	434	6,677	2,492	75,265
other property-related	7,444	32,730	1,593	8,644	348	50,759
government	2,404	1,082	1,696	568	1,007	6,757
other commercial[2]	73,959	37,529	4,743	14,137	6,388	136,756
Financial	29,603	12,091	2,838	7,579	1,397	53,508
Loans and advances to banks	27,763	72,222	8,644	6,252	12,569	127,450
Gross loans at 30 June 2014	317,463	306,165	32,465	69,885	46,931	772,909
Impairment allowances on wholesale lending						
Corporate and commercial	3,355	951	1,161	817	1,402	7,686
manufacturing	526	252	162	148	372	1,460
international trade and services	961	458	490	187	257	2,353
commercial real estate	1,062	19	147	178	454	1,860
other property-related	257	99	239	89	7	691

government	3		4	1		8
other commercial	546	123	119	214	312	1,314
Financial	250	15	30	81	2	378
Loans and advances to banks	45		18			63
Impairment allowances at 30 June 2014	3,650	966	1,209	898	1,404	8,127
Corporate and commercial	212,523	220,799	20,588	57,993	30,722	542,625
manufacturing	39,456	37,767	2,413	15,299	12,051	106,986
international trade and services	76,629	72,814	9,675	13,484	8,189	180,791
commercial real estate	28,187	35,678	579	6,558	2,291	73,293
other property-related	7,126	34,379	1,667	8,934	281	52,387
government	2,264	1,195	1,552	164	968	6,143
other commercial[2]	58,861	38,966	4,702	13,554	6,942	123,025
Financial	23,103	13,997	3,291	9,034	1,393	50,818
Loans and advances to banks	21,978	62,960	10,495	7,405	9,360	112,198
Gross loans at 31 December 2014	257,604	297,756	34,374	74,432	41,475	705,641

Risk (continued)

Total wholesale lending (continued)

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
Impairment allowances on wholesale lending						
Corporate and commercial	3,112	1,089	1,171	608	1,461	7,441
manufacturing	529	242	141	152	348	1,412
international trade and services	877	533	536	157	237	2,340
commercial real estate	909	44	147	101	476	1,677
other property-related	203	55	219	57	12	546
government	4		1			5
other commercial	590	215	127	141	388	1,461
Financial	221	13	21	39	2	296
Loans and advances to banks	31		18			49
Impairment allowances at 31 December 2014	3,364	1,102	1,210	647	1,463	7,786

For footnote, see page 86.

On a reported basis, gross loans decreased by $18bn, mainly due to the classification of the assets of our Brazilian operations as Assets held for sale of $23bn and adverse foreign exchange movements of $7.9bn.

Loan impairment allowances reduced by $1.3bn, mainly due to the Brazilian reclassification.

The commentary that follows is on a constant currency basis.

Excluding the Brazilian reclassification, gross loans increased by $13bn.

In Asia, balances grew by $12bn, mainly in other property and international trade and services. In North America, we experienced growth of $5.6bn mainly in manufacturing and commercial real estate. In Europe, balances reduced by $4.0bn mainly due to corporate and commercial lending balances reducing by $10bn which was partly offset by increases in financial and banks. The corporate and commercial lending reduction was mainly in the UK, in international trade and service and other commercial balances which was partially offset by increases in manufacturing balances. These movements are mainly related to corporate overdraft balances where a small number of clients benefit from the use of net interest arrangements across overdraft and deposits. As a result, while net risk exposures are generally stable, gross balances can be volatile. In Middle East and North Africa, balances increased by $0.8bn, mainly due to an increase in corporate and commercial lending of $2.5bn partially offset by decreases in loans and advances to banks of $1.2bn.

Personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes loans secured on assets such as first liens on residential property, and unsecured lending products such as overdrafts, credit cards and payroll loans.

Total personal lending

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
First lien residential mortgages	**130,909**	**95,176**	**2,642**	**53,995**	**2,031**	**284,753**
Of which:						
interest only (including offset)	**43,541**	**887**		**227**		**44,655**
affordability (including ARMs)	**340**	**4,984**		**16,899**		**22,223**
Other personal lending	**46,402**	**37,199**	**4,006**	**8,995**	**3,945**	**100,547**
motor vehicle finance	**5**	**264**	**377**	**16**	**408**	**1,070**
credit cards	**12,559**	**9,760**	**859**	**999**	**1,934**	**26,111**
second lien residential mortgages		**43**	**2**	**4,089**		**4,134**
other	**33,838**	**27,132**	**2,768**	**3,891**	**1,603**	**69,232**
Total gross loans at 30 June 2015	**177,311**	**132,375**	**6,648**	**62,990**	**5,976**	**385,300**
Impairment allowances on personal lending						
First lien residential mortgages	**271**	**43**	**88**	**1,362**	**23**	**1,787**
Other personal lending	**792**	**205**	**87**	**276**	**192**	**1,552**
motor vehicle finance	**1**	**1**	**5**		**4**	**11**

credit cards	**354**	**114**	**30**	**30**	**117**	**645**
second lien residential mortgages				**210**		**210**
other	**437**	**90**	**52**	**36**	**71**	**686**
Total impairment allowances at 30 June 2015	**1,063**	**248**	**175**	**1,638**	**215**	**3,339**

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Risk (continued)

Total personal lending *(continued)*

	Europe	Asia	MENA	North America	Latin America	Total
	$m	$m	$m	$m	$m	$m
First lien residential mortgages	144,225	95,489	2,543	58,677	4,501	305,435
Of which:						
interest only (including offset)	50,339	1,138	18	332		51,827
affordability (including ARMs)	350	5,532		15,950		21,832
Other personal lending	50,673	34,191	4,010	10,896	10,547	110,317
motor vehicle finance	9	407	379	28	1,568	2,391
credit cards	14,019	9,681	905	1,084	3,515	29,204
second lien residential mortgages		80	3	4,879		4,962
other	36,645	24,023	2,723	4,905	5,464	73,760
Total gross loans at 30 June 2014	194,898	129,680	6,553	69,573	15,048	415,752
Impairment allowances on personal lending						
First lien residential mortgages	398	52	110	2,254	39	2,853

Other personal lending	925	218	163	434	1,313	3,053
motor vehicle finance	4	2	5		106	117
credit cards	417	125	61	37	298	938
second lien residential mortgages				345		345
other	504	91	97	52	909	1,653
Total impairment allowances at 30 June 2014	1,323	270	273	2,688	1,352	5,906
First lien residential mortgages	131,000	93,147	2,647	55,577	4,153	286,524
Of which:						
interest only (including offset)	44,163	956		276		45,395
affordability (including ARMs)	337	5,248		16,452		22,037
Other personal lending	47,531	36,368	3,924	9,823	9,384	107,030
motor vehicle finance	5	328	392	12	1,216	1,953
credit cards	12,959	10,289	897	1,050	3,322	28,517
second lien residential mortgages		56	2	4,433		4,491
other	34,567	25,695	2,633	4,328	4,846	72,069
Total gross loans at 31 December 2014	178,531	129,515	6,571	65,400	13,537	393,554
Impairment allowances on personal lending						
First lien residential mortgages	306	46	97	1,644	36	2,129

Other personal lending	786	208	97	350	1,030	2,471
motor vehicle finance	1	2	5		60	68
credit cards	347	119	33	36	298	833
second lien residential mortgages				271		271
other	438	87	59	43	672	1,299
Total impairment allowances at 31 December 2014	1,092	254	194	1,994	1,066	4,600

On a reported basis, total personal lending reduced by $8.3bn, mainly due to the classification of $7.6bn of assets of our Brazilian operations as Assets held for sale and adverse foreign exchange movements of $3.3bn.

Loan impairment allowances reduced by $1.3bn, mainly due to the Brazilian reclassification.

Loan impairment charges were $0.9bn, $0.3bn less than in 1H14 due to reduced levels of lending balances and lower new impaired loans and delinquency in the US CML portfolio, reflecting the continued portfolio run-off and loan sales.

Excluding the Brazilian reclassification, personal lending grew by $2.7bn on a constant currency basis.

Mortgage lending

The commentary that follows is on a constant currency basis:

Excluding the effect of the reclassification of the assets of our Brazilian operations as Assets held for sale and the

US CML run-off portfolio, mortgage lending increased by $3.4bn during 1H15. Mortgage lending balances in Asia grew by $3.1bn, primarily attributable to continued growth in Hong Kong ($2.2bn) due to increased promotional campaigns and, to a lesser extent, in Australia and mainland China ($1.0bn) as a result of strong demand and our competitive customer offerings. The quality of our Asian mortgage book remained high with negligible defaults and impairment allowances. The average loan to value (LTV) ratio on new mortgage lending in Hong Kong was 44% compared with an estimated 27% for the overall portfolio.

In North America, our Canadian mortgage balances increased by $0.5bn during 1H15 a result of a spring mortgage campaign.

The Premier mortgage portfolio in the US also increased by $0.6bn as we continued to focus on growth in our core portfolios of higher credit quality mortgages. Collectively assessed impairment allowances reduced in 1H15 due to continued improvement in the credit quality of the

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Risk (continued)

mortgage portfolio. The US CML portfolio declined by $1.8bn, including second lien mortgages, in 1H15.

We classified mortgage lending balances of $1.9bn in Brazil as Assets held for sale .

In Europe, there was a decline of $0.8bn or 0.6% in the mortgage portfolio due to decreased new mortgage lending and the effect of repayments, mainly in the UK, and a fall in impairment allowances due to reductions in receivables and defaulted loans.

The LTV ratio on new lending in the UK was 55.9% compared with an average of 42.5% for the total mortgage portfolio. The credit quality of our UK mortgage portfolio remained high and both loan impairment charges and delinquency levels declined in 1H15.

Other personal lending

The commentary that follows is on a constant currency basis:

Excluding the effect of the Brazilian reclassification and the US CML run-off portfolio, other personal lending increased by $1.0bn during 1H15. This was driven by strong growth in personal loans in Hong Kong ($1.5bn) and an increase in other lending in France ($0.4bn).

These increases were partially offset by reductions in credit card lending of $0.2bn in the UK and $0.3bn in Hong Kong. Other personal lending in North America declined by $0.6bn, of which $0.3bn was a reduction in second lien mortgage balances during 1H15.

HSBC Finance

Lending in HSBC Finance for residential mortgages, including second lien mortgages, decreased by $1.8bn

to $21.8bn at 30 June 2015. Of the mortgage lending in HSBC Finance 90% consisted of first lien residential mortgages and 10% of second lien mortgages. In addition to the continued loan sales in the CML portfolio, we transferred a further $0.4bn to Assets held for sale during 1H15, and these loans were mainly sold in May 2015. The average gain on sale of foreclosed properties that arose after we took title to the property was 1%.

The decrease in impairment allowances from $1.7bn at 31 December 2014 to $1.3bn at 30 June 2015 reflected reduced levels of delinquency and lower newly impaired loans and loan balances outstanding as a result of continued sale and liquidation of the portfolio.

Across the first and second lien residential mortgages in our CML portfolio, two months and over delinquent balances reduced by $0.5bn to $1.8bn during 1H15, reflecting the continued portfolio run-off and loan sales.

At 30 June 2015, renegotiated real estate secured accounts in HSBC Finance represented 92% (December 2014: 93%) of North America s total renegotiated loans. $7bn of renegotiated real estate secured loans were classified as impaired

(31 December 2014: $8bn). During 1H15, the aggregate number of renegotiated loans in HSBC Finance reduced due to portfolio run-off and further loan sales in the CML portfolio.

HSBC Bank USA

In HSBC Bank USA, mortgage balances grew by $0.6bn to $17.4bn during 1H15 as we continued to implement our strategy to grow the HSBC Premier and Advance customer base. We continued to sell all agency eligible new originations in the secondary market.

Supplementary information

Reconciliation of reported and constant currency changes impaired loans and allowances by geographical region

	31 December 2014 as reported $m	Currency translation adjustment[6] $m	31 December 2014 at 30 June 2015 exchange rates $m	Movement on a constant currency basis $m	**30 June 2015 as reported $m**	**Reported change[7] %**	**Constant currency change[7] %**
Impaired loans							
Europe	10,242	(231)	10,011	(491)	**9,520**	**(7)**	**(5)**
Asia	2,048	(56)	1,992	159	**2,151**	**5**	**8**
Middle East and North Africa	1,981	(13)	1,968	(264)	**1,704**	**(14)**	**(13)**
North America	11,694	(30)	11,664	(1,029)	**10,635**	**(9)**	**(9)**
Latin America	3,365	(383)	2,982	(1,838)	**1,144**	**(66)**	**(62)**
	29,330	(713)	28,617	(3,463)	**25,154**	**(14)**	**(12)**
Impairment allowances							
Europe	4,455	(133)	4,322	(94)	**4,228**	**(5)**	**(2)**
Asia	1,356	(25)	1,331	67	**1,398**	**3**	**5**
Middle East and North Africa	1,406	(7)	1,399	(212)	**1,187**	**(16)**	**(15)**
North America	2,640	(21)	2,619	(388)	**2,231**	**(15)**	**(15)**
Latin	2,529	(293)	2,236	(1,502)	**734**	**(71)**	**(67)**

America							
	12,386	(479)	11,907	(2,129)	**9,778**	**(21)**	**(18)**

For footnotes, see page 86.

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Risk (continued)

Gross loans and advances by industry sector

	At 31 December 2014 $m	Currency effect $m	Movement $m	At 30 June 2015 $m
Personal	393,554	**(3,933)**	**(4,321)**	**385,300**
first lien residential mortgages	286,524	**(1,895)**	**124**	**284,753**
other personal	107,030	**(2,038)**	**(4,445)**	**100,547**
Corporate and commercial	542,625	**(8,345)**	**(10,073)**	**524,207**
manufacturing	106,986	**(2,467)**	**(2,421)**	**102,098**
international trade and services	180,791	**(2,651)**	**(8,661)**	**169,479**
commercial real estate	73,293	**(993)**	**(1,543)**	**70,757**
other property-related	52,387	**(326)**	**7,048**	**59,109**
government	6,143	**(128)**	**25**	**6,040**
other commercial[2]	123,025	**(1,780)**	**(4,521)**	**116,724**
Financial	50,818	**(357)**	**3,757**	**54,218**
Total gross loans and advances to customers (A)	986,997	**(12,635)**	**(10,637)**	**963,725**
Gross loans and advances to banks	112,198	**(2,471)**	**(284)**	**109,443**
Total gross loans and advances	1,099,195	**(15,106)**	**(10,921)**	**1,073,168**
Impaired loans and advances to customers	29,283	**(713)**	**(3,460)**	**25,110**
as a percentage of (A)	3.0%			**2.6%**
Impairment allowances on loans and advances to customers	12,337	**(480)**	**(2,117)**	**9,740**
as a percentage of (A)	1.2%			**1.0%**

For footnote, see page 86.

The currency effect on personal lending gross loans and advances of $3.9bn was made up as follows: Asia $1.4bn, North America $1.4bn, Latin America $1.0bn and Europe $0.1bn. The currency effect on wholesale lending gross

loans and advances of $11.2bn was made up as follows: Latin America $4.4bn, Europe $2.8bn, Asia $2.4bn, North America $1.1bn and Middle East and North Africa $0.5bn.

Gross loans and advances to customers by country

	First lien residential mortgages $m	Other personal $m	Property-related $m	Commercial, international trade and other $m	Total $m
Europe	130,909	46,402	35,134	192,217	404,662
UK	124,001	21,221	26,303	148,414	319,939
France	2,342	12,248	6,811	21,028	42,429
Germany	5	216	364	7,933	8,518
Switzerland	346	8,266	235	841	9,688
other	4,215	4,451	1,421	14,001	24,088
Asia	95,176	37,199	73,767	166,895	373,037
Hong Kong	58,884	24,380	55,627	84,411	223,302
Australia	9,079	709	1,837	6,457	18,082
India	1,357	287	630	6,189	8,463
Indonesia	58	380	84	5,706	6,228
Mainland China	4,823	1,908	6,992	25,224	38,947
Malaysia	4,945	1,576	2,000	5,446	13,967
Singapore	8,942	5,707	4,146	12,137	30,932
Taiwan	4,099	689	119	5,903	10,810
other	2,989	1,563	2,332	15,422	22,306
Middle East and North Africa (excluding Saudi Arabia)	2,642	4,006	2,412	23,317	32,377
Egypt	1	515	124	2,414	3,054
UAE	2,248	1,866	1,650	14,935	20,699
other	393	1,625	638	5,968	8,624
North America	53,995	8,995	17,096	54,483	134,569
US	36,952	5,088	12,964	41,812	96,816
Canada	15,679	3,654	3,807	11,618	34,758
other	1,364	253	325	1,053	2,995
Latin America	2,031	3,945	1,457	11,647	19,080
Mexico	1,919	2,630	1,296	8,435	14,280
other	112	1,315	161	3,212	4,800
At 30 June 2015	284,753	100,547	129,866	448,559	963,725

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Risk (continued)

	First lien residential mortgages $m	Other personal $m	Property-related $m	Commercial, international trade and other $m	Total $m
Europe	144,225	50,673	38,379	251,321	484,598
UK	135,701	22,121	28,124	204,624	390,570
France	3,131	14,177	8,322	23,292	48,922
Germany	6	205	146	8,080	8,437
Switzerland	352	8,189	248	461	9,250
other	5,035	5,981	1,539	14,864	27,419
Asia	95,489	34,191	67,457	166,486	363,623
Hong Kong	54,988	21,777	49,209	84,002	209,976
Australia	10,214	915	2,805	7,135	21,069
India	1,169	303	593	4,993	7,058
Indonesia	70	469	75	5,632	6,246
Mainland China	5,516	151	6,228	24,349	36,244
Malaysia	5,463	1,892	1,988	5,181	14,524
Singapore	10,330	6,118	4,351	12,803	33,602
Taiwan	4,193	691	127	6,960	11,971
other	3,546	1,875	2,081	15,431	22,933
Middle East and North Africa (excluding Saudi Arabia)	2,543	4,010	2,027	21,794	30,374
Egypt	1	493	104	2,264	2,862
UAE	2,168	1,815	1,314	13,379	18,676
other	374	1,702	609	6,151	8,836
North America	58,677	10,896	15,321	48,312	133,206
US	39,939	5,842	10,609	34,279	90,669
Canada	17,174	4,769	4,210	13,064	39,217
other	1,564	285	502	969	3,320
Latin America	4,501	10,547	2,840	31,522	49,410
Mexico	2,155	2,987	1,428	9,128	15,698
other	2,346	7,560	1,412	22,394	33,712
Included in other: Brazil	2,232	6,360	1,273	19,555	29,420
At 30 June 2014	305,435	110,317	126,024	519,435	1,061,211
Europe	131,000	47,531	35,313	200,313	414,157
UK	123,239	21,023	25,927	156,577	326,766
France	2,914	12,820	7,341	21,834	44,909
Germany	6	212	304	7,275	7,797

Switzerland	298	8,149	225	614	9,286
other	4,543	5,327	1,516	14,013	25,399
Asia	93,147	36,368	70,057	164,739	364,311
Hong Kong	56,656	22,891	52,208	82,362	214,117
Australia	9,154	815	2,130	6,360	18,459
India	1,235	285	613	5,099	7,232
Indonesia	64	469	202	5,476	6,211
Mainland China	4,238	1,981	6,606	24,875	37,700
Malaysia	5,201	1,750	1,988	5,217	14,156
Singapore	9,521	5,878	4,210	11,951	31,560
Taiwan	3,920	626	118	7,057	11,721
other	3,158	1,673	1,982	16,342	23,155
Middle East and North Africa (excluding Saudi Arabia)	2,647	3,924	2,246	21,633	30,450
Egypt	1	510	98	2,272	2,881
UAE	2,263	1,782	1,545	13,814	19,404
other	383	1,632	603	5,547	8,165
North America	55,577	9,823	15,492	51,535	132,427
US	37,937	5,482	11,461	38,632	93,512
Canada	16,236	4,085	3,708	11,825	35,854
other	1,404	256	323	1,078	3,061
Latin America	4,153	9,384	2,572	29,543	45,652
Mexico	1,967	2,642	1,336	9,503	15,448
other	2,186	6,742	1,236	20,040	30,204
Included in other: Brazil	2,067	5,531	1,077	16,814	25,489
At 31 December 2014	286,524	107,030	125,680	467,763	986,997

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Risk (continued)

Greece

As a result of the unfolding crisis, we have raised additional loan impairment charges and other credit risk provisions amounting to $111m. The tables in this section summarise our Greek country exposures.

Exposures to banks, other financial corporations, non-financial corporations and households are based on the counterparty s country of domicile. We separately identify exposures to the shipping industry. These are denominated in US dollars and booked in the UK. We believe the shipping industry is less sensitive to the Greek economy as it is mainly dependent on international trade. The average LTV weighted by the value of loans of our residential mortgages is 66%. We have had restricted lending appetite in Greece for a number of years.

Summary of exposures to Greece

	$bn
On-balance sheet exposures	
Loans and advances to customers	**3.0**
other financial institutions and corporates	**0.7**
shipping industry booked in UK	**1.7**
personal mortgages	**0.6**
Derivative assets	**0.4**
Gross balance sheet exposure before risk mitigation	**3.4**
Risk mitigation: collateral and derivative liabilities	**(0.4)**
Net on-balance sheet exposure	**3.0**
Off-balance sheet exposures	
Gross off-balance sheet exposure to banks before risk mitigation	**0.3**
Risk mitigation: collateral and guarantees held on off-balance sheet exposures to banks	**(0.1)**
Net off-balance sheet exposures to banks	**0.2**
Gross off-balance sheet exposures to customers	**0.6**
Net off-balance sheet exposures	**0.8**
Total net exposures at 30 June 2015	**3.8**

Basis of preparation

The gross exposure represents the on-balance sheet carrying amounts recorded in accordance with IFRSs and off-balance sheet exposures before risk mitigation.

The net exposure is stated after taking into account mitigating offsets that are incorporated into the risk management view of the exposure but do not meet accounting offset requirements. These risk mitigating offsets include:

derivative liabilities for which a legally enforceable right of offset with derivative assets exists;

collateral received on derivative assets; and

cash collateral and guarantees received on off-balance sheet exposures.

Redenomination risk

There is the continuing possibility of Greece exiting the eurozone. There remains no established legal framework within the European treaties to facilitate such an event; consequently, it is not possible to accurately predict the course of events and legal consequences that would ensue.

Greece funding exposure

	Denominated in			
	Euros	US dollars	Other currencies	Total
	$bn	$bn	$bn	$bn
At 30 June 2015				
In-country assets	**1.0**	**0.0**		**1.0**
In-country liabilities	**(0.8)**	**(0.3)**		**(1.1)**
Net in-country funding exposure	**0.2**	**(0.3)**		**(0.1)**
Off-balance sheet exposure	**0**			**0**

Key risks associated with an exit by Greece include:

Foreign exchange losses: an exit would probably be accompanied by the passing of laws establishing a new local currency and providing for a redenomination of euro assets into the new local currency. The value of assets and liabilities in Greece would immediately fall assuming the value of the redenominated currency is less than the original euros when translated into the carrying amounts. It is not possible to predict what the total consequential loss might be as it is uncertain which assets and liabilities would be legally redenominated or the extent of the devaluation. These assets and liabilities predominantly comprise loans and deposits arising from our commercial banking operations in Greece, and the net assets represent our net funding exposure. The table above also identifies in-country off-balance sheet exposures as these are at risk of redenomination should they be called, giving rise to a balance sheet exposure.

External contracts redenomination risk: contracts entered into between HSBC businesses based outside Greece with in-country counterparties or those otherwise closely connected with Greece may be affected by redenomination. The effect remains subject to a high level of uncertainty. Factors such as the country law under which the contract is documented, the HSBC entity involved and the payment mechanism may all be relevant to this assessment, as will the precise exit scenario as the consequences for external contracts of a disorderly exit may differ from one sanctioned under EU law. In addition, capital controls could be introduced which may affect our ability to repatriate funds including currencies not affected by the redenomination event.

We continue to identify and monitor potential redenomination risks and, where possible, take steps to mitigate them and/or reduce our overall exposure to losses that might arise in the event of a redenomination. We recognise, however, that a euro exit could take different forms, depending on the scenario. These could have distinct legal consequences which could significantly alter the potential effectiveness of any mitigation initiatives, and it is accordingly not possible to predict how effective particular measures may be until they are tested against the precise circumstances of a redenomination event.

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Risk (continued)

Risk elements in the loan portfolio

The disclosure of credit risk elements in this section reflects US accounting practice and classifications. The purpose of the disclosure is to present within the US disclosure framework those elements of the loan portfolios with a greater risk of loss. The three main classifications of credit risk elements presented are:

- impaired loans;
- unimpaired loans contractually past due 90 days or more as to interest or principal; and
- troubled debt restructurings not included in the above.

Impaired loans

In the following tables, we present information on our impaired loans and advances in accordance with the classification approach described on page 137 of the *Annual Report and Accounts 2014*.

A loan is impaired, and an impairment allowance is recognised, when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated. In accordance with IFRSs, we recognise interest income on assets after they have been written down as a result of an impairment loss.

The balance of impaired loans at 30 June 2015 was $4.2bn lower than at 31 December 2014. This reduction was largely due to the reclassification of the assets of our Brazilian operations as Assets held for sale , and a combination of the continued run-off of the CML portfolio, and reductions in corporate individually assessed impaired loans in Europe.

Unimpaired loans past due 90 days or more

Examples of unimpaired loans past due 90 days or more include individually assessed mortgages that are in arrears more than 90 days where there are no other indicators of impairment, but where the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

The amount of unimpaired loans past due 90 days or more at 30 June 2015 was $66m, $6m lower than at 31 December 2014. The slight decrease was primarily in the Middle East and North Africa.

Troubled debt restructurings

Under US GAAP, a troubled debt restructuring (TDR) is a loan the terms of which have been modified for economic or legal reasons related to the borrower s financial difficulties to grant a concession to the borrower that the lender would not otherwise consider. A modification which results in a delay in payment that is considered insignificant is not regarded as a concession for the purposes of this disclosure. The SEC requires separate disclosure of any loans which meet the definition of a TDR that are not included in the previous two loan categories. These are classified as TDR s in the table on page 74b. Loans that have been identified as TDRs under the US guidance retain

this designation until they are repaid or are derecognised. This treatment differs from the Group s impaired loans disclosure convention under IFRS under which a loan may return to unimpaired status after demonstrating a significant reduction in the risk of non-payment of future cash flows. As a result reported TDRs include those loans that have returned to unimpaired status under the Group s disclosure convention for renegotiated loans.

The balance of TDRs not included as impaired loans at 30 June 2015 remained broadly stable.

Potential problem loans

Potential problem loans are loans where information on possible credit problems among borrowers causes management to seriously doubt their ability to comply with the loan repayment terms. The following concentrations of credit risk have a higher risk of containing potential problem loans.

Mortgage lending on page 70 includes disclosure about certain homogeneous groups of loans which are collectively assessed for impairment, which may represent exposures to potential problem loans, including interest-only mortgages and affordability mortgages, including ARMs. Collectively assessed loans and advances, although not classified as impaired until more than 90 days past due, are assessed collectively for losses that have been incurred but have not yet been individually identified. This policy is further described on page 212 of the Form 20-F for 2014 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

Renegotiated loans and forbearance on page 63 includes disclosure about the credit quality of loans whose contractual payment terms have been changed at some point in the life of the loan because of significant concerns about the borrower s ability to make contractual payments when due. Renegotiated loans are classified as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and

- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment. The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Renegotiated loans that are not classified as impaired may have a higher risk of becoming delinquent in the future, and may therefore be potential problem loans. Further information regarding the credit quality classification of renegotiated loans can be found on page 207 of the Form 20-F for 2014 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

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Risk (continued)

Analysis of risk elements in the loan portfolio by geographical region

The analysis below sets out the amount of risk elements in loan portfolios included within loans and advances to customers and banks in the consolidated balance sheet, trading loans classified as in default and assets obtained by taking possession of security. The table excludes the amount of risk elements in loan portfolios classified as assets held for sale in the consolidated balance sheet, which is set out in footnote 2.

	At 30 June 2015 $m	At 30 June 2014 $m	At 31 December 2014 $m
Impaired loans	**25,153**	33,936	29,330
Europe	**9,519**	11,992	10,242
Asia	**2,151**	1,781	2,048
Middle East and North Africa	**1,704**	2,222	1,981
North America	**10,635**	13,702	11,694
Latin America	**1,144**	4,239	3,365
Unimpaired loans contractually past due 90 days or more as to principal or interest	**66**	162	72
Europe	**6**	8	6
Asia	**4**	10	1
Middle East and North Africa	**55**	105	59
North America		39	3
Latin America	**1**		3
Troubled debt restructurings (not included in the classifications above)	**6,914**	6,626	6,982
Europe	**1,669**	1,253	1,652
Asia	**242**	302	267
Middle East and North Africa	**631**	381	778
North America	**4,060**	4,285	3,932
Latin America	**312**	405	353
Trading loans classified as in default	**143**	17	4
Europe	**139**		
North America	**4**	17	4
Risk elements on loans	**32,276**	40,741	36,388

Europe	**11,333**	13,253	11,900
Asia	**2,397**	2,093	2,316
Middle East and North Africa	**2,390**	2,708	2,818
North America	**14,699**	18,043	15,633
Latin America	**1,457**	4,644	3,721
Assets held for resale[1]	**204**	317	245
Europe	**26**	43	29
Asia	**14**	20	14
Middle East and North Africa			
North America	**149**	228	186
Latin America	**15**	26	16
Total risk elements[2]	**32,480**	41,058	36,633
Europe	**11,359**	13,296	11,929
Asia	**2,411**	2,113	2,330
Middle East and North Africa	**2,390**	2,708	2,818
North America	**14,848**	18,271	15,819
Latin America	**1,472**	4,670	3,737
	%	%	%
Loan impairment allowances as a percentage of risk elements on loans[3]	**30.4**	34.5	34.0

1 *Assets held for resale represent assets obtained by taking possession of collateral held as security for financial assets.*

2 *Total risk elements in respect of assets classified as held for sale in the consolidated balance sheet and not presented above were $2,358m (30 June 2014: $549m; 31 December 2014: $466m) of which $2,346 were impaired (30 June 2014: $548m; 31 December 2014: $465m); $1m unimpaired loans contractually past due 90 days or more as to principal or interest (30 June 2014: $1m; 31 December 2014: $1m) and $11m troubled debt restructurings (not included in the classifications above) (30 June 2014: nil; 31 December 2014: nil).*

3 *Ratio excludes trading loans classified as in default.*

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Securitisation exposures and other structured products

The following table summarises the carrying amount of our asset-backed securities (ABS s) exposure by categories of collateral and includes assets held in the GB&M legacy credit portfolio with a carrying value of $19bn (30 June 2014: $27bn; 31 December 2014: $23bn).

At 30 June 2015, the available-for-sale reserve in respect of ABSs was a deficit of $818m (30 June 2014: $951m; 31 December 2014: $777m). For 2015, the impairment write-back in respect of ABSs was $90m (30 June 2014: $203m; 31 December 2014: $276m).

Representations and warranties related to mortgage sales and securitisation activities

We have been involved in various activities related to the sale and securitisation of residential mortgages that are not recognised on our balance sheet. These activities are set out on page 162 of the *Annual Report and Accounts 2014.*

There have been no significant changes in the liabilities recognised in respect of various representations and warranties regarding the origination and sale by HSBC Bank USA of mortgage loans, primarily to government sponsored entities, nor repurchase demands outstanding since 31 December 2014.

Carrying amount of HSBC s consolidated holdings of ABSs

	Trading $m	Available for sale $m	Held to maturity $m	Designated at fair value through profit or loss $m	Loans and receivables $m	Total $m	Of which held through consolidated SEs $m
Mortgage-related assets	**2,343**	**23,469**	**14,140**		**742**	**40,694**	**7,047**
sub-prime residential	**114**	**2,571**			**164**	**2,849**	**1,884**
US Alt-A residential	**88**	**2,353**	**9**		**85**	**2,535**	**2,247**
US Government agency and sponsored enterprises: MBSs	**158**	**14,611**	**14,131**			**28,900**	
other residential	**1,279**	**1,181**			**205**	**2,665**	**660**
commercial property	**704**	**2,753**			**288**	**3,745**	**2,256**
Leveraged finance-related assets	**263**	**3,001**			**191**	**3,455**	**2,092**
Student loan-related assets	**250**	**3,271**			**95**	**3,616**	**3,057**
Other assets	**1,602**	**973**		**13**	**212**	**2,800**	**683**
At 30 June 2015	**4,458**	**30,714**	**14,140**	**13**	**1,240**	**50,565**	**12,879**
Mortgage-related assets	1,117	29,863	1,022		1,477	33,479	11,587

sub-prime residential	150	3,231			394	3,775	3,041
US Alt-A residential	96	3,214	18		128	3,456	2,738
US Government agency and sponsored enterprises: MBSs	136	16,739	1,004			17,879	
other residential	266	1,737			362	2,365	1,336
commercial property	469	4,942			593	6,004	4,472
Leveraged finance-related assets	298	4,836			242	5,376	4,209
Student loan-related assets	227	3,654			123	4,004	3,546
Other assets	1,375	1,245		22	1,051	3,693	995
At 30 June 2014	3,017	39,598	1,022	22	2,893	46,552	20,337
Mortgage-related assets	1,882	21,350	13,447		1,264	37,944	7,992
sub-prime residential	122	3,081			308	3,511	2,075
US Alt-A residential	96	3,022	11		110	3,239	2,411
US Government agency and sponsored enterprises: MBSs	82	10,401	13,436			23,919	
other residential	928	1,220			330	2,478	652
commercial property	654	3,627			516	4,797	2,854
Leveraged finance-related assets	172	3,660			218	4,050	2,526
Student loan-related assets	242	3,545			119	3,906	3,284
Other assets	1,264	1,114		19	646	3,043	758
At 31 December 2014	3,560	29,670	13,447	19	2,247	48,943	14,560

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Risk (continued)

Liquidity and funding

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time.

There have been no material changes to the policies and practices for the management of liquidity and funding risks described in the *Annual Report and Accounts 2014*.

A summary of our current policies and practices regarding liquidity and funding is provided on page 215 of the Annual Report and Accounts 2014.

Our liquidity and funding risk management framework

The objective of our liquidity framework is to allow us to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

Our liquidity and funding risk management framework requires:

- liquidity to be managed by operating entities on a stand-alone basis with no implicit reliance on the Group or central banks;
- all operating entities to comply with their limits for the advances to core funding ratio; and
- all operating entities to maintain a positive stressed cash flow position out to three months under prescribed Group stress scenarios.

Liquidity and funding in the first half of 2015

The liquidity position of the Group remained strong in 1H15, as demonstrated by the key liquidity and funding metrics presented below. During the period, reported customer accounts decreased by 1% ($15bn) while reported loans and advances to customers decreased by 2% ($21bn), leading to a small reduction in our advances to deposits ratio to 71% (30 June 2014: 74%; 31 December 2014: 72%).

Wholesale senior funding markets

Conditions in wholesale debt markets deteriorated through the second quarter as the uncertainty around Greece affected market confidence. The path of interest rates and broader global economic uncertainty means further volatility can be expected; however global bank funding needs and regulatory proposals for increased loss absorbing capacity suggest continued volumes of primary market supply. We retained good access to debt capital markets with Group entities issuing $9.6bn of public transactions, of which $4.3bn was in the form of senior unsecured debt.

Liquidity regulation

The European adoption of the Basel Committee framework (legislative texts known as the Capital Requirements Regulation and Directive CRR/CRD IV) was published in June 2013, requiring the reporting of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) to European regulators from 30 June 2014. A significant level of interpretation was involved in reporting and calculating the LCR as defined in the CRR text as certain areas were only addressed by the finalisation of the LCR regulation in January 2015. This will not become a regulatory standard until 1 October 2015. The European calibration of NSFR is pending following the Basel Committee s final recommendation in October 2014. We monitor NSFR in line with the relevant text from the Basel Committee of Banking Supervision (BCBS295), pending its implementation in Europe. Both Group NSFR and Group LCR as reported were above 100%.

Management of liquidity and funding risk

Our liquidity and funding risk management framework (LFRF) employs two key measures to define, monitor and control the liquidity and funding risk of each of our operating entities. The advances to core funding ratio is used to monitor our structural long-term funding position, and the stressed coverage ratio, incorporating Group-defined stress scenarios, is used to monitor our resilience to severe liquidity stresses.

The three principal entities listed in the tables below represented 64% (30 June 2014: 67%; 31 December 2014: 66%) of the Group s customer accounts. Including the other principal entities, the figure was 93% (30 June 2014: 96%; 31 December 2014: 95%).

Advances to core funding ratio

The table below shows the extent to which loans and advances to customers in the listed principal banking entities were financed by reliable and stable sources of funding.

Advances to core funding ratios[8]

		Half-year to	
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	%	%	%
HSBC UK			
Period-end	**96**	99	97
Maximum	**98**	102	100
Minimum	**96**	99	97
Average	**97**	101	99
The Hongkong and Shanghai Banking Corporation			
Period-end	**74**	74	75

Maximum	**75**	75	75
Minimum	**73**	72	73
Average	**74**	74	74
HSBC USA			
Period-end	**95**	97	100
Maximum	**100**	98	100
Minimum	**95**	85	95
Average	**97**	93	97

Advances to core funding ratios[8] *(continued)*

	Half-year to		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	%	%	%
Total of HSBC s other principal entities			
Period-end	**93**	93	92
Maximum	**94**	94	93
Minimum	**92**	93	92
Average	**93**	93	93

For footnote, see page 86.

There were no material movements in 1H15 for any of the principal banking entities and all entities remained within their advances to core funding limits. The limits set for principal operating entities at 30 June 2015 ranged from 80% to 120%.

Stressed coverage ratios

The ratios tabulated below express stressed cash inflows as a percentage of stressed cash outflows over both one-month and three-month time horizons. Operating entities are required to maintain a ratio of 100% or more out to three months.

Inflows included in the numerator of the stressed coverage ratio are generated from liquid assets net of assumed haircuts, and cash inflows related to assets contractually maturing within the time period.

In general, customer advances are assumed to be renewed and as a result do not generate a cash inflow.

Stressed one-month and three-month coverage ratios[8]

	Stressed one-month coverage ratios for the half-year to			Stressed three-month coverage ratios for the half-year to		
	30 Jun 2015	30 Jun 2014	31 Dec 2014	**30 Jun 2015**	30 Jun 2014	31 Dec 2014
	%	%	%	**%**	%	%
HSBC UK						
Period-end	**127**	103	117	**114**	103	109
Maximum	**127**	106	117	**114**	109	109

Minimum	**112**	102	103	**105**	103	103
Average	**117**	104	110	**108**	104	104
The Hongkong and Shanghai Banking Corporation						
Period-end	**118**	114	117	**114**	111	112
Maximum	**118**	119	118	**114**	114	114
Minimum	**113**	114	114	**111**	111	111
Average	**116**	115	116	**112**	112	113
HSBC USA						
Period-end	**120**	115	111	**110**	108	104
Maximum	**120**	115	122	**110**	110	111
Minimum	**109**	108	111	**101**	104	104
Average	**113**	112	118	**104**	107	108
Total of HSBC s other principal entities						
Period-end	**116**	115	121	**109**	108	108
Maximum	**121**	121	121	**109**	115	109
Minimum	**112**	114	115	**106**	108	108
Average	**115**	117	116	**107**	111	108

The coverage ratio for HSBC UK increased due to strong growth in deposits over the period.

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Loans and other receivables due from banks continued to exceed deposits taken from banks. The Group remained a net unsecured lender to the banking sector.

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Risk (continued)

Consolidated funding sources and uses

	At 30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Sources			
Customer accounts	**1,335,800**	1,415,705	1,350,642
Deposits by banks	**71,140**	92,764	77,426
Repurchase agreements non-trading	**81,506**	165,506	107,432
Debt securities in issue	**102,656**	96,397	95,947
Liabilities of disposal groups held for sale	**53,226**	12,361	6,934
Subordinated liabilities	**24,781**	28,052	26,664
Financial liabilities designated at fair value	**69,485**	82,968	76,153
Liabilities under insurance contracts	**69,494**	75,223	73,861
Trading liabilities	**181,435**	228,135	190,572
repos	**2,081**	5,189	3,798
stock lending	**13,655**	15,252	12,032
settlement accounts	**29,398**	41,240	17,454
other trading liabilities	**136,301**	166,454	157,288
Total equity	**201,382**	198,722	199,978
	2,190,905	2,395,833	2,205,609

Market risk

Market risk is the risk that adverse movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

There were no material changes to the policies and practices for the management of market risk described in the *Annual Report and Accounts 2014*.

A summary of our market risk management framework including current policies is provided on page 221 of the Annual Report and Accounts 2014.

Market risk in the first half of 2015

Global markets were influenced by the Greek crisis and concerns about the slowdown in the mainland Chinese economy. Markets remained volatile given the uncertainties in the global economic outlook compounded by volatility in the oil and gas markets.

We maintained an overall defensive risk profile that resulted in a continued reduction in our trading value at risk (VaR). Non-trading VaR increased slightly during the first half of the year, driven by the expectations of an increase in US rates.

	At		
	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Uses			
Loans and advances to customers	**953,985**	1,047,241	974,660
Loans and advances to banks	**109,405**	127,387	112,149
Reverse repurchase agreements non-trading	**149,384**	198,301	161,713
Assets held for sale	**60,929**	10,248	7,647
Trading assets	**283,138**	347,106	304,193
reverse repos	**741**	4,484	1,297
stock borrowing	**11,639**	13,903	7,969
settlement accounts	**33,249**	48,139	21,327
other trading assets	**237,509**	280,580	273,600
Financial investments	**404,682**	423,710	415,467
Cash and balances with central banks	**144,324**	132,137	129,957
Net deployment in other balance sheet assets and liabilities	**85,058**	109,703	99,823
	2,190,905	2,395,833	2,205,609

As a consequence of the Greek crisis, the yields on lower rated European government bonds increased but remained well below previous crisis peaks.

Although the Chinese government intervened through policy adjustments, mainly around interest rates and reserve requirements, the mainland Chinese equity markets fell during the latter part of the period under review.

In addition, divergent monetary policies were seen in the US and Europe. The US Federal Reserve Board continued to discuss a move to normalise monetary policy with an expected interest rate rise in 2015. This contrasted with the eurozone implementing its asset purchase programme earlier in the year.

Capital flows to emerging markets remained weak and are likely to stay uncertain as they await the timing of a possible US interest rate increase later this year.

Trading portfolios

Value at risk of the trading portfolios

Trading VaR resides within Global Markets. The VaR for trading activity at 30 June 2015 was lower than at 31 December 2014 due primarily to declines in interest rate trading VaR.

The Group trading VaR for the half-year is shown in the table below.

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Trading VaR, 99% 1 day

	Foreign exchange and commodity $m	Interest rate $m	Equity $m	Credit spread $m	Portfolio diversification including RNIV[9] $m	Total $m
Half-year to 30 June 2015	**11.5**	**36.7**	**8.1**	**14.9**	**(14.1)**	**57.1**
Average	**15.2**	**41.1**	**7.2**	**16.3**	**(16.9)**	**62.9**
Maximum	**21.7**	**47.1**	**12.4**	**21.8**		**77.9**
Minimum	**9.2**	**33.3**	**3.4**	**9.9**		**51.3**
Half-year to 30 June 2014	13.6	41.7	9.1	12.7	(27.9)	49.2
Average	15.8	37.1	5.9	15.0	(22.5)	51.3
Maximum	28.0	50.5	12.4	20.9		63.4
Minimum	8.7	26.9	3.2	9.3		38.5
Half-year to 31 December 2014	9.8	45.4	7.3	12.5	(14.3)	60.7
Average	18.0	41.9	7.9	12.4	(13.4)	66.8
Maximum	34.2	50.6	15.6	17.1		77.8
Minimum	8.8	34.4	3.8	8.8		49.9

For footnote, see page 86.

Back-testing

There were no loss or profit exceptions for the Group in 1H15.

Non-trading portfolios

Value at risk of the non-trading portfolios

Non-trading VaR of the Group includes contributions from all global businesses. There is no commodity risk in the non-trading portfolios. The VaR for non-trading activity at 30 June 2015 was slightly higher than at 31 December 2014 driven by an increase in non-trading interest rate VaR, partially offset by an increase in diversification benefit.

The Group non-trading VaR for the half-year is shown in the table below.

Non-trading VaR, 99% 1 day

	Interest rate $m	Credit spread $m	Portfolio diversification[9] $m	Total $m
Half-year to 30 June 2015	**106.4**	**66.7**	**(45.3)**	**127.8**
Average	**86.6**	**61.7**	**(33.6)**	**114.7**
Maximum	**112.6**	**71.9**		**128.1**
Minimum	**70.5**	**54.3**		**91.5**
Half-year to 30 June 2014	103.6	75.1	(27.7)	151.0
Average	116.1	79.3	(40.9)	154.5
Maximum	147.7	91.9		189.0
Minimum	99.1	69.0		122.5
Half-year to 31 December 2014	88.2	62.5	(28.5)	122.2
Average	90.9	67.5	(34.0)	124.4
Maximum	105.1	82.8		160.6
Minimum	83.3	49.6		92.3

For footnote, see page 86.

Non-trading VaR excludes equity risk on available-for-sale securities, structural foreign exchange risk and interest rate risk on fixed rate securities issued by HSBC Holdings. This section and the sections below describe the scope of HSBC s management of market risks in non-trading books.

Non-trading interest rate risk

Our policies regarding the funds transfer priority process for managing non-trading interest rate risk and liquidity and funding risk are described on pages 226 and 219, respectively, of the *Annual Report and Accounts 2014*.

Third-party assets in Balance Sheet Management

Third-party assets in BSM in total did not change during 1H15, primarily as a result of the reclassification of $10bn of assets in Brazil to held for sale, offset by an increase of $6bn in financial investments due to increased deployment of commercial surplus funds into securities in Hong Kong. Notwithstanding the reclassification, BSM continues to manage Brazilian assets pending entity disposal.

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Risk (continued)

Third-party assets in Balance Sheet Management

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$m	$m	$m
Cash and balances at central banks	**107,513**	107,698	103,008
Trading assets	**2,104**	5,673	4,610
Financial assets designated at fair value		70	
Loans and advances			
to banks	**54,586**	61,277	53,842
to customers	**2,723**	1,871	1,931
Reverse repurchase agreements	**48,922**	69,844	59,172
Financial investments	**312,975**	311,333	306,763
Other	**2,370**	1,420	2,470
	531,193	559,186	531,796

Sensitivity of net interest income

The table below sets out the effect on our future net interest income (NII) of an incremental 25 basis points parallel rise or fall in all yield curves worldwide at the beginning of each quarter during the 12 months from 1 July 2015.

The sensitivities shown represent the change in the base case projected NII that would be expected under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions. In deriving our base case net interest income projections, the repricing rate of assets and liabilities used is derived from current yield curves. The interest rate sensitivities are indicative and based on simplified scenarios.

Assuming no management response, a sequence of such rises (up-shock scenario) would increase planned net interest income for the 12 months to 30 June 2016 by $1,027m (to 31 December 2015: $885m), while a sequence of such falls (down-shock scenario) would decrease planned net interest income by $1,905m (to 31 December 2015: $2,089m).

The NII sensitivity of the Group can be split into three key components; the structural sensitivity arising from the four global businesses excluding BSM and Global Markets, the sensitivity of the funding of the trading book (Global Markets) and the sensitivity of BSM.

The structural sensitivity is positive in a rising rate environment and negative in a falling rate environment. The sensitivity of the funding of the trading book is negative in a rising rate environment and positive in a falling rate environment. The sensitivity of BSM depends on its position. Typically, assuming no management response, the sensitivity of BSM is negative in a rising rate environment and positive in a falling rate environment.

The NII sensitivity figures below also incorporate the effect of any interest rate behaviouralisation applied and the effect of any assumed repricing across products under the specific interest rate scenario. They do not incorporate the effect of any management decision to change the composition of HSBC s balance sheet.

The NII sensitivity in BSM arises from a combination of the techniques that BSM uses to mitigate the transferred interest rate risk and the methods it uses to optimise net revenues in line with its defined risk mandate. The figures in the table below do not incorporate the effect of any management decisions within BSM, but in reality it is likely that there would be some short-term adjustment in BSM positioning to offset the NII effects of the specific interest rate scenario where necessary.

The NII sensitivity arising from the funding of the trading book comprises the expense of funding trading assets, while the revenue from these trading assets is reported in net trading income. This leads to an asymmetry in the NII sensitivity figures which is cancelled out in our global business results, where we include both NII and net trading income. It is likely, therefore, that the overall effect on profit before tax of the funding of the trading book will be much less pronounced than is shown in the figures below.

The scenario sensitivities remained broadly unchanged in 1H15.

Sensitivity of projected net interest income

	US dollar bloc $m	**Rest of Americas bloc $m**	**Hong Kong dollar bloc $m**	**Rest of Asia bloc $m**	**Sterling bloc $m**	**Euro bloc $m**	**Total $m**
Change in July 2015 to June 2016 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	**347**	**5**	**307**	**297**	**174**	**(103)**	**1,027**
25 basis points	**(470)**	**(22)**	**(580)**	**(246)**	**(565)**	**(22)**	**(1,905)**
Change in January 2015 to December 2015 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	209	(9)	245	265	321	(146)	885
25 basis points	(521)	(1)	(494)	(259)	(783)	(31)	(2,089)
Change in July 2014 to							

June 2015 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	54	26	293	252	451	(97)	979
25 basis points	(308)	(37)	(450)	(235)	(691)	(25)	(1,746)

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We monitor the sensitivity of reported reserves to interest rate movements on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios and cash flow hedges due to parallel movements of plus or minus 100bps in all yield curves. These particular exposures form only a part of our overall interest rate exposures. The accounting treatment of our remaining interest rate exposures, while economically largely

offsetting the exposures shown in the above table, does not require revaluation movements to go to reserves.

The table below describes the sensitivity of our reported reserves to the stipulated movements in yield curves and the maximum and minimum month-end figures during the period. The sensitivities are indicative and based on simplified scenarios.

Sensitivity of reported reserves to interest rate movements

		Impact in the preceding 6 months	
		Maximum	Minimum
	$m	$m	$m
At 30 June 2015			
+ 100 basis point parallel move in all yield curves	**(3,858)**	**(3,858)**	**(3,306)**
As a percentage of total shareholders equity	**(2.0%)**	**(2.0%)**	**(1.7%)**
100 basis point parallel move in all yield curves	**3,786**	**3,786**	**3,251**
As a percentage of total shareholders equity	**2.0%**	**2.0%**	**1.7%**
At 30 June 2014			
+ 100 basis point parallel move in all yield curves	(5,157)	(5,212)	(5,066)
As a percentage of total shareholders equity	(2.7%)	(2.7%)	(2.7%)
100 basis point parallel move in all yield curves	4,730	4,915	4,730
As a percentage of total shareholders equity	(2.5%)	(2.6%)	(2.5%)
At 31 December 2014			
+ 100 basis point parallel move in all yield curves	(3,696)	(5,212)	(3,696)
As a percentage of total shareholders equity	(1.9%)	(2.7%)	(1.9%)
100 basis point parallel move in all yield curves	3,250	4,915	3,250
As a percentage of total shareholders equity	1.7%	2.6%	1.7%

Additional market risk measures applicable only to the parent company

The principal tools used in the management of market risk are VaR for foreign exchange rate risk and the projected sensitivity of HSBC Holdings NII to future changes in yield curves and interest rate gap repricing for interest rate risk.

Foreign exchange risk

Total foreign exchange VaR arising within HSBC Holdings in the first half of 2015 was as follows:

HSBC Holdings foreign exchange VaR

	Half-year to		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$m	$m	$m
At period-end	**47.1**	51.3	29.3
Average	**38.8**	47.0	42.1
Maximum	**47.1**	51.5	50.0
Minimum	**32.9**	42.5	29.3

The foreign exchange risk largely arises from loans to subsidiaries of a capital nature that are not denominated in the functional currency of either the provider or the recipient and which are accounted for as financial assets. Changes in the carrying amount of these loans due to foreign exchange rate differences are taken directly to HSBC Holdings income statement. These loans, and most of the associated foreign exchange exposures, are eliminated on consolidation.

Interest rate repricing gap table

The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included within the Group VaR but is managed on a repricing gap basis. The interest rate repricing gap table below analyses the full-term structure of interest rate mismatches within HSBC Holdings balance sheet.

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Risk (continued)

Repricing gap analysis of HSBC Holdings

	Total $m	Up to 1 year $m	1 to 5 years $m	5 to 10 years $m	More than 10 years $m	Non-interest bearing $m
Cumulative interest rate gap						
Total assets	**148,926**	**46,084**	**402**	**2,144**		**100,296**
Total liabilities and equity	**(148,926)**	**(2,345)**	**(6,850)**	**(10,104)**	**(14,507)**	**(115,120)**
Off-balance sheet items attracting interest rate sensitivity		**(21,248)**	**5,351**	**9,222**	**5,763**	**912**
Net interest rate risk gap at 30 June 2015		**22,491**	**(1,097)**	**1,262**	**(8,744)**	**(13,912)**
Cumulative interest rate risk gap		**22,491**	**21,394**	**22,656**	**13,912**	
Total assets	145,891	45,396	591	1,961	665	97,278
Total liabilities and equity	(145,891)	(9,503)	(10,348)	(8,509)	(14,891)	(102,640)
Off-balance sheet items attracting interest rate sensitivity		(20,597)	7,137	7,400	6,042	18
Net interest rate risk gap at 30 June 2014		15,296	(2,620)	852	(8,184)	(5,344)
Cumulative interest rate risk gap		15,296	12,676	13,528	5,344	
Total assets	147,864	44,613	290	1,824		101,137
Total liabilities and equity	(147,864)	(3,506)	(9,238)	(8,413)	(14,458)	(112,249)
Off-balance sheet items attracting interest rate sensitivity		(21,525)	7,295	7,400	5,763	1,067
Net interest rate risk gap at 31 December 2014		19,582	(1,653)	811	(8,695)	(10,045)
Cumulative interest rate risk gap		19,582	17,929	18,740	10,045	

Operational risk

Operational risk is relevant to every aspect of our business and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses and other adverse consequences arising from breaches of regulation and law, unauthorised activities, error, omission, fraud, systems failure or external events all fall within the definition of operational risk.

Activity to further enhance and embed our Operational Risk Management Framework (ORMF) continued in the first half of 2015. Responsibility for minimising operational risk lies with HSBC s management and staff.

All regional, global business, country, business unit and functional heads are required to manage the operational risks and internal controls of the business and operational activities for which they are responsible.

The diagrammatic representation of our ORMF is provided on page 187 of the *Annual Report and Accounts 2014*.

A summary of our current policies and practices regarding operational risk is provided on page 228 of the Annual Report and Accounts 2014.

Operational risk profile in the first half of 2015

During 1H15, our operational risk profile continued to be dominated by compliance risks and we continued to see losses that relate to events from prior years (significant events are outlined in Notes 17 and 19 on the Financial Statements). A number of mitigating actions are being undertaken to prevent future conduct-related incidents.

Operational risks include:

compliance with regulatory agreements and orders: failure to implement our obligations under the US DPA could have a material adverse effect on our results and operations. The work of the Monitor is discussed on page 13, with compliance risk described below;

level of change creating operational complexity: the Global Risk function is engaged with business management in business transformation initiatives to ensure robust internal controls are maintained as we execute our change agenda;

fraud risks: while compared with the industry our loss performance remains strong in most markets, the introduction of new technologies and ways of banking mean that we continue to be subject to fraud attacks as new attack vectors are developed. We continue to increase monitoring and enhance detective controls to mitigate these risks in accordance with our risk appetite;

information security: the security of our information and technology infrastructure is crucial for maintaining our banking services and protecting our customers and the HSBC brand. We continue to be a target of increasingly sophisticated cyber-attacks such as distributed denial of service , in common with other banks and multinational organisations, which can affect the availability of customer-facing websites. Programmes of work are ongoing to strengthen internal security controls to prevent unauthorised access to our systems, including lessons learnt from attacks experienced within the industry and information sharing with other financial institutions, government agencies and external

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intelligence providers. Our UK operation is currently participating in an external penetration testing scheme called CBEST developed by the PRA that is aimed at assessing the ability of critical financial institutions to detect and defend against cyber-attacks;

third-party risk management: we are strengthening our third-party risk management capability, particularly the management of vendor risks, including the implementation of the supplier performance management programme with our most important suppliers. Attention is also being paid to the screening of suppliers to enable us to identify if any of them are on a sanctions list and we should therefore exit such relationships. Vendor risk management is a core element of third-party risk management.

Other operational risks are also monitored and managed through the use of the ORMF and governing policies.

Compliance risk

Compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence. Compliance risk falls within the definition of operational risk.

All Group companies and employees are required to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice. These include those relating to AML, counter-terrorist and proliferation financing, sanctions compliance, anti-bribery and corruption, conduct of business and market conduct. The compliance risk policies and practices are described on pages 189 and 229 of the *Annual Report and Accounts 2014*. There were no material changes to our policies and practices for the management of compliance risk in the first half of 2015 with the exception of the implementation of the new AML and sanctions policy procedures as outlined below.

Enhanced global AML and sanctions policies were approved in 2014. Global businesses and all in-scope countries had implemented new AML and sanctions policy procedures by the end of March 2015. The application of procedures required to embed them in our day to day business operations globally will remain a key focus during the rest of 2015. The overriding policy objective is for every employee to engage in only the right kind of business, conducted in the right way .

Programmes to enhance the Group s standards of regulatory conduct ensuring the delivery of fair outcomes for customers and orderly and transparent operations in financial markets continued to progress in 1H15.

We have experienced increasing levels of compliance risk in recent years as regulators and other agencies pursued investigations into historical activities, and we have continued to work with them in relation to these matters. They are described in Areas of special interest on page 59.

It is clear that the level of inherent compliance risk that we face will continue to remain high for the foreseeable future. However, we consider that good progress is being made and will continue to be made in ensuring that we are well placed to effectively manage those risks.

Whistleblowing

HSBC operates global disclosure lines (telephone and email) which are available to allow employees to raise concerns regarding potential wrongdoing when the normal channels for escalation are unavailable or inappropriate. Matters raised are independently investigated by appropriate subject matter teams. Outcomes including remedial action taken are reported to the Conduct & Values Committee, in respect of AML and sanctions matters to the Financial System Vulnerabilities Committee and in respect of audit and accounting matters to the Group Audit Committee.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the Group. This may have financial or non-financial implications or have other consequences such as loss of confidence.

The reputational risk policies and practices are described on pages 199 and 235 of the *Annual Report and Accounts 2014*.

We have a zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational damage has not been considered and mitigated. There must be no barriers to open discussion and the escalation of issues that could affect the Group negatively. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to HSBC s good name must be a part of all business decisions.

We have restructured our Reputational Risk Function and created a Reputational Risk Management team. This team s mandate is to provide bespoke advisory services to the business on reputational risks to the bank and to work with the Financial Crime and Regulatory Compliance teams to mitigate such risks where possible.

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Risk (continued)

Risk management of insurance operations

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (HSBC). Financial risks include market risk, credit risk and liquidity risk.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the *Annual Report and Accounts 2014*.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture are provided on page 231 of the Annual Report and Accounts 2014.

Risk management of insurance operations in the first half of 2015

We measure the risk profile of our insurance manufacturing businesses using an economic capital approach. Under this approach, assets and liabilities are measured on a market value basis and capital is held to ensure that there is less than a 1 in 200 chance of insolvency during the coming year given the risks that the businesses are exposed to. This approach is aligned to the measurement approach for market, credit and insurance risks in the economic

capital model in the European Solvency II insurance capital regulations applicable from 2016.

The risk profile of our life insurance manufacturing businesses did not change materially during 1H15 despite the decrease in liabilities under insurance contracts to $69bn (31 December 2014: $74bn).

This reduction arose from the transfer of $5bn of these liabilities to Liabilities of disposal groups held for sale during the period when we announced the plan to sell our operations in Brazil (including the entire insurance business there).

Asset and liability matching

A principal tool used to manage exposures to both financial and insurance risk, in particular for life insurance contracts, is asset and liability matching. In many markets in which we operate it is neither possible nor appropriate to follow a perfect asset and liability matching strategy. For long-dated non-linked contracts, in particular, this results in a duration mismatch between assets and liabilities. We therefore structure portfolios that support liabilities under non-linked contracts with due consideration to the risk exposure to HSBC and the capital requirements.

The table below shows the composition of assets and liabilities by contract type and demonstrates that there were sufficient assets to cover the liabilities to policyholders, in each case at 30 June 2015.

Balance sheet of insurance manufacturing subsidiaries by type of contract

	Insurance contracts				Investment contracts			Other	
	With DPF $m	Unit-linked $m	Annuities $m	Other $m	With DPF $m	Unit-linked $m	Other $m	assets and liabilities $m	Total $m
Financial assets	**30,199**	**7,351**	**1,272**	**6,359**	**22,570**	**2,587**	**4,027**	**5,862**	**80,227**
trading assets			**3**						**3**
financial assets designated at fair value	**4,563**	**7,157**	**343**	**699**	**6,778**	**2,174**	**1,924**	**1,136**	**24,774**
derivatives	**42**	**1**		**2**	**100**		**11**	**63**	**219**
financial investments	**22,784**		**830**	**5,478**	**13,902**		**1,425**	**4,663**	**49,082**
other financial assets	**2,810**	**193**	**96**	**180**	**1,790**	**413**	**667**		**6,149**
Reinsurance assets	**199**	**239**		**754**					**1,192**
PVIF								**5,363**	**5,363**
Other assets and investment properties	**828**	**11**	**24**	**109**	**739**	**12**	**26**	**12,887**	**14,636**
Total assets at 30 June 2015	**31,226**	**7,601**	**1,296**	**7,222**	**23,309**	**2,599**	**4,053**	**24,112**	**101,418**
Liabilities under investment contracts:						**2,558**	**3,786**		**6,344**
designated at fair value						**2,558**	**3,786**		**6,344**
Liabilities under insurance contracts	**30,914**	**7,541**	**1,237**	**6,493**	**23,309**				**69,494**
Deferred tax	**12**		**8**	**4**				**1,131**	**1,155**
Other liabilities								**13,837**	**13,837**
Total liabilities	**30,926**	**7,541**	**1,245**	**6,497**	**23,309**	**2,558**	**3,786**	**14,968**	**90,830**
Total equity								**10,588**	**10,588**
Total equity and liabilities at	**30,926**	**7,541**	**1,245**	**6,497**	**23,309**	**2,558**	**3,786**	**25,556**	**101,418**

30 June 2015									

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Balance sheet of insurance manufacturing subsidiaries by type of contract (continued)

	Insurance contracts				Investment contracts			Other	
	With DPF	Unit-linked	Annuities	Other	With DPF	Unit-linked	Other	assets and liabilities	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets	28,014	12,043	1,629	5,452	26,657	2,867	4,455	6,064	87,181
trading assets			4						4
financial assets designated at fair value	4,383	11,760	564	651	7,523	2,411	1,541	2,219	31,052
derivatives	7	1		2	95			71	176
financial investments	20,565		960	4,421	17,049		1,750	3,697	48,442
other financial assets	3,059	282	101	378	1,990	456	1,164	77	7,507
Reinsurance assets	183	265		723				2	1,173
PVIF								5,438	5,438
Other assets and investment properties	794	330	19	101	728	11	27	7,813	9,823
Total assets at 30 June 2014	28,991	12,638	1,648	6,276	27,385	2,878	4,482	19,317	103,615
Liabilities under investment contracts:						2,878	4,276		7,154
designated at fair value						2,878	3,800		6,678
carried at amortised cost							476		476
Liabilities under	28,217	12,518	1,591	5,512	27,385				75,223

insurance contracts									
Deferred tax	12		11	10				1,223	1,256
Other liabilities								9,451	9,451
Total liabilities	28,229	12,518	1,602	5,522	27,385	2,878	4,276	10,674	93,084
Total equity								10,531	10,531
Total equity and liabilities at 30 June 2014	28,229	12,518	1,602	5,522	27,385	2,878	4,276	21,205	103,615
Financial assets	29,040	11,278	1,517	6,253	24,238	2,561	4,322	5,732	84,941
trading assets			3						3
financial assets designated at fair value	4,304	11,111	533	782	6,346	2,223	1,684	1,713	28,696
derivatives	12	1		1	101	1	10	73	199
financial investments	21,152		886	5,167	15,677		1,807	3,812	48,501
other financial assets	3,572	166	95	303	2,114	337	821	134	7,542
Reinsurance assets	190	262		617				2	1,071
PVIF								5,307	5,307
Other assets and investment properties	698	328	23	107	831	7	26	7,383	9,403
Total assets at 31 December 2014	29,928	11,868	1,540	6,977	25,069	2,568	4,348	18,424	100,722
Liabilities under investment contracts:						2,542	4,155		6,697
designated at fair value						2,542	3,770		6,312
carried at amortised cost							385		385
Liabilities under insurance contracts	29,479	11,820	1,473	6,021	25,068				73,861
Deferred tax	12		11	18				1,180	1,221
Other								8,577	8,577

liabilities									
Total liabilities	29,491	11,820	1,484	6,039	25,068	2,542	4,155	9,757	90,356
Total equity								10,366	10,366
Total equity and liabilities at 31 December 2014	29,491	11,820	1,484	6,039	25,068	2,542	4,155	20,123	100,722

The Brazilian insurance operations and the UK pensions business are reported as disposal groups held for sale at 30 June 2015. The assets and liabilities of these disposal groups are included in the Other assets and liabilities column of the table above.

These disposal groups contained a total of $12bn of total liabilities (mainly liabilities under insurance and investment contracts) and $12bn of total assets (mainly financial and reinsurance assets backing these liabilities and the PVIF associated with the insurance contracts) at 30 June 2015. The disposal of the UK pensions business is expected to be completed in the second half of 2015.

Insurance risk

Insurance risk is principally measured in terms of liabilities under the contracts in force.

A principal risk we face is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates and, if the policy has a savings element, the performance of the assets held to support the liabilities.

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Risk (continued)

The insurance risk profile and related exposures remain

largely consistent with those observed at 31 December

2014.

Footnotes to Risk

Credit risk

1 *The amount of loan commitments reflects, where relevant, the expected level of take-up of pre-approved loan offers made by mailshots to personal customers. In addition to those amounts, there is a further maximum possible exposure to credit risk of $70bn (30 June 2014: $60bn; 31 December 2014: $71bn), reflecting the full take-up of loan commitments. The take-up of such offers is generally at modest levels.*

2 *Other commercial loans and advances includes advances in respect of agriculture, transport, energy utilities and ABSs reclassified to Loans and advances .*

3 *Loans and advances to customers includes asset-backed securities that have been externally rated as strong (30 June 2015: $812m; 30 June 2014: $1.8bn; 31 December 2014: $1.2bn), good (30 June 2015: $100m; 30 June 2014: $88m; 31 December 2014: $256m), satisfactory (30 June 2015: $125m; 30 June 2014: $54m; 31 December 2014: $332m), sub-standard (30 June 2015: $102m; 30 June 2014: $220m; 31 December 2014: $94m) and impaired (30 June 2015: $101m; 30 June 2014: $321m; 31 December 2014: $128m).*

4 *Corporate and commercial includes commercial real estate renegotiated loans of $2,547m (30 June 2014: $3,527; 31 December 2014: $2,724m) of which $656m (30 June 2014: $475m; 31 December 2014: $608m) were neither past due nor impaired, $1m (30 June 2014: $97m; 31 December 2014: $1m) were past due but not impaired and $1,890m (30 June 2014: $2,955m; 31 December 2014: $2,115m) were impaired.*

5 *Financial includes loans and advances to banks.*

6 *Currency translation adjustment is the effect of translating the results of subsidiaries and associates for the previous period at the average rates of exchange applicable in the current period.*

7 *Negative numbers are favourable: positive numbers are unfavourable.*

Liquidity and funding

8 *The most favourable metrics are a smaller advances to core funding and a larger stressed one month coverage ratio.*

Market risk

9

Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures. For presentation purposes, portfolio diversification within the trading portfolio includes VaR-based RNIV.

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Capital

Capital

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Our objective in the management of Group capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory and stress testing related requirements.

Capital highlights

Our end point CET1 ratio of 11.6% was up from 11.1% at the end of 2014 as a result of continued capital generation and RWA initiatives offset by business growth and regulatory changes.

Our leverage ratio remained strong at 4.9%.

Capital overview

Capital ratios

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	%	%	%
CRD IV end point			
Common equity tier 1 ratio[1]	**11.6**	11.3	11.1
CRD IV transitional			
Common equity tier 1 ratio[1]	**11.6**	11.2	10.9
Tier 1 ratio	**13.4**	12.3	12.5
Total capital ratio	**16.3**	15.4	15.6

Total regulatory capital and risk-weighted assets

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$m	$m	$m
CRD IV end point			
Common equity tier 1 capital[1]	**138,080**	141,557	135,953
CRD IV transitional			
Common equity tier 1 capital[1]	**138,080**	140,070	133,200
Additional tier 1 capital	**21,346**	13,813	19,539
Tier 2 capital	**35,684**	38,951	37,991
Total regulatory capital	**195,110**	192,834	190,730
Risk-weighted assets	**1,193,154**	1,248,572	1,219,765

For footnotes, see page 100.

Our approach to managing Group capital is designed to ensure that we exceed current regulatory requirements and that we respect the payment priority of our capital providers. Throughout the first half of 2015, we complied with the PRA s regulatory capital adequacy requirements, including those relating to stress testing. We are also well placed to meet our expected future capital requirements.

We continue to manage Group capital to meet a medium-term target for return on equity of more than 10% by 2017. This is modelled on a CET1 ratio on an end point basis in the range of 12% to 13%, which takes into account known and quantifiable end point CET1 requirements including a regulatory and management buffer of 1.5-2.5%, based on our estimate of the additional CET1 we will need to hold to cover the new time-varying buffers and other factors. It will be kept under review as clarity in respect of future regulatory developments continues to improve.

Capital and RWAs are calculated and presented on the Group s interpretation of final CRD IV legislation and the PRA s final rules as set out in the PRA Rulebook.

We continue to exceed the PRA s current requirements in relation to capital ratios for major UK banks and building societies.

Despite the rules published to date, there remains continued uncertainty around the amount of capital that UK banks will be required to hold. While there is emerging clarity around the interaction of the capital buffers and the PRA s Pillar 2 framework, uncertainty remains around the broader capital framework, including Basel revisions to the RWA framework, capital floors, global systemically important bank (G-SIB) developments and total loss absorbing capacity (TLAC) requirements. Furthermore, there remain a number of draft and unpublished European Banking Authority (EBA) regulatory and implementing technical standards due in 2015.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 257 of the Annual Report and Accounts 2014.

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Capital (continued)

Movements by major driver

Capital and RWA movements by major driver CRD IV end point basis

	Common equity tier 1 capital $bn	RWAs $bn
CRD IV end point basis at 1 January 2015	**136.0**	**1,219.8**
Capital generation from profit	**5.6**	
consolidated profits attributable to shareholders of the parent company (including regulatory adjustments) *Of which $1.4bn gain on the partial sale of our shareholding in Industrial Bank including fair value gains reclassified to the income statement*	**8.2**	
dividends net of scrip[2,3]	**(0.7)**	
second interim dividend[2] net of planned scrip	**(1.9)**	
Further impact on partial sale of shareholding in Industrial Bank including fair value gains reclassified to the income statement and lower allowable non-controlling interests	**(3.6)**	
Regulatory changes		**5.8**
RWA initiatives		**(50.3)**
Business growth including associates		**30.0**
Foreign currency translation differences[4]	**(1.8)**	**(14.2)**
Other movements	**1.9**	**2.1**
CRD IV end point basis at 30 June 2015	**138.1**	**1,193.2**

For footnotes, see page 100.

Capital generation from profits contributed $5.6bn to CET1 capital, being profits attributable to shareholders of the parent company after regulatory adjustment for own credit spread, debit valuation adjustment and deconsolidation of insurance entities and net of dividends including the foreseeable second interim dividend after planned scrip. This also included the benefit of a higher fourth interim dividend scrip take-up and fair value gains reclassified to the income statement from the partial sale of our shareholding in Industrial Bank.

At our Investor Update we announced that we plan to significantly reduce Group RWAs by the end of 2017 and redeploy them to support higher returning areas. A number of internal programmes have been established to drive and manage these plans. RWAs reduced in the period, driven by RWA initiatives and foreign currency translation differences. The reduction was largely offset by business growth, principally in CMB and Global Banking across Asia, Europe and North America and business growth in our associate BoCom.

These initiatives included accelerated reduction of GB&M legacy assets of $14.1bn from both the disposal of securitisation positions and the unwinding of other securitisation transactions. In both GB&M and CMB, more detailed mapping within RWA calculations and improved recognition of collateral and netting, reduced RWAs by $12.6bn and $6.1bn, respectively. The partial sale of our shareholding in Industrial Bank reduced RWAs by $12.3bn. In addition, the continued reduction of RBWM s US CML run-off portfolio reduced RWAs by $5.2bn.

Risk-weighted assets

RWAs by risk type

		At	
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$bn	$bn	$bn
Credit risk	**935.1**	966.0	955.3
standardised approach	**348.5**	350.9	356.9
IRB foundation approach	**23.3**	15.5	16.8
IRB advanced approach	**563.3**	599.6	581.6
Counterparty credit risk	**83.7**	101.4	90.7
standardised approach	**24.3**	30.6	25.2
advanced approach	**59.4**	70.8	65.5
Market risk	**56.6**	63.1	56.0
internal model based	**46.5**	49.5	44.6
standardised approach	**10.1**	13.6	11.4
Operational risk	**117.8**	118.1	117.8
	1,193.2	1,248.6	1,219.8
Of which:			
Run-off portfolios	**79.9**	121.6	99.2
legacy credit in GB&M	**30.0**	52.7	44.1
US CML and Other	**49.9**	68.9	55.1

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Capital (continued)

RWAs by global businesses

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$bn	$bn	$bn
Retail Banking and Wealth Management[5]	**204.6**	225.4	207.2
Commercial Banking[5]	**439.6**	422.5	430.3
Global Banking and Markets	**491.0**	537.3	516.1
Global Private Banking	**21.1**	22.1	20.8
Other	**36.9**	41.3	45.4
	1,193.2	1,248.6	1,219.8

RWAs by geographical regions[6]

	At		
	30 Jun 2015	30 Jun 2014	31 Dec 2014
	$bn	$bn	$bn
Europe	**369.5**	393.6	375.4
Asia	**487.4**	481.1	499.8
Middle East and North Africa	**63.1**	62.7	63.0
North America	**215.7**	236.9	221.4
Latin America	**82.3**	96.8	88.8
	1,193.2	1,248.6	1,219.8

For footnotes, see page 100.

Credit risk RWAs

Credit risk exposure – RWAs by geographical region

	Europe $bn	**Asia $bn**	**MENA $bn**	**North America**	**Latin**	**Total $bn**

				$bn	America $bn	
IRB approach	**204.0**	**216.2**	**15.5**	**139.4**	**11.5**	**586.6**
IRB advanced approach	**186.0**	**216.2**	**10.2**	**139.4**	**11.5**	**563.3**
IRB foundation approach	**18.0**		**5.3**			**23.3**
Standardised approach	**50.7**	**177.7**	**38.6**	**32.5**	**49.0**	**348.5**
RWAs at 30 June 2015	**254.7**	**393.9**	**54.1**	**171.9**	**60.5**	**935.1**
IRB approach	222.6	209.9	15.3	155.3	12.0	615.1
IRB advanced approach	211.2	209.9	11.2	155.3	12.0	599.6
IRB foundation approach	11.4		4.1			15.5
Standardised approach	46.9	174.3	39.0	30.7	60.0	350.9
RWAs at 30 June 2014	269.5	384.2	54.3	186.0	72.0	966.0
IRB approach	216.1	213.1	15.6	142.0	11.6	598.4
IRB advanced approach	203.3	213.1	11.6	142.0	11.6	581.6
IRB foundation approach	12.8		4.0			16.8
Standardised approach	47.1	186.0	39.0	29.6	55.2	356.9
RWAs at 31 December 2014	263.2	399.1	54.6	171.6	66.8	955.3

Credit risk exposure *RWAs by global businesses*

	Principal[5] RBWM $bn	US run-off portfolio $bn	Total RBWM $bn	CMB[5] $bn	GB&M $bn	GPB $bn	Other $bn	Total $bn
IRB approach	**60.1**	**42.6**	**102.7**	**225.6**	**234.8**	**9.5**	**14.0**	**586.6**
IRB advanced approach	**60.1**	**42.6**	**102.7**	**210.6**	**227.8**	**9.4**	**12.8**	**563.3**
IRB foundation approach				**15.0**	**7.0**	**0.1**	**1.2**	**23.3**
Standardised approach	**59.8**	**4.3**	**64.1**	**181.9**	**72.0**	**7.7**	**22.8**	**348.5**
RWAs at 30 June 2015	**119.9**	**46.9**	**166.8**	**407.5**	**306.8**	**17.2**	**36.8**	**935.1**
IRB approach	60.5	60.6	121.1	213.2	256.4	11.2	13.2	615.1
IRB advanced approach	60.5	60.6	121.1	206.0	249.5	11.1	11.9	599.6
IRB foundation approach				7.2	6.9	0.1	1.3	15.5
Standardised approach	60.0	5.5	65.5	177.5	73.6	6.5	27.8	350.9
RWAs at 30 June 2014	120.5	66.1	186.6	390.7	330.0	17.7	41.0	966.0

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Capital (continued)

	Principal[5] RBWM $bn	US run-off portfolio $bn	Total RBWM $bn	CMB[5] $bn	GB&M $bn	GPB $bn	Other $bn	Total $bn
IRB approach	56.1	47.3	103.4	217.2	255.6	10.2	12.0	598.4
IRB advanced approach	56.1	47.3	103.4	209.2	248.1	10.0	10.9	581.6
IRB foundation approach				8.0	7.5	0.2	1.1	16.8
Standardised approach	61.2	4.8	66.0	181.0	70.1	6.6	33.2	356.9
RWAs at 31 December 2014	117.3	52.1	169.4	398.2	325.7	16.8	45.2	955.3

Credit risk RWAs are calculated using three approaches as permitted by the PRA. For consolidated Group reporting we have adopted the advanced IRB approach for the

majority of our business, with a small proportion being on the foundation IRB approach and the remaining portfolios on the standardised approach.

RWA movement by geographical regions by key driver credit risk IRB only[7]

	Europe $bn	**Asia $bn**	**MENA $bn**	**North America $bn**	**Latin America $bn**	**Total $bn**
RWAs at 1 January 2015	**216.1**	**213.1**	**15.6**	**142.0**	**11.6**	**598.4**
Foreign currency movement	**(0.8)**	**(2.2)**	**(0.4)**	**(1.8)**	**(1.0)**	**(6.2)**
Acquisitions and disposals	**(12.1)**					**(12.1)**
Book size	**3.6**	**8.8**	**(0.6)**	**1.3**	**(0.8)**	**12.3**
Book quality	**(5.0)**	**(3.1)**	**(0.2)**	**(0.6)**	**1.7**	**(7.2)**
Model updates	**1.6**	**(1.7)**				**(0.1)**
Methodology and policy	**0.6**	**1.3**	**1.1**	**(1.5)**		**1.5**
internal updates	**(2.0)**	**(0.7)**	**1.0**	**(1.5)**		**(3.2)**
external updates regulatory	**2.6**	**2.0**	**0.1**			**4.7**

Total RWA movement	**(12.1)**	**3.1**	**(0.1)**	**(2.6)**	**(0.1)**	**(11.8)**
RWAs at 30 June 2015	**204.0**	**216.2**	**15.5**	**139.4**	**11.5**	**586.6**
RWAs at 1 January 2014	166.9	182.9	15.0	161.5	8.5	534.8
Foreign currency movement	4.9	0.8	(0.2)	(0.1)	(0.4)	5.0
Acquisitions and disposals	(2.3)		(0.5)	(2.6)	(0.1)	(5.5)
Book size	3.0	13.0	(0.2)	(0.5)	1.9	17.2
Book quality	(1.7)	0.7	0.7	(2.3)	0.4	(2.2)
Model updates	14.9	0.3		(5.1)		10.1
Methodology and policy	36.9	12.2	0.5	4.4	1.7	55.7
internal updates	(9.8)	(5.6)	(0.2)	(2.6)	(0.1)	(18.3)
external updates regulatory	2.2	6.7	(0.2)	0.7	0.1	9.5
CRD IV impact	37.0	5.7	0.4	4.9	0.2	48.2
NCOA moving from STD to IRB	7.5	5.4	0.5	1.4	1.5	16.3
Total RWA movement	55.7	27.0	0.3	(6.2)	3.5	80.3
RWAs at 30 June 2014	222.6	209.9	15.3	155.3	12.0	615.1
RWAs at 1 July 2014	222.6	209.9	15.3	155.3	12.0	615.1
Foreign currency movement	(16.5)	(4.8)		(2.3)	(1.5)	(25.1)
Acquisitions and disposals	(1.2)		(0.2)	(1.6)		(3.0)
Book size	8.4	6.5	2.0	3.4	0.1	20.4
Book quality	0.2	(0.7)	(1.5)	(8.0)	1.0	(9.0)
Model updates	4.5			(1.0)		3.5
Methodology and policy	(1.9)	2.2		(3.8)		(3.5)
internal updates	(1.9)	0.4		(3.8)		(5.3)
external updates regulatory		1.8				1.8
CRD IV impact						
NCOA moving from STD to IRB						
Total RWA movement	(6.5)	3.2	0.3	(13.3)	(0.4)	(16.7)
RWAs at 31 December 2014	216.1	213.1	15.6	142.0	11.6	598.4

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Capital (continued)

RWA movement by global businesses by key driver credit risk IRB only[7]

	Principal[5] RBWM $bn	US run-off portfolio $bn	Total RBWM $bn	CMB[5] $bn	GB&M $bn	GPB $bn	Other $bn	Total $bn
RWAs at 1 January 2015	**56.1**	**47.3**	**103.4**	**217.2**	**255.6**	**10.2**	**12.0**	**598.4**
Foreign currency movement	**(0.5)**		**(0.5)**	**(2.7)**	**(2.8)**		**(0.2)**	**(6.2)**
Acquisitions and disposals					**(12.1)**			**(12.1)**
Book size	**1.6**	**(2.7)**	**(1.1)**	**9.0**	**2.6**	**(0.2)**	**2.1**	**12.4**
Book quality	**(1.5)**	**(2.3)**	**(3.8)**	**2.0**	**(5.6)**		**0.1**	**(7.3)**
Model updates				**1.6**	**(1.7)**			**(0.1)**
Methodology and policy	**4.4**	**0.3**	**4.7**	**(1.5)**	**(1.2)**	**(0.5)**		**1.5**
internal updates	**2.4**	**0.3**	**2.7**	**(1.5)**	**(3.9)**	**(0.5)**		**(3.2)**
external updates regulatory	**2.0**		**2.0**		**2.7**			**4.7**
Total RWA movement	**4.0**	**(4.7)**	**(0.7)**	**8.4**	**(20.8)**	**(0.7)**	**2.0**	**(11.8)**
RWAs at 30 June 2015	**60.1**	**42.6**	**102.7**	**225.6**	**234.8**	**9.5**	**14.0**	**586.6**
RWAs at 1 January 2014	58.5	72.6	131.1	189.4	198.5	10.6	5.2	534.8
Foreign currency movement	0.5		0.5	2.2	2.1	0.2		5.0

Acquisitions and disposals					(5.5)			(5.5)
Book size	1.2	(3.4)	(2.2)	11.6	8.5	(0.4)	(0.3)	17.2
Book quality	(1.8)	(4.0)	(5.8)	2.8	0.7	(0.3)	0.4	(2.2)
Model updates	0.1	(4.9)	(4.8)	9.3	5.3	0.3		10.1
Methodology and policy	2.0	0.3	2.3	(2.1)	46.8	0.8	7.9	55.7
internal updates	(2.6)		(2.6)	(5.5)	(9.9)	(0.3)		(18.3)
external updates regulatory				2.5	6.3	0.5	0.2	9.5
CRD IV impact				(0.7)	48.6	0.2	0.1	48.2
NCOA moving from STD to IRB	4.6	0.3	4.9	1.6	1.8	0.4	7.6	16.3
Total RWA movement	2.0	(12.0)	(10.0)	23.8	57.9	0.6	8.0	80.3
RWAs at 30 June 2014	60.5	60.6	121.1	213.2	256.4	11.2	13.2	615.1
RWAs at 1 July 2014	60.5	60.6	121.1	213.2	256.4	11.2	13.2	615.1
Foreign currency movement	(3.1)		(3.1)	(10.9)	(10.2)	(0.4)	(0.5)	(25.1)
Acquisitions and disposals					(2.7)		(0.3)	(3.0)
Book size	0.7	(3.5)	(2.8)	11.5	12.6	(0.1)	(0.8)	20.4
Book quality	(3.9)	(4.6)	(8.5)		(0.9)		0.4	(9.0)
Model updates	0.5	(1.3)	(0.8)	2.9	1.7	(0.3)		3.5
Methodology and policy	1.4	(3.9)	(2.5)	0.5	(1.3)	(0.2)		(3.5)
internal updates	(0.4)	(3.9)	(4.3)	0.5	(1.3)	(0.2)		(5.3)
external updates regulatory	1.8		1.8					1.8
CRD IV impact								
NCOA moving from STD to IRB								
Total RWA movement	(4.4)	(13.3)	(17.7)	4.0	(0.8)	(1.0)	(1.2)	(16.7)

RWAs at 31 December 2014	56.1	47.3	103.4	217.2	255.6	10.2	12.0	598.4

Standardised approach

For portfolios treated under the standardised approach, credit risk RWAs decreased by $8.4bn of which $8.0bn was due to foreign currency movements. Credit risk RWAs decreased by $12.3bn due to the partial sale of our investment in Industrial Bank as recorded in Other .

Business growth in North America, Europe and Middle East and Asia increased RWAs by $11.0bn.

RWA initiatives in CMB and GB&M resulted in an overall decrease in RWAs of $2.2bn across Middle East and Latin America.

Additionally, internal updates in CMB and GB&M relating to the reclassification of corporate exposures from the IRB to the standardised approach resulted in an increase in RWAs of $3.0bn on the standardised approach and a decline in the IRB approach of $2.6bn.

RWA increased by $0.8bn due to deferred tax assets.

Internal ratings-based approach

For portfolios treated under the IRB approach, credit risk RWAs decreased by $11.8bn of which $6.2bn was due to foreign currency movements driven by the deterioration of a range of currencies including euro against US dollar.

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Capital (continued)

Acquisitions and disposals

The continued disposal of legacy securitisation positions and the unwinding of other securitisation transactions in GB&M resulted in a decrease in RWAs of $12.1bn in Europe.

Book size

Business growth from higher term lending to corporate customers and institutions in CMB and GB&M in Asia, North America and Europe increased RWAs by $16.6bn. This was partially offset by RWA initiatives in Europe including a reduction in net current account balances which decreased RWAs by $2.2bn, and the run-down of legacy securitisation positions lowering RWAs by $3.6bn.

In North America, in RBWM, continued run-off of the US CML retail mortgage portfolios resulted in an RWA reduction of $2.7bn in book size. This was partially offset by growth in retail lending in Asia and Europe of $1.6bn.

Book quality

In GB&M, there were favourable movements in average customer credit quality in the corporate portfolio in Asia and Europe which decreased RWAs by $5.7bn, offset by credit quality deterioration in North America which increased RWAs by $1.6bn. In addition, improving economic stability in Asia resulted in an upgrade to the internal credit risk rating of sovereigns which decreased RWAs by $0.6bn, offset by internal sovereign downgrades in Latin America which increased RWAs by $1.1bn. RWA initiatives relating to the execution of a netting agreement reduced RWAs by $1.3bn in Europe.

In CMB, change in the average credit quality of the portfolio and model recalibrations resulted in an RWA increase of $3.2bn across Europe, North America, Middle East and Latin America, offset by credit quality improvements in Asia which reduced RWAs by $1.1bn.

RWAs reduced by $2.3bn in the US run-off portfolio in book quality as a result of exposures moving to default combined with continued improvements in the credit quality of the residual performing book.

Credit quality improvements in Principal RBWM related primarily to favourable shifts in portfolio quality in mortgages and revolving credit which reduced RWAs in Europe by $1.5bn.

Model updates

In CMB, selected portfolios in Europe were migrated from the advanced IRB approach to the foundation IRB approach, as a result of a change in permission, increasing RWAs by $1.6bn.

In GB&M, the update of the Sovereign PD model decreased RWAs by $1.8bn in Asia.

Methodology and policy changes

RWA initiatives in GB&M and CMB, consisting of improvements in asset classification and recognition of guarantees, resulted in a decrease in RWAs by $3.1bn across Europe, Asia and North America.

Internal updates in CMB and GB&M relating to the reclassification of corporate exposures to the standardised methodology resulted in a decrease in IRB RWAs of $2.6bn and a net increase of $0.4bn in overall RWAs.

This was partially offset by the application of a scaling factor to the securitisation positions risk-weighted at 1,250%, increasing RWAs by $2.1bn.

In Principal RBWM, the further application of a regulator mandated risk-weight floor on residential mortgages in Hong Kong resulted in an increase in RWAs of $2.0bn. Additionally a change in the methodology in the calculation of defaulted mortgage exposures resulted in an increase in RWAs of $2.0bn in Europe which was offset by a reduction in the capital deduction for expected loss in the calculation of regulatory capital.

Counterparty credit risk and market risk RWAs

Counterparty credit risk RWAs

	At		
	30 Jun 2015 $bn	30 Jun 2014 $bn	31 Dec 2014 $bn
Advanced approach	**59.4**	70.8	65.5
CCR IRB approach	**55.9**	65.2	62.0
credit valuation adjustment	**3.5**	5.6	3.5
Standardised approach	**24.3**	30.6	25.2
CCR standardised approach	**5.2**	3.9	4.4
credit valuation adjustment	**16.6**	22.2	18.0
central counterparty	**2.5**	4.5	2.8
	83.7	101.4	90.7

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Capital (continued)

RWA movement by key driver counterparty credit risk advanced approach

	30 June 2015 $bn	Half-year to 30 June 2014 $bn	31 December 2014 $bn
RWAs at beginning of period	**65.5**	42.2	70.8
Book size	**(3.0)**	3.2	(1.6)
Book quality	**(0.6)**	(0.3)	(0.3)
Model updates		2.2	(2.1)
Methodology and policy	**(2.5)**	23.5	(1.3)
internal regulatory updates	**(2.5)**	(1.0)	(2.8)
external regulatory updates		7.5	1.5
CRD IV impact		17.0	
Total RWA movement	**(6.1)**	28.6	(5.3)
RWAs at end of period	**59.4**	70.8	65.5

Counterparty credit risk RWAs decreased by $7.0bn, of which $6.1bn related to the advanced approach.

Standardised approach

RWA under the standardised approach reduced by $0.9bn. The main driver was a RWA initiative consisting of increased level of detail in counterparty mappings leading to additional CVA exemptions.

Advanced approach

Book size

The decrease was driven mainly by a combination of reduced portfolio size following trade maturities, RWA

initiatives, mainly trade compressions, and reducing mark to markets of over-the-counter derivatives, most notably in Asian and North American portfolios.

Methodology and policy changes

The decrease in RWAs from internal methodology updates was mainly driven by RWA initiatives consisting of more efficient allocation of collateral, mostly in North America, and refinement of transaction and counterparty static data used to calculate exposures and risk weights in the derivative portfolios globally.

Market risk RWAs

	At		
	30 Jun 2015 $bn	30 Jun 2014 $bn	31 Dec 2014 $bn
Internal model based	**46.5**	49.5	44.6
VaR	**7.2**	5.6	7.3
stressed VaR	**10.4**	7.8	10.4
incremental risk charge	**21.0**	24.9	20.1
comprehensive risk measure		2.0	
other VaR and stressed VaR	**7.9**	9.2	6.8
Standardised approach	**10.1**	13.6	11.4
	56.6	63.1	56.0

RWA movement by key driver market risk internal model based

	Half-year to		
	30 June 2015 $bn	30 June 2014 $bn	31 December 2014 $bn
RWAs at beginning of period	**44.6**	52.2	49.5
Acquisitions and disposals			(2.2)
Movement in risk levels	**2.7**	0.9	(5.1)
Model updates			
Methodology and policy	**(0.8)**	(3.6)	2.4
internal updates	**(0.8)**	0.5	(4.3)
external updates regulatory		(4.1)	6.7
Total RWA movement	**1.9**	(2.7)	(4.9)
RWAs at end of period	**46.5**	49.5	44.6

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Capital (continued)

Total market risk RWAs remained relatively stable during the first half of the year, increasing marginally by $0.6bn.

Standardised approach

Market risk RWA movements in portfolios not within the scope of modelled approaches reflected a decrease of $1.3bn, mainly related to the reduction in securitisation positions held within the trading book.

Internal Model based

Movement in Risk Levels

Movements relating to changes in risk levels reflected an increase in capital requirements arising from internal models due to the net effect of position management and increased market volatility mainly in European markets.

Methodology and policy changes

The movements in Methodology and policy relate to an internal scenario refinement within the risk not in VaR (RNIV) equity correlation risk model.

Capital

Source and application of total regulatory capital

		Half-year to	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Movement in total regulatory capital			
Opening common equity tier 1 capital on a transitional basis[8]	**133,200**	131,233	140,070
Transitional adjustments	**2,753**		
Unrealised gains arising from revaluation of property	**1,375**		
Unrealised gains in available-for-sale debt and equities	**1,378**		
Opening common equity tier 1 capital on an end point basis[1,8]	**135,953**		
Contribution to common equity tier 1 capital from profit for the period	**8,151**	9,432	3,246

consolidated profits attributable to shareholders of the parent company	**9,618**	9,746	3,942
removal of own credit spread net of tax	**(568)**	202	(530)
debit valuation adjustment	**(121)**	97	157
deconsolidation of insurance entities and SPE entities	**(778)**	(613)	(323)
Net dividends including foreseeable net dividends[2]	**(2,562)**	(2,329)	(5,212)
update for actual dividends and scrip take-up	**1,255**	1,108	(15)
first interim dividend net of scrip	**(1,875)**	(1,766)	
second foreseeable interim dividend net of planned scrip	**(1,942)**	(1,671)	
third interim dividend net of scrip			(1,835)
fourth foreseeable interim dividend net of planned scrip			(3,362)
Decrease in goodwill and intangible assets deducted[4]	**(81)**	237	159
Ordinary shares issued	**9**	14	253
Foreign currency translation differences[4]	**(1,838)**	444	(6,634)
Unrealised gains arising from revaluation of property		(65)	(29)
Unrealised gains in available-for-sale debt and equities		(141)	(1,237)
Other, including regulatory adjustments	**(1,552)**	1,245	2,584
Closing common equity tier 1 capital	**138,080**	140,070	133,200
Opening additional tier 1 capital on a transitional basis[8]	**19,539**	14,408	13,813
Movement in additional tier 1 securities	**1,190**	(500)	5,461
new issuance	**2,459**		5,681
grandfathering adjustments	**(1,269)**	(500)	(220)
Other, including regulatory adjustments	**617**	(95)	265
Closing tier 1 capital on a transitional basis	**159,426**	153,883	152,739
Opening tier 2 capital on a transitional basis[8]	**37,991**	35,538	38,951
Movement in tier 2 securities	**(2,198)**	3,450	(1,036)
new issuance	**1,680**	3,500	
grandfathering adjustments	**(2,997)**		
foreign currency translation differences	**(410)**	105	(1,171)
other movements	**(471)**	(155)	135
Other, including regulatory adjustments	**(109)**	(37)	76
Closing total regulatory capital on a transitional basis	**195,110**	192,834	190,730

For footnotes, see page 100.

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Capital (continued)

Composition of regulatory capital

	At 30 June 2015 $m	At 30 June 2014 $m	At 31 December 2014 $m
Common equity tier 1 capital			
Shareholders equity	**167,374**	173,453	166,617
shareholders equity per balance sheet[9]	**192,427**	190,281	190,447
foreseeable interim dividend[2]	**(1,942)**	(1,671)	(3,362)
preference share premium	**(1,405)**	(1,405)	(1,405)
other equity instruments	**(13,991)**	(5,851)	(11,532)
deconsolidation of special purpose entities[10]	**(243)**	(686)	(323)
deconsolidation of insurance entities	**(7,472)**	(7,215)	(7,208)
Non-controlling interests	**3,579**	3,792	4,640
non-controlling interests per balance sheet	**8,955**	8,441	9,531
preference share non-controlling interests	**(2,106)**	(2,153)	(2,127)
non-controlling interests transferred to tier 2 capital		(487)	(473)
non-controlling interests in deconsolidated subsidiaries	**(911)**	(824)	(851)
surplus non-controlling interest disallowed in CET1	**(2,359)**	(1,185)	(1,440)
Regulatory adjustments to the accounting basis	**(2,660)**	(1,072)	(3,556)
own credit spread[11]	**184**	1,314	767
debit valuation adjustment	**(318)**	(354)	(197)
defined benefit pension fund adjustment	**(2,583)**	(2,301)	(4,069)
cash flow hedging reserve	**57**	269	(57)
Deductions	**(30,213)**	(34,616)	(31,748)
goodwill and intangible assets	**(21,397)**	(24,752)	(22,475)
deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	**(859)**	(945)	(1,036)
additional valuation adjustment (referred to as PVA)	**(1,177)**	(1,688)	(1,341)
investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives and index stock)	**(990)**	(904)	(1,083)
negative amounts resulting from the calculation of expected loss amounts	**(5,790)**	(6,327)	(5,813)

Common equity tier 1 capital on an end point basis	**138,080**	141,557	135,953
Tier 1 and tier 2 capital on a transitional basis			
Common equity tier 1 capital on an end point basis	**138,080**	141,557	135,953
Transitional adjustments		(1,487)	(2,753)
unrealised gains arising from revaluation of property		(1,346)	(1,375)
unrealised gains in available-for-sale debt and equities		(141)	(1,378)
Common equity tier 1 capital on a transitional basis	**138,080**	140,070	133,200
Other tier 1 capital before deductions	**21,449**	13,977	19,687
preference share premium	**1,015**	1,160	1,160
preference share non-controlling interests	**1,711**	1,955	1,955
allowable non-controlling interest in AT1	**1,456**	635	884
hybrid capital securities	**17,267**	10,227	15,688
Deductions	**(103)**	(164)	(148)
unconsolidated investments[12]	**(103)**	(164)	(148)
Tier 1 capital on a transitional basis	**159,426**	153,883	152,739
Tier 2 capital on a transitional basis			
Total qualifying tier 2 capital before deductions	**35,924**	39,197	38,213
allowable non-controlling interest in tier 2	**8**	47	99
perpetual subordinated debt	**1,941**	2,218	2,218
term subordinated debt	**33,975**	36,692	35,656
non-controlling interests in tier 2 capital		240	240
Total deductions other than from tier 1 capital	**(240)**	(246)	(222)
unconsolidated investments[12]	**(240)**	(246)	(222)
Total regulatory capital on a transitional basis	**195,110**	192,834	190,730

For footnotes, see page 100.

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Capital (continued)

Reconciliation of regulatory capital from transitional basis to an estimated CRD IV end point basis

		At	
	30 June 2015 $m	30 June 2014 $m	31 December 2014 $m
Common equity tier 1 capital on a transitional basis	**138,080**	140,070	133,200
Unrealised gains arising from revaluation of property		1,346	1,375
Unrealised gains in available-for-sale debt and equities		141	1,378
Common equity tier 1 capital on an end point basis	**138,080**	141,557	135,953
Additional tier 1 capital on a transitional basis	**21,346**	13,813	19,539
Grandfathered instruments:			
Preference share premium	**(1,015)**	(1,160)	(1,160)
Preference share non-controlling interests	**(1,711)**	(1,955)	(1,955)
Hybrid capital securities	**(9,127)**	(10,227)	(10,007)
Transitional provisions:			
Allowable non-controlling interest in AT1	**(1,282)**	(231)	(487)
Unconsolidated investments	**103**	164	148
Additional tier 1 capital on an end point basis	**8,314**	404	6,078
Tier 1 capital on an end point basis	**146,394**	141,961	142,031
Tier 2 capital on a transitional basis	**35,684**	38,951	37,991
Grandfathered instruments:			
Perpetual subordinated debt	**(1,941)**	(2,218)	(2,218)
Term subordinated debt	**(19,033)**	(21,513)	(21,513)
Transitional provisions:			
Non-controlling interest in tier 2 capital		(240)	(240)
Allowable non-controlling interest in tier 2	**14**	190	396
Unconsolidated investments	**(103)**	(164)	(148)
Tier 2 capital on an end point basis	**14,621**	15,006	14,268
Total regulatory capital on an end point basis	**161,015**	156,967	156,299

The capital position presented on a CRD IV transitional basis follows the CRD IV legislation as implemented in the PRA Rulebook.

The effects of draft EBA technical standards are not generally captured in our numbers. These could have additional effects on our capital position and RWAs.

While CRD IV allows for the majority of regulatory adjustments and deductions from CET1 to be implemented on a gradual basis from 1 January 2014 to 1 January 2018, the PRA has largely decided not to make use of these transitional provisions. From 1 January 2015, unrealised gains on investment property and available-for-sale securities are to be recognised in CET1 capital. As a result, our end point and transitional CET1 capital and ratios are now aligned. Transitional provisions, however, continue to apply for additional tier 1 and tier 2 capital.

For additional tier 1 and tier 2 capital, the PRA followed the transitional provisions timing as set out in CRD IV to apply the necessary regulatory adjustments and deductions, the effect of which is being phased in at 20% per annum from 1 January 2014 to 1 January 2018.

Non-CRD IV compliant additional tier 1 and tier 2 instruments also benefit from a grandfathering period. This progressively reduces the eligible amount by 10% annually following an initial reduction of 20% on 1 January 2014 until they are fully phased out by 1 January 2022.

Under CRD IV, as implemented in the UK, banks are required to meet a minimum CET1 ratio of 4.5% of RWAs and a minimum tier 1 ratio of 6% of RWAs (from 1 January 2015), and a total capital ratio of 8% of RWAs. In addition to the Pillar 1 minimum ratios, the PRA sets Pillar 2A capital requirements which together are considered the minimum level of regulatory capital to be maintained at all times. Pillar 2A is to be met at least with 56% CET1 capital and the remaining with non-common equity capital.

Alongside CRD IV requirements, from 1 July 2014, the PRA expects major UK banks and building societies to meet a 7% CET1 ratio using the CRD IV end point definition. Going forward, as the grandfathering provisions fall away, we intend to meet these regulatory minima in an economically efficient manner by issuing non-common equity capital as necessary. At 30 June 2015, we had issued $23.1bn of CRD IV compliant non-common equity capital instruments, of which $1.7bn of tier 2 and $2.5bn of additional tier 1 were issued during the first half of 2015. At 30 June 2015, we also had $32.8bn of non-common equity capital instruments qualifying as eligible capital under CRD IV by virtue of the application of the grand-fathering provisions, after applying a 30% reduction as outlined above.

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Capital (continued)

Leverage ratio

Estimated leverage ratio

	EU Delegated Act basis at		Basel III 2014 basis at
	30 June 2015	31 December 2014	30 June 2014
	$bn	$bn	$bn
Total assets per accounting balance sheet	**2,572**	2,634	2,754
Deconsolidation of insurance/other entities	**(103)**	(102)	(107)
Consolidation of banking associates	**206**	194	186
Total assets per regulatory/accounting balance sheet	**2,675**	2,726	2,833
Adjustment to reverse netting of loans and deposits allowable under IFRS	**37**	38	98
Reversal of accounting values:	**(476)**	(525)	(498)
derivatives	**(298)**	(345)	(270)
repurchase agreement and securities finance	**(178)**	(180)	(228)
Replaced with regulatory values:			
Derivatives:	**168**	166	199
mark-to-market value	**70**	81	60
deductions of receivables assets for cash variation margin	**(67)**	(82)	(55)
add-on amounts for potential future exposure	**143**	148	166
exposure amount resulting from the additional treatment for written credit derivatives	**22**	19	28
Repurchase agreement and securities finance:	**187**	188	237
gross securities financing transactions assets	**246**	269	314
netted amounts of cash payables and cash receivables of gross securities financing transactions assets	**(68)**	(89)	(86)
measurement of counterparty risk	**9**	8	9
Addition of off balance sheet commitments and guarantees:	**399**	396	445
guarantees and contingent liabilities	**68**	67	80
commitments	**322**	321	356
other	**9**	8	9
Exclusion of items already deducted from the capital measure	**(33)**	(36)	(37)
Exposure measure after regulatory adjustments	**2,957**	2,953	3,277

Tier 1 capital under CRD IV (end point)	**146**	142	142
Estimated leverage ratio (end point)	**4.9%**	4.8%	4.3%

In January 2015, the PRA issued a letter setting out the approach to be taken for calculating the leverage ratio for 2014 year end disclosures. While the numerator continues to be calculated using the final CRD IV end point tier 1 capital definition, the exposure measure is calculated based on the EU delegated act (rather than the Basel 2014 definition disclosed in the *Interim Report 2014*).

The basis of preparation for the leverage ratio can be found on page 261 of the *Annual Report and Accounts 2014*. The basis of preparation for the June 2014 comparative can be found on page 198 in *the Interim Report 2014*.

Regulatory developments

Regulatory capital buffers

CRD IV establishes a number of capital buffers, to be met with CET1 capital, broadly aligned with the Basel III framework. CRD IV suggests that these will be phased in from 1 January 2016, subject to national discretion.

Automatic restrictions on capital distributions apply if a bank s CET1 capital falls below the level of its CRD IV combined buffer. The CRD IV combined buffer is defined as the total of the capital conservation buffer (CCB), the countercyclical capital buffer (CCyB), the global systemically important institutions (G-SII s) buffer and the systemic risk buffer (SRB) as these become applicable.

Under the revised Pillar 2 framework, the PRA has introduced a PRA buffer, the use of which will not result in automatic restrictions on capital distributions. However, the PRA expects firms not to meet the CRD IV buffers with any CET1 capital maintained to meet its individual capital guidance (ICG).

In June 2015, the Financial Policy Committee (FPC) maintained a 0% CCyB rate for UK exposures and recognised the 1.5% CCyB rates introduced by Norway and Sweden, which are to become effective from June 2016. The FPC had also previously recognised the 1% CCyB rates introduced by both these countries to become effective from October 2015. In March 2015, the FPC further stated that the PRA would reciprocate the HKMA CCyB rate of 0.625% to be applied to Hong Kong exposures from January 2016. In accordance with UK legislation and the PRA s supervisory statement PS 3/14, this rate will directly apply to the calculation of our institution-specific CCyB rate from 1 January 2016.

The institution-specific CCyB rate for the Group is based on the weighted average of the CCyB rates that apply in the jurisdictions where relevant credit exposures are located. Currently the Group s institution-specific CCyB is zero.

Further details of the aforementioned CRD IV buffers are set out on page 252 of the *Annual Report and Accounts 2014*.

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Capital (continued)

Pillar 2 and the PRA buffer

Under the Pillar 2 framework, banks are already required to hold capital in respect of the internal capital adequacy assessment and supervisory review which leads to a final determination by the PRA of ICG under Pillar 2A and Pillar 2B. Pillar 2A was previously met by total capital but, since 1 January 2015, in accordance with the PRA supervisory statement SS5/13, is expected to be met with at least 56% CET1.

The Pillar 2A requirement is a point in time assessment of the amount of capital the PRA considers that a bank should hold to meet the overall financial adequacy rule. It is therefore subject to change pending annual assessment and the supervisory review process. During 2014, our Pillar 2A requirement amounted to 1.5% of RWAs. In February 2015, this was revised to 2.0% of RWAs, of which 1.1% is expected to be met by CET1 with immediate effect.

In July 2015, the PRA published a final policy statement PS17/15, setting out revisions to the Pillar 2 Framework. The revised framework is to become effective from 1 January 2016. The PRA statement of policy sets out the methodologies that the PRA will use to inform its setting of firms Pillar 2 capital requirements, including new approaches for determining Pillar 2 requirements for credit risk, operational risk, credit concentration risk and pension obligation risk.

As is set out in the revised PRA supervisory statement SS31/15, the PRA will also introduce a PRA buffer which is to replace the capital planning buffer (CPB), under Pillar 2B. This is to be met in the form of CET1 capital. The PRA buffer will avoid duplication with CRD IV buffers and will be set for a particular firm depending on its vulnerability in a stress scenario. In order to address significant weaknesses in risk management and governance, a scalar may be applied to firms CET1 Pillar 1 and Pillar 2A capital requirements, and will also form part of the PRA Buffer. Where the PRA considers there is overlap between the CRD IV buffers and the PRA buffer assessment, the PRA buffer will be set as the excess capital required over and above the CCB and relevant systemic buffers. The PRA buffer will also be in addition to the CCyB and sectoral capital requirements.

Overall capital requirements

Elements of the capital requirements that are known or quantified to date are set out in the diagram below.

Capital requirements framework (end point)

There remains residual uncertainty as to what HSBC s precise end point CET1 capital requirement will be. Time-varying elements such as the macro-prudential tools, the Pillar 2A and 2B requirements and systemic buffers are subject to change. This uncertainty is reflected in the 1.5-2.5% regulatory and management buffer we have included in the 12-13% CET1 range that is used to model our medium-term target for return on equity, of more than 10%, by 2017.

In addition, we will need to consider the effect of the FSB proposals in relation to TLAC requirements, and the UK implementation of the EU minimum requirement for own funds and eligible liabilities (MREL). For further details, see page 100.

Regulatory stress testing

The Group is subject to supervisory stress testing in many jurisdictions. These supervisory requirements are increasing in frequency and in the granularity with which results are required. As such, stress testing represents a key focus for the Group. The results of the 2014 UK stress testing exercise were published in December 2014.

In March 2015, the Bank of England published key elements of the 2015 stress test and accompanying guidance. Unlike the 2014 stress test, which was based on the 2014 EBA stress testing exercise, the 2015 UK exercise is wholly designed by the Bank of England. This aims to assess the resilience of the UK banking system to a deterioration in global economic conditions. The results of the 2015 UK stress test are expected to be published at the end of 2015.

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Capital (continued)

The EBA is not undertaking a stress testing exercise in 2015, and will instead carry out a transparency exercise towards the end of the year. This exercise will involve publishing detailed data on bank balance sheets, covering their composition of capital, leverage ratio and RWAs. In July 2015, the EBA published draft templates on the data to be disclosed and a tentative list of banks expected to be included in this exercise, which includes HSBC. The EBA also disclosed a timeline for the 2016 EU wide stress test exercise, which is expected to be aligned with banks annual supervisory review and evaluation process. The EBA expects to publish the 2016 stress test scenario and methodology in the first quarter of 2016, with results published in the third quarter of 2016.

In 2015, Group entities also participated in regional stress testing exercises. For further details on stress testing exercises, see page 59.

RWA developments

Throughout 2014 and in the first half of 2015, UK, EU and international regulators issued a series of consultations designed to revise the various components of the RWA regime and increase related reporting and disclosures. In particular, the Basel Committee published proposals across all Pillar 1 risk types to update standardised, non-modelled approaches for calculating capital requirements and to provide the basis for the application of a capital floor. There have also been various consultations on proposed modelled approaches for market risk requirements. Quantitative impact studies (QIS) in relation to the Basel Committee proposals for the revised standardised approach to credit risk and capital floors were published in February 2015. The QIS results will inform final requirements which are expected by the end of 2015. These will need to be transposed into EU law before coming into effect.

Further details of Basel RWA developments during 2014 may be found on page 254 of the *Annual Report and Accounts 2014*.

In March 2015, the EBA published a discussion paper on the future of the IRB approach. This set out further work in three key areas: a review of the IRB regulatory framework; supervisory consistency, which will include annual benchmarking exercises; and increased transparency based on comparable templates. In particular, it proposed a phased EBA work-plan to deliver final amendments by the end of 2017 with implementation thereafter.

In May 2015, the EBA consulted on regulatory technical standards (RTS) for specialised lending exposures. This aims to specify how certain factors (e.g. financial strength and the political and legal environment) should be taken into account when assigning risk weights to specialised lending exposures. This also proposes to include more consistency in categorisation and definitions for specialised lending.

In June 2015, the Basel Committee published a consultation paper on the treatment of interest rate risk in the banking book (IRRBB). IRRBB is currently included in the scope of Pillar 2 requirements. The consultation proposes two possible alternatives, either to include IRRBB within Pillar 1 requirements, or introduce a strengthened approach to Pillar 2 which would also include additional disclosures under Pillar 3. The consultation closes in September 2015 and is expected to include a QIS to inform final requirements.

In July 2015, the Basel Committee published a consultation paper proposing amendments to the methodology for calculating CVA. This was in response to calls to review the existing methodology, including from the EU. The Basel consultation will close in October 2015, and a QIS will be completed by September 2015 to inform final requirements. As part of this, the EU will review the exemptions to the CVA charge currently applied to corporates, sovereigns and intragroup exposures. Once finalised, changes would need to be transposed into CRD IV before coming into effect. A further QIS for the proposed revisions to the market risk framework and CVA requirements was also published in July 2015.

UK leverage ratio framework

Following consultations by the FPC and HM Treasury in 2014, secondary legislation came into force in April 2015 to provide the FPC with direction powers in relation to the UK leverage ratio framework. In July 2015, the FPC published its final policy statement setting out its intention to use its new powers of direction. As a result, in July 2015, the PRA issued a consultation paper to introduce requirements for the UK leverage ratio framework. This introduces a minimum leverage ratio of 3%, an additional leverage ratio buffer (ALRB) for G-SIIs and a countercyclical leverage ratio buffer (CCLB). The ALRB and CCLB are to be set at 35% of the relevant buffers in the risk-weighted capital framework. The PRA also proposes to introduce new reporting and disclosure templates as part of this framework. The minimum leverage ratio requirement is aligned with existing PRA expectations (as set out in the PRA supervisory statement SS3/13), and the additional leverage ratio buffers, subject to finalisation, are to apply from 1 January 2016 in line with the corresponding risk-weighted capital buffers. Transitional arrangements are proposed for the new disclosure and reporting requirements.

Both the FPC and the PRA note that an internationally agreed minimum leverage ratio requirement will be applied from 2018 and, as a result, will consider the implications for the UK leverage ratio framework again in 2017.

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Capital (continued)

Banking structural reform and recovery and resolution planning

In the EU, the Bank Recovery and Resolution Directive (BRRD) came into effect from 1 January 2015, with the option to delay implementation of bail-in provisions until 1 January 2016. Despite this, the UK introduced bail-in powers from 1 January 2015. The UK transposition of the BRRD builds on the resolution framework already in place in the UK. In January 2015, the PRA published a policy statement containing updated requirements for recovery and resolution planning which revises PRA rules that have been in force since 1 January 2014. In addition, the EBA has produced a number of RTS and guidelines, some of which are yet to be finalised, that will further inform the BRRD requirements.

In July 2015, the EBA published final draft RTS for MREL which seeks to provide additional clarity on the criteria that resolution authorities should take into account when setting a firm specific minimum requirement for eligible liabilities. The EBA notes that it aims to implement the MREL in a way which is consistent with the developing international standard on total loss absorbing capacity. The Bank of England is expected to publish a consultation paper later in 2015 on the transposition of MREL into UK requirements.

In respect of UK ring-fencing requirements, in May 2015 the PRA published a policy statement containing near final rules on legal structure, corporate governance, and continuity of services and facilities. The PRA intends to undertake a further consultation in 2015 and publish final versions of PRA rules and supervisory statements during the first half of 2016, with implementation by 1 January 2019.

In the EU, discussions on the Banking Structural Reform Regulation continue to progress. In January 2014, the European Commission published legislative proposals on ring-fencing trading activities from deposit taking and prohibiting proprietary trading in financial instruments and commodities. In June 2015, the European Council published its negotiating position on the regulation, which will need to be agreed with the European Parliament before being finalised.

For further details of the Group s approach to structural reform, see page 12.

Total loss absorbing capacity proposals

In November 2014, as part of the too big to fail agenda, the FSB published proposals on TLAC for G-SIBs. The FSB proposals include a minimum TLAC requirement in the range of 16-20% of RWAs and a TLAC leverage ratio of at least twice the Basel III tier 1 leverage ratio. The TLAC requirement is to be applied in accordance with individual resolution strategies, as determined by the G-SIB s crisis management group. A QIS was undertaken earlier this year, the results of which will inform final proposals. The conformance period for the TLAC requirement will also be influenced by the QIS, but will not be before 1 January 2019. Once finalised, it is expected that any new TLAC standard should be met alongside the Basel III minimum capital requirements.

The draft proposals require G-SIBs to be subject to a minimum TLAC requirement with the precise details to be informed by the QIS. There are a number of details relating to the types of liabilities which can be used to meet the TLAC requirement, the composition of TLAC and the location of liabilities within a banking group, in accordance with its resolution strategy. The TLAC proposals are expected to be finalised later in 2015 and will need to be implemented into national legislation before coming into effect.

Other regulatory updates

In January 2015, the Basel Committee published final standards on Revised Pillar 3 disclosure requirements . They mandate extensive use of standardised templates to enhance comparability between banks disclosures and require a considerable volume of disclosures to be produced semi-annually, rather than annually as hitherto. The revised framework calls for implementation concurrently with financial reports, at the latest for 2016 year-end reports, but is yet to be transposed into EU requirements.

In March 2015, the EBA also consulted on guidelines proposing criteria to set limits on exposures to shadow banking entities. Once finalised, implementation by national competent authorities is currently expected by the end of 2015.

Footnotes to Capital

1 *From 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios became aligned for HSBC Holdings plc due to the recognition of unrealised gains on investment property and available-for-sale securities.*
2 *This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity.*
3 *Dividends net of scrip are in respect of the 2015 first interim dividend and an update for a higher 2014 fourth interim dividend scrip take-up in excess of plan.*
4 *The basis of presentation for foreign currency translation differences has changed to reflect the total amount in CET1 capital. Previously this only included foreign currency translation differences recognised in other comprehensive income. The comparative periods have also been updated to reflect the change.*
5 *In the first half of 2015, a portfolio of customers was transferred from CMB to RBWM in Latin America in order to better align the combined banking needs of the customers with our established global businesses. Comparative data have been re-presented accordingly.*
6 *RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.*
7 *For the basis of preparation, see page 260 of the* Annual Report and Accounts 2014.
8 *CRD IV opening balances as at December 2013 were estimated based on the Group s interpretation of final CRD IV legislation and final rules issued by the PRA, details of which can be found in the basis of preparation on page 324 of the* Annual Report and Accounts 2013.
9 *Includes externally verified profits for the half-year to 30 June 2015.*
10 *Mainly comprises unrealised gains/losses in available-for-sale debt securities related to SPEs.*
11 *Includes own credit spread on trading liabilities.*
12 *Mainly comprise investments in insurance entities.*

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Financial Statements (unaudited) (continued)

Financial Statements

Consolidated income statement

for the half-year to 30 June 2015

			Half-year to	
		30 June	30 June	31 December
		2015	2014	2014
	Notes	**$m**	$m	$m
Interest income		**24,019**	25,435	25,520
Interest expense		**(7,575)**	(8,030)	(8,220)
Net interest income		**16,444**	17,405	17,300
Fee income		**9,372**	10,031	9,514
Fee expense		**(1,647)**	(1,854)	(1,734)
Net fee income		**7,725**	8,177	7,780
Trading income excluding net interest income		**3,520**	2,362	2,491
Net interest income on trading activities		**1,053**	913	994
Net trading income		**4,573**	3,275	3,485
Changes in fair value of long-term debt issued and related derivatives		**1,324**	438	70
Net income from other financial instruments designated at fair value		**1,342**	1,222	743
Net income from financial instruments designated at fair value		**2,666**	1,660	813
Gains less losses from financial investments		**1,874**	946	389
Dividend income		**68**	88	223
Net insurance premium income		**5,607**	6,137	5,784
Other operating income		**836**	538	593
Total operating income		**39,793**	38,226	36,367
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(6,850)**	(7,059)	(6,286)

Net operating income before loan impairment charges and other credit risk provisions		**32,943**	31,167	30,081
Loan impairment charges and other credit risk provisions		**(1,439)**	(1,841)	(2,010)
Net operating income		**31,504**	29,326	28,071
Employee compensation and benefits		**(10,041)**	(9,978)	(10,388)
General and administrative expenses		**(8,129)**	(7,127)	(11,438)
Depreciation and impairment of property, plant and equipment		**(604)**	(712)	(670)
Amortisation and impairment of intangible assets		**(413)**	(449)	(487)
Total operating expenses		**(19,187)**	(18,266)	(22,983)
Operating profit		**12,317**	11,060	5,088
Share of profit in associates and joint ventures		**1,311**	1,280	1,252
Profit before tax		**13,628**	12,340	6,340
Tax expense	*2*	**(2,907)**	(2,022)	(1,953)
Profit for the period		**10,721**	10,318	4,387
Profit attributable to shareholders of the parent company		**9,618**	9,746	3,942
Profit attributable to non-controlling interests		**1,103**	572	445
		$	$	$
Basic earnings per ordinary share	*4*	**0.48**	0.50	0.19
Diluted earnings per ordinary share	*4*	**0.48**	0.50	0.19

The accompanying notes on pages 107 to 139 form an integral part of these financial statements[1].

For footnote, see page 106.

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Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income

for the half-year to 30 June 2015

	Half-year to		
	30 June 2015 $m	30 June 2014 $m	31 December 2014 $m
Profit for the period	**10,721**	10,318	4,387
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments	**(2,445)**	958	2,014
fair value gains/(losses)	**(355)**	2,183	2,611
fair value gains reclassified to the income statement	**(2,317)**	(643)	(1,029)
amounts reclassified to the income statement in respect of impairment losses	**2**	15	359
income taxes	**225**	(597)	73
Cash flow hedges	**(150)**	(17)	205
fair value gains/(losses)	**341**	(44)	1,556
fair value (gains)/losses reclassified to the income statement	**(538)**	50	(1,294)
income taxes	**47**	(23)	(57)
Share of other comprehensive income/(expense) of associates and joint ventures	**2**	(16)	96
share for the period	**2**	(18)	96
reclassified to income statement on disposal		2	
Exchange differences	**(3,267)**	670	(9,573)
foreign exchange gains reclassified to the income statement on disposal of a foreign operation		(21)	
other exchange differences	**(3,395)**	691	(9,608)
income tax attributable to exchange differences	**128**		35
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**(1,680)**	316	1,669
before income taxes	**(2,085)**	421	1,998
income taxes	**405**	(105)	(329)
Other comprehensive income/(expense) for the period, net of tax	**(7,540)**	1,911	(5,589)

Total comprehensive income/(expense) for the period	**3,181**	12,229	(1,202)
Attributable to:			
shareholders of the parent company	**2,856**	11,706	(2,461)
non-controlling interests	**325**	523	1,259
Total comprehensive income/(expense) for the period	**3,181**	12,229	(1,202)

The accompanying notes on pages 107 to 139 form an integral part of these financial statements[1].

For footnote, see page 106.

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Consolidated balance sheet

at 30 June 2015

	Notes	At 30 June 2015 $m	At 30 June 2014 $m	At 31 December 2014 $m
Assets				
Cash and balances at central banks		**144,324**	132,137	129,957
Items in the course of collection from other banks		**10,190**	8,144	4,927
Hong Kong Government certificates of indebtedness		**28,104**	26,640	27,674
Trading assets	*6*	**283,138**	347,106	304,193
Financial assets designated at fair value	*9*	**25,168**	31,823	29,037
Derivatives	*10*	**296,942**	269,839	345,008
Loans and advances to banks		**109,405**	127,387	112,149
Loans and advances to customers		**953,985**	1,047,241	974,660
Reverse repurchase agreements non-trading		**149,384**	198,301	161,713
Financial investments	*11*	**404,682**	423,710	415,467
Assets held for sale	*12*	**60,929**	10,248	7,647
Prepayments, accrued income and other assets		**55,489**	75,520	67,529
Current tax assets		**566**	1,068	1,309
Interests in associates and joint ventures	*14*	**18,705**	17,497	18,181
Goodwill and intangible assets		**24,913**	29,740	27,577
Deferred tax assets		**5,789**	7,192	7,111
Total assets		**2,571,713**	2,753,593	2,634,139
Liabilities and equity				
Liabilities				
Hong Kong currency notes in circulation		**28,104**	26,640	27,674
Deposits by banks		**71,140**	92,764	77,426
Customer accounts		**1,335,800**	1,415,705	1,350,642
Repurchase agreements non-trading		**81,506**	165,506	107,432
Items in the course of transmission to other banks		**12,711**	9,936	5,990
Trading liabilities	*15*	**181,435**	228,135	190,572
Financial liabilities designated at fair value		**69,485**	82,968	76,153
Derivatives	*10*	**289,984**	263,494	340,669
Debt securities in issue		**102,656**	96,397	95,947
Liabilities of disposal groups held for sale	*12*	**53,226**	12,361	6,934
Accruals, deferred income and other liabilities		**42,224**	50,882	46,462
Current tax liabilities		**1,322**	1,434	1,213
Liabilities under insurance contracts		**69,494**	75,223	73,861
Provisions	*17*	**5,125**	4,283	4,998

Deferred tax liabilities	**1,338**	1,091	1,524
Subordinated liabilities	**24,781**	28,052	26,664
Total liabilities	**2,370,331**	2,554,871	2,434,161
Equity			
Called up share capital	**9,758**	9,535	9,609
Share premium account	**12,290**	11,582	11,918
Other equity instruments	**13,991**	5,851	11,532
Other reserves	**15,180**	28,355	20,244
Retained earnings	**141,208**	134,958	137,144
Total shareholders equity	**192,427**	190,281	190,447
Non-controlling interests	**8,955**	8,441	9,531
Total equity	**201,382**	198,722	199,978
Total liabilities and equity	**2,571,713**	2,753,593	2,634,139

The accompanying notes on pages 107 to 139 form an integral part of these financial statements[1].

For footnote, see page 107.

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Financial Statements (unaudited) (continued)

Consolidated statement of cash flows

for the half-year to 30 June 2015

		Half-year to	
	30 June 2015 $m	30 June 2014 $m	31 December 2014 $m
Cash flows from operating activities			
Profit before tax	**13,628**	12,340	6,340
Adjustments for:			
net gain from investing activities	**(1,926)**	(979)	(949)
share of profit in associates and joint ventures	**(1,311)**	(1,280)	(1,252)
(gain)/loss on disposal of associates, joint ventures, subsidiaries and businesses		(18)	27
other non-cash items included in profit before tax	**4,522**	4,284	6,978
change in operating assets	**12,077**	(86,266)	112,143
change in operating liabilities	**(15,544)**	59,108	(152,922)
elimination of exchange differences	**3,951**	(5,486)	30,057
dividends received from associates	**770**	127	630
contributions paid to defined benefit plans	**(226)**	(315)	(366)
tax paid	**(1,351)**	(1,358)	(2,215)
Net cash generated from/(used in) operating activities	**14,590**	(19,843)	(1,529)
Cash flows from investing activities			
Purchase of financial investments	**(211,669)**	(187,934)	(196,265)
Proceeds from the sale and maturity of financial investments	**208,637**	194,335	188,502
Purchase of property, plant and equipment	**(620)**	(523)	(954)
Proceeds from the sale of property, plant and equipment	**56**	55	33
Net cash inflow/(outflow) from disposal of customer and loan portfolios	**321**	950	(1,985)
Net purchase of intangible assets	**(400)**	(385)	(518)
Net cash inflow/(outflow) from disposal of subsidiaries, businesses, associates and joint ventures	**7**	(140)	(102)
Net cash outflow from acquisition of or increase in stake of associates	**(1)**	(30)	
Net cash generated from/(used in) investing activities	**(3,669)**	6,328	(11,289)
Cash flows from financing activities			

Issue of ordinary share capital	**9**	14	253
Net sales/(purchases) of own shares for market-making and investment purposes	**139**	(25)	(71)
Issue of other equity instruments	**2,459**		5,681
Redemption of preference shares and other equity instruments	**(462)**	234	(468)
Subordinated loan capital issued	**1,680**	3,500	
Subordinated loan capital repaid	**(778)**	(3,042)	(121)
Dividends paid to ordinary shareholders of the parent company	**(1,834)**	(1,755)	(4,856)
Dividends paid to non-controlling interests	**(386)**	(350)	(289)
Dividends paid to holders of other equity instruments	**(428)**	(287)	(286)
Net cash generated from/(used in) financing activities	**399**	(1,711)	(157)
Net increase/(decrease) in cash and cash equivalents	**11,320**	(15,226)	(12,975)
Cash and cash equivalents at the beginning of the period	**301,301**	346,281	334,498
Exchange differences in respect of cash and cash equivalents	**(3,829)**	3,443	(20,222)
Cash and cash equivalents at the end of the period	**308,792**	334,498	301,301

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Consolidated statement of changes in equity

for the half-year to 30 June 2015

				Other reserves					
ed up share apital $m	Share premium $m	Other equity instru-ments[2] $m	Retained earnings $m	Available-for-sale fair value reserve[3] $m	Cash flow hedging reserve[3] $m	Foreign exchange reserve[3] $m	Merger reserve $m	Total share-holders equity $m	c
9,609	11,918	11,532	137,144	2,143	58	(9,265)	27,308	190,447	
			9,618					9,618	
			(1,693)	(1,735)	(151)	(3,183)		(6,762)	
				(1,735)				(1,735)	
					(151)			(151)	
			(1,695)					(1,695)	
			2					2	
						(3,183)		(3,183)	
			7,925	(1,735)	(151)	(3,183)		2,856	
31	490		(512)					9	

118	**(118)**		**2,242**					**2,242**
			(6,224)					**(6,224)**
		2,459						**2,459**
			444					**444**
			189	**5**				**194**
9,758	**12,290**	**13,991**	**141,208**	**413**	**(93)**	**(12,448)**	**27,308**	**192,427**
9,415	11,135	5,851	128,728	97	(121)	(542)	27,308	181,871
			9,746					9,746
			300	956	(16)	720		1,960
				956				956
					(16)			(16)
			316					316
			(16)					(16)
						720		720
			10,046	956	(16)	720		11,706
28	539		(553)					14
92	(92)		2,111					2,111

			(5,774)					(5,774)
			333					333
			67	(39)	(8)			20
9,535	11,582	5,851	134,958	1,014	(145)	178	27,308	190,281

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Financial Statements (unaudited) (continued)

Consolidated statement of changes in equity for the half-year to 30 June 2015 (continued)

				Other reserves					
Called up share capital $m	Share premium $m	Other equity instru-ments $m	Retained earnings $m	Available-for-sale fair value reserve $m	Cash flow hedging reserve $m	Foreign exchange reserve $m	Merger reserve $m	Total share-holders equity $m	cont ir
9,535	11,582	5,851	134,958	1,014	(145)	178	27,308	190,281	
			3,942					3,942	
			1,766	1,069	205	(9,443)		(6,403)	
				1,069				1,069	
					205			205	
			1,670					1,670	
			96					96	
						(9,443)		(9,443)	
			5,708	1,069	205	(9,443)		(2,461)	
32	378		(157)					253	

42	(42)		598					598
			(4,119)					(4,119)
		5,681						5,681
			399					399
			(243)	60	(2)			(185)
9,609	11,918	11,532	137,144	2,143	58	(9,265)	27,308	190,447

The accompanying notes on pages 107 to 139 form an integral part of these financial statements[1].

Footnotes to financial statements

1 *The tables: Gross loans and advances to customers by industry sector and by geographical region (see page 61), Movement in impairment allowances on loans and advances to customers and banks (see page 66), and the Composition of regulatory capital within Capital (see page 94) also form an integral part of these financial statements.*

2 *During March 2015, HSBC Holdings issued $2,450m of Perpetual Subordinated Contingent Convertible Capital Securities, after issuance costs of $8m and tax benefits of $17m, which are classified as equity under IFRSs.*

3 *At 30 June 2015, our operations in Brazil were classified as held for sale (see Note 12).The cumulative amount of other reserves attributable to these operations were as follows: available-for-sale fair value reserve debit of $65m, cash flow hedging reserve debit of $29m and foreign exchange reserve debit of $1,724m.*

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Notes on the Financial Statements (unaudited)

Notes on the Financial Statements

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1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the EU. These interim consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2014*.

At 30 June 2015, there were no unendorsed standards effective for the half-year to 30 June 2015 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

Standards applied during the half-year to 30 June 2015

There were no new standards applied during the half-year to 30 June 2015. During the period, HSBC applied a number of interpretations and amendments to standards which had an insignificant effect on these interim consolidated financial statements.

(b) Use of estimates and judgements

Management believes that HSBC s critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. There was no change in the current period to the critical accounting estimates and judgements applied in 2014, which are stated on pages 62 and 348 of the *Annual Report and Accounts 2014*.

(c) Composition of Group

There were no material changes in the composition of the HSBC Group in the half-year to 30 June 2015.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of HSBC are provided on page 345 of the *Annual Report and Accounts 2014*.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(f) Accounting policies

The accounting policies applied by HSBC for these interim consolidated financial statements are consistent with those described on pages 345 to 457 of the *Annual Report and Accounts 2014*, as are the methods of computation.

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Notes on the Financial Statements (unaudited) (continued)

2 Tax

	Half-year to		
	30 June 2015 $m	30 June 2014 $m	31 December 2014 $m
Current tax			
UK corporation tax charge	**343**	165	(96)
Overseas tax[1]	**2,071**	1,803	2,078
	2,414	1,968	1,982
Deferred tax	**493**	54	(29)
Tax expense	**2,907**	2,022	1,953
Effective tax rate	**21.3%**	16.4%	30.8%

1 *Overseas tax included Hong Kong profits tax of $714m (first half of 2014: $589m; second half of 2014: $546m). Subsidiaries in Hong Kong provided for Hong Kong profits tax at the rate of 16.5% (2014: 16.5%) on the profits for the period assessable in Hong Kong. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operated.*

Deferred taxation

Net deferred tax assets amounted to $4.5bn at 30 June 2015 (30 June 2014: $6.1bn; 31 December 2014: $5.6bn), mainly relating to timing differences in the US. Net deferred tax assets have fallen since 31 December 2014 mainly because the net assets of Brazilian operations were transferred to Held for Sale (see Note 12).

3 Dividends

On 3 August 2015, the Directors declared a second interim dividend in respect of the financial year ending 31 December 2015 of $0.10 per ordinary share, a distribution of approximately $1,954m which will be payable on 2 October 2015. No liability is recognised in the financial statements in respect of this dividend.

Dividends to shareholders of the parent company

	30 June 2015			Half-year to 30 June 2014			31 December 2014		
	Per share	**Total**	**Settled in scrip**	Per share	Total	Settled in scrip	Per share	Total	Settled in scrip
	$	**$m**	**$m**	$	$m	$m	$	$m	$m
Dividends paid on ordinary shares									
In respect of previous year:									
fourth interim dividend	**0.20**	**3,845**	**2,011**	0.19	3,582	1,827			
In respect of current year:									
first interim dividend	**0.10**	**1,951**	**231**	0.10	1,906	284			
second interim dividend							0.10	1,914	372
third interim dividend							0.10	1,918	226
Total	**0.30**	**5,796**	**2,242**	0.29	5,488	2,111	0.20	3,832	598
Total dividends on preference shares classified as equity (paid quarterly)	**31.00**	**45**		31.00	45		31.00	45	

Total coupons on capital securities classified as equity

		30 June 2015		Half-year to 30 June 2014		31 December 2014	
	First call date	**Per security $**	**Total $m**	Per security $	Total $m	Per security $	Total $m
Perpetual subordinated capital securities[1]							
$2,200m issued at 8.125%	Apr 2013	**1.016**	**89**	1.016	89	1.016	90
$3,800m issued at 8.000%	Dec 2015	**1.000**	**152**	1.000	152	1.000	152
Perpetual subordinated contingent convertible securities[2]							
$2,250m issued at 6.375%	Sep 2024	**31.875**	**72**				
$1,500m issued at 5.625%	Jan 2020	**28.125**	**28**				
1,500m issued at 5.250%	Sep 2022	**29.396**	**42**				
Total			**383**		241		242

1 *Discretionary coupons are paid quarterly on the perpetual subordinated capital securities.*
2 *Discretionary coupons are paid semi-annually on the perpetual subordinated contingent convertible securities.*

On 15 July 2015, HSBC paid a further coupon on the $2,200m subordinated capital securities of $0.508 per security, representing a total distribution of $45m. On 17 July 2015, HSBC paid a further coupon on the $1,500m subordinated contingent convertible securities, representing a total distribution of $42m. No liability is recognised in the financial statements in respect of these coupon payments.

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In March 2015, HSBC issued $2,450m of contingent convertible securities issued at 6.375% which are classified as equity under IFRSs. Discretionary coupons are paid semi-annually on these contingent convertible securities and none were declared in the first half of 2015.

4 Earnings per share

Profit attributable to ordinary shareholders of the parent company

	Half-year to		
	30 June 2015 $m	30 June 2014 $m	31 December 2014 $m
Profit attributable to shareholders of the parent company	**9,618**	9,746	3,942
Dividend payable on preference shares classified as equity	**(45)**	(45)	(45)
Coupon payable on capital securities classified as equity	**(383)**	(241)	(242)
Profit attributable to ordinary shareholders of the parent company	**9,190**	9,460	3,655

Basic and diluted earnings per share

	Half-year to 30 June 2015			Half-year to 30 June 2014			Half-year to 31 December 2014		
	Profit	**Number of shares**	**Amount per share**	Profit	Number of shares	Amount per share	Profit	Number of shares	Amount per share
	$m	**(millions)**	**$**	$m	(millions)	$	$m	(millions)	$
Basic[1]	**9,190**	**19,249**	**0.48**	9,460	18,847	0.50	3,655	18,960	0.19
Effect of dilutive potential ordinary shares		**68**			101			96	
Diluted[1]	**9,190**	**19,317**	**0.48**	9,460	18,948	0.50	3,655	19,056	0.19

1 *Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).*

5 Segmental analysis

HSBC operates a matrix management structure which includes geographical regions and global businesses. HSBC considers that geographical operating segments represent the most appropriate information for users of the financial statements to best evaluate the nature and financial effects of HSBC s business activities and the economic environment in which it operates. HSBC s operating segments are Europe, Asia, Middle East and North Africa, North America and Latin America.

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Intra-HSBC items $m	Total $m
Net operating income[1]							
Half-year to 30 June 2015							
Net operating income	**11,469**	**14,065**	**1,289**	**4,126**	**3,558**	**(1,564)**	**32,943**
external	**10,974**	**13,148**	**1,279**	**3,979**	**3,563**		**32,943**
inter-segment	**495**	**917**	**10**	**147**	**(5)**	**(1,564)**	
Half-year to 30 June 2014							
Net operating income	10,873	12,107	1,294	4,067	4,265	(1,439)	31,167
external	10,335	11,343	1,271	3,948	4,270		31,167
inter-segment	538	764	23	119	(5)	(1,439)	
Half-year to 31 December 2014							
Net operating income	10,698	11,570	1,254	4,085	4,007	(1,533)	30,081
external	10,115	10,728	1,253	3,989	3,996		30,081
inter-segment	583	842	1	96	11	(1,533)	
Profit/(loss) before tax							
Half-year to:							
30 June 2015	**2,205**	**9,400**	**901**	**690**	**432**		**13,628**
30 June 2014	2,258	7,894	989	825	374		12,340
31 December 2014	(1,662)	6,731	837	592	(158)		6,340

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Notes on the Financial Statements (unaudited) (continued)

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Intra-HSBC items $m	Total $m
Balance sheet information							
At 30 June 2015							
Total assets	**1,236,270**	**917,489**	**61,625**	**411,601**	**104,203**	**(159,475)**	**2,571,713**
Total liabilities	**1,171,686**	**842,077**	**51,745**	**372,300**	**91,998**	**(159,475)**	**2,370,331**
At 30 June 2014							
Total assets	1,430,863	874,334	61,289	437,706	125,630	(176,229)	2,753,593
Total liabilities	1,362,091	807,906	51,619	398,776	110,708	(176,229)	2,554,871
At 31 December 2014							
Total assets	1,290,926	878,723	62,417	436,859	115,354	(150,140)	2,634,139
Total liabilities	1,223,371	807,998	52,569	398,356	102,007	(150,140)	2,434,161

1 *Net operating income before loan impairment charges and other credit risk provisions.*

6 Trading assets

	30 June 2015 $m	At 30 June 2014 $m	31 December 2014 $m
Trading assets:			
not subject to repledge or resale by counterparties	**246,704**	248,929	247,586
which may be repledged or resold by counterparties	**36,434**	98,177	56,607
	283,138	347,106	304,193
Treasury and other eligible bills	**10,444**	17,678	16,170
Debt securities	**111,241**	155,522	141,532
Equity securities	**77,142**	73,855	75,249
Trading securities valued at fair value	**198,827**	247,055	232,951
Loans and advances to banks[1]	**35,309**	41,048	27,581

Loans and advances to customers[1]	**49,002**	59,003	43,661
	283,138	347,106	304,193

1 *Loans and advances to banks and customers include settlement accounts, stock borrowing, reverse repos and other amounts.*

Trading securities valued at fair value[1]

		At	
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
US Treasury and US Government agencies[2]	**16,301**	27,019	25,880
UK Government	**11,142**	9,364	9,280
Hong Kong Government	**6,677**	5,189	6,946
Other government	**54,986**	90,261	78,774
Asset-backed securities[3]	**4,306**	2,903	3,494
Corporate debt and other securities	**28,273**	38,464	33,328
Equity securities	77,142	73,855	75,249
	198,827	247,055	232,951

1 *Included within these figures are debt securities issued by banks and other financial institutions of $19,298m (30 June 2014: $26,390m; 31 December 2014: $22,399m), of which $1,384m (30 June 2014: $4,036m; 31 December 2014: $2,949m) are guaranteed by various governments.*

2 *US Treasury and US Government agencies includes securities that are supported by an explicit guarantee issued by the US Government.*

3 *Excludes asset-backed securities included under US Treasury and US Government agencies.*

Trading securities listed on a recognised exchange and unlisted

	Treasury and other eligible bills	**Debt securities**	**Equity securities**	**Total**
	$m	**$m**	**$m**	**$m**
Fair value				
Listed[1]	**480**	**75,031**	**76,751**	**152,262**
Unlisted[2]	**9,964**	**36,210**	**391**	**46,565**
At 30 June 2015	**10,444**	**111,241**	**77,142**	**198,827**
Listed[1]	1,394	99,414	73,163	173,971
Unlisted[2]	16,284	56,108	692	73,084
At 30 June 2014	17,678	155,522	73,855	247,055

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	Treasury and other eligible bills $m	Debt securities $m	Equity securities $m	Total $m
Listed[1]	1,311	98,028	74,542	173,881
Unlisted[2]	14,859	43,504	707	59,070
At 31 December 2014	16,170	141,532	75,249	232,951

1 *Included within listed investments are $7,394m (30 June 2014: $4,479m; 31 December 2014: $5,956m) of securities listed in Hong Kong.*
2 *Unlisted treasury and other eligible bills primarily comprise treasury bills not listed on an exchange but for which there is a liquid market.*

7 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2015 are consistent with those applied for the Annual Report and Accounts 2014.

Financial instruments carried at fair value and bases of valuation

		Valuation techniques		
	Quoted market price Level 1 $m	Using observable inputs Level 2 $m	With significant unobservable inputs Level 3 $m	Total $m
Recurring fair value measurements				
At 30 June 2015				
Assets				
Trading assets	**153,912**	**123,486**	**5,740**	**283,138**
Financial assets designated at fair value	**20,318**	**4,377**	**473**	**25,168**

Derivatives	**7,932**	**285,942**	**3,068**	**296,942**
Financial investments: available for sale	**234,117**	**124,381**	**4,007**	**362,505**
Liabilities				
Trading liabilities	**47,975**	**128,155**	**5,305**	**181,435**
Financial liabilities designated at fair value	**3,557**	**65,923**	**5**	**69,485**
Derivatives	**7,781**	**280,760**	**1,443**	**289,984**
At 30 June 2014				
Assets				
Trading assets	220,194	121,083	5,829	347,106
Financial assets designated at fair value	26,359	4,752	712	31,823
Derivatives	2,484	264,877	2,478	269,839
Financial investments: available for sale	259,077	132,934	6,443	398,454
Liabilities				
Trading liabilities	102,025	118,430	7,680	228,135
Financial liabilities designated at fair value	4,115	78,853		82,968
Derivatives	2,857	258,776	1,861	263,494
At 31 December 2014				
Assets				
Trading assets	180,446	117,279	6,468	304,193
Financial assets designated at fair value	23,697	4,614	726	29,037
Derivatives	4,366	337,718	2,924	345,008
Financial investments: available for sale	241,464	131,264	4,988	377,716
Liabilities				
Trading liabilities	62,385	122,048	6,139	190,572
Financial liabilities designated at fair value	3,792	72,361		76,153
Derivatives	4,649	334,113	1,907	340,669

The decrease in Level 1 trading assets and liabilities during the first half of 2015 reflects a decrease in debt securities, treasury bills and other government bills/bonds. The decrease in Level 2 derivative assets and liabilities is driven by participation in portfolio compression exercises and market movement. There were no material transfers between Level 1 and Level 2 during the period.

Fair value adjustments

Fair value adjustments are adopted when HSBC considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. HSBC classifies fair value adjustments as either risk-related or model-related . The majority of these adjustments relate to GB&M. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

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Notes on the Financial Statements (unaudited) (continued)

Global Banking and Markets fair value adjustments

	At		
	30 June	30 June	31 December
	2015	2014	2014
	$m	$m	$m
Type of adjustment			
Risk-related	**1,447**	1,419	1,958
bid-offer	**547**	558	539
uncertainty	**68**	363	357
credit valuation adjustment	**808**	968	871
debit valuation adjustment	**(431)**	(474)	(270)
funding fair value adjustment	**453**		460
other	**2**	4	1
Model-related	**410**	202	57
model limitation	**400**	198	52
other	**10**	4	5
Inception profit (Day 1 P&L reserves) (Note 10)	**117**	135	114
	1,974	1,756	2,129

Fair value adjustments declined by $155m during the period (first half of 2014: $178m decline; second half of 2014: $373m rise). The debit valuation adjustment movement was $161m as a result of the widening of HSBC s credit spreads (first half of 2014: $142m decline, second half of 2014: $204m decline). Reduced derivative counterparty exposures and narrowing of counterparty credit default swap spreads contributed to a reduction in the credit valuation adjustment of $63m (first half of 2014: $306m decline; second half of 2014: $97m decline). The movement in uncertainty and model limitation categories was primarily driven by a reclassification of an adjustment relating to derivative discounting assumptions between the categories.

Funding fair value adjustment was adopted in the second half of 2014.

A description of HSBC s risk-related and model-related adjustments is provided on pages 381 and 382 of the *Annual Report and Accounts 2014*.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs Level 3

	Assets					Liabilities			
	Available for sale $m	Held for trading $m	At fair value[1] $m	Deriv-atives $m	Total $m	Held for trading $m	At fair value[1] $m	Deriv-atives $m	Total $m
Private equity including strategic investments	**3,026**	**194**	**441**		**3,661**	**33**			**33**
Asset-backed securities	**736**	**577**			**1,313**				
Loans held for securitisation		**35**			**35**				
Structured notes						**5,272**			**5,272**
Derivatives with monolines				**189**	**189**				
Other derivatives		**7**		**2,879**	**2,886**			**1,443**	**1,443**
Other portfolios	**245**	**4,927**	**32**		**5,204**		**5**		**5**
At 30 June 2015	**4,007**	**5,740**	**473**	**3,068**	**13,288**	**5,305**	**5**	**1,443**	**6,753**
Private equity including strategic investments	3,562	169	455		4,186				
Asset-backed securities	2,450	641			3,091				
Loans held for securitisation		56			56				
Structured notes		2			2	7,680			7,680
Derivatives with monolines				270	270			2	2
Other derivatives				2,208	2,208			1,858	1,858
Other portfolios	431	4,961	257		5,649			1	1
At 30 June 2014	6,443	5,829	712	2,478	15,462	7,680		1,861	9,541
Private equity including strategic investments	3,120	164	432		3,716	47			47

Asset-backed securities	1,462	616			2,078				
Loans held for securitisation		39			39				
Structured notes		2			2	6,092			6,092
Derivatives with monolines				239	239			1	1
Other derivatives				2,685	2,685			1,906	1,906
Other portfolios	406	5,647	294		6,347				
At 31 December 2014	4,988	6,468	726	2,924	15,106	6,139		1,907	8,046

1 *Designated at fair value through profit or loss.*

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The basis for determining the fair value of the financial instruments in the table above is explained on page 383 of the *Annual Report and Accounts 2014*.

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Available for sale $m	Held for trading $m	Designated at fair value through profit or loss $m	Derivatives $m	Held for trading $m	Designated at fair value through profit or loss $m	Derivatives $m
1 January 2015	**4,988**	**6,468**	**726**	**2,924**	**6,139**		**1,907**
otal ins/(losses) cognised in ofit or loss	(17)	(14)	(19)	344	(223)	(1)	(467)
trading come/(expense) cluding net terest income		(14)		344	(223)		(467)
net come/(expense) om other nancial struments signated at fair lue			(19)			(1)	
gains less losses om financial vestments	(29)						
loan impairment arges and other edit risk ovisions	12						
otal ins/(losses)	72	(6)	(9)	5	(20)	(1)	1

cognised in her mprehensive come[1]							
available-for-sale vestments: fair lue gains	**70**						
exchange fferences	**2**	**(6)**	**(9)**	**5**	**(20)**	**(1)**	**1**
rchases	**342**	**435**	**165**			**9**	
ew issuances					**863**		
les	**(420)**	**(1,134)**	**(46)**		**(10)**	**(2)**	
ttlements	**(15)**	**(90)**	**(72)**	**43**	**(681)**		**41**
ansfers out	**(1,257)**	**(31)**	**(272)**	**(312)**	**(889)**		**(52)**
ansfers in	**314**	**112**		**64**	**126**		**13**
t 30 June 2015	**4,007**	**5,740**	**473**	**3,068**	**5,305**	**5**	**1,443**
nrealised ins/(losses) cognised in ofit or loss lating to assets d liabilities held 30 June 2015	**13**	**(6)**	**17**	**444**	**(24)**	**(1)**	**(459)**
trading come/(expense) cluding net terest income		**(6)**		**444**	**(24)**		**(459)**
net come/(expense) om other nancial struments signated at fair lue			**17**			**(1)**	
loan impairment coveries and her credit risk ovisions	**13**						
1 January 2014	7,245	5,347	608	2,502	7,514		2,335
otal ins/(losses) cognised in ofit or loss	58	18	48	10	94		(248)
trading come/(expense) cluding net terest income		18		10	94		(248)
net come/(expense)			48				

om other nancial struments signated at fair lue						
gains less losses om financial vestments	79					
loan impairment arges and other edit risk ovisions	(21)					
otal ins/(losses) cognised in her mprehensive come[1]	334	70	(1)	61	113	83
available-for-sale vestments: fair lue gains	145					
cash flow hedges: r value gains						34
exchange fferences	189	70	(1)	61	113	49
rchases	1,228	613	123		(31)	
ew issuances					1,416	
les	(741)	(210)	(40)			
ttlements	(722)	(40)	(29)	5	(801)	(99)
ansfers out	(1,654)	(31)		(228)	(720)	(321)
ansfers in	695	62	3	128	95	111
30 June 2014	6,443	5,829	712	2,478	7,680	1,861

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Notes on the Financial Statements (unaudited) (continued)

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Available for sale $m	Held for trading $m	Designated at fair value through profit or loss $m	Derivatives $m	Held for trading $m	Designated at fair value through profit or loss $m	Derivatives $m
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2014	(21)	8	23	128	175		43
trading income excluding net interest income		8		128	175		43
net income from other financial instruments designated at fair value			23				
loan impairment charges and other credit risk provisions	(21)						
At 1 July 2014	6,443	5,829	712	2,478	7,680		1,861
Total gains/(losses) recognised in profit or loss	116	176	8	949	(119)		243
trading income/(expense) excluding net interest income		176		949	(119)		243
net income/(expense) from other financial instruments designated at fair value			8				
gains less losses from financial investments	119						
loan impairment charges and other credit risk provisions	(3)						
Total gains recognised in other comprehensive income[1]	(208)	(248)	(15)	(187)	(236)		(29)

available-for-sale investments:	
fair value gains	63