HSBC HOLDINGS PLC
Form 6-K
August 06, 2010

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 2010
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 þ Form 40-F o

(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 o No þ

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

Table of Contents

SIGNATURE

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

HSBC Holdings plc

By: /s/ D J Flint

Name: D J Flint

Title: Chief Financial Officer,
Executive Director,
Risk and Regulation

Date: August 6, 2010

Table of Contents

HSBC HOLDINGS PLC
Interim Report 2010

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 124 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Shares.

HSBC provides a comprehensive range of financial services to around 100 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

Certain defined terms

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC or the Group means 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 and those preference shares classified as equity.

HSBC s Interim Financial Statements and Notes thereon, as set out on pages 204 to 232, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority and International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2009 were prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB, and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2009, there were no unendorsed standards effective for the year ended 31 December 2009 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC s financial statements for the year ended 31 December 2009 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2010, there were no unendorsed standards effective for the period ended 30 June 2010 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 prepared in accordance with IFRSs.

When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 12) and adjusted for the effects of acquisitions and disposals.

HSBC HOLDINGS PLC
Contents

1 *Detailed contents are provided on the referenced page.*

Table of Contents

HSBC HOLDINGS PLC
Financial Highlights
For the half-year

Group pre-tax profit 121 per cent higher at US$11,104 million (US$5,019 million in the first half of 2009).

Underlying pre-tax profit up by US$2,245 million or 30 per cent to US$9,630 million.

Profit attributable to shareholders of the parent company 102 per cent higher at US$6,763 million (US$3,347 million in the first half of 2009).

Total operating income 1 per cent higher at US$40,672 million (US$40,248 million in the first half of 2009).

Net operating income before loan impairment charges and other credit risk provisions 2 per cent higher at US$35,551 million (US$34,741 million in the first half of 2009).

Return on average shareholders equity of 10.4 per cent (6.4 per cent in the first half of 2009).

Earnings per ordinary share 81 per cent higher at US$0.38 (US$0.21 in the first half of 2009).

Dividends and capital position

Second interim dividend for 2010 of US$0.08 per ordinary share which, together with the first interim dividend for 2010 of US$0.08 per ordinary share already paid, represents US$0.16 per share for 2010, the same as for the first half of 2009.

Core tier 1 ratio of 9.9 per cent and tier 1 ratio of 11.5 per cent.

2

Table of Contents

Profitability and balance sheet data

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$m	US$m	US$m
For the period			
Total operating income	**40,672**	40,248	38,383
Profit before tax	**11,104**	5,019	2,060
Profit attributable to shareholders of the parent company	**6,763**	3,347	2,487
Dividends	**3,261**	2,728	2,911
At the period-end			
Total equity	**143,323**	125,298	135,661
Total shareholders equity	**135,943**	118,355	128,299
Capital resources[1]	**154,886**	155,186	155,729
Customer accounts	**1,147,321**	1,163,343	1,159,034
Total assets	**2,418,454**	2,421,843	2,364,452
Risk-weighted assets	**1,075,264**	1,159,274	1,133,168
	US$	US$	US$
Per ordinary share			
Basic earnings	**0.38**	0.21	0.13
Diluted earnings	**0.38**	0.21	0.13
Dividends[2]	**0.18**	0.18	0.16
Net asset value at period end	**7.35**	6.63	7.17

Capital and performance ratios (annualised)

	%	%	%
Capital ratios			
Core tier 1 ratio	**9.9**	8.8	9.4
Tier 1 ratio	**11.5**	10.1	10.8
Total capital ratio	**14.4**	13.4	13.7
Performance ratios			
Return on average invested capital[3]	**9.4**	5.0	3.3
Return on average total shareholders equity[4]	**10.4**	6.4	4.3
Post-tax return on average total assets	**0.62**	0.31	0.24
Post-tax return on average risk-weighted assets	**1.33**	0.66	0.51
Credit coverage ratios			
Loan impairment charges as a percentage of total operating income	**17.8**	33.1	30.2
Loan impairment charges as a percentage of average gross customer advances	**1.70**	3.08	2.58
Total impairment allowances outstanding as a percentage of impaired loans at period end	**79.0**	86.6	83.2

Efficiency and revenue mix ratios

Cost efficiency ratio[5]			
reported	**50.9**	47.9	56.4
As a percentage of total operating income:			
net interest income	**48.6**	51.0	52.6
net fee income	**20.9**	20.9	24.1
net trading income	**8.7**	15.5	9.4
Financial ratio			
Average total shareholders equity to average total assets	**5.5**	4.3	4.7
Foreign exchange translation rates to US$			
Closing £:US$1	**0.667**	0.605	0.616
:US$1	**0.815**	0.710	0.694
Average £:US$1	**0.656**	0.673	0.611
:US$1	**0.755**	0.751	0.688

For footnotes, see page 4.

Table of Contents

HSBC HOLDINGS PLC
Financial Highlights (continued)
Share information

	At 30 June 2010	At 30 June 2009	At 31 December 2009
US$0.50 ordinary shares in issue (million)	**17,510**	17,315	17,408
Market capitalisation (billion)	**US$161**	US$141	US$199
Closing market price per ordinary share:			
London	**£6.152**	£5.025	£7.09
Hong Kong	**HK$72.65**	HK$65.65	HK$89.40
Closing market price per American Depositary Share (ADS[6])	**US$45.59**	US$41.77	US$57.09

	Over 1 year	Over 3 years	Over 5 years
HSBC total shareholder return to 30 June 2010[7]	**126.9**	**90.3**	**102.6**
Benchmarks:			
FTSE 100[8]	119.8	83.8	115.8
MSCI World[9]	110.8	70.6	103.1
MSCI Banks[9]	106.9	48.6	68.9

1 *Capital resources are total regulatory capital, the calculation of which is set out on page 193.*

2 *Dividends recorded in the financial statements are dividends per ordinary share declared in the first six months of 2010 and are not dividends in respect of, or for, the period.*

3 *The definition of return on average invested capital and a*

reconciliation to the equivalent Generally Accepted Accounting Principles (GAAP) measures are set out on page 25.

4 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*

5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

6 *Each ADS represents five ordinary shares.*

7 *Total shareholder return is defined on page 19 of the* Annual Report and Accounts 2009.

8

The Financial Times Stock Exchange 100 Index.

9 *The Morgan Stanley Capital International World Index and the Morgan Stanley Capital International World Banks Index.*

Cautionary statement regarding forward-looking statements

This *Interim Report 2010* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC s expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ, in some instances materially, from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements that are not historical facts, such as those that include the words potential , value at risk , expects , anticipates , objective , intends , seeks , plans , believes , estimates , and similar expressions or vari expressions may be considered 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 (SEC), 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. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Past performance cannot be relied on as a guide to future performance. Trends and factors that are expected to affect HSBC s results of operations are described in the Operating and Financial Review , Market Turmoil and Risk . A more detailed cautionary statement is given on pages 6 and 7 of the *Annual Report and Accounts 2009.*

Table of Contents

HSBC HOLDINGS PLC
Group Chief Executive s Review
Group financial performance strongly ahead

At HSBC, we have a clear and distinctive strategy. It is to rebalance the Group towards the needs of a fast-changing global economy, while keeping our strong capital and liquidity position. Our focus is therefore to build upon our unrivalled franchise in emerging markets, while delivering connectivity for our customers everywhere in an increasingly connected world. That HSBC delivered a strongly improved performance in the first half of 2010 is in large part thanks to this strategy and our success in repositioning and transforming the business to deliver on it.

Our Personal Financial Services and Commercial Banking businesses delivered significantly improved results, adding to another very strong performance in Global Banking and Markets. On a reported basis, pre-tax profits more than doubled to US$11.1 billion compared with the first half of 2009, including the impact of movements on the fair value on our own debt relating to credit spreads. Underlying pre-tax profits[1] increased by 30 per cent to US$9.6 billion year-on-year, driven by significantly reduced loan impairment charges.

With regulatory change ahead, capital and funding strength will become even more important in deciding which banks can grow and which are left behind. Maintaining our strong balance sheet therefore remains core to our banking philosophy. We further strengthened our tier 1 capital through underlying profit generation and capital issuance.

1 *Commentary on financial performance is given on an underlying basis unless otherwise stated.*

2 *All references to July are July 2010.*

We increased our tier 1 capital ratio to 11.5 per cent, we grew our core tier 1 ratio to 9.9 per cent and the outcome of the EU-wide stress test exercise by the Committee of European Banking Supervisors in July[2] confirmed the robustness of our capital position. Our ratio of customer advances to deposits remained steady at under 80 per cent, providing a broad indication of our funding strength and keeping our distinctive liquidity position.

As one of the industry s leading dividend payers, HSBC recognises the importance of dividend income to all our shareholders, not least our many retail investors. We declared dividends on ordinary shares of US$2.8 billion in respect of the first half of the year including a second interim dividend of eight US cents per ordinary share, payable on 6 October 2010. Return on average total shareholders equity improved to 10.4 per cent on a reported basis and was 9.3 per cent excluding the impact of movements on the fair value of our own debt related to credit spreads. As we reduce our run-off portfolios, we believe shareholders continuing support of HSBC will be rewarded with improving returns albeit towards the lower end of the target range in the medium term.

Once again, emerging economies led the global recovery in the first half. Government infrastructure investment continued apace, while flows of cross-border trade and investment sustained their rapid recovery. We continued to rebalance our assets steadily towards the world s emerging markets and to build new revenue streams across the Group, positioning the business for sustainable growth.

Despite increasing economic uncertainty towards the end of the period, we saw appetite for credit grow steadily, especially among our business customers. This is now feeding through into lending growth, a trend we expect to continue. In the first half of the year, we added assets in targeted segments to the balance sheet, more than offsetting the effect of the run-off in our exit portfolios. We grew loans and advances to customers in all regions and by four per cent overall, compared with the end of 2009. Geographically, the strongest growth was in Asia, where we grew lending by 15 per cent. In Commercial Banking we grew lending by nine per cent globally.

We gained share of international trade volumes, made progress in building our Insurance and Wealth Management businesses, and expanded our advisory services in Global Banking and Markets. As a result, fee income rose overall outside the US. Overall,

Table of Contents

HSBC HOLDINGS PLC
Group Chief Executive s Review (continued)
revenues were broadly in line with the second half of 2009. However, as we expected, they were lower than in the first half, given the exceptional market conditions in that period, especially in Global Banking and Markets. This also reflected our success in reducing and repositioning Personal Financial Services portfolios away from Consumer Finance and other unsecured lending products.

As we focus on building a high quality asset base for the future, it is encouraging that loan impairment charges now stand at their lowest levels since the start of the financial crisis. They almost halved overall, reducing by US$6.8 billion to US$7.5 billion year-on-year. This reflects the benefit of more stable economic conditions for many of our customers and follows our actions, begun before the crisis, to reduce exposure to unsecured lending outside our key relationships, to exit unprofitable business lines and to tighten underwriting standards for new business.

We continued to invest in expanding the business and transforming our operations. However, we did so with a focus on cost control. As a result, our cost efficiency ratio was only slightly above our target range at 53.1 per cent. Costs were broadly unchanged, excluding the impact of the one-off pension gain in the first half of 2009, and the UK and French payroll taxes on 2009 bonuses and pension curtailment accounting gain in the US which were accounted for in the current period. Overall, operating expenses were five per cent higher.

Profitable in every region outside North America

In Asia, performance was comfortably ahead, with pre-tax profits increasing by 20 per cent to US$5.6 billion. As levels of trade activity improved from the lows of a year ago and demand for credit, investment and insurance products increased, we continued to meet our customers growing financial needs. The contribution of Asian profits generated outside Hong Kong grew to 50 per cent, underlining our growing presence across the region.

Pre-tax profits in Latin America increased by 36 per cent to US$0.9 billion, largely driven by improved credit experience in our retail businesses as we ran off higher risk consumer portfolios.

In the Middle East, pre-tax profits were down by 39 per cent at US$393 million but were well ahead of the second half of 2009. Loan impairment charges were modestly higher year-on-year but more than halved in comparison with the second half of 2009 as credit delinquency trends improved. We have seen customer activity beginning to pick up and
believe the region has a sustainable and strong future.

In Europe, pre-tax profits were strongly ahead in Personal Financial Services and were also higher in Commercial Banking. Overall, they were 19 per cent lower at US$2.8 billion, as Global Banking and Markets revenues reduced from the exceptional first half performance of 2009.

Profits in the UK accounted for 52 per cent of the European total. In the UK, we grew international trade volumes and increased mortgage lending. The quality of the new mortgage book is illustrated by a low average loan to value ratio of 53 per cent.

Continental Europe represented 48 per cent of total European pre-tax profits. We strengthened our management team to focus more closely on opportunities for growth across the region and began to centralise our processing operations to deliver greater economies of scale. Despite weak and volatile market conditions, HSBC successfully managed its sovereign risk exposures in respect of Greece, Portugal, Spain and Ireland which were US$4 billion and the overall quality of our sovereign debt portfolio remains strong.

It is an encouraging sign of progress in the US that performance in North America was ahead by some US$2 billion, resulting in a significantly reduced pre-tax loss of US$80 million. Loan impairment charges fell markedly and we made good progress in developing our continuing businesses generally including Premier, international trade finance, and our Global Banking and Markets business where we continued to support the needs of our Latin American corporate clients.

Our US Consumer Finance run-off portfolios continued to decrease in line with our expectations. We reduced total balances across these portfolios by a further US$10 billion to US$69 billion since the end of 2009. In July, we also agreed in principle to sell the remainder of the vehicle finance loan portfolio and other related assets to an unaffiliated third party. The sale is expected to close in the third quarter of 2010.

Profitable in every customer group

Led by these improvements in the US, Personal Financial Services returned to profit for the first time in two years. Pre-tax profits were US$1.2 billion, following an improvement of US$2.5 billion year-on-year. We benefited from a stronger credit experience, in part driven by improved collections processes. We also saw stronger sales of wealth management, insurance and mortgage products and higher customer deposits.

Table of Contents

In Commercial Banking, pre-tax profits were also well ahead, rising by 40 per cent to US$3.1 billion, reflecting an improvement in the economic environment, supported by active portfolio management during the crisis, robust revenues and progress in rebuilding the balance sheet through selective lending growth.

Although pre-tax profits were down 13 per cent at US$5.6 billion, Global Banking and Markets reported its second best performance of any half-year period, reinforcing the success of our emerging markets-led, financing-focused strategy. The business remained highly diversified with the largest revenue stream contributing some 20 per cent of the total. Balance Sheet Management revenues were lower, but they were robust and opportunities remained to redeploy our liquidity efficiently.

Private Banking pre-tax profits were 13 per cent lower at US$0.6 billion, largely due to the impact of low interest rates. However, net new money inflows totalled US$7.3 billion, the majority of which were from emerging markets.

Building on our distinctive strengths

At HSBC, we are very clear about what makes us a different kind of bank and we are building on those strengths that enable us to serve our customers best.

Connecting customers across regions

As we see other companies in all industries working to build global scale, we are thankful for the global reach that comes from 145 years of doing business as an international bank. We are constantly working to harness the connectivity this provides so we can better meet the needs of our international customers.

Global Banking and Markets provides an excellent example of this in action. Our global network allows us to service customers with cross-border trading or financing needs anywhere in the world, by accessing the expertise in our major dealing rooms in centres like London, Paris, New York and Hong Kong. This has helped us to increase the revenue contribution from emerging markets, which grew from 35 per cent to 37 per cent year-on-year.

Reinforcing our position as the world s leading emerging markets bank

In July, *Euromoney* recognised the breadth and depth of HSBC s presence across the world s faster-growing regions by naming us Best Global Emerging Markets Bank . Throughout the first half, we continued to rebalance our footprint towards

these regions and we expect them to account for the majority of global growth for the foreseeable future.

There is no market of greater strategic importance to HSBC than Greater China. We continue to protect and build on our position as the leading international bank in mainland China, where we opened our 100th HSBC-branded outlet and opened a flagship new China Head Office in Shanghai. We are building on our strategic partnerships and subscribed for our full entitlement of H-shares in the Bank of Communications rights issue. We also incorporated locally in Taiwan which will complement our platforms in Hong Kong and mainland China and improve our access to the region.

We are committed to building our presence in India too and so, in July, we announced our third investment in two years through the acquisition of the Indian retail and commercial operations of the Royal Bank of Scotland. This will significantly increase our scale in Asia s third largest economy and give us access to 1.1 million customer relationships. Subject to regulatory approvals, we expect to complete the deal in the first half of 2011.

In June, we also announced an acquisition to increase our presence in Kazakhstan, a fast-growing economy with important trade links to mainland China.

Maintaining our funding strength

One of the key lessons to emerge from the financial crisis was the critical importance of stable liquidity. At HSBC, deposits have always been fundamental to everything we do and they remain the fuel for our future growth.

It is proof of our brand strength that at a time of low interest rates and intense competition for savings we increased customer deposit balances by three per cent to US$1,147 billion during the period. The effect on our profits of low deposit spreads remains significant, but I believe HSBC is a bank well positioned to benefit from a progressive rise in interest rates. Just as important as the financial returns, our liquidity position means we can respond to new growth opportunities as soon as they emerge not least in Asia, where our funding base is particularly strong.

Building a customer base for tomorrow

There is no greater opportunity for HSBC in Personal Financial Services than serving the needs of the world s 180 million mass affluent individuals. These customers are typically highly mobile, with

7

Table of Contents

HSBC HOLDINGS PLC

Group Chief Executive s Review (continued)

significant cross-border requirements that play to our strengths as a global bank.

Premier is our flagship product for this sector and we are on track to build our customer base to six million by the end of 2011. In June, the monthly increase in Premier customer numbers reached 100,000 and, at the end of the period, total numbers reached 3.9 million. Revenues from Premier customers can be over four times that generated by a standard account in the current interest rate environment. Furthermore, wealth management products account for an increasing proportion of Premier revenues, highlighting our ability to manufacture and deliver a full suite of products of real value to affluent customers over their lifetimes. Looking to the longer term, we have now also launched Advance in 22 countries, an international proposition for the next generation of potential Premier customers.

As trade volumes recover and the direction of global investment shifts, international business customers have continued to turn to HSBC and to benefit from our global scale and connectivity across the world s emerging and developed markets. In Commercial Banking, international customers typically generate more than double the revenues of domestically focused companies and we grew this customer base by 16 per cent. Building relationships with small and medium-size companies is also core to our future growth strategy, and we increased these customer numbers by three per cent to 3.3 million, with 84 per cent of new customers in emerging markets.

Within Global Banking and Markets, we are focusing on building broad-based relationships with those international customers where we are best equipped to meet their full range of financial needs and we have the greatest opportunity to grow revenues. Working together, Private Banking and Global Banking and Markets launched a family office partnership to provide better, more holistic relationship management, for our wealthiest clients. Private Banking also continued to focus on developing business in emerging markets and was recognised as Best Global Wealth Manager by *Euromoney* in July.

Building sustainable revenue streams for the future

With a very clear understanding of our customers and their future needs, we are carefully developing our range of products and services in response. We are targeting those areas where we know HSBC has distinctive strengths, where the revenue opportunity
is big enough to make a difference and where the risk-adjusted returns are most attractive.

Expanding our wealth management offering

People in most of our key markets are living longer and demanding longer-term financial products, presenting great opportunities to grow our wealth management business. We are increasing share in key markets including Hong Kong, the UK and Canada and developing new products to meet the needs of our Premier customers. In 2009, we launched World Selection, a dynamically managed multi-manager fund product, bringing a diverse range of international assets to our local retail customers. In the first half of 2010, we extended the product to 21 countries and increased funds under management by 59 per cent to US$4.1 billion. We also launched five new Exchange Traded Funds (ETF s) and, in July, announced the launch of our first emerging market ETF for Brazil as we continue to make low-cost access to global markets available for our retail customers.

Building our emerging market insurance platforms

As growth in demand for insurance in emerging markets accelerates, we are investing for the future with encouraging success, particularly in Asia and Latin America. Our ambition is to be the leading international bancassurer in Asia within the next decade.

We have already built a leading life insurance business in Hong Kong through our integrated bancassurance strategy. In mainland China, HSBC Life has grown rapidly within its first year of operation. In India, our joint venture with Canara Bank and Oriental Bank of Commerce is a top 12 international insurer in the country after two years of operation. Our commitment to Asia was further underlined in January when we increased our investment in Vietnam one of the fastest-growing ASEAN economies by increasing our stake in Bao Viet Holdings from ten to 18 per cent.

In Latin America, sales of insurance products increased and we continued to tailor our proposition to different customer segments and successfully launched new products in Mexico and Brazil.

Extending our leadership in international trade

International trade is set to grow faster than GDP for the foreseeable future and our own research shows that the trade finance needs of most mid-sized companies are growing quickly. Thanks to our global connectivity and local knowledge, we are meeting these needs. HSBC s export-related trade volume continued to grow steadily and we progressively gained market share during the period.

To support the growing flows between emerging and developed economies, we are moving the right people and skills to the right places and, as the leading international emerging markets bank, we are particularly well placed to support the growing flows of South-South trade. In Commercial Banking, we are seeing a rapid increase in trade flows between Latin America and mainland China and we are transferring bankers from Europe, the US and Latin America to mainland China and Hong Kong. In Global Banking, we transferred bankers from our Latin American operations into HSBC offices in mainland China, and set up a reciprocal China desk in Brazil.

Capturing the outflows from mainland China

I believe that the re-emergence of China s economy will drive the biggest change to global trade patterns in the generation ahead. We expect mainland China s total trade flows with the rest of the world to grow by some 13 per cent a year over the next five years to US$5 trillion.

Mainland Chinese companies expanding overseas accounted for about half of new customer growth in Commercial Banking in Hong Kong over the past twelve months. We also aim to be the pre-eminent international bank in renminbi trade, settlement and bond issuance, as regulations change and the offshore renminbi market gradually develops. In Hong Kong, HSBC had a significant share of the cross-border clearance market and we expect to grow this further in the second half of the year. In June, we executed the first cross-border renminbi transaction in the UK and we aspire to be the first international bank to execute transactions across six continents. In July, we also acted as sole bookrunner and lead manager for the first ever offshore renminbi certificate of deposit issue, which provides a new investment vehicle for market participants to manage portfolio risk.

Building out our equity platform

Over the past 15 years, HSBC has built a world-class debt capital market platform in the world s faster-growing markets, something *Euromoney* recognised when they named us Best Global Emerging Markets Debt House in July. We are now leveraging these customer relationships and building out our equities platform in a co-ordinated and selective way across Advisory, Equity Capital Markets, Research and Distribution. We are expanding in Hong Kong, mainland China, India, the Middle East, Brazil and Mexico and developing our European business in the UK, France and Germany. This will enable us to deliver a comprehensive range of Equities products to key institutional clients and personal, commercial and private banking customers alike. During the period, we made key hires, continued to invest in our trading and infrastructure platform, and gained market share in Asia and Europe.

Growing our leadership in Islamic finance

Islamic finance is a fast-developing industry, currently growing at over 20 per cent a year. HSBC Amanah represents the largest and most comprehensive Islamic proposition of any international bank, with successful operations in the UK, the Middle East and Asia-Pacific. We continued to expand our product range across our customer groups and we were delighted to be recognised as *Euromoney* s Best International Islamic Bank and Best Sukuk House in 2010. In the first half of the year, we were the global lead underwriter for sukuk and we launched an Amanah Premier proposition in four markets in the Middle East and two markets in Asia-Pacific. In July, we opened our first Amanah-only branch in Qatar, the fourth country in which we have established dedicated branches to serve the full range of Islamic banking needs.

Transforming our business infrastructure

Of course, investment in building relationships and expanding our products and services will not be successful unless we continuously invest to improve customer service and deliver greater efficiency.

Above all, we are delivering a better and more consistent experience for our customers. This year, we will refresh, refurbish or expand over 1,000 branches including more than 200 in the UK, and we have begun a three-year programme to invest over US$500 million in our Latin American branch network. We have taken the first steps towards improving the account opening experience across our retail businesses which will, over time, free our staff to focus directly on customer needs.

We are also investing in adding front-line staff, to improve relationship management and drive future sales growth. In Personal Financial Services, we aim to recruit 1,000 additional relationship managers and other customer-facing staff this year to support the development of Premier. In Private Banking, we have begun a three-year programme to add up to 500 customer-facing staff covering key markets in Asia, Latin America and the Middle East. In Commercial

Banking, we are recruiting up to 500 relationship

Table of Contents

HSBC HOLDINGS PLC

Group Chief Executive s Review (continued)

managers and business specialists to drive business expansion in Brazil and Mexico.

At the same time, we are transforming our operations to create a more efficient, better connected bank. In Latin America, we are joining up our sites across the region so we can better compete with bigger local competitors. One example is the centralisation of our trade operations in Panama, which has allowed us to deliver a better, more consistent customer experience across a number of countries. We have adopted a new collections call model, allowing us to export our best practice in the US across the Group and, in the Middle East, this has led to a 40 per cent reduction in the number of outbound calls.

We also continued to improve our direct channels. As a result, one million small and medium-size business customers used our Business Internet Banking platform and we grew the number of users of our online platform for larger commercial customers, HSBCnet, by 17 per cent to 55,000.

Thanks to these important initiatives and the dedication and focus of all of our staff, we are making measurable progress in improving customer satisfaction. Among Business Banking customers, we have exceeded our brand health scores in a number of key markets. Meanwhile, among our Personal Financial Services customers, our ambition is to achieve a top three ranking for customer recommendation in all 15 markets that we track. We are already in the top three for nine of these markets. All of this is helping to reinforce the strength of our brand and we were delighted to be named the top banking brand by *Brand Finance* for the third year running in 2010.

Well positioned for the shifting economy and for regulatory change

Global demand will remain constrained as long as we face the likelihood of anaemic growth in various Western nations. But while these economies come to terms with austerity, we remain bullish on the outlook for emerging markets both short and long-term. Some cooling off is possible, however I am confident that the authorities in leading economies like China can and will continue to deliver sustainable growth and support domestic demand.

Regulatory change is now beginning to move up a gear, and HSBC s capital strength positions us strongly for change. HSBC is preparing for a period which will be characterised by further intense public and political scrutiny of banks in the West and a complex compliance environment with a higher level of intervention by regulators. Meanwhile, finalising
the shape of the global regulatory framework remains the most urgent challenge for the industry and its supervisors. Greater clarity is required, however reform is clearly moving in the right overall direction. Our collective responsibility now is to get the details and the timetable right so trade and capital can flow freely and banks are able to play their full part in financing these flows and supporting economic growth.

The West is realising that it does not have all the answers and the commitment of the G20 in driving forward the reform agenda is promising, with policymakers in emerging markets playing an increasing part. We believe it is essential that all G20 members participate according to the same rules, otherwise we will end up with an uneven playing field that looks very different depending on where a company is headquartered. In a global marketplace where businesses and people are mobile, one country cannot afford to pursue its own particular policy agenda without considering the possible unintended consequences for the wider economy.

Finally, we believe that HSBC s results over the past decade and throughout the latest crisis prove that a well-balanced, universal banking model of scale really works. We have weathered the storms in different regions and in different sectors precisely because our business is large, broad and diverse. As we continue to debate the shape of the regulatory framework, it remains our view that the financial system needs banks which are big enough to cope. Soundly-managed universal banks not only contribute to financial stability but are also best placed to support economic growth by meeting the full range of customer needs in our globalised, connected world.

Michael Geoghegan, *Group Chief Executive*

2 August 2010

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review

Principal activities

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$161 billion at 30 June 2010.

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 8,000 offices in 87 countries and territories in six geographical regions: Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases, and by consumer finance operations.

Strategic direction

HSBC s strategic direction reflects its position as The world s local bank , combining the largest global developing markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength.

The Group s strategy is aligned with the key trends which are shaping the global economy. In particular, HSBC recognises that, over the long term, developing markets are growing faster than the mature economies, world trade is expanding at a greater rate than gross domestic product and life expectancy is lengthening virtually everywhere. HSBC s strategy is focused on delivering superior growth and earnings over time by building on the Group s heritage and skills. Its origins in trade in Asia have had a considerable influence over the development of the Group and, as a consequence, HSBC has an established and longstanding presence in many countries. The combination of local knowledge and international breadth is supported by a substantial financial capability founded on balance sheet strength, largely attributable to the scale of the Group s retail deposit bases.

HSBC is, therefore, continuing to direct incremental investment primarily to the faster growing markets and, in the more developed markets, is focusing on businesses and customer segments which have international connectivity. A policy of maintaining HSBC s capital strength and strong liquidity position remains complementary to these activities and is the foundation of decisions about the pace and direction of investment.

The Group has identified three main business models for its customer groups and global businesses that embody HSBC s areas of natural advantage:

- businesses with international customers for whom connections with developing markets are crucial Global Banking and Markets, Private Banking, the large business segment of Commercial Banking and the mass affluent segment of Personal Financial Services;

- businesses with local customers where service efficiencies can be enhanced through global scale the small business segment of Commercial Banking and the mass market segment of Personal Financial Services; and

- products where global scale is possible by applying the Group s efficiency, expertise and brand product platforms such as global transaction banking.

The means of executing the strategy and making greater use of the linkages within the Group are clear:

- the HSBC brand and global networks will be leveraged to reach new customers and offer further services to existing clients;

- efficiency will be enhanced by taking full advantage of local, regional and global economies of scale, in particular by adopting a common systems architecture wherever possible; and

- objectives and incentives will be aligned to motivate and reward staff for being fully engaged in delivering the strategy.

Challenges and uncertainties

A detailed account of HSBC s challenges and uncertainties is provided on pages 12 to 18 of the *Annual Report and Accounts 2009*. Further comments on expected risks and uncertainties are made throughout this Interim Management Report, particularly in the sections on Market Turmoil and Risk.

Reconciliation of reported and underlying profit before tax

HSBC measures its performance internally on a like-for-like basis by eliminating the effects of foreign currency translation differences; acquisitions and disposals of subsidiaries and businesses; fair value movements on own debt designated at fair value attributable to changes in HSBC s own credit spread as the net result of such movements will be zero upon maturity of the debt; and gains from the

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

dilution of the Group s interests in associates, all of which distort period-on-period comparisons. HSBC refers to this as its underlying performance .

This approach is used to monitor progress against operating plans and previous period results because management believes that the underlying basis more accurately reflects operating performance. Reported results include the effect of the above items.

Constant currency

Constant currency comparatives for the half-years to 30 June 2009 and 31 December 2009, used in the 2010 commentaries, 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 2009 and 31 December 2009 at the average rates of exchange for the half-year to 30 June 2010; and
- the balance sheets at 30 June 2009 and 31 December 2009 at the rates of exchange ruling at 30 June 2010.

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 constant currency 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.

Underlying performance

The tables below compare HSBC s underlying performance for the half-year to 30 June 2010 with the half-years to 30 June 2009 and 31 December 2009. Equivalent tables are provided for each of HSBC s customer groups and geographical segments in their respective sections below.

The foreign currency translation differences reflect the relative strengthening of the US dollar across Asia, as well as in Brazil, Mexico and the UK during the first half of 2010.

The following acquisitions and disposals were adjusted for in arriving at the underlying comparison:

- the acquisition of Bank Ekonomi in May 2009;
- the gain on sale of HSBC s 49 per cent interest in a joint venture for a UK merchant acquiring business in June 2009 of US$280 million;
- the gain on reclassification of Bao Viet Holdings (Bao Viet) from an available-for-sale asset to an associate in January 2010 of US$62 million;
- the gain on the sale of HSBC s stake in Wells Fargo HSBC Trade Bank in March 2010 of US$66 million;
- the gain on disposal of HSBC Insurance Brokers Limited in April 2010 of US$107 million;
- the dilution gain which arose on HSBC s holding in Ping An Insurance (Group) Company of China, Limited (Ping An Insurance) following the issue of shares by Ping An Insurance in May 2010, of US$188 million; and
- the loss of US$47 million on reclassification of British Arab Commercial Bank plc from an associate to a held-for-sale asset in June 2010.

The timing of the Bank Ekonomi acquisition creates an underlying adjustment between the first half of 2009 and the first half of 2010 but not between the second half of 2009 and the first half of 2010.

Table of Contents

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
HSBC	**1H09 as reported US$m**	**1H09 adjust-ments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjust-ments[1] US$m**	**1H10 under-lying US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**20,538**		**707**	**21,245**	**19,757**	**(31)**	**19,726**	**(4)**	**(7)**
Net fee income	**8,428**	**(71)**	**248**	**8,605**	**8,518**	**(3)**	**8,515**	**1**	**(1)**
Changes in fair value[5]	**(2,457)**	**2,457**			**1,074**	**(1,074)**			
Other income[6]	**8,232**	**(281)**	**264**	**8,215**	**6,202**	**(385)**	**5,817**	**(25)**	**(29)**
Net operating income[7]	**34,741**	**2,105**	**1,219**	**38,065**	**35,551**	**(1,493)**	**34,058**	**2**	**(11)**
Loan impairment charges and other credit risk provisions	**(13,931)**		**(363)**	**(14,294)**	**(7,523)**		**(7,523)**	**46**	**47**
Net operating income	**20,810**	**2,105**	**856**	**23,771**	**28,028**	**(1,493)**	**26,535**	**35**	**12**
Operating expenses	**(16,658)**	**70**	**(663)**	**(17,251)**	**(18,111)**	**19**	**(18,092)**	**(9)**	**(5)**
Operating profit	**4,152**	**2,175**	**193**	**6,520**	**9,917**	**(1,474)**	**8,443**	**139**	**29**
Income from associates	**867**	**(1)**	**(1)**	**865**	**1,187**		**1,187**	**37**	**37**
Profit before tax	**5,019**	**2,174**	**192**	**7,385**	**11,104**	**(1,474)**	**9,630**	**121**	**30**

	Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)								
	2H09 as reported	2H09 adjust-ments[1]	Currency translation[2]	2H09 at 1H10 exchange rates[8]	1H10 as reported	1H10 adjust-ments[1]	1H10 under-lying	Re-ported change[4]	Under-lying change[4]

HSBC	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Net interest income	20,192		(316)	19,876	19,757		19,757	(2)	(1)
Net fee income	9,236	(105)	(177)	8,954	8,518		8,518	(8)	(5)
Changes in fair value[5]	(4,076)	4,076			1,074	(1,074)			
Other income[6]	6,088	(2)	(104)	5,982	6,202	(376)	5,826	2	(3)
Net operating income[7]	31,440	3,969	(597)	34,812	35,551	(1,450)	34,101	13	(2)
Loan impairment charges and other credit risk provisions	(12,557)		141	(12,416)	(7,523)		(7,523)	40	39
Net operating income	18,883	3,969	(456)	22,396	28,028	(1,450)	26,578	48	19
Operating expenses	(17,737)	99	323	(17,315)	(18,111)		(18,111)	(2)	(5)
Operating profit	1,146	4,068	(133)	5,081	9,917	(1,450)	8,467	765	67
Income from associates	914		1	915	1,187		1,187	30	30
Profit before tax	2,060	4,068	(132)	5,996	11,104	(1,450)	9,654	439	61

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Financial summary
Income statement

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Interest income	**28,686**	32,479	29,617
Interest expense	**(8,929)**	(11,941)	(9,425)
Net interest income	**19,757**	20,538	20,192
Fee income	**10,405**	10,191	11,212
Fee expense	**(1,887)**	(1,763)	(1,976)
Net fee income	**8,518**	8,428	9,236
Trading income excluding net interest income	**2,309**	4,301	1,935
Net interest income on trading activities	**1,243**	1,954	1,673
Net trading income	**3,552**	6,255	3,608
Changes in fair value of long-term debt issued and related derivatives[9]	**1,125**	(2,300)	(3,947)
Net income/(expense) from other financial instruments designated at fair value	**(40)**	777	1,939
Net income/(expense) from financial instruments designated at fair value	**1,085**	(1,523)	(2,008)
Gains less losses from financial investments	**557**	323	197
Dividend income	**59**	57	69
Net earned insurance premiums	**5,666**	5,012	5,459
Other operating income	**1,478**	1,158	1,630
Total operating income	**40,672**	40,248	38,383
	(5,121)	(5,507)	(6,943)

Net insurance claims incurred and movement in liabilities to policyholders			
Net operating income before loan impairment charges and other credit risk provisions	**35,551**	34,741	31,440
Loan impairment charges and other credit risk provisions	**(7,523)**	(13,931)	(12,557)
Net operating income	**28,028**	20,810	18,883
Employee compensation and benefits	**(9,806)**	(9,207)	(9,261)
General and administrative expenses	**(7,014)**	(6,258)	(7,134)
Depreciation and impairment of property, plant and equipment	**(834)**	(814)	(911)
Amortisation and impairment of intangible assets	**(457)**	(379)	(431)
Total operating expenses	**(18,111)**	(16,658)	(17,737)
Operating profit	**9,917**	4,152	1,146
Share of profit in associates and joint ventures	**1,187**	867	914
Profit before tax	**11,104**	5,019	2,060
Tax expense	**(3,856)**	(1,286)	901
Profit for the period	**7,248**	3,733	2,961
Profit attributable to shareholders of the parent company	**6,763**	3,347	2,487
Profit attributable to non-controlling interests	**485**	386	474

For footnotes, see page 95.

Table of Contents

Reported profit before tax of US$11.1 billion in the first half of 2010 was 121 per cent higher than in the first half of 2009, 30 per cent on an underlying basis, with significantly lower loan impairment charges more than offsetting lower revenues. The difference between reported and underlying results is explained on page 11. Except where otherwise stated, the commentaries in the Financial Summary are on an underlying basis.

Profit before tax on an underlying basis was 30 per cent higher than the first half of 2009.

The 11 per cent reduction in net operating income before loan impairment charges and other credit risk provisions (revenue) was primarily attributable to three factors: (i) lower revenues in Balance Sheet Management as higher yielding positions matured, interest rates remained low and major yield curves flattened; (ii) lower revenues in HSBC Finance Corporation (HSBC Finance) as the run-off portfolios continued to fall; and (iii) lower net trading income. Although deposit spread compression continued to constrain net interest income in a number of key markets, notably Hong Kong, there was strong growth in insurance and investment businesses in Asia along with higher fee income due to an increase in trade activity. In the UK, higher revenues were primarily driven by mortgage lending growth and stronger lending spreads.

Loan impairment charges were significantly lower than in both the first and second halves of 2009 (US$6.8 billion or 47 per cent and US$4.9 billion or 39 per cent, respectively), reflecting initiatives taken to exit higher risk portfolios, enhanced underwriting and collection activities and a general improvement in the economic environment which helped stabilise credit quality. This substantial decline was driven by a significant reduction in the HSBC Finance run-off portfolio, largely due to lower customer loan balances and an easing in delinquency rates. The non-recurrence of a small number of specific charges related to Global Banking and Markets clients in the first half of 2009 and the run-off of certain consumer portfolios in Latin America also contributed to the improvement.

Reported profit after tax was US$3.5 billion or 94 per cent higher than in the first half of 2009. The tax charge included US$1.6 billion attributable to the taxable gain arising from an internal reorganisation designed to strengthen the US operations, capital position and support the recoverability of US deferred tax assets. No gain appears in the consolidated financial statements from this reorganisation, but the transaction generated a tax charge in the US that is expected to be covered by operating tax losses and foreign tax credits. The gain on the transaction was eliminated on consolidation but the tax charge remained, resulting in an increase in the Group s effective tax rate.

Group performance by income and expense item

Net interest income

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
Net interest income[10] (US$m)	**19,757**	20,538	20,192
Average interest-earning assets (US$m)	**1,431,458**	1,345,569	1,423,202
Gross interest yield[11] (per cent)	**4.04**	4.87	4.13
Net interest spread[12] (per cent)	**2.68**	3.05	2.77
Net interest margin[13] (per cent)	**2.78**	3.08	2.81

For footnotes, see page 95.

Reported net interest income fell by 4 per cent to US$19.8 billion; the decline was 7 per cent on an underlying basis.

The decrease in net interest income was driven by the effects of the continuing low interest rate environment on all parts of the balance sheet together with a repositioning of customer assets towards secured lending, which has a lower incidence of loss and a lower yield.

As expected, revenues in Balance Sheet Management slowed significantly as interest rates remained low and major yield curves flattened. In Balance Sheet Management, average interest-earning assets increased, reflecting a rise in the

Group s commercial deposit surplus, particularly in Hong Kong, and driving an increase in overall interest-earning assets.

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Low interest rates and a move towards lower yielding secured assets reduced net interest income by 4 per cent.

Average loans and advances to customers were broadly unchanged. However, yields were noticeably reduced as a result of a series of decisions to reposition lending in line with the Group s revised risk appetite. Higher yielding balances declined in North America as the run-off portfolios continued to repay and charge-off. Unsecured portfolios in Mexico, India and Europe decreased as a result of tighter underwriting criteria and the cessation of some business lines. In the US, credit card balances

declined as customers repaid more and the number of active credit card accounts fell. This reduction in balances was mitigated by growth in lending in Asia and the UK in residential mortgages, which command a lower yield.

The low interest rate environment had a favourable effect on the cost of funding the Group s trading assets. Despite a lower cost of funds and asset repricing, the net interest spread contracted for the reasons described above. The net interest margin declined by a smaller amount as net free funds increased, in part due to the low interest rates which led customers to hold more funds in liquid non-interest bearing current accounts.

Net fee income

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Cards	**1,900**	2,209	2,416
Account services	**1,821**	1,771	1,821
Funds under management	**1,181**	945	1,227
Credit facilities	**827**	729	750
Broking income	**766**	749	868
Insurance	**578**	688	733
Imports/exports	**466**	438	459
Global custody	**439**	471	517
Remittances	**329**	281	332
Unit trusts	**267**	137	226
Underwriting	**264**	348	398
Corporate finance	**248**	164	232
Trust income	**141**	134	144
Taxpayer financial services	**91**	91	(4)
Mortgage servicing	**60**	62	62
Maintenance income on operating leases	**53**	55	56
Other	**974**	919	975
Fee income	**10,405**	10,191	11,212
Less: fee expense	**(1,887)**	(1,763)	(1,976)
Net fee income	**8,518**	8,428	9,236

Net fee income remained broadly in line with the first half of 2009 on both a reported and underlying basis.

Net fee income related to credit cards fell significantly, primarily in the US, due to a decline in late fees driven by lower volumes and delinquency levels, higher repayment levels, and reduced overlimit fees due to changes to charging practices following implementation of the CARD Act.

Underwriting fees decreased due to reduced activity in debt and equity capital markets, particularly in the US and the UK.

Insurance fee income in the US declined due to lower sales of credit protection products as a result of the run-off of the Consumer Lending portfolio and the reduced volume within the card business.

Offsetting the above, there were substantial increases in funds under management and unit trust income compared with the first half of 2009, particularly in Hong Kong and Rest of Asia-Pacific. Strong gains in most major markets during the latter part of 2009 led to an increase in the market value of assets, which resulted in higher management fees and an increase in customer transaction volumes as investor sentiment improved.

Credit facilities fees also increased, primarily as a result of an increase in the arrangement of loans and loan syndication in Hong Kong and the Rest of Asia-Pacific region.

Table of Contents

Net trading income

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$m	US$m	US$m
Trading activities	**3,419**	3,294	1,946
Net interest income on trading activities	**1,242**	1,954	1,673
Loss on termination of hedges	**(3)**	(37)	(17)
Other trading income hedge ineffectiveness:			
on cash flow hedges	**(24)**	70	74
on fair value hedges	**17**	(3)	(42)
Non-qualifying hedges	**(1,099)**	977	(26)
Net trading income[14,15]	**3,552**	6,255	3,608

For footnotes, see page 95.

Reported net trading income at US$3.6 billion was 43 per cent lower than in the first half of 2009. On an underlying basis, it fell by 45 per cent compared with the first half of 2009 but was in line with the second half of the year.

The decline in net trading income was driven by a US$2.1 billion adverse effect from non-qualifying hedges, which are derivatives entered into as part of a documented interest rate management strategy for which hedge accounting has not or cannot be applied. These are principally cross-currency and interest rate swaps used to economically hedge fixed rate debt issued by HSBC Holdings, floating rate debt issued by HSBC Finance and certain operating leased assets. The loss recognised in respect of non-qualifying hedges was a result of fair value losses on these instruments, primarily driven by the decrease in long-term US interest rates relative to sterling and euro interest rates. In HSBC Finance, the volume of non-qualifying hedge positions also increased as the duration of the mortgage book lengthened and swaps were used to more closely align the duration of the funding liabilities. This compared with fair value gains recognised in respect of these instruments in the same period in 2009. The size and direction of the changes in the fair value of non-qualifying hedges which are recognised in the income statement can be volatile from period to period, but do not alter the cash flows expected as part of the documented interest rate management strategy for both the instruments and the underlying economically hedged assets and liabilities.

Net interest income earned on trading activities decreased due to a fall in interest rates. The cost of internally funding these assets also declined as a result of the reduction in interest rates. However, reported net trading income excludes this interest expense.

Net income from trading activities declined compared with the unusually high levels reported in the first half of 2009, which benefited from exceptional volumes and margins and favourable market conditions. Revenues slowed in the second quarter of 2010 as European sovereign debt concerns and widening credit spreads suppressed client activity and reduced demand for foreign exchange, Credit and Rates products.

Rates income fell with the slowdown in client activity in Europe, while increased competition in the US adversely affected volumes and margins. The decrease was partly offset by fair value gains on structured liabilities as credit spreads widened, compared with losses in the same period in 2009.

Fall in trading income driven by US$2.1 billion adverse effect from non-qualifying hedges.

Credit trading recorded a net release of previous write-downs on legacy positions and monoline exposures of US$362 million, reflecting an improvement in asset prices; the first half of 2009 included a reported net charge of US$602 million. This benefit however, was more than offset by the non-recurrence of gains in other parts of the business that arose in the first half of 2009.

Performance in the foreign exchange business remained strong but suffered from a reduction in market volatility and customer-driven volumes compared with the unprecedented levels experienced in late 2008 and early 2009. Additionally, as a number of competitors sought to rebuild their businesses, the trading environment became more competitive, reducing spreads and adversely affecting revenues.

Trading income benefited from foreign exchange gains on trading assets held as economic hedges of foreign currency debt designated at fair value, with the offset reported in Net income from financial instruments designated at fair value . Foreign exchange losses were reported on these instruments in the first half of 2009.

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Net income/(expense) from financial instruments designated at fair value

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$m	US$m	US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**(229)**	956	2,837
liabilities to customers under investment contracts	**184**	(197)	(1,132)
HSBC s long-term debt issued and related derivatives	**1,125**	(2,300)	(3,947)
Change in own credit spread on long-term debt	**1,074**	(2,457)	(4,076)
Other changes in fair value[16]	**51**	157	129
other instruments designated at fair value and related derivatives	**5**	18	234
Net income/(expense) from financial instruments designated at fair value	**1,085**	(1,523)	(2,008)
Financial assets designated at fair value at period end	**32,243**	33,361	37,181
Financial liabilities designated at fair value at period end	**80,436**	77,314	80,092

For footnote, see page 95.

HSBC designates certain financial instruments at fair value to remove or reduce accounting mismatches in measurement or recognition, or where financial instruments are managed and their performance is evaluated together on a fair value basis. All income and expense from financial instruments designated at fair value are included in this line except for interest arising from HSBC s issued debt securities and related derivatives managed in conjunction with those debt securities, which is recognised in Interest expense .

HSBC principally uses the fair value designation in the following instances (for which all numbers are reported):

for certain fixed-rate long-term debt issues whose rate profile has been changed to floating through interest rate swaps as part of a documented interest rate management strategy. Approximately US$64 billion (31 December 2009: US$63 billion) of the Group s debt issues have been accounted for using the fair value option.

The movement in fair value of these debt issues includes the effect of own credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. As credit spreads widen or narrow, accounting profits or losses, respectively, are booked. The size and direction of the changes in own credit spread and ineffectiveness, which will be recognised in the income statement, can be volatile from period to period, but do not alter the cash flows envisaged as part of the documented interest rate management strategy. As a consequence, gains and losses arising from changes in own credit spread on long-term debt, and other fair value movements on the long-term debt and related derivatives, are not regarded internally as part of managed performance and are therefore not allocated to customer groups, but are reported in the Other group. Own credit spread movements are excluded from underlying results. Similarly, such gains and losses are ignored in the calculation of regulatory capital;

for US$15 billion (31 December 2009: US$15 billion) of financial assets held to meet liabilities under insurance contracts, and certain liabilities under investment contracts with discretionary participation features (DPF); and

for US$7 billion (31 December 2009: US$8 billion) of financial assets held to meet liabilities under unit-linked and other investment contracts, as well as the associated liabilities.

Income from financial instruments designated at fair value of US$1.1 billion was reported compared with an expense of US$1.5 billion in the first half of 2009.

On an underlying basis, HSBC reported income of US$11 million in the first half of 2010 compared with income of US$917 million in the first half of 2009. The large difference between the reported and underlying results is due to the exclusion from the latter of the credit spread-related movements in the fair value of HSBC s own long-term debt. A gain of US$1.1 billion was reported in the first half of 2010, which resulted from a widening of credit spreads, compared with a loss of US$2.5 billion reported in the first half of 2009.

An expense of US$229 million was recorded due to a fair value movement on assets held to back insurance and investment contracts, compared with

Table of Contents

income of US$892 million in 2009. This reflected investment losses in the current period which were driven by weaker markets, and predominantly affected the value of assets held in unit-linked and participating funds in Hong Kong, the UK and France. Investment gains were also lower in Brazil than in the first half of 2009.

To the extent that the investment gains or losses related to assets held to back investment contracts, the income or expense associated with the corresponding movement in liabilities to customers was also recorded under Net income from financial instruments designated at fair value . This amounted to income of US$198 million in the first half of 2010 compared with an expense of US$158 million in the same period in 2009.

To the extent that the investment gains or losses related to assets held to back insurance contracts or investment contracts with DPF, they were offset by a corresponding change in Net insurance claims incurred and movement in liabilities to policyholders to reflect the extent to which unit-linked policyholders, in particular, participate in the investment performance experienced in the associated asset portfolios.

Gains less losses from financial investments

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$m	US$m	US$m
Net gains/(losses) from disposal of:			
debt securities	**382**	329	134
equity securities	**223**	268	139
other financial investments	**(8)**	7	1
	597	604	274
Impairment of available-for-sale equity securities.	**(40)**	(281)	(77)
Gains less losses from financial investments	**557**	323	197

Reported net gains from financial investments of US$557 million were US$234 million higher than in the first half of 2009. On an underlying basis, excluding a US$62 million accounting gain arising from the reclassification of Bao Viet as an associate following the purchase of additional shares, they increased by US$147 million. This was primarily from a reduction in the level of impairments on available-for-sale equity securities.

Net gains on the disposal of debt securities increased. These gains were primarily attributable to the sale of assets by Balance Sheet Management and by Global Markets, including available-for-sale government debt securities and mortgage-backed securities.

Net gains on the disposal of equity securities were lower than in the first half of 2009. Disposal gains in the private equity portfolios increased. However, this was more than offset by the non-recurrence of the gain on disposal of holdings of Visa Inc. shares in 2009.

Net earned insurance premiums

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$m	US$m	US$m
Gross insurance premium income	**5,902**	5,255	5,736
Reinsurance premiums	**(236)**	(243)	(277)
Net earned insurance premiums	**5,666**	5,012	5,459

Reported net earned insurance premiums amounted to US$5.7 billion, 13 per cent higher than in the first half of 2009. On an underlying basis, they increased by 11 per cent.

Growth in net earned insurance premiums was driven by continuing strong performance in the Hong Kong life insurance business, with higher sales of unit-linked, whole life and deferred annuity products reflecting successful sales campaigns and additional sales staff. The life insurance product designed for high net worth individuals introduced in Hong Kong in 2009 performed well.

Net earned insurance premiums also grew strongly in Latin America, driven by improved

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
economic conditions and stronger sales, mainly in unit-linked pension products. Within other regions, successful marketing campaigns in France, Malaysia and Taiwan, and new product launches in the latter, resulted in higher sales.

Partly offsetting this growth was the effect of closing the loss-making motor underwriting business in the UK during the second half of 2009. In the US, the run-off of payment protection insurance following the decision to cease new real estate lending in HSBC Finance, led to a decrease in net earned premiums.

As a consequence of the increase in premiums from new business noted above, there was an increase in liabilities to policyholders reported in Net insurance claims incurred and movement in liabilities to policyholders which reflected new liabilities established on the inception of policies. The relationship between insurance premiums and movement in liabilities to policyholders becomes more direct as the level of policyholder participation in asset performance increases; this is particularly the case for unit-linked contracts and, to a lesser extent, those with DPF.

Strong growth in insurance premiums reported in Hong Kong and Latin America.

Other operating income

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$m	US$m	US$m
Rent received	**297**	273	274
Gains/(losses) recognised on assets held for sale	**(100)**	(120)	5
Valuation gains/(losses) on investment properties	**(8)**	(43)	19
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**274**	305	728
Gains arising from dilution of interests in associates	**188**		
Change in present value of in-force long-term insurance business	**325**	290	315
Other	**502**	453	289
Other operating income	**1,478**	1,158	1,630

Reported other operating income of US$1.5 billion was 28 per cent higher than in the first half of 2009. Income in the first half of 2010 included a gain of US$188 million following the dilution of HSBC s holding in Ping An Insurance, gains of US$107 million from the sale of HSBC Insurance Brokers and US$66 million from the disposal of the Group s interest in the Wells Fargo HSBC Trade Bank, and a write-down of US$47 million resulting from an agreement to sell HSBC s shareholding in British Arab Commercial Bank plc.

Reported results in the first half of 2009 included gains of US$280 million from the sale of the card merchant-acquiring business. On an underlying basis, excluding the items referred to above, other operating income increased by 34 per cent, mainly from gains on the disposal of property in France and the US.

Net losses recognised on assets held for sale declined, reflecting lower losses on foreclosed properties held for sale in HSBC Finance due to the stabilisation in property prices. In addition, a US$77 million loss was recognised on the sale of the US vehicle finance servicing operations and an associated US$1.0 billion loan portfolio to Santander Consumer USA Inc.

The improvement in the property markets in Hong Kong and the UK led to gains and lower valuation losses, respectively, on investment properties, resulting in reduced net investment valuation losses for HSBC. In addition, property gains of US$194 million and US$56 million, respectively, were recognised on the sale and leaseback of HSBC s Paris and New York headquarters.

Favourable movements in the present value of in-force (PVIF) long-term insurance business were mainly due to an increase in sales of life insurance products in Hong Kong. These were partly offset by the non-recurrence of gains recognised in the first half of 2009 following the refinement of the income recognition methodology in HSBC Finance.

Gains recognised in the first half of 2009 on the sale of US prime residential mortgage portfolios did not recur.

Table of Contents

Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**5,281**	5,505	7,055
reinsurers share	**(160)**	2	(112)
net[17]	**5,121**	5,507	6,943

For footnote, see page 95.

Reported net insurance claims incurred and movement in liabilities to policyholders decreased by 7 per cent to US$5.1 billion. On an underlying basis, they fell by 8 per cent.

This largely reflected a decline in the value of assets backing policyholder funds compared with an increase in the first half of 2009, which was partly offset by new business growth, mainly in Hong Kong, Brazil and France, as described in Net earned insurance premiums .

A fall in asset values, particularly in the UK, France and Hong Kong, driven by weaker investment markets, led to a decrease in liabilities to policyholders on unit-linked insurance contracts and, to a certain extent, participating policies whose policyholders share in the investment performance of the assets supporting the policies. In comparison, the first half of 2009 included an increase in policyholder liabilities reflecting higher asset values.

The gains or losses experienced on the financial assets designated at fair value held to support insurance contract liabilities and investment contracts with DPF are reported in Net income from financial instruments designated at fair value .

An increase in the reserves in the UK motor insurance book was recorded in the first half of 2009 to reflect the rising incidence and severity of claims at that time. This business has since been placed into run-off. There was no further deterioration in claims in the first half of 2010 and, accordingly, no equivalent strengthening in reserves was required.

Net insurance claims incurred and movement in liabilities to policyholders declined in the US, reflecting the run-off of payment protection insurance following the decision to cease new real estate lending in HSBC Finance and the non-recurrence of reserve strengthening in the US reinsurance business.

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Loan impairment charges			
New allowances net of allowance releases	**7,687**	13,710	12,122
Recoveries of amounts previously written off	**(453)**	(377)	(513)

	7,234	13,333	11,609
Individually assessed allowances	**1,069**	2,250	2,208
Collectively assessed allowances	**6,165**	11,083	9,401
Impairment of available-for-sale debt securities	**282**	591	883
Other credit risk provisions	**7**	7	65
Loan impairment charges and other credit risk provisions	**7,523**	13,931	12,557
	%	%	%
as a percentage of net operating income excluding the effect of fair value movements in respect of credit spread on own debt and before loan impairment charges and other credit risk provisions	**21.8**	37.5	35.4
Impairment charges on loans and advances to customers as a percentage of gross average loans and advances to customers (annualised)	**1.7**	3.1	2.6
	US$m	US$m	US$m
Customer impaired loans	**27,887**	31,826	30,606
Customer loan impairment allowances	**22,033**	27,701	25,542

21

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Reported loan impairment charges and other credit risk provisions of US$7.5 billion were US$6.4 billion or 46 per cent lower than in the first half of 2009. On an underlying basis, they were US$6.8 billion or 47 per cent less than in the first half of 2009.

At 30 June 2010, the aggregate balance of outstanding customer loan impairment allowances stood at US$22 billion and represented 2.6 per cent of gross customer advances (net of reverse repos and settlement accounts), compared with 3.1 per cent at 30 June 2009.

The marked reduction in loan impairment charges compared with the first half of 2009 occurred in all customer groups. It was largely driven by the planned run-down of lending balances in higher-risk portfolios, a general upturn in credit quality as economic conditions improved, and the introduction of stronger underwriting and collection processes. The bulk of the improvement was in the US, where better economic conditions underpinned a slowdown in the pace of job losses and greater stability in house prices, particularly in the low to mid-price segments served by HSBC Finance. In addition, several large loan impairment charges generated in 2009 from individually significant Global Banking and Markets accounts were not replicated.

Underlying loan impairment charges and other credit risk provisions were 47 per cent lower than in the first half of 2009.

In the US, loan impairment charges declined by 47 per cent to US$4.4 billion, driven by lower balances and an improvement in economic conditions.

In Consumer Lending and Mortgage Services, loan impairment charges fell by 29 per cent and 25 per cent, respectively, reflecting the continued run-off of balances, lower delinquency and improved economic conditions.

In the Card and Retail Services portfolio, loan impairment charges fell by US$1.4 billion or 51 per cent, driven by reduced balances, improved economic and credit conditions, lower delinquency levels and higher repayment activity, all of which generated an improved outlook for future loss estimates. In the Personal Financial Services business of HSBC Bank USA, lower loan impairment charges reflected the stabilisation of both delinquencies and loss severity and lower balances, which combined to have a favourable effect on future loss estimates. Loan impairment charges in the US Commercial Banking business

also decreased as improved economic conditions and managed reductions in exposures led to fewer customer downgrades and lower impairment of assets.

In Global Banking and Markets, loan impairment charges and other credit risk provisions declined by 72 per cent to US$500 million. Loan impairment charges decreased, reflecting improved credit conditions and the non-recurrence of the significant loan impairments taken in relation to a small number of clients in the first half of 2009. The decline was partly offset by higher specific loan impairment charges in the Middle East, driven by a deterioration in credit quality which continued into the first half of 2010. This, combined with further restructuring, led to additional loan impairment charges in the region. A reduction in other credit risk provisions in Global Banking and Markets reflected a rise in asset-backed securities prices and a decline in default rates.

In the UK Personal Financial Services business, loan impairment charges of US$625 million were 28 per cent less than in the first half of 2009. The decline was due to lower delinquencies across all products as interest rates continued at historical lows, improved collection activity, a change in mix to secured lending and a rise in house prices which lessened the collective impairment charge against the residential mortgage portfolio. In UK Commercial Banking, loan impairment charges declined by 32 per cent, reflecting the better economic backdrop and the continued benefit of low interest rates.

In Latin America, loan impairment charges and other credit risk provisions of US$820 million fell by 48 per cent with improvements seen in many countries in the region. In Personal Financial Services, loan impairment charges decreased by 49 per cent to US$661 million, mainly in Mexico as balances in the cards portfolio declined and actions taken in previous periods to improve credit quality and increase collections continued. In the Commercial Banking portfolios, loan impairment charges were US$160 million, 47 per cent less than the first half of 2009, with lower charges in Brazil in the mid-market and Business Banking segments.

The situation in India improved notably on the first half of 2009, with loan impairment charges of US$53 million, 83 per cent below the comparable period. In Personal Financial Services, lower loan impairment charges reflected the Group s success in reducing the troubled elements within the credit card and unsecured portfolios, and tighter credit criteria. The specific impairment charges on technology-

Table of Contents

related exposures reported in the first half of 2009 in India did not recur, helping Commercial Banking to reduce loan impairment charges by 97 per cent to US$3 million.

In Hong Kong, the improvement in economic conditions resulted in a decline in unemployment and fewer bankruptcies and individual corporate failures, reducing the loan impairment charge by 77 per cent to US$63 million.

In the Middle East, loan impairment charges and other credit risk provisions increased by 12 per cent in the first half of 2010 to US$438 million, mainly in Global Banking and Markets (see above). The increase was offset by a 43 per cent decline in loan impairment charges in Commercial Banking as incremental loan impairment allowances were required on only a small number of customer accounts. In Personal Financial Services, loan impairment charges also fell, notably in the United Arab Emirates (UAE), as steps taken to enhance the quality of the personal lending portfolio and improve collections took effect.

In Private Banking, loan impairment charges were negligible compared with a small charge in 2009 as releases in North America fully offset a low level of loan impairment charges in other regions.

Operating expenses

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
By expense category			
Employee compensation and benefits	**9,806**	9,207	9,261
Premises and equipment (excluding depreciation and impairment)	**2,089**	2,048	2,051
General and administrative expenses	**4,925**	4,210	5,083
Administrative expenses	**16,820**	15,465	16,395
Depreciation and impairment of property, plant and equipment	**834**	814	911
Amortisation and impairment of intangible assets	**457**	379	431
Operating expenses	**18,111**	16,658	17,737

	At 30 June 2010	At 30 June 2009	At 31 December 2009
Staff numbers (full-time equivalent)			
Europe	**73,431**	79,132	76,703
Hong Kong	**28,397**	28,259	27,614
Rest of Asia-Pacific	**88,605**	87,567	87,141
Middle East	**8,264**	8,819	8,281
North America	**33,988**	37,021	35,458
Latin America	**54,886**	54,812	54,288

Staff numbers	**287,571**	295,610	289,485

Operating expenses increased by 9 per cent to US$18.1 billion on a reported basis and by 5 per cent on an underlying basis. There were a number of one-off items, including payroll taxes levied on 2009 bonuses in the UK and France, amounting in aggregate to US$367 million, and the curtailment of certain benefits delivered through pension schemes, which generated accounting credits of US$148 million and US$480 million (US$499 million as reported) in the first halves of 2010 and 2009, respectively. After allowing for these items, expenses were broadly unchanged as the Group continued to leverage its global scale and technology platforms to make sustainable reductions in its cost base, while positioning itself for future growth.

Underlying cost efficiency ratio slightly above target range at 53.1 per cent following investment in expanding the business and transforming operations.

Employee compensation and benefits increased by 3 per cent due to the net effect of the curtailment gains and the payroll tax referred to above. Excluding these items, staff costs fell by 4 per cent as staff numbers declined. During the second quarter of 2010, HSBC began to recruit selectively to position itself for an upturn in the global economy. Performance-related costs were US$246 million lower in Global Banking and Markets, as performance declined from the exceptional levels reported in the first half of

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

2009. Costs in the US also declined with the non-recurrence of restructuring costs associated with the closure of the Consumer Lending branch network in the first half of 2009.

Premises and equipment costs were broadly in line with the first half of 2009. Lower rental costs following the closure of the Consumer Lending branch offices and the non-recurrence of the related restructuring costs were offset by higher rental costs in the UK following the sale and leaseback of 8 Canada Square, London in 2009, and expansion and refurbishment costs in Europe, Rest of Asia-Pacific and Latin America. IT costs also rose, mainly in Europe.

General and administrative expenses rose, reflecting in part an increased expenditure on services contracted out in Europe and in the US. Marketing and advertising costs were increased, primarily in the US and Brazil, to position HSBC for growth as the economic recovery boosted confidence and activity in these markets.

The One HSBC programme continued to invest in infrastructure and process redesign in order to contribute to progress through the better use of direct channels, increased automation of manual processes, enhanced utilisation of Global Service Centres and elimination of redundant systems over time.

Cost efficiency ratios

		Half-year to	
	30 June 2010	30 June 2009	31 December 2009
	%	%	%
HSBC	**50.9**	47.9	56.4
Personal Financial Services	**56.2**	49.1	54.3
Europe	**66.9**	65.7	71.3
Hong Kong	**34.1**	34.6	35.1
Rest of Asia-Pacific	**82.8**	79.9	82.4
Middle East	**56.3**	48.7	59.0
North America	**45.3**	36.9	39.4
Latin America	**70.5**	62.9	70.4
Commercial Banking	**48.5**	43.2	49.5
Europe	**51.2**	40.7	54.3
Hong Kong	**30.7**	33.4	34.0
Rest of Asia-Pacific	**49.4**	45.4	48.4
Middle East	**39.9**	32.1	35.7
North America	**43.1**	49.3	46.3
Latin America	**65.7**	54.4	59.5

Share of profit in associates and joint ventures

		Half-year to	
	30 June	30 June	31 December

	2010	2009	2009
	US$m	US$m	US$m
Associates			
Bank of Communications Co., Limited	**467**	358	396
Ping An Insurance (Group) Company of China, Limited	**377**	235	316
Industrial Bank Co., Limited	**146**	92	124
The Saudi British Bank	**101**	136	36
Other	**84**	19	23
Share of profit in associates	**1,175**	840	895
Share of profit in joint ventures	**12**	27	19
Share of profit in associates and joint ventures	**1,187**	867	914

The share of profit in associates and joint ventures was US$1.2 billion, an increase of 37 per cent compared with the first half of 2009 on both reported and underlying bases.

This increase was driven by higher contributions from the mainland China associates.

Table of Contents

HSBC s share of profits in associates and joint ventures increased by 37 per cent, principally in mainland China.

HSBC s share of profits from the Bank of Communications Co., Limited (Bank of Communications) was higher than in the first half of 2009. Net interest income rose with higher average balances and fee income improved, benefiting from growth in the cards business, wealth management and settlement and agent services.

Profits from Ping An Insurance increased by 60 per cent, driven by strong sales growth as the company capitalised on the improved economic conditions.

Profits from Industrial Bank Co., Limited (Industrial Bank) increased, driven by a decline in loan impairment charges which reflected an improvement in the credit environment.

HSBC s share of profits from The Saudi British Bank decreased due to higher loan impairment charges and a decline in revenue following a contraction in lending as a result of the challenging operating conditions faced by customers in the region.

Economic profit/(loss)

HSBC s internal performance measures include economic profit/(loss), a calculation which compares the return on financial capital invested in HSBC by its shareholders with the cost of that capital. HSBC prices its cost of capital internally and the difference between that cost and the post-tax profit attributable to ordinary shareholders represents the amount of economic profit/(loss) generated. Economic profit/

(loss) generated is used by management as one input in deciding where to allocate capital and other resources.

In order to concentrate on external factors rather than measurement bases, HSBC emphasises the trend in economic profit/(loss) ahead of absolute amounts within business units. The Group s long term cost of capital is reviewed annually and for 2010 it was revised to 11 per cent from the 10 per cent used in 2009. The Group uses the Capital Asset Pricing Model to determine its cost of capital. The main drivers of the increase were the rise in the Group s beta along with the risk free rate. The following commentary is on a reported basis.

The economic loss decreased by US$2.1 billion to US$1.1 billion. The increase in profit attributable to shareholders was offset by the effect of higher average invested capital and the change in the cost of capital used.

The increase in profit attributable to shareholders was predominantly driven by lower loan impairment charges, which more than offset lower income and increased expenses. Personal Financial Services in the US was the primary driver of lower loan impairment charges due to an improvement in the economic environment and the run-off of the Consumer Lending portfolio. Income was lower in Global Banking and Markets following the exceptional first half in 2009 and also in Personal Financial Services, reflecting the effect of the run-off portfolio in the US.

The increase in average invested capital compared with the first half of 2009 primarily reflected the rights issue in April 2009, which did not impact average shareholders equity for the full period.

Economic loss

	Half-year to					
	30 June 2010		30 June 2009		31 December 2009	
	US$m	**%**[18]	US$m	%[18]	US$m	%[18]
Average total shareholders equity	**131,198**		105,734		124,970	
Adjusted by:						
Goodwill previously amortised or written off	**8,123**		8,123		8,123	
Property revaluation reserves	**(786)**		(804)		(794)	
Reserves representing unrealised losses on effective cash flow hedges	**25**		582		191	
	7,590		19,456		12,975	

Reserves representing unrealised losses on available-for-sale securities						
Preference shares and other equity instruments	**(3,661)**		(3,538)		(3,538)	
Average invested capital[19]	**142,489**		129,553		141,927	
Return on invested capital[20]	**6,629**	**9.4**	3,213	5.0	2,352	3.3
Benchmark cost of capital	**(7,772)**	**(11.0)**	(6,424)	10.0)	(7,155)	(10.0)
Economic loss and spread	**(1,143)**	**(1.6)**	(3,211)	(5.0)	(4,803)	(6.7)

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Balance sheet

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
ASSETS			
Cash and balances at central banks	**71,576**	56,368	60,655
Trading assets	**403,800**	414,358	421,381
Financial assets designated at fair value	**32,243**	33,361	37,181
Derivatives	**288,279**	310,796	250,886
Loans and advances to banks	**196,296**	182,266	179,781
Loans and advances to customers	**893,337**	924,683	896,231
Financial investments	**385,471**	353,444	369,158
Other assets	**147,452**	146,567	149,179
Total assets	**2,418,454**	2,421,843	2,364,452
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**127,316**	129,151	124,872
Customer accounts	**1,147,321**	1,163,343	1,159,034
Trading liabilities	**274,836**	264,562	268,130
Financial liabilities designated at fair value	**80,436**	77,314	80,092
Derivatives	**287,014**	298,876	247,646
Debt securities in issue	**153,600**	156,199	146,896
Liabilities under insurance contracts	**52,516**	48,184	53,707
Other liabilities	**152,092**	158,916	148,414
Total liabilities	**2,275,131**	2,296,545	2,228,791
Equity			
Total shareholders equity	**135,943**	118,355	128,299
Non-controlling interests	**7,380**	6,943	7,362
Total equity	**143,323**	125,298	135,661
Total equity and liabilities	**2,418,454**	2,421,843	2,364,452

A more detailed consolidated balance sheet is contained in the Financial Statements on page 206.

Movement from 31 December 2009 to 30 June 2010

Total assets amounted to US$2.4 trillion, 2 per cent higher than at 31 December 2009. After excluding currency movements, underlying assets increased by 7 per cent. The following commentary is on an underlying basis.

HSBC continued to attract both customer and bank deposits in the first half of 2010 and maintained a strong and liquid balance sheet. In addition, the Group was able to further strengthen its capital base with an issue of US$3.8 billion of innovative tier 1 securities. The consumer finance portfolios continued to run off, and unsecured portfolios in Mexico, India and Europe reduced as a result of tighter underwriting criteria. This decrease in balances was mitigated by growth in lending in Asia and in residential mortgages in the UK. There was also a rise in derivative assets and liabilities driven by higher mark-to-market movements following a downward shift in interest rate yield curves.

The Group s reported tier 1 ratio increased from 10.8 per cent to 11.5 per cent, mainly due to internal capital generation, the issuance of innovative tier 1 securities and a reduction in the level of risk-weighted assets. For further details of capital and risk weighted assets, see pages 189 to 195.

Assets

Cash and balances at central banks increased by 22 per cent as a result of higher period-end cash balances, which are inherently volatile, predominantly in Europe. This was partly offset by lower balances in North America, as funds were placed in reverse repo and available-for-sale investments.

Trading assets grew by 2 per cent, driven by an increase in settlement account balances, which vary considerably in proportion to the volume of outstanding trades, along with higher holdings of government and government-agency debt securities as market volatility and customer demand increased. Money market placements also increased due to higher collateral posted to counterparties, in line with an increase in derivative liabilities. This was partly offset by a decrease in reverse repo balances due to lower yields, and decreased holdings of equity shares due to a reduction in trading activity.

Table of Contents

Financial assets designated at fair value decreased by 6 per cent due to asset disposals in Europe during the first half of 2010.

Derivative assets grew by 26 per cent. This was driven by growth in the fair value of interest rate contracts due to downward shifts in major currency yield curves as the prospective rate of global economic growth reduced during the second quarter. An increased number of open transactions also drove a rise in the notional value of outstanding contracts. A higher volume of transactions executed through clearing houses enabled a greater level of netting between derivative assets and liabilities.

Loans and advances to customers grew by 4 per cent, driven by targeted growth in Hong Kong and Rest of Asia-Pacific, mainly in the Commercial Banking and Global Banking segments reflecting growth in trade finance in particular. In Europe, growth was driven by a continued increase in mortgage balances in the UK, along with higher balances in the securities services and Private Banking businesses. North America reported a reduction in the consumer finance portfolio as the business continued to run-off, coupled with a decline in credit card balances due to management actions to reduce risk and an increased focus by consumers on reducing credit card debt. However, these factors were partly offset by an increase in reverse repo balances with customers.

Loans and advances to banks increased by 14 per cent. This was driven by an increase in reverse repos collateralised with government securities in Europe. There was also a rise in central bank deposit balances in Latin America and Rest of Asia-Pacific.

Financial investments increased by 7 per cent due to additional purchases of available-for-sale treasury bills and other government and government-agency debt securities, particularly in Europe and North America. These included a notable increase in UK gilts.

Other assets were approximately in line with 31 December 2009.

Liabilities

Deposits by banks increased by 11 per cent, driven by an increase in funds placed with HSBC by central banks and other financial institutions in Asia.

Customer account balances were 3 per cent higher, driven by an increase in repo balances with customers in Europe. Savings balances increased in most regions, and growth in Premier deposits contributed to an increase in current account balances, as customers responded well to HSBC s marketing and brand strength.

Trading liabilities rose by 10 per cent, driven by an increase in settlement account balances, which tend to vary in proportion to the volume of outstanding trades. Furthermore, money market deposits rose due to an increase in collateral posted by counterparties, which reflected the higher value of derivative assets. In Europe, there was an increase in short bond positions; these are held to hedge long swap trades which rose due to an increase in client demand. This was partly offset, however, by a reduction in repo balances used to meet internal funding requirements. In contrast, repo balances increased in North America due to increased trading volumes of treasury and government agency securities, and corporate bonds, driven by market volatility in the bond market.

Financial liabilities designated at fair value grew by 5 per cent due to new bond issues in Europe.

Derivative businesses are managed within market risk limits and, as a consequence, the increase in the value of *derivative liabilities* broadly matched that of derivative assets.

Debt securities in issue rose by 8 per cent, partly due to new issuances in Europe. This was partly offset by lower funding requirements in North America due to the continued run-off of the consumer finance business.

Liabilities under insurance contracts grew by 6 per cent, driven by higher sales of life insurance products in Hong Kong.

Other liabilities increased by 5 per cent compared with 31 December 2009.

Equity

Total shareholders equity increased by 11 per cent, driven by profits generated during the period and the issue of US$3.8 billion of Perpetual Subordinated Capital Securities, an innovative form of tier 1 securities, during June 2010. The available-for-sale reserve deficit also decreased from US$10.0 billion at 31 December 2009 to US$5.5 billion at 30 June 2010, which largely reflected an increase in asset prices as market conditions improved.

27

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Reconciliation of reported and underlying changes in assets and liabilities

	30 June 2010 compared with 31 December 2009						
HSBC	**31 Dec 09 as reported US$m**	**Currency Translation US$m**	**31 Dec 09 at 30 Jun 10 exchange rates US$m**	**Underlying change US$m**	**30 Jun 10 as reported US$m**	**Reported change %**	**Under-lying change %**
Cash and balances at central banks	**60,655**	**(1,856)**	**58,799**	**12,777**	**71,576**	**18**	**22**
Trading assets	**421,381**	**(27,158)**	**394,223**	**9,577**	**403,800**	**(4)**	**2**
Financial assets designated at fair value	**37,181**	**(2,830)**	**34,351**	**(2,108)**	**32,243**	**(13)**	**(6)**
Derivative assets	**250,886**	**(21,532)**	**229,354**	**58,925**	**288,279**	**15**	**26**
Loans and advances to banks	**179,781**	**(7,620)**	**172,161**	**24,135**	**196,296**	**9**	**14**
Loans and advances to customers	**896,231**	**(40,403)**	**855,828**	**37,509**	**893,337**		**4**
Financial investments	**369,158**	**(9,341)**	**359,817**	**25,654**	**385,471**	**4**	**7**
Other assets	**149,179**	**(3,777)**	**145,402**	**2,050**	**147,452**	**(1)**	**1**
Total assets	**2,364,452**	**(114,517)**	**2,249,935**	**168,519**	**2,418,454**	**2**	**7**
Deposits by banks	**124,872**	**(10,458)**	**114,414**	**12,902**	**127,316**	**2**	**11**
Customer accounts	**1,159,034**	**(43,055)**	**1,115,979**	**31,342**	**1,147,321**	**(1)**	**3**
Trading liabilities	**268,130**	**(17,713)**	**250,417**	**24,419**	**274,836**	**3**	**10**
Financial liabilities designated at fair value	**80,092**	**(3,136)**	**76,956**	**3,480**	**80,436**		**5**
Derivative liabilities	**247,646**	**(21,496)**	**226,150**	**60,864**	**287,014**	**16**	**27**
Debt securities in issue	**146,896**	**(5,281)**	**141,615**	**11,985**	**153,600**	**5**	**8**
Liabilities under insurance contracts	**53,707**	**(3,971)**	**49,736**	**2,780**	**52,516**	**(2)**	**6**
Other liabilities	**148,414**	**(3,290)**	**145,124**	**6,968**	**152,092**	**2**	**5**
Total liabilities	**2,228,791**	**(108,400)**	**2,120,391**	**154,740**	**2,275,131**	**2**	**7**
Total shareholders equity	**128,299**	**(5,993)**	**122,306**	**13,637**	**135,943**	**6**	**11**
	7,362	**(124)**	**7,238**	**142**	**7,380**		**2**

Non-controlling interests							
Total equity	**135,661**	**(6,117)**	**129,544**	**13,779**	**143,323**	**6**	**11**
Total equity and liabilities	**2,364,452**	**(114,517)**	**2,249,935**	**168,519**	**2,418,454**	**2**	**7**

In 2010, the effect of acquisitions and disposals was not significant.

Other information

Funds under management

	Half-year to		
	30 June 2010 US$bn	30 June 2009 US$bn	31 December 2009 US$bn
Funds under management			
At beginning of period	**857**	735	763
Net new money	**25**	1	35
Value change	**(16)**	21	55
Exchange and other	**(38)**	6	4
At end of period	**828**	763	857
Funds under management by business			
HSBC Global Asset Management	**407**	387	423
Private Banking	**245**	223	251
Affiliates	**3**	3	3
Other	**173**	150	180
	828	763	857

Table of Contents

Funds under management at 30 June 2010 amounted to US$828 billion, a decrease of 3 per cent compared with 31 December 2009. Both Global Asset Management and Private Banking fund holdings decreased.

Global Asset Management funds decreased by 4 per cent compared with 31 December 2009 to US$407 billion, despite strong net inflows of US$12 billion. This decline was primarily due to the foreign exchange translation of non-US dollar denominated funds under management and falls in global equity markets. Emerging markets funds increased during the first half of 2010, driven by net inflows. HSBC remains one of the world s largest emerging market asset managers with funds under management of US$93 billion at 30 June 2010.

Private Banking funds under management decreased by 2 per cent to US$245 billion compared with 31 December 2009, as net inflows of US$9 billion were offset by adverse foreign exchange and equity market movements.

Client assets, which provide an indicator of overall Private Banking volumes and include funds under management, were US$354 billion, down by US$13 billion compared with 31 December 2009.

Other funds under management, the majority of which are held by a corporate trust business in Asia, decreased by 4 per cent to US$173 billion.

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 30 June 2010, assets held by HSBC as custodian amounted to US$4.9 trillion, 6 per cent lower than the US$5.2 trillion held at 31 December 2009. This was mainly due to adverse movements on foreign exchange.

HSBC s assets under administration business, which includes the provision of various support function activities including the valuation of portfolios of securities and other financial assets on behalf of clients, complements the custody business. At 30 June 2010, the value of assets held under administration by the Group amounted to US$2.5 trillion.

Review of transactions with related parties

The Financial Services Authority s (FSA) Disclosure Rules and Transparency Rules require the disclosure of related party transactions that have taken place in the first six months of the current financial year and any changes in the related party transactions described in the *Annual Report and Accounts 2009*, that have or could have materially affected the financial position or performance of HSBC. A fair review has been undertaken and any such related party transactions have been disclosed in the Notes on the Financial Statements.

Ratios of earnings to combined fixed charges (and preference share dividends)

	Half-year to 30 June	Year ended 31 December				
	2010	2009	2008	2007	2006	2005
Ratios of earnings to combined fixed charges and preference share dividends:[21]						
excluding interest on deposits	**7.28**	2.64	2.97	6.96	7.22	9.16
including interest on deposits	**1.89**	1.20	1.13	1.34	1.40	1.59
Ratios of earnings to combined fixed charges:[21]						
excluding interest on deposits	**8.25**	2.99	3.17	7.52	7.93	9.60
including interest on deposits	**1.92**	1.22	1.14	1.34	1.41	1.59

For footnote, see page 95.

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Customer groups and global businesses

Summary

HSBC s senior management reviews operating activity on a number of bases, including by geographical region and by customer group and global business. Capital resources are allocated and performance is assessed primarily by geographical region, as presented on page 46.

In addition to utilising information by geographical region, management assesses performance through two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Global Banking and Markets and Private Banking. Personal Financial Services incorporates the Group s consumer finance businesses.

The commentaries below present customer groups and global businesses followed by geographical regions. Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on an underlying basis (see page 11) unless stated otherwise.

Profit/(loss) before tax

	Half-year to					
	30 June 2010		30 June 2009		31 December 2009	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**1,171**	**10.5**	(1,249)	(24.9)	(816)	(39.6)
Commercial Banking	**3,204**	**28.9**	2,432	48.5	1,843	89.5
Global Banking and Markets	**5,633**	**50.7**	6,298	125.5	4,183	203.0
Private Banking	**556**	**5.0**	632	12.6	476	23.1
Other[22]	**540**	**4.9**	(3,094)	(61.7)	(3,626)	(176.0)
	11,104	**100.0**	5,019	100.0	2,060	100.0

Total assets[23]

	At 30 June 2010		At 30 June 2009		At 31 December 2009	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**507,088**	**21.0**	547,084	22.6	554,074	23.4
Commercial Banking	**264,077**	**10.9**	249,030	10.3	251,143	10.6
Global Banking and Markets	**1,777,643**	**73.5**	1,770,618	73.1	1,683,672	71.2
Private Banking	**108,499**	**4.5**	117,468	4.9	116,148	4.9
Other	**189,153**	**7.8**	170,414	7.0	150,983	6.4
Intra-HSBC items	**(428,006)**	**(17.7)**	(432,771)	(17.9)	(391,568)	(16.5)
	2,418,454	**100.0**	2,421,843	100.0	2,364,452	100.0

For footnotes, see page 95.

Basis of preparation

The results of customer groups and global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. HSBC s operations are closely integrated and, accordingly, the presentation of customer group data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and Group Management Office (GMO) functions, to the extent that these 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.

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.

Table of Contents

Personal Financial Services

Profit/(loss) before tax

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**12,198**	12,650	12,457
Net fee income	**3,560**	4,045	4,193
Trading income/(expense) excluding net interest income	**(392)**	450	187
Net interest income on trading activities	**15**	39	26
Net trading income/ (expense)[25]	**(377)**	489	213
Net income/(expense) from financial instruments designated at fair value	**(127)**	744	1,595
Gains less losses from financial investments	**3**	195	29
Dividend income	**14**	17	16
Net earned insurance premiums	**4,953**	4,585	4,949
Other operating income	**387**	302	507
Total operating income	**20,611**	23,027	23,959
Net insurance claims[26]	**(4,572)**	(5,144)	(6,427)
Net operating income[7]	**16,039**	17,883	17,532
Loan impairment charges and other credit risk provisions	**(6,317)**	(10,673)	(9,229)
Net operating income	**9,722**	7,210	8,303
Employee expenses[27]	**(2,584)**	(2,876)	(3,193)
Other operating expenses	**(6,425)**	(5,898)	(6,325)
Total operating expenses	**(9,009)**	(8,774)	(9,518)
Operating profit/(loss)	**713**	(1,564)	(1,215)
Share of profit in associates and joint ventures	**458**	315	399

Profit/(loss) before tax	**1,171**	(1,249)	(816)
By geographical region			
Europe	**562**	212	100
Hong Kong	**1,422**	1,337	1,391
Rest of Asia-Pacific	**476**	135	328
Middle East	**58**	35	(161)
North America	**(1,484)**	(2,843)	(2,383)
Latin America	**137**	(125)	(91)
	1,171	(1,249)	(816)
	%	%	%
Share of HSBC s profit before tax	**10.5**	(24.9)	(39.6)
Cost efficiency ratio	**56.2**	49.1	54.3

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**377,467**	400,692	399,460
Total assets	**507,088**	547,084	554,074
Customer accounts	**488,249**	482,935	499,109

For footnotes, see page 95.

Financial and business highlights

Personal Financial Services reported a profit before tax of US$1.2 billion, compared with reported and underlying losses of US$1.2 billion and US$1.3 billion, respectively, in the first half of 2009. Loan impairment charges fell in line with the managed reduction of the run-off portfolios and as global economic conditions improved, the latter also creating opportunities to expand insurance and wealth management revenues. This was partly offset by fair value losses on non-qualifying hedges in the US due to a decline in long-term interest rates, compared with fair value gains in 2009 (see page 82).

Net interest income was constrained by lower asset balances in the run-off portfolios in the US, Latin America and the Middle East, and significant deposit spread compression in the Group s major deposit-taking entities due to the effect of continuing low interest rates. This was partly offset by higher secured lending volumes and spreads in Europe.

Net fee income benefited from higher investment income as market sentiment improved, most notably in Asia. However, this was more than offset by a decrease in credit card fees in the US from lower volumes and delinquency levels and the impact on charging practices of the Credit Card Accountability, Responsibility and Disclosure Act (CARD Act).

Net earned insurance premiums rose as a result of strong life insurance sales in Hong Kong, Brazil and France, partly offset by the closure of the UK motor insurance business in 2009.

The decrease in costs was primarily due to a reduction in staff numbers and a US$113 million pension curtailment accounting gain in the US. This was partly offset by the non-recurrence of an accounting gain relating to a change in the delivery of certain staff benefits in the main UK pension scheme in 2009 and continuing investment in the branch networks in mainland China and Taiwan. The cost efficiency ratio increased as revenues were lower in the period.

Loan impairment charges and other credit risk provisions fell in all regions, most notably in the US, due to the continued reduction of the run-off portfolios, the improvement in economic conditions, enhanced collection processes and tightened lending criteria.

Customer accounts were broadly in line with December 2009 levels, reflecting the strength of the HSBC brand and efforts to maintain strong

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

liquidity levels. Loans and advances to customers decreased as the reduction in balances in the run-off portfolios overshadowed growth in secured lending in the UK and Hong Kong.

HSBC Premier (Premier), the Group s flagship global customer proposition, attracted 469,000 net new customers in the first half of 2010, of whom 51 per cent were new to the bank. Asia exceeded the one million customer milestone in the period, extending HSBC s global reach to 3.9 million customers in 46 markets.

A second global proposition, HSBC Advance (Advance), for emerging mass affluent customers, had a customer base of 3.6 million at 30 June 2010 and is now offered in 22 markets.

The Group s World Selection global investment offering is now available in 21 countries and increased its total assets under management to US$4.1 billion at 30 June 2010.

HSBC won a number of awards in the UK for its range of mortgages in the 2010 *Moneyfacts* awards. HSBC also won awards in various markets in Asia, including the best foreign retail bank in mainland China for the second year in a row from the *Asian Banker* Excellence in Retail Financial Services Awards 2010.

Reconciliation of reported and underlying profit/(loss) before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
	1H09 as reported US$m	1H09 adjustments[1] US$m	Currency translation[2] US$m	1H09 at 1H10 exchange rates[3] US$m	1H10 as reported US$m	1H10 adjustments[1] US$m	1H10 underlying US$m	Reported change[4] %	Underlying change[4] %
Personal Financial Services									
Net interest income	**12,650**		**425**	**13,075**	**12,198**	**(8)**	**12,190**	**(4)**	**(7)**
Net fee income	**4,045**	**(4)**	**121**	**4,162**	**3,560**	**(1)**	**3,559**	**(12)**	**(14)**
Other income[6]	**1,188**		**71**	**1,259**	**281**	**(5)**	**276**	**(76)**	**(78)**
Net operating income[7]	**17,883**	**(4)**	**617**	**18,496**	**16,039**	**(14)**	**16,025**	**(10)**	**(13)**
Loan impairment charges and other credit risk provisions	**(10,673)**		**(252)**	**(10,925)**	**(6,317)**		**(6,317)**	**41**	**42**
Net operating income	**7,210**	**(4)**	**365**	**7,571**	**9,722**	**(14)**	**9,708**	**35**	**28**

Operating expenses	**(8,774)**	**2**	**(426)**	**(9,198)**	**(9,009)**	**4**	**(9,005)**	**(3)**	**2**
Operating profit/(loss)	**(1,564)**	**(2)**	**(61)**	**(1,627)**	**713**	**(10)**	**703**		
Income from associates	**315**		**(1)**	**314**	**458**		**458**	**45**	**46**
Profit/(loss) before tax	**(1,249)**	**(2)**	**(62)**	**(1,313)**	**1,171**	**(10)**	**1,161**		

Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)

	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange Rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Personal Financial Services									
Net interest income	12,457		(144)	12,313	12,198		12,198	(2)	(1)
Net fee income	4,193	(2)	(51)	4,140	3,560		3,560	(15)	(14)
Other income[6]	882		12	894	281	(3)	278	(68)	(69)
Net operating income[7]	17,532	(2)	(183)	17,347	16,039	(3)	16,036	(9)	(8)
Loan impairment charges and other credit risk provisions	(9,229)		37	(9,192)	(6,317)		(6,317)	32	31
Net operating income	8,303	(2)	(146)	8,155	9,722	(3)	9,719	17	19
Operating expenses	(9,518)	1	133	(9,384)	(9,009)		(9,009)	5	4
Operating profit/(loss)	(1,215)	(1)	(13)	(1,229)	713	(3)	710		
	399		(1)	398	458		458	15	15

Income from associates							
Profit/(loss) before tax	(816)	(1)	(14)	(831)	1,171	(3)	1,168

For footnotes, see page 95.

Table of Contents

Commercial Banking

Profit before tax

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**4,024**	3,809	4,074
Net fee income	**1,935**	1,749	1,953
Trading income excluding net interest income	**222**	183	149
Net interest income on trading activities	**11**	11	11
Net trading income[25]	**233**	194	160
Net income/(expense) from financial instruments designated at fair value	**26**	(17)	117
Gains less losses from financial investments	**3**	25	(2)
Dividend income	**5**	3	5
Net earned insurance premiums	**696**	390	496
Other operating income	**355**	519	220
Total operating income	**7,277**	6,672	7,023
Net insurance claims[26]	**(537)**	(328)	(514)
Net operating income[7]	**6,740**	6,344	6,509
Loan impairment charges and other credit risk provisions	**(705)**	(1,509)	(1,773)
Net operating income	**6,035**	4,835	4,736
Employee expenses[27]	**(1,063)**	(876)	(1,196)
Other operating expenses	**(2,203)**	(1,864)	(2,027)
Total operating expenses	**(3,266)**	(2,740)	(3,223)
Operating profit	**2,769**	2,095	1,513
Share of profit in associates and joint ventures	**435**	337	330

Profit before tax	**3,204**	2,432	1,843
By geographical region			
Europe	**709**	852	440
Hong Kong	**672**	424	532
Rest of Asia-Pacific	**757**	459	605
Middle East	**258**	252	(231)
North America	**572**	224	319
Latin America	**236**	221	178
	3,204	2,432	1,843
	%	*%*	*%*
Share of HSBC s profit before tax	**28.9**	48.5	89.5
Cost efficiency ratio	**48.5**	43.2	49.5

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**207,763**	198,903	199,674
Total assets	**264,077**	249,030	251,143
Customer accounts	**263,616**	239,933	267,388

For footnotes, see page 95.

Financial and business highlights

The reported profit before tax in the first half of 2010 was US$3.2 billion, 32 per cent higher than in the first half of 2009. Revenue included gains from the sale of HSBC Insurance Brokers and the Group s stake in the Wells Fargo HSBC Trade Bank (see page 20). On an underlying basis, profit before tax increased by 40 per cent as credit quality improved, trade levels increased and 2009 repricing fed through into higher revenue.

HSBC s broad geographic presence allowed it to capitalise on growing levels of international trade flows. Revenue increased by 5 per cent to US$6.6 billion, mainly due to growth in trade-related fee income and an increase in insurance sales in Hong Kong. Reflecting the faster rate of economic growth, customers within emerging markets contributed 50 per cent of revenue, and 63 per cent of profit before tax.

Loan impairment charges were 56 per cent lower with declines across all regions as higher risk portfolios were actively managed down and the economic environment improved. The percentage of overall loan impairment charges to customer advances was broadly in line with historically low levels at less than 1 per cent.

Excluding the non-recurrence of a 2009 accounting gain related to a change in the delivery of certain staff benefits in the UK pension scheme, operating expenses increased by 8 per cent to US$3.3 billion. Costs grew as the business expanded, mainly in emerging markets, and HSBC invested in technology and front-line staff. On a reported basis, the cost efficiency ratio rose to 48.5 per cent.

Despite the low interest rate environment, deposit balances increased by 2 per cent, while customer advances, which had declined markedly during the financial crisis, increased by 9 per cent, with the strongest growth in Hong Kong, mainland China, Brazil and France.

In the first half of 2010, Business Banking customer numbers increased by 3 per cent to over 3.3 million, with 84 per cent of this growth generated in emerging markets. Business Banking represented 55 per cent of total deposit balances at 30 June 2010. HSBC was awarded the best SME s Partner award for the fifth

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

consecutive year by the Hong Kong Chamber of Small and Medium Business.

The number of successful cross-border referrals doubled compared with the first half of 2009, with 13 per cent of referral flow generated from developed markets into emerging markets. The total transaction value of cross-border referrals exceeded US$6.8 billion.

In Hong Kong, HSBC s renminbi-denominated trade settlement volume was over US$450 million in the first half of 2010, representing a significant share of the cross-border clearance business. With its strong foothold in Hong Kong and mainland China, HSBC is well positioned to build its market position and support businesses needing renminbi.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
	1H09 as reported US$m	1H09 adjust-ments[1] US$m	Currency translation[2] US$m	1H09 at 1H10 exchange rates[3] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Commercial Banking									
Net interest income	**3,809**		**207**	**4,016**	**4,024**	**(20)**	**4,004**	**6**	**-**
Net fee income	**1,749**	**(57)**	**71**	**1,763**	**1,935**	**(2)**	**1,933**	**11**	**10**
Other income[6]	**786**	**(281)**	**5**	**510**	**781**	**(121)**	**660**		**29**
Net operating income[7]	**6,344**	**(338)**	**283**	**6,289**	**6,740**	**(143)**	**6,597**	**6**	**5**
Loan impairment charges and other credit risk provisions	**(1,509)**		**(81)**	**(1,590)**	**(705)**		**(705)**	**53**	**56**
Net operating income	**4,835**	**(338)**	**202**	**4,699**	**6,035**	**(143)**	**5,892**	**25**	**25**
Operating expenses	**(2,740)**	**50**	**(143)**	**(2,833)**	**(3,266)**	**13**	**(3,253)**	**(19)**	**(15)**
Operating profit	**2,095**	**(288)**	**59**	**1,866**	**2,769**	**(130)**	**2,639**	**32**	**41**
	337	**(1)**		**336**	**435**		**435**	**29**	**29**

Income from associates									
Profit before tax	**2,432**	**(289)**	**59**	**2,202**	**3,204**	**(130)**	**3,074**	**32**	**40**

Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)

	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange Rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Commercial Banking									
Net interest income	4,074		(74)	4,000	4,024		4,024	(1)	1
Net fee income	1,953	(71)	(50)	1,832	1,935		1,935	(1)	6
Other income[6]	482	(2)	(2)	478	781	(114)	667	62	40
Net operating income[7]	6,509	(73)	(126)	6,310	6,740	(114)	6,626	4	5
Loan impairment charges and other credit risk provisions	(1,773)		38	(1,735)	(705)		(705)	60	59
Net operating income	4,736	(73)	(88)	4,575	6,035	(114)	5,921	27	29
Operating expenses	(3,223)	64	67	(3,092)	(3,266)		(3,266)	(1)	(6)
Operating profit	1,513	(9)	(21)	1,483	2,769	(114)	2,655	83	79
Income from associates	330		2	332	435		435	32	31
Profit before tax	1,843	(9)	(19)	1,815	3,204	(114)	3,090	74	70

For footnotes, see page 95.

Table of Contents

Global Banking and Markets
Profit before tax

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**3,720**	4,667	3,943
Net fee income	**2,379**	1,968	2,395
Trading income excluding net interest income	**2,867**	3,422	1,279
Net interest income on trading activities	**888**	1,056	1,118
Net trading income[25]	**3,755**	4,478	2,397
Net income from financial instruments designated at fair value	**8**	329	144
Gains less losses from financial investments	**505**	158	107
Dividend income	**22**	23	45
Net earned insurance premiums	**22**	40	14
Other operating income	**438**	603	543
Total operating income	**10,849**	12,266	9,588
Net insurance claims[26]	**(15)**	(35)	1
Net operating income[7]	**10,834**	12,231	9,589
Loan impairment charges and other credit risk provisions	**(500)**	(1,732)	(1,436)
Net operating income	**10,334**	10,499	8,153
Employee expenses[27]	**(2,520)**	(2,492)	(1,843)
Other operating expenses	**(2,427)**	(1,913)	(2,289)
Total operating expenses	**(4,947)**	(4,405)	(4,132)
Operating profit	**5,387**	6,094	4,021
Share of profit in associates and joint ventures	**246**	204	162

Profit before tax	**5,633**	6,298	4,183
By geographical region			
Europe	**2,085**	2,891	1,654
Hong Kong	**730**	907	600
Rest of Asia-Pacific	**1,306**	1,239	1,080
Middle East	**49**	304	163
North America	**998**	477	235
Latin America	**465**	480	451
	5,633	6,298	4,183
	%	*%*	*%*
Share of HSBC s profit before tax	**50.7**	125.5	203.0
Cost efficiency ratio	**45.7**	36.0	43.1

For footnotes, see page 95.

Financial and business highlights

Global Banking and Markets delivered its second highest ever half-year performance with pre-tax profits of US$5.6 billion, below the record results of the first half of 2009 which benefited from exceptional market conditions. On an underlying basis, profit before tax fell by 13 per cent. Notably, market share gains captured in 2009 were broadly maintained and performance significantly exceeded the second half of 2009 with stronger revenues and lower loan impairment charges and other credit risk provisions. Operating results remained well diversified with a strong contribution from emerging markets and no single business contributing much more than a fifth of total revenues. The breadth of this performance demonstrated the continuing benefit of Global Banking and Markets emerging markets-led and financing-focused strategy.

Revenues slowed in the second quarter of 2010, as European sovereign debt concerns and widening credit spreads were reflected in less client activity and reduced debt and equity issuance in the market. Operating expenses included initial costs of a number of strategic investments to drive future revenue growth, including the development of Prime Services and equity capital markets capabilities with increased focus on emerging markets and the expansion of the foreign exchange and Rates e-commerce platform. Additionally, a charge of US$350 million was taken in respect of UK and French payroll taxes levied on certain 2009 bonus payments. The cost efficiency ratio, at 45.7 per cent, was 10 percentage points higher than in the first half of 2009.

There was an overall improvement in asset-backed securities (ABS s) prices and a significant reduction in write-downs following a return of liquidity to financial markets. This was reflected in a net release of US$362 million relating to legacy positions in credit trading, leveraged and acquisition financing and monoline Credit exposures. 2009 s results included a reported net charge of US$602 million in the first half and a US$271 million release in the second half. A fair value gain of US$255 million resulting from widening credit spreads on structured liabilities was reported during the first half of 2010 (losses of US$127 million and US$317 million were reported in the first and second halves of 2009, respectively).

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Management view of total operating income

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Global Markets[28]	**5,542**	5,991	4,373
Credit	**1,043**	1,066	1,264
Rates	**1,529**	1,964	684
Foreign exchange	**1,513**	1,797	1,182
Equities	**479**	315	326
Securities services[29]	**718**	712	708
Asset and structured finance	**260**	137	209
Global Banking	**2,288**	2,403	2,227
Financing and equity capital markets	**1,420**	1,609	1,461
Payments and cash management[30]	**542**	535	518
Other transaction services[31]	**326**	259	248
Balance Sheet Management	**2,269**	3,350	2,040
Global Asset Management	**540**	414	525
Principal Investments	**126**	(38)	80
Other[32]	**84**	146	343
Total operating income	**10,849**	12,266	9,588

For footnotes, see page 95.

Loan impairment charges and other credit risk provisions decreased by US$1.3 billion. Loan impairment charges of US$0.2 billion fell by US$0.9 billion and US$0.3 billion against the first and second halves of 2009, respectively. This reflected improving credit conditions which strengthened the credit quality of the portfolio. The significant impairments taken in relation to a small number of clients in both halves of 2009 did not recur.

The available-for-sale portfolio continued to track the impairment and loss expectations contained within the parameters of the stress tests described on page 156 of the *Annual Report and Accounts 2009*. Credit risk provisions were US$0.3 billion compared with US$0.6 billion and US$0.8 billion in the first and second halves of 2009, respectively. ABSs accounted for US$256 million of this charge; the expected cash flow impairment on which was US$122 million. A further US$488 million impairment was absorbed by income note holders who take the first loss on positions within the securities investment conduits (SIC s) now consolidated in HSBC s accounts; details of the SICs are provided on page 126. The available-for-sale reserves in respect of these securities continued to fall, standing at US$8.1 billion at 30 June 2010 as a result of improved prices and continued amortisations and maturities in the portfolio.

HSBC was recognised in a number of key industry awards which highlighted the strength of Global Banking and Market s core businesses and its strategy. This included being awarded *Euromoney* s Best Global Emerging Markets Bank and Best Global Emerging Markets Debt House . Regionally, achievements were recognised through the attainment of Best Investment Bank in the Middle East and Best Debt House in Asia and in Central and Eastern Europe.

Global Markets recorded its second highest half-year performance with revenues exceeding US$5 billion, delivered through enhanced sales coverage and greater alignment across regions and with other customer groups. Revenues rose significantly on the second half of 2009, but were lower than in the record first half as the exceptional market conditions did not recur. Higher economic uncertainty and subdued market conditions resulted in lower demand for foreign exchange, Credit and Rates products in the second quarter of 2010. In credit trading, a net release of write-downs on legacy positions was more than offset by the non-recurrence of gains in other parts of the business due to the events described above.

The securities services business benefited from greater transaction volumes and an 8.9 per cent increase in assets under custody compared with the first half of 2009. However, this performance was offset in part by the continuation of spread compression, as interest rates in major economies remained at historical lows.

In Global Banking, revenues from financing and equity capital markets declined from the highs recorded in the latter part of 2008 and early 2009 due to lower client activity, while reduced credit and lending revenues reflected tighter spreads and a reduction in overall lending balances as clients repaid debt in order to strengthen their balance sheets. Compared with the second half of 2009, overall revenues were stable with well diversified income streams. Payments and cash management income was broadly in line with the first half of 2009.

As expected, Balance Sheet Management revenues fell compared with the record first half of 2009, as interest rates remained low and major yield curves flattened. Although revenues improved on the second half of 2009, the declining revenue trend is expected to resume in the second half of 2010 as a result of lower-

Table of Contents

yielding reinvestment opportunities with flatter yield curves in the major currencies.

Results in Global Asset Management reflected continuation of the momentum achieved in the second half of 2009. Management fees increased significantly with a notable growth in the contribution from emerging markets. Average funds under management at US$421 billion were 15 per cent higher than in the first half of 2009, assisted by net inflows in the first six months of 2010 of US$12 billion. On 30 June 2010, HSBC announced the single brand of HSBC Global Asset Management, to reflect better the breadth, strength and expertise of its specialist global asset management businesses.

Principal Investments reported an increase in profits on the first half of 2009, due to higher realisations and lower impairments.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
	1H09 as reported US$m	**1H09 adjust-ments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjust-ments[1] US$m**	**1H10 under-lying US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Global Banking and Markets									
Net interest income	**4,667**		**124**	**4,791**	**3,720**	**(3)**	**3,717**	**(20)**	**(22)**
Net fee income	**1,968**	**(10)**	**51**	**2,009**	**2,379**		**2,379**	**21**	**18**
Other income[6]	**5,596**		**153**	**5,749**	**4,735**	**(9)**	**4,726**	**(15)**	**(18)**
Net operating income[7]	**12,231**	**(10)**	**328**	**12,549**	**10,834**	**(12)**	**10,822**	**(11)**	**(14)**
Loan impairment charges and other credit risk provisions	**(1,732)**		**(32)**	**(1,764)**	**(500)**		**(500)**	**71**	**72**
Net operating income	**10,499**	**(10)**	**296**	**10,785**	**10,334**	**(12)**	**10,322**	**(2)**	**(4)**
Operating expenses	**(4,405)**	**18**	**(116)**	**(4,503)**	**(4,947)**	**2**	**(4,945)**	**(12)**	**(10)**
Operating profit	**6,094**	**8**	**180**	**6,282**	**5,387**	**(10)**	**5,377**	**(12)**	**(14)**
	204		**(1)**	**203**	**246**		**246**	**21**	**21**

Income from associates									
Profit before tax	**6,298**	**8**	**179**	**6,485**	**5,633**	**(10)**	**5,623**	**(11)**	**(13)**

Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)

	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange Rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Global Banking and Markets									
Net interest income	3,943		(115)	3,828	3,720		3,720	(6)	(3)
Net fee income	2,395	(32)	(60)	2,303	2,379		2,379	(1)	3
Other income[6]	3,251		(68)	3,183	4,735	(9)	4,726	46	48
Net operating income[7]	9,589	(32)	(243)	9,314	10,834	(9)	10,825	13	16
Loan impairment charges and other credit risk provisions	(1,436)		64	(1,372)	(500)		(500)	65	64
Net operating income	8,153	(32)	(179)	7,942	10,334	(9)	10,325	27	30
Operating expenses	(4,132)	34	131	(3,967)	(4,947)		(4,947)	(20)	(25)
Operating profit	4,021	2	(48)	3,975	5,387	(9)	5,378	34	35
Income from associates	162		1	163	246		246	52	51
Profit before tax	4,183	2	(47)	4,138	5,633	(9)	5,624	35	36

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Balance sheet data significant to Global Banking and Markets

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	Middle East US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2010							
Trading assets[33]	**265,958**	**26,406**	**19,976**	**733**	**76,015**	**6,786**	**395,874**
Derivative assets[34]	**227,337**	**18,858**	**17,268**	**827**	**71,490**	**3,268**	**339,048**
Loans and advances to:							
- customers (net)	**163,031**	**25,501**	**30,718**	**6,389**	**32,861**	**10,006**	**268,506**
- banks (net)	**77,976**	**25,428**	**28,108**	**6,583**	**16,606**	**15,932**	**170,633**
Financial investments[33]	**91,468**	**83,284**	**36,576**	**10,066**	**59,244**	**17,426**	**298,064**
Total assets[23]	**1,021,875**	**214,091**	**153,877**	**29,106**	**299,345**	**59,349**	**1,777,643**
Deposits by banks	**74,808**	**10,181**	**14,642**	**1,623**	**16,327**	**3,246**	**120,827**
Customer accounts	**170,697**	**26,142**	**46,089**	**5,359**	**19,229**	**23,158**	**290,674**
Trading liabilities	**162,471**	**9,838**	**5,131**	**48**	**81,118**	**4,616**	**263,222**
Derivative liabilities[34]	**227,156**	**19,159**	**16,744**	**849**	**71,874**	**3,545**	**339,327**
At 30 June 2009							
Trading assets[33]	287,752	24,818	15,812	500	68,707	7,600	405,189
Derivative assets[34]	227,424	20,034	19,355	682	84,307	3,921	355,723
Loans and advances to:							
- customers (net)	198,290	23,182	21,682	6,799	28,320	9,055	287,328
- banks (net)	66,639	33,833	27,487	4,470	8,703	15,572	156,704
Financial investments[33]	95,658	76,095	33,532	9,479	49,878	10,700	275,342
Total assets[23]	1,060,344	221,196	138,266	27,423	269,492	53,897	1,770,618
Deposits by banks	84,262	10,006	12,394	974	11,297	3,959	122,892
Customer accounts	208,792	34,875	42,712	7,312	19,268	18,003	330,962
Trading liabilities	161,294	11,019	3,747	39	66,308	5,737	248,144
Derivative liabilities[34]	222,408	20,200	18,606	678	80,583	3,680	346,155
At 31 December 2009							
Trading assets[33]	294,951	25,742	15,960	511	67,466	6,283	410,913
Derivative assets[34]	190,900	16,937	15,660	668	61,192	2,820	288,177
Loans and advances to:							
- customers (net)	176,123	21,991	23,989	6,554	18,654	9,645	256,956

- banks (net)	59,171	27,789	29,388	6,385	14,403	16,638	153,774
Financial investments[33]	83,715	92,181	36,355	9,688	49,386	14,659	285,984
Total assets[23]	981,831	217,146	138,884	28,189	260,131	57,491	1,683,672
Deposits by banks	88,043	5,824	7,874	1,357	13,229	3,948	120,275
Customer accounts	169,390	26,650	43,698	5,752	19,095	20,142	284,727
Trading liabilities	169,814	10,720	3,040	13	69,302	2,875	255,764
Derivative liabilities[34]	191,480	16,619	15,500	651	60,178	3,270	287,698

For footnotes, see page 95.

Table of Contents

Private Banking
Profit before tax

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**646**	784	690
Net fee income	**643**	602	634
Trading income excluding net interest income	**209**	154	168
Net interest income on trading activities	**10**	9	13
Net trading income[25]	**219**	163	181
Gains less losses from financial investments	**11**	(2)	7
Dividend income	**3**	2	3
Other operating income	**21**	40	8
Total operating income	**1,543**	1,589	1,523
Net insurance claims[26]			
Net operating income[7]	**1,543**	1,589	1,523
Loan impairment charges and other credit risk provisions		(14)	(114)
Net operating income	**1,543**	1,575	1,409
Employee expenses[27]	**(609)**	(604)	(594)
Other operating expenses	**(358)**	(345)	(341)
Total operating expenses	**(967)**	(949)	(935)
Operating profit	**576**	626	474
Share of profit/(loss) in associates and joint ventures	**(20)**	6	2
Profit before tax	**556**	632	476

By geographical region			
Europe	**359**	447	407
Hong Kong	**119**	106	91
Rest of Asia-Pacific	**43**	47	43
Middle East	**(23)**	5	1
North America	**54**	23	(73)
Latin America	**4**	4	7
	556	632	476
	%	%	%
Share of HSBC s profit before tax	**5.0**	12.6	23.1
Cost efficiency ratio	**62.7**	59.7	61.4

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**36,590**	34,282	37,031
Total assets	**108,499**	117,468	116,148
Customer accounts	**104,025**	108,278	106,533

For footnotes, see page 95.

Financial and business highlights

Profit before tax of US$556 million was 12 per cent lower than reported in the first half of 2009, 13 per cent lower on an underlying basis. This was primarily due to lower net interest income and a loss from associates. Fee income and trading income rose and costs were broadly in line with the first half of 2009.

Net interest income fell as continued low interest rates adversely affected customer deposit spreads. However, fee income grew as an improvement in market sentiment drove a rise in client activity levels and an increase in average client assets under management compared with the same period in 2009. Net trading income also rose, driven by higher client transaction volumes as client risk appetite returned, particularly in foreign exchange and debt securities trading.

Loan impairment charges were lower than in the first half of 2009, with a net recovery in North America, compared with a small charge in the first half of 2009.

Operating expenses were broadly in line with the comparable period in 2009 despite recruitment in faster-growing markets. The cost efficiency ratio deteriorated by 3 percentage points as revenue declined.

The share of profit from associates fell due to an increase in loan impairment charges in The Saudi British Bank.

Client assets

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
	US$bn	US$bn	US$bn

At beginning of period	**367**	352	345
Net new money	**7**	(7)	
Value change	**(4)**	7	20
Exchange/other	**(16)**	(7)	2
At end of period	**354**	345	367

Reported client assets of US$354 billion were marginally lower than at 31 December 2009, as net inflows were more than offset by negative market and foreign exchange movements. Net new money amounted to US$7 billion and resulted from increased client leverage and strong inflows in a number of regions, particularly from Asia and other emerging markets. In Switzerland, HSBC reported net inflows as management reinforced their relationships with the core customer base as part of the communication initiatives around the local data theft incident reported in March.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

Reported total client assets decreased to US$445 billion from US$460 billion at 31 December 2009. Total client assets is equivalent to many industry definitions of assets under management and includes some non-financial assets held in client trusts.

Cross-business referrals continued to result in good inflows with over US$2 billion raised during the first half of 2010.

Hedge fund inflows into HSBC Alternative Investments Limited returned to levels last seen prior to the global financial crisis.
A Family Office Partnership initiative was launched with Global Banking and Markets, targeting ultra high net worth clients and family offices seeking quasi-institutional client services.

HSBC Private Bank was named the Best Global Wealth Manager in the *Euromoney* Awards for Excellence 2010 and *FT Money* and *Investors Chronicle* Magazine voted HSBC Private Bank as Best Wealth Manager for Alternative Investments .

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
	1H09 as reported US$m	**1H09 adjustments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjustments[1] US$m**	**1H10 underlying US$m**	**Reported change[4] %**	**Underlying change[4] %**
Private Banking									
Net interest income	**784**		**3**	**787**	**646**		**646**	**(18)**	**(18)**
Net fee income	**602**		**5**	**607**	**643**		**643**	**7**	**6**
Other income[6]	**203**		**2**	**205**	**254**		**254**	**25**	**24**
Net operating income[7]	**1,589**		**10**	**1,599**	**1,543**		**1,543**	**(3)**	**(4)**
Loan impairment charges and other credit risk provisions	**(14)**			**(14)**					
Net operating income	**1,575**		**10**	**1,585**	**1,543**		**1,543**	**(2)**	**(3)**
Operating expenses	**(949)**		**(6)**	**(955)**	**(967)**		**(967)**	**(2)**	**(1)**

Operating profit	**626**		**4**	**630**	**576**		**576**	**(8)**	**(9)**
Income from associates	**6**			**6**	**(20)**		**(20)**		
Profit before tax	**632**		**4**	**636**	**556**		**556**	**(12)**	**(13)**

Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)

	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange Rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Private Banking									
Net interest income	690		(11)	679	646		646	(6)	(5)
Net fee income	634		(14)	620	643		643	1	4
Other income[6]	199		(3)	196	254		254	28	30
Net operating income[7]	1,523		(28)	1,495	1,543		1,543	1	3
Loan impairment charges and other credit risk provisions	(114)		2	(112)					
Net operating income	1,409		(26)	1,383	1,543		1,543	10	12
Operating expenses	(935)		15	(920)	(967)		(967)	(3)	(5)
Operating profit	474		(11)	463	576		576	22	24
Income from associates	2			2	(20)		(20)		
Profit before tax	476		(11)	465	556		556	17	20

For footnotes, see page 95.

Table of Contents

Other

Profit/(loss) before tax

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Net interest expense	**(537)**	(551)	(484)
Net fee income	**1**	64	61
Trading income/(expense) excluding net interest income	**(597)**	92	152
Net interest income on trading activities	**25**	18	17
Net trading income/(expense)[25]	**(572)**	110	169
Net income/(expense) from financial instruments designated at fair value	**1,178**	(2,579)	(3,864)
Gains less losses from financial investments	**35**	(53)	56
Dividend income	**15**	12	
Net earned insurance premiums	**(5)**	(3)	
Other operating income	**3,114**	2,172	2,870
Total operating income/(expense)	**3,229**	(828)	(1,192)
Net insurance claims[26]	**3**		(3)
Net operating income/(expense)[7]	**3,232**	(828)	(1,195)
Loan impairment charges and other credit risk provisions	**(1)**	(3)	(5)
Net operating income/(expense)	**3,231**	(831)	(1,200)
Employee expenses[27]	**(3,030)**	(2,358)	(2,432)
Other operating income/(expenses)	**271**	90	(15)
Total operating expenses	**(2,759)**	(2,268)	(2,447)
Operating profit/(loss)	**472**	(3,099)	(3,647)
Share of profit in associates and joint ventures	**68**	5	21

Proft/(loss) before tax	**540**	(3,094)	(3,626)
By geographical region			
Europe	**(194)**	(1,426)	(1,568)
Hong Kong	**(66)**	(273)	(86)
Rest of Asia-Pacific	**403**	142	122
Middle East	**4**	47	40
North America	**352**	(1,584)	(2,133)
Latin America	**41**		(1)
	540	(3,094)	(3,626)
	%	%	%
Share of HSBC s profit before tax	**4.9**	(61.7)	(176.0)
Cost efficiency ratio	**85.4**	(273.9)	(204.8)

For footnotes, see page 95.

Balance sheet data[23]

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Loans and advances to customers (net)	**3,011**	3,478	3,110
Total assets	**189,153**	170,414	150,983
Customer accounts	**757**	1,235	1,277

Notes

Reported profit before tax of US$540 million compared with a loss of US$3.1 billion in the first half of 2009. This included gains of US$1.1 billion on the fair value of HSBC s own debt attributable to movements in credit spreads, compared with losses of US$2.5 billion in the first half of 2009. In addition, the first half of 2010 included gains of US$188 million following the dilution of HSBC s Holding in Ping An Insurance and US$62 million on the reclassification of Bao Viet to an associate following the purchase of an additional 8 per cent stake. On an underlying basis, loss before tax increased by 25 per cent to US$784 million. For a description of the main items reported under Other , see footnote 22 on page 95.

Net interest expense of US$537 million substantially comprised interest expense on long-term debt issued by HSBC Holdings.

Net trading expense of US$572 million compared with reported net income of US$110 million. This was largely attributable to fair value losses on non-qualifying hedges, mainly cross-currency swaps used to economically hedge fixed rate long-term debt issued by HSBC Holdings. The fair value losses, which were driven by a decline in long-term US interest rates relative to sterling and euro interest rates, compared with fair value gains on these instruments in the first half of 2009; they were partly offset by the non-recurrence of a loss of US$344 million on forward foreign exchange contracts associated with the Group s rights issue in 2009, which were accounted as derivatives with fair value taken to profit or loss.

Net income from financial instruments designated at fair value was US$104 million compared with a net expense in the first half of 2009 due to fair value gains from interest and exchange rate ineffectiveness in the economic hedging of long-term debt designated at fair value which was issued by HSBC Holdings and

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

its North American and European subsidiaries. This compared with losses on the ineffectiveness in the economic hedging of long-term debt designated at fair value in the first half of 2009.

HSBC recognised gains of US$194 million and US$56 million, respectively, from the sale and leaseback of its headquarters buildings in Paris and New York.

Operating expenses increased by 20 per cent to US$2.8 billion as an increasing number of activities were centralised, notably in the US. These costs were previously incurred directly by customer groups, but are now recorded in Other and charged to customer groups through a recharge mechanism with income reported as Other operating income .

Reconciliation of reported and underlying profit/(loss) before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
	1H09 as reported US$m	1H09 adjust- ments[1] US$m	Currency translation[2] US$m	1H09 at 1H10 exchange rates[3] US$m	1H10 as reported US$m	1H10 adjust- ments[1] US$m	1H10 under- lying US$m	Re- ported change[4] %	Under- lying change[4] %
Other									
Net interest expense	**(551)**		**20**	**(531)**	**(537)**		**(537)**	**3**	**(1)**
Net fee income	**64**			**64**	**1**		**1**	**(98)**	**(98)**
Changes in fair value[5]	**(2,457)**	**2,457**			**1,074**	**(1,074)**			
Other income[6]	**2,116**		**12**	**2,128**	**2,694**	**(250)**	**2,444**	**27**	**15**
Net operating income/ (expense)[7]	**(828)**	**2,457**	**32**	**1,661**	**3,232**	**(1,324)**	**1,908**		**15**
Loan impairment charges and other credit risk provisions	**(3)**		**2**	**(1)**	**(1)**		**(1)**	**67**	
Net operating income/ (expense)	**(831)**	**2,457**	**34**	**1,660**	**3,231**	**(1,324)**	**1,907**		**15**
Operating expenses	**(2,268)**		**(23)**	**(2,291)**	**(2,759)**		**(2,759)**	**(22)**	**(20)**

Operating profit/(loss)	**(3,099)**	**2,457**	**11**	**(631)**	**472**	**(1,324)**	**(852)**		**(35)**
Income from associates	**5**		**1**	**6**	**68**		**68**	**1,260**	**1,033**
Profit/(loss) before tax	**(3,094)**	**2,457**	**12**	**(625)**	**540**	**(1,324)**	**(784)**		**(25)**

Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)

	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange Rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Other									
Net interest expense	(484)		27	(457)	(537)		(537)	(11)	(18)
Net fee income	61		(2)	59	1		1	(98)	(98)
Changes in fair value[5]	(4,076)	4,076			1,074	(1,074)			
Other income[6]	3,304		(58)	3,246	2,694	(250)	2,444	(18)	(25)
Net operating income/(expense)[7]	(1,195)	4,076	(33)	2,848	3,232	(1,324)	1,908		(33)
Loan impairment charges and other credit risk provisions	(5)			(5)	(1)		(1)	80	80
Net operating income/(expense)	(1,200)	4,076	(33)	2,843	3,231	(1,324)	1,907		(33)
Operating expenses	(2,447)		(7)	(2,454)	(2,759)		(2,759)	(13)	(12)
Operating profit/(loss)	(3,647)	4,076	(40)	389	472	(1,324)	(852)		
Income from associates	21		(1)	20	68		68	224	240

Profit/(loss) before tax	(3,626)	4,076	(41)	409	540	(1,324)	(784)

For footnotes, see page 95.

Table of Contents

Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2010						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other[22] US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/ (expense)	12,198	4,024	3,720	646	(537)	(294)	19,757
Net fee income	3,560	1,935	2,379	643	1		8,518
Trading income/(expense) excluding net interest income	(392)	222	2,867	209	(597)		2,309
Net interest income on trading activities	15	11	888	10	25	294	1,243
Net trading income/ (expense)[25]	(377)	233	3,755	219	(572)	294	3,552
Net income/(expense) from financial instruments designated at fair value	(127)	26	8		1,178		1,085
Gains less losses from financial investments	3	3	505	11	35		557
Dividend income	14	5	22	3	15		59
Net earned insurance premiums	4,953	696	22		(5)		5,666
Other operating income	387	355	438	21	3,114	(2,837)	1,478
Total operating income	20,611	7,277	10,849	1,543	3,229	(2,837)	40,672
Net insurance claims[26]	(4,572)	(537)	(15)		3		(5,121)
	16,039	6,740	10,834	1,543	3,232	(2,837)	35,551

Net operating income[7]							
Loan impairment charges and other credit risk provisions	**(6,317)**	**(705)**	**(500)**		**(1)**		**(7,523)**
Net operating income	**9,722**	**6,035**	**10,334**	**1,543**	**3,231**	**(2,837)**	**28,028**
Operating expenses	**(9,009)**	**(3,266)**	**(4,947)**	**(967)**	**(2,759)**	**2,837**	**(18,111)**
Operating profit	**713**	**2,769**	**5,387**	**576**	**472**		**9,917**
Share of profit/(loss) in associates and joint ventures	**458**	**435**	**246**	**(20)**	**68**		**1,187**
Profit before tax	**1,171**	**3,204**	**5,633**	**556**	**540**		**11,104**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**10.5**	**28.9**	**50.7**	**5.0**	**4.9**		**100.0**
Cost efficiency ratio	**56.2**	**48.5**	**45.7**	**62.7**	**85.4**		**50.9**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**377,467**	**207,763**	**268,506**	**36,590**	**3,011**		**893,337**
Total assets	**507,088**	**264,077**	**1,777,643**	**108,499**	**189,153**	**(428,006)**	**2,418,454**
Customer accounts	**488,249**	**263,616**	**290,674**	**104,025**	**757**		**1,147,321**

43

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit/(loss) before tax (continued)

	Half-year to 30 June 2009						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other[22] US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/ (expense)	12,650	3,809	4,667	784	(551)	(821)	20,538
Net fee income	4,045	1,749	1,968	602	64		8,428
Trading income excluding net interest income	450	183	3,422	154	92		4,301
Net interest income on trading activities	39	11	1,056	9	18	821	1,954
Net trading income[25]	489	194	4,478	163	110	821	6,255
Net income/(expense) from financial instruments designated at fair value	744	(17)	329		(2,579)		(1,523)
Gains less losses from financial investments	195	25	158	(2)	(53)		323
Dividend income	17	3	23	2	12		57
Net earned insurance premiums	4,585	390	40		(3)		5,012
Other operating income	302	519	603	40	2,172	(2,478)	1,158
Total operating income/ (expense)	23,027	6,672	12,266	1,589	(828)	(2,478)	40,248
Net insurance claims[26]	(5,144)	(328)	(35)				(5,507)
Net operating income/ (expense)[7]	17,883	6,344	12,231	1,589	(828)	(2,478)	34,741

Loan impairment charges and other credit risk provisions	(10,673)	(1,509)	(1,732)	(14)	(3)		(13,931)
Net operating income/ (expense)	7,210	4,835	10,499	1,575	(831)	(2,478)	20,810
Operating expenses	(8,774)	(2,740)	(4,405)	(949)	(2,268)	2,478	(16,658)
Operating profit/(loss)	(1,564)	2,095	6,094	626	(3,099)		4,152
Share of profit in associates and joint ventures	315	337	204	6	5		867
Profit/(loss) before tax	(1,249)	2,432	6,298	632	(3,094)		5,019
	%	%	%	%	%		%
Share of HSBC s profit before tax	(24.9)	48.5	125.5	12.6	(61.7)		100.0
Cost efficiency ratio	49.1	43.2	36.0	59.7	(273.9)		47.9
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	400,692	198,903	287,328	34,282	3,478		924,683
Total assets	547,084	249,030	1,770,618	117,468	170,414	(432,771)	2,421,843
Customer accounts	482,935	239,933	330,962	108,278	1,235		1,163,343

44

Table of Contents

	Half-year to 31 December 2009						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other[22] US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/ (expense)	12,457	4,074	3,943	690	(484)	(488)	20,192
Net fee income	4,193	1,953	2,395	634	61		9,236
Trading income excluding net interest income	187	149	1,279	168	152		1,935
Net interest income on trading activities	26	11	1,118	13	17	488	1,673
Net trading income[25]	213	160	2,397	181	169	488	3,608
Net income/(expense) from financial instruments designated at fair value	1,595	117	144		(3,864)		(2,008)
Gains less losses from financial investments	29	(2)	107	7	56		197
Dividend income	16	5	45	3			69
Net earned insurance premiums	4,949	496	14				5,459
Other operating income	507	220	543	8	2,870	(2,518)	1,630
Total operating income/ (expense)	23,959	7,023	9,588	1,523	(1,192)	(2,518)	38,383
Net insurance claims[26]	(6,427)	(514)	1		(3)		(6,943)
Net operating income/ (expense)[7]	17,532	6,509	9,589	1,523	(1,195)	(2,518)	31,440
Loan impairment charges and other credit risk provisions	(9,229)	(1,773)	(1,436)	(114)	(5)		(12,557)

Net operating income/ (expense)	8,303	4,736	8,153	1,409	(1,200)	(2,518)	18,883
Operating expenses	(9,518)	(3,223)	(4,132)	(935)	(2,447)	2,518	(17,737)
Operating profit/(loss)	(1,215)	1,513	4,021	474	(3,647)		1,146
Share of profit in associates and joint ventures	399	330	162	2	21		914
Profit/(loss) before tax	(816)	1,843	4,183	476	(3,626)		2,060
	%	%	%	%	%		%
Share of HSBC s profit before tax	(39.6)	89.5	203.0	23.1	(176.0)		100.0
Cost efficiency ratio	54.3	49.5	43.1	61.4	(204.8)		56.4
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	399,460	199,674	256,956	37,031	3,110		896,231
Total assets	554,074	251,143	1,683,672	116,148	150,983	(391,568)	2,364,452
Customer accounts	499,109	267,388	284,727	106,533	1,277		1,159,034

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Geographical regions
Summary

In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of
US$1,467 million (first half of 2009: US$1,347 million; second half of 2009: US$1,409 million).

Profit/(loss) before tax

	Half-year to					
	30 June 2010		30 June 2009		31 December 2009	
	US$m	**%**	US$m	%	US$m	%
Europe	**3,521**	**31.7**	2,976	59.3	1,033	50.2
Hong Kong	**2,877**	**25.9**	2,501	49.8	2,528	122.7
Rest of Asia-Pacific	**2,985**	**26.9**	2,022	40.3	2,178	105.7
Middle East	**346**	**3.1**	643	12.8	(188)	(9.1)
North America	**492**	**4.4**	(3,703)	(73.8)	(4,035)	(195.9)
Latin America	**883**	**8.0**	580	11.6	544	26.4
	11,104	**100.0**	5,019	100.0	2,060	100.0

Total assets[23]

	At 30 June 2010		At 30 June 2009		At 31 December 2009	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,280,698**	**52.9**	1,324,687	54.7	1,268,600	53.7
Hong Kong	**410,991**	**17.0**	413,107	17.1	399,243	16.9
Rest of Asia-Pacific	**244,624**	**10.1**	217,794	9.0	222,139	9.4
Middle East	**49,637**	**2.1**	48,601	2.0	48,107	2.0
North America	**495,408**	**20.5**	494,778	20.4	475,014	20.1
Latin America	**121,885**	**5.0**	107,515	4.4	115,967	4.9
Intra-HSBC items	**(184,789)**	**(7.6)**	(184,639)	(7.6)	(164,618)	(7.0)
	2,418,454	**100.0**	2,421,843	100.0	2,364,452	100.0

Risk-weighted assets[24]

	At 30 June 2010		At 31 December 2009	
	US$bn	**%**	US$bn	%
Total	**1,075.3**		1,133.2	
Europe	**316.9**	**29.3**	339.7	29.8
Hong Kong	**111.8**	**10.3**	119.5	10.5
Rest of Asia-Pacific	**189.0**	**17.5**	173.9	15.3

Middle East	**53.8**	**5.0**	54.3	4.8
North America	**322.4**	**29.8**	369.2	32.4
Latin America	**87.5**	**8.1**	81.7	7.2

For footnotes, see page 95.

Table of Contents

Europe

Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2010						
UK	**479**	**500**	**1,360**	**116**	**(366)**	**2,089**
France[36]	**73**	**83**	**415**	**6**	**157**	**734**
Germany		**17**	**146**	**18**	**(4)**	**177**
Malta	**20**	**28**	**8**			**56**
Switzerland				**161**		**161**
Turkey	**35**	**47**	**58**			**140**
Other	**(45)**	**34**	**98**	**58**	**19**	**164**
	562	**709**	**2,085**	**359**	**(194)**	**3,521**
Half-year to 30 June 2009						
UK	205	688	1,853	124	(1,214)	1,656
France[36]	26	51	661	1	(219)	520
Germany		17	129	8	(4)	150
Malta	13	29	5			47
Switzerland				233		233
Turkey	21	54	87	1		163
Other	(53)	13	156	80	11	207
	212	852	2,891	447	(1,426)	2,976
Half-year to 31 December 2009						
UK	159	338	1,192	128	(1,347)	470
France[36]	28	51	233	2	(210)	104
Germany		4	126	24	(14)	140
Malta	20	29	4			53
Switzerland			5	215	(3)	217
Turkey	22	43	32	1		98
Other	(129)	(25)	62	37	6	(49)
	100	440	1,654	407	(1,568)	1,033

Loans and advances to customers (net) by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
UK	**309,933**	342,153	329,182
France[36]	**60,428**	77,096	71,567
Germany	**3,913**	5,201	4,131
Malta	**3,929**	4,480	4,649
Switzerland	**12,022**	9,566	12,072
Turkey	**5,813**	5,586	5,758
Other	**11,188**	13,008	12,122
	407,226	457,090	439,481

Customer accounts by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
UK	**335,493**	371,675	349,162
France[36]	**68,942**	85,899	70,899
Germany	**7,698**	10,007	8,134
Malta	**5,084**	5,646	5,888
Switzerland	**41,556**	41,122	45,148
Turkey	**5,888**	5,394	5,830
Other	**12,597**	9,982	9,958
	477,258	529,725	495,019

For footnote, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit before tax

	Half-year to		
Europe	**30 June 2010 US$m**	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**5,802**	5,978	6,290
Net fee income	**3,177**	2,843	3,424
Net trading income	**1,604**	3,429	2,030
Changes in fair value of long-term debt issued and related derivatives	**715**	(788)	(1,958)
Net income/(expense) from other financial instruments designated at fair value	**(142)**	212	1,109
Net income/(expense) from financial instruments designated at fair value	**573**	(576)	(849)
Gains less losses from financial investments	**237**	(60)	110
Dividend income	**14**	13	16
Net earned insurance premiums	**2,137**	2,134	2,089
Other operating income	**1,141**	976	1,286
Total operating income	**14,685**	14,737	14,396
Net insurance claims incurred and movement in liabilities to policyholders	**(1,964)**	(2,383)	(3,206)
Net operating income before loan impairment charges and other credit risk provisions	**12,721**	12,354	11,190
Loan impairment charges and other credit risk provisions	**(1,501)**	(2,813)	(2,755)
Net operating income	**11,220**	9,541	8,435
Operating expenses	**(7,704)**	(6,587)	(7,401)
Operating profit	**3,516**	2,954	1,034
Share of profit/(loss) in associates and joint ventures	**5**	22	(1)

Profit before tax	**3,521**	2,976	1,033
	%	%	%
Share of HSBC s profit before tax	**31.7**	59.3	50.2
Cost efficiency ratio	**60.6**	53.3	66.1
Period-end staff numbers (full-time equivalent)	**73,431**	79,132	76,703

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**407,226**	457,090	439,481
Loans and advances to banks (net)	**82,035**	72,491	65,521
Trading assets, financial instruments designated at fair value and financial investments[33]	**420,145**	449,928	450,727
Total assets	**1,280,698**	1,324,687	1,268,600
Deposits by banks	**77,585**	87,159	89,893
Customer accounts	**477,258**	529,725	495,019

For footnotes, see page 95.

The commentary on Europe is on an underlying basis unless stated otherwise.

Table of Contents

Economic briefing

The **UK** economy experienced a modest recovery during the first half of 2010 as economic conditions stabilised following the severe weakness experienced in 2009. Having fallen 6.4 per cent during the recession, by the end of the second quarter the level of gross domestic product (GDP) had risen by 1.9 per cent from the low in activity seen in the third quarter of 2009. Labour market conditions also showed signs of stabilisation as the headline rate of unemployment remained around 8 per cent during the half-year. Housing market activity proved subdued and, after appreciating during the early months of 2010, house prices displayed signs of softening during the second quarter. The Bank of England left interest rates unchanged at 0.5 per cent during the first half of the year, while the Asset Purchase Facility also remained steady at £200 billion (US$300 billion). Consumer Price Index (CPI) inflation remained relatively high throughout the period, falling only marginally from 3.5 per cent in January 2010 to 3.2 per cent in June, well above the Bank of England s 2 per cent target.

The pace of economic recovery also proved lacklustre within the eurozone. In the first quarter the level of GDP rose by just 0.2 per cent on the previous quarter. There was evidence of an acceleration of growth during the second quarter, although economic performance proved increasingly disparate as concerns mounted over the health of the public finances of some member states and a number of austerity programmes were implemented. Tensions within government bond markets across the region prompted the creation of a 750 billion stabilisation fund to be used to provide loans to eurozone governments in need of financial assistance. CPI inflation rose from 0.9 per cent in December 2009 to 1.4 per cent in June 2010, while the unemployment rate increased to an 11-year high of 10 per cent in June 2010. The European Central Bank held the refi rate at 1 per cent throughout the period and, from early May, started to purchase small amounts of the government debt of several eurozone nations in the secondary market.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
Europe	**1H09 as reported US$m**	**1H09 adjust-ments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjust-ments[1] US$m**	**1H10 under-lying US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**5,978**		**109**	**6,087**	**5,802**		**5,802**	**(3)**	**(5)**
Net fee income	**2,843**	**(71)**	**37**	**2,809**	**3,177**		**3,177**	**12**	**13**
Changes in fair value[5]	**(836)**	**836**			**574**	**(574)**			
Other income[6]	**4,369**	**(281)**	**4**	**4,092**	**3,168**	**(107)**	**3,061**	**(27)**	**(25)**
Net operating income[7]	**12,354**	**484**	**150**	**12,988**	**12,721**	**(681)**	**12,040**	**3**	**(7)**
Loan impairment charges and other credit risk provisions	**(2,813)**		**(66)**	**(2,879)**	**(1,501)**		**(1,501)**	**47**	**48**
	9,541	**484**	**84**	**10,109**	**11,220**	**(681)**	**10,539**	**18**	**4**

Net operating income									
Operating expenses	**(6,587)**	**70**	**(115)**	**(6,632)**	**(7,704)**		**(7,704)**	**(17)**	**(16)**
Operating profit	**2,954**	**554**	**(31)**	**3,477**	**3,516**	**(681)**	**2,835**	**19**	**(18)**
Income from associates	**22**	**(1)**	**(1)**	**20**	**5**		**5**	**(77)**	**(75)**
Profit before tax	**2,976**	**553**	**(32)**	**3,497**	**3,521**	**(681)**	**2,840**	**18**	**(19)**

For footnotes, see page 95.

HSBC s European operations reported a pre-tax profit of US$3.5 billion, 18 per cent higher than in the comparable period in 2009 and more than trebled the second half of 2009, mainly due to favourable movements in the Group s own debt held at fair value.

Included within these results was a US$107 million gain on the disposal of the HSBC Insurance Brokers business to Marsh Inc. in April 2010. The first half of 2009 included a US$280 million gain on the sale of the remaining stake in the UK card merchant acquiring business to Global Payments Inc. There was a gain of

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

US$0.6 billion from the widening of credit spreads on the Group s own debt held at fair value; losses of US$0.8 billion and US$2.0 billion were recorded in the first and second halves of 2009, respectively, due to the tightening of credit spreads. Management does not regard the resulting movement of US$1.4 billion compared with the first half of 2009 as part of operating performance. On an underlying basis, which excludes this movement and the gains noted above, profit before tax decreased by 19 per cent compared with the first half of 2009, due to lower income from Global Banking and Markets, where record results in the first half of 2009 were not repeated, partly offset by an overall improvement in credit experience.

In the UK personal sector, Premier customers increased by 9 per cent in the first half of 2010, while Advance attracted 23,000 new customers to HSBC, as the business focused on building sustainable long-term relationships and wealth management revenues in these target segments. Funds under management totalled US$22.0 billion at 30 June 2010, with the World Selection Fund rising by 59 per cent to US$2.3 billion in the first half of the year. Higher revenues were primarily driven by mortgage lending growth. HSBC took an 8 per cent share of new residential mortgage lending in the UK in the first quarter of 2010, with an average new loan to value ratio of 53 per cent.

In Continental Europe, the personal sector increased investment in Premier, growing its customer base to 444,000 in the first half of 2010, particularly in France and Turkey. Advance was launched in Turkey and Poland during the period with a phased roll-out across the region planned in the second half of 2010.

In the UK commercial sector, further progress was made in achieving HSBC s strategy of becoming the leading bank for international business with the number of its UK-based customers managed through the international proposition increasing by 9 per cent during the first half of 2010. Trade and supply chain income increased by 18 per cent on the comparable period. HSBC lent US$2.0 billion to small and medium-sized enterprises (SME s), and opened accounts for over 65,000 customers starting new businesses.

The commercial sector in Continental Europe continued to focus on expanding relationships with international businesses. Early signs of business revival were seen in a number of markets, most notably in Germany, Turkey and Poland.

Net interest income fell by 5 per cent compared with the exceptional results reported in the first half of 2009, reflecting a decreasing trend, as forecast, in Balance Sheet Management revenues, as interest rates remained low and major yield curves flattened. In Global Banking and Markets, tighter spreads and a reduction in overall lending balances resulted in lower income in the Credit and lending businesses as corporates repaid debt in order to strengthen their balance sheets.

This reduction was partly offset by mortgage lending growth in the personal sector and wider asset spreads in the UK. This was partly offset by a reduction in deposit spreads which remained narrow in the low interest rate environment and the effects on Personal Financial Services of interest rate cap reductions on credit cards set by the central bank in Turkey.

UK Personal Financial Services maintained its strong deposit base despite fierce competition. Within this, Premier and Advance customer account balances increased by 3 per cent.

Strong underlying growth in personal and commercial banking complemented a resilient performance from Global Banking and Markets.

Net fee income increased by 13 per cent. Fee income was received for management services provided by HSBC to Structured Investment Conduits and management fees rose in Global Asset Management and the wealth management segment of the personal sector, driven by an increase in the average value of funds under management. Net inflows into Global Asset Management funds were US$8.1 billion in the first half of 2010. The Equity Capital Markets business, however, was affected by a reduction in client activity as the exceptional volumes seen in the first half of 2009 were not repeated.

Net trading income fell by 54 per cent to US$1.6 billion as increased economic uncertainty and subdued market conditions following the concerns over European sovereign debt in the second quarter of 2010 resulted in lower client activity and demand for foreign exchange, Credit and Rates products.

In credit trading, a net release of US$230 million of previous write-downs on legacy positions and monoline exposures reflected an overall improvement in asset prices; the first half of 2009 included a reported net charge of US$252 million. However, this benefit was more than offset by the non-recurrence of gains in other parts of the business that arose in the first half of 2009. Performance in the foreign exchange business remained strong but suffered from a reduction in market volatility and customer-driven volumes compared with the unprecedented levels experienced in late 2008 and early 2009, and Rates income decreased following a slowdown in client activity.

Included within Net trading income was a fair value gain of US$177 million resulting from widening credit spreads on structured liabilities; a loss of US$120 million was reported in the first half of 2009. In addition, foreign exchange gains were reported on trading assets held as economic hedges of foreign currency debt designated at fair value, with the offset reported in Net income from financial instruments designated at fair value . Foreign exchange losses were reported on these instruments in the first half of 2009.

Trading income also included fair value losses on non-qualifying hedges, mainly cross-currency swaps used to economically hedge fixed rate long-term debt issued by HSBC Holdings. The fair value losses, which were driven by a decline in long-term US dollar interest rates relative to sterling and euro interest rates, compared with fair value gains on these instruments in the first half of 2009. This was partly offset by the non-recurrence of a loss on a forward foreign exchange contract associated with the Group s rights issue.

Net income from *financial instruments designated at fair value* reduced by US$208 million. Losses on the fair value of assets held to meet liabilities under insurance and investment contracts were recognised as equity markets fell, compared with gains reported in the first half of 2009. To the extent that these losses accrued to policyholders holding unit-linked insurance policies and insurance or investment contracts with DPF, there was a corresponding decrease in *net insurance claims incurred and movement in liabilities to policyholders*.

In addition, foreign exchange losses on debt designated at fair value were reported in the period, with the offset reported in Net trading income . This was partly offset by fair value gains from interest and exchange rate ineffectiveness in the economic hedging of long-term debt designated at fair value compared with fair value losses in the first half of 2009.

Gains less losses from financial investments increased to US$237 million as improved market conditions resulted in lower impairment charges and afforded opportunities to realise private equity investments at a profit. Gains were also realised on available-for-sale assets.

Net earned insurance premiums were broadly in line with the first half of 2009, with an increase in France driven by successful sales campaigns offset by lower premiums in the UK as the motor insurance underwriting business was placed into run-off during the second half of 2009 with no new customer business written in 2010.

Other operating income increased by 51 per cent, primarily due to the gain on the sale and leaseback of HSBC s Paris headquarters.

Net insurance claims incurred and movement in liabilities to policyholders decreased by 16 per cent. This was in line with the movement in liabilities to policyholders reported above in Financial instruments designated at fair value , coupled with significantly lower claims provisioning related to the now closed UK motor insurance book. An increase in reserves was recorded in the first half of 2009 to reflect the rising incidence and severity of claims at that time. No further deterioration in claims was observed in the UK motor insurance book in the first half of 2010 and, accordingly, no equivalent reserve strengthening was required.

Loan impairment charges and other credit risk provisions decreased by 48 per cent to US$1.5 billion, reflecting an overall improvement in the credit environment in the region and the Group s success in mitigating risk. In Global Banking and Markets, loan impairment charges fell compared with both halves of 2009, reflecting the improved credit quality of the portfolio. The significant impairments taken in relation to a small number of clients in both halves of 2009 did not recur. Credit risk provisions on certain ABSs held on the available-for-sale portfolio decreased as asset prices rose and default rates declined.

Lower loan impairment charges in the personal sector were driven by an improvement in delinquencies across both the secured and unsecured lending portfolios, in part due to enhanced credit risk management practices and improved collections, falling by US$239 million in the UK and US$61 million in Turkey. In the commercial sector, loan impairment charges reduced by US$205 million. The commercial property sector in the UK experienced the most significant improvement with impairments. Continuation of the positive loan impairment trend experienced in the first half of 2010 in the commercial and personal sectors remains highly sensitive to general economic activity, employment, interest rates and house prices.

Operating expenses, excluding the impact of two unusual items, were marginally higher in the first half of 2009: Global Banking and Markets costs included one-off payroll taxes on certain bonuses paid in the second quarter of 2010 in respect

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

of 2009 of US$308 million in the UK and US$42 million in France; and a US$480 million pension accounting gain (US$499 million as reported) in the first half of 2009 related to a change in the delivery of certain staff benefits in the main UK pension scheme which did not recur.

Employee compensation and benefits increased by 19 per cent to US$4.1 billion as a result of these unusual items, partly offset by the Group s continued efforts to leverage global scale and technology platforms to re-engineer the business and make sustainable reductions in its cost base. General and administrative expenses increased by 13 per cent to US$3.1 billion, driven by higher services contracted out and IT costs along with increased rental expenses following the sale and leaseback of 8 Canada Square in London.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)								
Europe	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	6,290		(424)	5,866	5,802		5,802	(8)	(1)
Net fee income	3,424	(105)	(219)	3,100	3,177		3,177	(7)	2
Changes in fair value[5]	(2,005)	2,005			574	(574)			
Other income[6]	3,481	(2)	(138)	3,341	3,168	(107)	3,061	(9)	(8)
Net operating income[7]	11,190	1,898	(781)	12,307	12,721	(681)	12,040	14	(2)
Loan impairment charges and other credit risk provisions	(2,755)		184	(2,571)	(1,501)		(1,501)	46	42
Net operating income	8,435	1,898	(597)	9,736	11,220	(681)	10,539	33	8
Operating expenses	(7,401)	99	432	(6,870)	(7,704)		(7,704)	(4)	(12)
Operating profit	1,034	1,997	(165)	2,866	3,516	(681)	2,835	240	(1)
Income from associates	(1)			(1)	5		5		

Profit before tax	1,033	1,997	(165)	2,865	3,521	(681)	2,840	241	(1)

For footnotes, see page 95.

Table of Contents

Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2010						
Europe	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking & Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[35] US$m**	**Total US$m**
Net interest income/ (expense)	**2,711**	**1,324**	**1,643**	**424**	**(292)**	**(8)**	**5,802**
Net fee income/ (expense)	**965**	**796**	**975**	**444**	**(3)**		**3,177**
Trading income/(expense) excluding net interest income	**(19)**	**14**	**1,342**	**105**	**(570)**		**872**
Net interest income on trading activities		**7**	**700**	**10**	**7**	**8**	**732**
Net trading income/ (expense)[25]	**(19)**	**21**	**2,042**	**115**	**(563)**	**8**	**1,604**
Net income/(expense) from financial instruments designated at fair value	**(121)**	**(26)**	**(31)**		**751**		**573**
Gains less losses from financial investments			**240**	**1**	**(4)**		**237**
Dividend income			**12**	**2**			**14**
Net earned insurance premiums	**2,012**	**130**			**(5)**		**2,137**
Other operating income	**93**	**125**	**314**	**4**	**479**	**126**	**1,141**
Total operating income	**5,641**	**2,370**	**5,195**	**990**	**363**	**126**	**14,685**
Net insurance claims[26]	**(1,882)**	**(81)**			**(1)**		**(1,964)**

Net operating income[7]	**3,759**	**2,289**	**5,195**	**990**	**362**	**126**	**12,721**
Loan impairment charges and other credit risk provisions	**(685)**	**(410)**	**(395)**	**(11)**			**(1,501)**
Net operating income	**3,074**	**1,879**	**4,800**	**979**	**362**	**126**	**11,220**
Operating expenses	**(2,514)**	**(1,171)**	**(2,717)**	**(620)**	**(556)**	**(126)**	**(7,704)**
Operating profit/(loss)	**560**	**708**	**2,083**	**359**	**(194)**		**3,516**
Share of profit in associates and joint ventures	**2**	**1**	**2**				**5**
Profit/(loss) before tax	**562**	**709**	**2,085**	**359**	**(194)**		**3,521**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**5.1**	**6.3**	**18.8**	**3.2**	**(1.7)**		**31.7**
Cost efficiency ratio	**66.9**	**51.2**	**52.3**	**62.6**	**153.6**		**60.6**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**135,735**	**82,822**	**163,031**	**24,717**	**921**		**407,226**
Total assets	**190,549**	**105,134**	**1,021,875**	**70,116**	**74,744**	**(181,720)**	**1,280,698**
Customer accounts	**156,579**	**95,558**	**170,697**	**54,423**	**1**		**477,258**

53

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit/(loss) before tax (continued)

	Half-year to 30 June 2009						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/ (expense)	2,507	1,295	2,376	506	(265)	(441)	5,978
Net fee income	875	789	706	438	35		2,843
Trading income excluding net interest income	78	4	1,678	72	167		1,999
Net interest income on trading activities	(1)	7	966	9	8	441	1,430
Net trading income[25]	77	11	2,644	81	175	441	3,429
Net income/(expense) from financial instruments designated at fair value	170	5	358		(1,109)		(576)
Gains less losses from financial investments	5	2	(47)	(2)	(18)		(60)
Dividend income		1	11	1			13
Net earned insurance premiums	2,002	135			(3)		2,134
Other operating income	89	323	303	26	162	73	976
Total operating income/ (expense)	5,725	2,561	6,351	1,050	(1,023)	73	14,737
Net insurance claims[26]	(2,249)	(134)					(2,383)
Net operating income/ (expense)[7]	3,476	2,427	6,351	1,050	(1,023)	73	12,354
	(982)	(606)	(1,212)	(10)	(3)		(2,813)

Loan impairment charges and other credit risk provisions							
Net operating income/ (expense)	2,494	1,821	5,139	1,040	(1,026)	73	9,541
Operating expenses	(2,283)	(987)	(2,251)	(593)	(400)	(73)	(6,587)
Operating profit/(loss)	211	834	2,888	447	(1,426)		2,954
Share of profit in associates and joint ventures	1	18	3				22
Profit/(loss) before tax	212	852	2,891	447	(1,426)		2,976
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.2	17.0	57.6	8.9	(28.4)		59.3
Cost efficiency ratio	65.7	40.7	35.4	56.5	(39.1)		53.3
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	143,886	89,788	198,290	23,774	1,352		457,090
Total assets	205,023	112,749	1,060,344	74,469	86,649	(214,547)	1,324,687
Customer accounts	166,295	95,132	208,792	59,503	3		529,725

54

Table of Contents

	Half-year to 31 December 2009						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/(expense)	2,906	1,444	1,991	443	(260)	(234)	6,290
Net fee income	1,074	890	964	445	51		3,424
Trading income/(expense) excluding net interest income	(44)	(1)	589	103	215		862
Net interest income on trading activities		10	903	14	7	234	1,168
Net trading income[25]	(44)	9	1,492	117	222	234	2,030
Net income/(expense) from financial instruments designated at fair value	842	128	17		(1,836)		(849)
Gains less losses from financial investments	15		72	7	16		110
Dividend income	2		15	2	(3)		16
Net earned insurance premiums	1,973	118	(2)				2,089
Other operating income	93	50	367	2	752	22	1,286
Total operating income/ (expense)	6,861	2,639	4,916	1,016	(1,058)	22	14,396
Net insurance claims[26]	(2,972)	(231)			(3)		(3,206)
Net operating income/ (expense)[7]	3,889	2,408	4,916	1,016	(1,061)	22	11,190
	(1,010)	(661)	(1,065)	(19)			(2,755)

Loan impairment charges and other credit risk provisions							
Net operating income/ (expense)	2,879	1,747	3,851	997	(1,061)	22	8,435
Operating expenses	(2,779)	(1,307)	(2,196)	(590)	(507)	(22)	(7,401)
Operating profit/(loss)	100	440	1,655	407	(1,568)		1,034
Share of loss in associates and joint ventures			(1)				(1)
Profit/(loss) before tax	100	440	1,654	407	(1,568)		1,033
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.9	21.4	80.2	19.8	(76.1)		50.2
Cost efficiency ratio	71.5	54.3	44.7	58.1	47.8		66.1
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	147,760	89,084	176,123	25,541	973		439,481
Total assets	208,669	111,874	981,831	76,871	84,010	(194,655)	1,268,600
Customer accounts	165,161	102,249	169,390	58,213	6		495,019

For footnotes, see page 95.

55

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Hong Kong
Profit/(loss) before tax by customer group and global business

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Personal Financial Services	**1,422**	1,337	1,391
Commercial Banking	**672**	424	532
Global Banking and Markets	**730**	907	600
Private Banking	**119**	106	91
Other	**(66)**	(273)	(86)
Profit before tax	**2,877**	2,501	2,528

Profit before tax

	Half-year to		
	30 June 2010 US$m	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**1,994**	2,232	1,963
Net fee income	**1,395**	1,200	1,469
Net trading income	**688**	704	521
Changes in fair value of long-term debt and related derivatives	**(2)**	(3)	
Net income/(expense) from other financial instruments designated at fair value	**(28)**	348	440
Net income/(expense) from financial instruments designated at fair value	**(30)**	345	440
Gains less losses from financial investments	**111**	2	7
Dividend income	**13**	14	14
Net earned insurance premiums	**2,248**	1,838	1,836
Other operating income	**644**	505	769
Total operating income	**7,063**	6,840	7,019
	(2,167)	(2,126)	(2,266)

Net insurance claims incurred and movement in liabilities to policyholders			
Net operating income before loan impairment charges and other credit risk provisions	**4,896**	4,714	4,753
Loan impairment charges and other credit risk provisions	**(63)**	(273)	(227)
Net operating income	**4,833**	4,441	4,526
Operating expenses	**(1,968)**	(1,935)	(2,011)
Operating profit	**2,865**	2,506	2,515
Share of profit/(loss) in associates and joint ventures	**12**	(5)	13
Profit before tax	**2,877**	2,501	2,528
	%	%	%
Share of HSBC s profit before tax	**25.9**	49.8	122.7
Cost efficiency ratio	**40.2**	41.0	42.3
Period-end staff numbers (full-time equivalent)	**28,397**	28,259	27,614

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**114,075**	97,486	99,381
Loans and advances to banks (net)	**31,633**	41,197	36,197
Trading assets, financial instruments designated at fair value, and financial investments	**151,332**	135,916	154,418
Total assets	**410,991**	413,107	399,243
Deposits by banks	**10,552**	10,299	6,023
Customer accounts	**274,112**	267,532	275,441

For footnote, see page 95.

The commentary on Hong Kong is on an underlying basis unless stated otherwise.

Table of Contents

Economic briefing

Hong Kong s economy expanded steadily during the first half of 2010 following the very volatile conditions that developed during 2009. In the first quarter the level of GDP rose by 2.4 per cent on the previous quarter, with manufacturing activity, investment expenditure and external demand all showing substantial improvement on the comparable period in 2009. Labour market conditions improved more modestly, with the unemployment rate falling from 4.9 per cent in December 2009 to 4.6 per cent in June 2010. CPI inflation accelerated from 1.3 per cent in December 2009 to 2.8 per cent in June 2010, although this movement largely reflected rises in food and energy prices. The Hong Kong Monetary Authority held the base rate steady at 0.5 per cent during the first half of 2010. Asset price performance again proved volatile during the period, with the Hang Seng Index falling by about 8 per cent.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
Hong Kong	**1H09 as reported US\$m**	**1H09 adjust-ments[1] US\$m**	**Currency translation[2] US\$m**	**1H09 at 1H10 exchange rates[3] US\$m**	**1H10 as reported US\$m**	**1H10 adjust-ments[1] US\$m**	**1H10 under-lying US\$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	2,232		(4)	2,228	1,994		1,994	(11)	(11)
Net fee income	1,200		(2)	1,198	1,395		1,395	16	16
Changes in fair value[5]	(2)	2			(6)	6		(200)	
Other income[6]	1,284		(3)	1,281	1,513	(62)	1,451	18	13
Net operating income[7]	4,714	2	(9)	4,707	4,896	(56)	4,840	4	3
Loan impairment charges and other credit risk provisions	(273)		1	(272)	(63)		(63)	77	77
Net operating income	4,441	2	(8)	4,435	4,833	(56)	4,777	9	8
Operating expenses	(1,935)		4	(1,931)	(1,968)		(1,968)	(2)	(2)
Operating profit	2,506	2	(4)	2,504	2,865	(56)	2,809	14	12
Income from associates	(5)			(5)	12		12		

Profit before tax	**2,501**	**2**	**(4)**	**2,499**	**2,877**	**(56)**	**2,821**	**15**	**13**

For footnotes, see page 95.

HSBC s operations in Hong Kong reported pre-tax profits of US$2.9 billion compared with US$2.5 billion in the first half of 2009, an increase of 15 per cent. On an underlying basis, excluding the accounting gains of US$62 million arising from the reclassification of Bao Viet as an associate following the purchase of additional shares, profit before tax increased by 13 per cent. HSBC took advantage of the improved economic environment and better market sentiment in the region to build its revenue base in its investment and insurance businesses. Lending increased, particularly in Commercial Banking, as a result of higher trade activity and a stronger property market. Deposit inflows in both Personal Financial Services and Commercial Banking were supported by increased market liquidity and targeted marketing campaigns, though the higher revenues from volume growth were partly offset by continued deposit spread compression. The
improved economic conditions also resulted in a marked decrease in loan impairment charges from what was already a low level.

HSBC maintained its market leadership in deposits, mortgages, life insurance and credit cards through product innovation and enhancing its brand proposition, particularly for higher value segments. The Premier customer base increased by 14 per cent compared with 31 December 2009 to almost 440,000, supported by the launch of a real-time online financial consultancy service, the first in Hong Kong. Advance was successfully launched in January as a branded proposition to capture the mid-market customer segment that will in due course feed into Premier. Commercial Banking s successful inward cross-border referrals increased more than threefold as the strategy to prioritise international connectivity to grow the business was implemented. HSBC also actively participated in the Hong Kong

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

Government Special Loan Guarantee Scheme which helps SMEs secure funding. Following continued support for Business Banking customers, HSBC was awarded the Best SME s Partner award for the fifth consecutive year by The Hong Kong Chamber of Small and Medium Business.

Net interest income declined by 11 per cent, primarily due to lower Balance Sheet Management income.

Personal lending balances were 6 per cent higher, driven by targeted growth in residential mortgage lending. HSBC continued to lead the mortgage market with a 30 per cent market share of new loan drawdowns in the first half of 2010, primarily driven by the introduction of HIBOR-linked mortgages which have become the dominant product type in the Hong Kong mortgage market. Commercial lending growth reflected a recovery in business and trade activity and ongoing credit support to customers. Growth was noted particularly in commercial real estate and other property-related sectors, and commercial, industrial and international trade. Commercial Banking further developed its renminbi business and launched a number of renminbi-related products in the first half of 2010.

Higher income from volume growth was partly offset as asset spreads narrowed, largely from competitive pricing due to high levels of liquidity in the market.

Underlying pre-tax profit in Hong Kong grew by 13 per cent as lending increased and HSBC maintained its market leadership in deposits, mortgages, life insurance and credit cards.

Growth in average deposit balances was reported against 30 June 2009 as HSBC expanded its market share through targeted marketing campaigns and customers of both Personal Financial Services and Commercial Banking displayed a preference for liquid deposits. The benefit of this increase was partly offset by liability spreads remaining under pressure in the low interest rate environment.

In Balance Sheet Management, net interest income declined from the exceptional results achieved in the first half of 2009 as higher yielding positions matured, interest rates remained low and yield curves flattened.

Net fee income increased by 16 per cent, primarily from higher income on unit trusts and assets under management. This was driven by improved investor sentiment and the launch of attractive product offerings such as FundMax which, for a monthly fee, offers retail investors unlimited

unit trust transactions and switching between over 300 funds.

The recovery in regional trade, and consequent rise in the value of Hong Kong s total exports and imports, boosted remittances and trade-related facilities fees. Underwriting fees also increased due to the number of significant initial public offerings (IPO s) that were concluded in the first half of 2010.

Net trading income was 2 per cent lower than in the first half of 2009. Income in Rates decreased following a fall in client activity and compressed margins as a result of increased competition. Foreign exchange revenues declined due to lower market volatility, while credit trading revenues fell, reflecting reduced customer demand and a relative widening of credit spreads.

A net expense of US$24 million on *financial instruments designated at fair value* was recorded compared with income of US$346 million in the first half of 2009. The movement reflected revaluation losses in the first half of 2010 on assets linked to the insurance business compared with gains in the comparable period. To the extent that these losses were attributed to policyholders, there was an offsetting change in *net insurance claims incurred and movement in liabilities to policyholders.*

Net earned insurance premiums grew by 23 per cent to US$2.2 billion, as strong new business growth, particularly in whole life, deferred annuity and unit-linked products, was driven by successful sales campaigns and additional sales staff. A life insurance product designed for high net worth individuals introduced in the first half of 2009 also performed well. There was a corresponding increase in *net insurance claims incurred and movement in liabilities to policyholders*.

Gains less losses from financial investments were US$47 million higher, mainly due to gains from disposal of available-for-sale investments in Balance Sheet Management in the first half of 2010.

Other operating income increased by 28 per cent to US$644 million, largely due to an increase in PVIF, reflecting strong life insurance sales. Also, the improvement in the property market in Hong Kong generated a revaluation gain on investment properties.

Loan impairment charges and other credit risk provisions decreased by 77 per cent to US$63 million, reflecting the economic recovery which took shape in the second half of 2009. Commercial Banking drove the fall in loan impairment charges with fewer large specific impairments as credit conditions improved. Loan impairment charges also fell in Personal Financial Services, mainly on unsecured lending as unemployment and bankruptcy levels fell. HSBC s mortgage portfolio in Hong Kong continued to be well secured with an average loan-to-value ratio of almost 38 per cent.

Operating expenses rose by 2 per cent as technology and marketing expenditure was increased to position HSBC s business advantageously to support the growth of customers businesses in the continuing economic recovery. These cost increases were partially offset by efficiency improvements, which were reflected in lower average staff numbers as the shift of transactions to non-branch channels continued, and a decrease in performance-related pay in Global Banking and Markets.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)								
Hong Kong	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	1,963		(4)	1,959	1,994		1,994	2	2
Net fee income	1,469		(4)	1,465	1,395		1,395	(5)	(5)
Changes in fair value[5]	1	(1)			(6)	6			
Other income[6]	1,320		(5)	1,315	1,513	(62)	1,451	15	10
Net operating income[7]	4,753	(1)	(13)	4,739	4,896	(56)	4,840	3	2
Loan impairment charges and other credit risk provisions	(227)			(227)	(63)		(63)	72	72
Net operating income	4,526	(1)	(13)	4,512	4,833	(56)	4,777	7	6
Operating expenses	(2,011)		4	(2,007)	(1,968)		(1,968)	2	2
Operating profit	2,515	(1)	(9)	2,505	2,865	(56)	2,809	14	12
Income from associates	13			13	12		12	(8)	(8)
Profit before tax	2,528	(1)	(9)	2,518	2,877	(56)	2,821	14	12

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2010						
Hong Kong	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking & Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[35] US$m**	**Total US$m**
Net interest income/(expense)	**1,279**	**504**	**437**	**77**	**(247)**	**(56)**	**1,994**
Net fee income	**698**	**305**	**305**	**78**	**9**		**1,395**
Trading income excluding net interest income	**107**	**53**	**368**	**59**	**4**		**591**
Net interest income on trading activities	**1**		**34**		**6**	**56**	**97**
Net trading income[25]	**108**	**53**	**402**	**59**	**10**	**56**	**688**
Net income/(expense) from financial instruments designated at fair value	**(110)**	**23**	**42**		**15**		**(30)**
Gains less losses from financial investments			**63**	**8**	**40**		**111**
Dividend income					**13**		**13**
Net earned insurance premiums	**1,874**	**369**	**5**				**2,248**
Other operating income	**222**	**27**	**30**	**5**	**499**	**(139)**	**644**
Total operating income	**4,071**	**1,281**	**1,284**	**227**	**339**	**(139)**	**7,063**
Net insurance claims[26]	**(1,853)**	**(309)**	**(5)**				**(2,167)**
Net operating income[7]	**2,218**	**972**	**1,279**	**227**	**339**	**(139)**	**4,896**

Loan impairment (charges)/ recoveries and other credit risk provisions	**(42)**	**(2)**	**(20)**		**1**		**(63)**
Net operating income	**2,176**	**970**	**1,259**	**227**	**340**	**(139)**	**4,833**
Operating expenses	**(756)**	**(298)**	**(529)**	**(108)**	**(416)**	**139**	**(1,968)**
Operating profit/(loss)	**1,420**	**672**	**730**	**119**	**(76)**		**2,865**
Share of profit in associates and joint ventures	**2**				**10**		**12**
Profit/(loss) before tax	**1,422**	**672**	**730**	**119**	**(66)**		**2,877**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**12.8**	**6.1**	**6.6**	**1.1**	**(0.7)**		**25.9**
Cost efficiency ratio	**34.1**	**30.7**	**41.4**	**47.6**	**122.7**		**40.2**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**45,121**	**37,184**	**25,501**	**4,353**	**1,916**		**114,075**
Total assets[37]	**69,052**	**44,409**	**214,091**	**19,919**	**92,165**	**(28,645)**	**410,991**
Customer accounts	**165,238**	**63,562**	**26,142**	**18,559**	**611**		**274,112**

60

Table of Contents

	Half-year to 30 June 2009						
Hong Kong	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/(expense)	1,294	480	713	122	(313)	(64)	2,232
Net fee income	643	244	230	57	26		1,200
Trading income/(expense) excluding net interest income	69	41	555	42	(70)		637
Net interest income/(expense) on trading activities	2		(7)		8	64	67
Net trading income/ (expense)[25]	71	41	548	42	(62)	64	704
Net income/(expense) from financial instruments designated at fair value	319	(22)	28		20		345
Gains less losses from financial investments	81	17	(76)		(20)		2
Dividend income	4		1		9		14
Net earned insurance premiums	1,622	211	5				1,838
Other operating income	146	39	18	5	440	(143)	505
Total operating income	4,180	1,010	1,467	226	100	(143)	6,840
Net insurance claims[26]	(1,953)	(168)	(5)				(2,126)
Net operating income[7]	2,227	842	1,462	226	100	(143)	4,714
	(122)	(137)	(14)				(273)

Loan impairment charges and other credit risk provisions							
Net operating income	2,105	705	1,448	226	100	(143)	4,441
Operating expenses	(770)	(281)	(541)	(120)	(366)	143	(1,935)
Operating profit/(loss)	1,335	424	907	106	(266)		2,506
Share of profit/(loss) in associates and joint ventures	2				(7)		(5)
Profit/(loss) before tax	1,337	424	907	106	(273)		2,501
	%	%	%	%	%		%
Share of HSBC s profit before tax	26.6	8.4	18.1	2.1	(5.4)		49.8
Cost efficiency ratio	34.6	33.4	37.0	53.1	366.0		41.0
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	42,665	26,682	23,182	3,054	1,903		97,486
Total assets	79,113	33,209	221,196	23,000	67,820	(11,231)	413,107
Customer accounts	157,437	54,730	34,875	19,919	571		267,532

61

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit/(loss) before tax (continued)

	Half-year to 31 December 2009						
Hong Kong	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/(expense)	1,283	458	437	90	(245)	(60)	1,963
Net fee income	767	286	333	68	15		1,469
Trading income/(expense) excluding net interest income	117	51	237	49	(23)		431
Net interest income on trading activities	1		23		6	60	90
Net trading income/(expense)[25]	118	51	260	49	(17)	60	521
Net income/(expense) from financial instruments designated at fair value	388	(24)	110		(34)		440
Gains less losses from financial investments	(1)	1	(32)		39		7
Dividend income	(3)	1	9		7		14
Net earned insurance premiums	1,539	289	8				1,836
Other operating income	200	25	41	5	622	(124)	769
Total operating income	4,291	1,087	1,166	212	387	(124)	7,019
Net insurance claims[26]	(2,026)	(236)	(4)				(2,266)
Net operating income[7]	2,265	851	1,162	212	387	(124)	4,753

Loan impairment (charges)/ recoveries and other credit risk provisions	(81)	(31)	(117)	1	1		(227)
Net operating income	2,184	820	1,045	213	388	(124)	4,526
Operating expenses	(796)	(289)	(446)	(122)	(482)	124	(2,011)
Operating profit/(loss)	1,388	531	599	91	(94)		2,515
Share of profit in associates and joint ventures	3	1	1		8		13
Profit/(loss) before tax	1,391	532	600	91	(86)		2,528
	%	%	%	%	%		%
Share of HSBC s profit before tax	67.5	25.8	29.1	4.4	(4.1)		122.7
Cost efficiency ratio	35.1	34.0	38.4	57.5	124.5		42.3
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	43,869	28,217	21,991	3,361	1,943		99,381
Total assets	83,497	34,743	217,146	20,353	52,508	(9,004)	399,243
Customer accounts	166,445	62,146	26,650	19,474	726		275,441

For footnotes, see page 95.

62

Table of Contents

Rest of Asia-Pacific

Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2010						
Australia	**23**	**42**	**68**		**3**	**136**
India	**(50)**	**39**	**245**	**3**	**103**	**340**
Indonesia	**(3)**	**48**	**60**		**(3)**	**102**
Japan	**(30)**		**60**		**(2)**	**28**
Mainland China	**364**	**390**	**297**	**(4)**	**234**	**1,281**
Associates	**415**	**356**	**215**		**192**	**1,178**
Other mainland China	**(51)**	**34**	**82**	**(4)**	**42**	**103**
Malaysia	**54**	**45**	**96**		**6**	**201**
Singapore	**65**	**42**	**111**	**43**	**3**	**264**
South Korea	**8**	**(4)**	**180**		**29**	**213**
Taiwan	**20**	**32**	**43**		**(9)**	**86**
Other	**25**	**123**	**146**	**1**	**39**	**334**
	476	**757**	**1,306**	**43**	**403**	**2,985**
Half-year to 30 June 2009						
Australia	12	9	60		3	84
India	(124)	(39)	244		120	201
Indonesia	(12)	16	77		(1)	80
Japan	(41)		38	(4)	(1)	(8)
Mainland China	188	292	258	(3)	17	752
Associates	287	255	143			685
Other mainland China	(99)	37	115	(3)	17	67
Malaysia	38	27	76		(2)	139
Singapore	67	43	126	54	(7)	283
South Korea	(6)	(6)	186		11	185
Taiwan	(7)	32	55		1	81
Other	20	85	119		1	225
	135	459	1,239	47	142	2,022

Half-year to 31 December 2009						
Australia	18	23	80		(7)	114
India	(95)	(2)	149	1	120	173
Indonesia	(12)	44	52		(10)	74
Japan	(38)		27		2	(9)
Mainland China	306	324	221	(4)	33	880
Associates	391	303	142			836
Other mainland China	(85)	21	79	(4)	33	44
Malaysia	50	26	64		7	147
Singapore	62	34	121	44	(2)	259
South Korea	3	1	156		14	174
Taiwan	4	33	41		1	79
Other	30	122	169	2	(36)	287
	328	605	1,080	43	122	2,178

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Loans and advances to customers (net) by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Australia	**12,737**	10,594	12,112
India	**5,974**	5,236	4,893
Indonesia	**3,200**	2,540	2,721
Japan	**3,325**	2,486	2,496
Mainland China	**15,295**	10,784	13,294
Malaysia	**10,625**	8,873	9,132
Singapore	**17,616**	12,956	14,817
South Korea	**4,911**	4,426	4,438
Taiwan	**5,385**	4,123	4,280
Other	**12,604**	12,044	11,860
	91,672	74,062	80,043

Customer accounts by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Australia	**12,641**	9,621	12,093
India	**11,269**	11,719	11,676
Indonesia	**5,599**	4,557	5,014
Japan	**4,432**	4,673	4,914
Mainland China	**21,893**	19,874	21,867
Malaysia	**13,751**	12,080	12,809
Singapore	**34,696**	32,920	33,211
South Korea	**4,258**	4,336	4,162
Taiwan	**10,385**	9,819	9,891
Other	**19,395**	16,984	18,362
	138,319	126,583	133,999

Economic briefing

GDP growth in **mainland China** moderated slightly during the first half of 2010 as government measures aimed at cooling the previously rapid rate of expansion encouraged a modest slowdown in economic activity. In the second quarter, the level of GDP rose by 10.3 per cent in year-on-year terms, down from 11.9 per cent during the first quarter of the year, and most indicators suggest some further moderation in activity during the remainder of 2010. Growth in industrial production during the first half of the year, while slowing, proved very strong as output rose by 17.6 per cent on the comparable period in 2009. Consumer spending remained robust, with retail sales rising by 18.3 per cent over the year to June 2010. The annual CPI inflation rate rose to 3.1 per cent in May 2010 before easing slightly to 2.9 per cent in June. The renminbi s de facto peg against the US dollar, which had existed for 23 months, was removed in June 2010 as the Chinese authorities returned to the previous floating system with reference to a basket of currencies.

Economic conditions improved markedly in **Japan** during the first half of 2010. In the first quarter the level of GDP rose by 1.2 per cent on the previous quarter, due in large part to strong external demand and some improvement in consumer demand. Industrial production rose significantly, albeit remaining well below pre-crisis levels, and labour market conditions proved volatile as unemployment rose to 5.2 per cent at the end of June. Consumer prices fell by 0.7 per cent over the year to June in the deflationary environment. The Bank of Japan kept the target unsecured overnight call rate at 0.1 per cent and introduced a range of initiatives designed to improve the availability and flow of credit across the economy.

Table of Contents

Profit before tax

	Half-year to		
Rest of Asia-Pacific	**30 June 2010 US$m**	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**1,822**	1,768	1,771
Net fee income	**934**	719	838
Net trading income	**780**	909	697
Changes in fair value of long-term debt issued and related derivatives		(2)	1
Net income/(expense) from other financial instruments designated at fair value	**(2)**	31	80
Net income/(expense) from financial instruments designated at fair value	**(2)**	29	81
Gains less losses from financial investments	**39**	(21)	2
Dividend income	**1**	1	1
Net earned insurance premiums	**198**	152	213
Other operating income	**877**	608	630
Total operating income	**4,649**	4,165	4,233
Net insurance claims incurred and movement in liabilities to policyholders	**(151)**	(156)	(239)
Net operating income before loan impairment charges and other credit risk provisions	**4,498**	4,009	3,994
Loan impairment charges and other credit risk provisions	**(147)**	(531)	(365)
Net operating income	**4,351**	3,478	3,629
Operating expenses	**(2,417)**	(2,151)	(2,299)
Operating profit	**1,934**	1,327	1,330
Share of profit in associates and joint ventures	**1,051**	695	848

Profit before tax	**2,985**	2,022	2,178
	%	%	%
Share of HSBC s profit before tax	**26.9**	40.3	105.7
Cost efficiency ratio	**53.7**	53.7	57.6
Period-end staff numbers (full-time equivalent)	**88,605**	87,567	87,141

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**91,672**	74,062	80,043
Loans and advances to banks (net)	**35,338**	34,278	35,648
Trading assets, financial instruments designated at fair value, and financial investments	**64,142**	55,328	58,941
Total assets	**244,624**	217,794	222,139
Deposits by banks	**15,412**	12,980	8,075
Customer accounts	**138,319**	126,583	133,999

For footnote, see page 95.

The commentary on Rest of Asia-Pacific is on an underlying basis unless stated otherwise.

Elsewhere in Asia the recovery continued, with strong rates of growth recorded during the first half of 2010 as the rebound in activity continued from the final months of 2009. In most economies, the level of output exceeded pre-crisis peaks. **Singapore**, especially, staged a significant recovery, with output growing at double-digit rates, placing the economy amongst the region s best performers during the first half of 2010. Growth also recovered impressively in **India**, with the level of GDP rising by 8.6 per cent in year-on-year terms during the first three months of 2010, helped by an acceleration of private investment and consumer spending. The pace of recovery encouraged the Reserve Bank of India to tighten monetary conditions modestly from March onwards. In **Indonesia**, economic recovery continued into 2010 with the year-on-year rate of change in GDP accelerating to 5.7 per cent in the first quarter of the year, while the annual rate of growth in **Malaysia** rebounded sharply to double-

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

digits in the first quarter, owing in part to an extensive government stimulus programme. Other economies in Southeast Asia also maintained a healthy pace of recovery in the first half of 2010. The **Philippines**, **Thailand**, and **Vietnam** economies which appeared to lag the regional recovery in 2009 saw impressive advances in GDP in the first quarter of 2010, with indicative data also suggesting a sustained rate of expansion into the second quarter of the year. Political uncertainties in Thailand appear to have exerted less of a depressive influence on growth than initially feared, while the Philippines and Vietnam also benefited from strong consumer spending and accommodative fiscal policies. Meanwhile, **South Korea** and **Taiwan** witnessed impressive gains in industrial output during the first half of 2010, benefiting especially from the improving global trade cycle and rapidly growing demand in mainland China. In both economies, the strength of exports supported labour markets, household income growth and consumer expenditure.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
Rest of Asia-Pacific	**1H09 as reported US$m**	**1H09 adjust-ments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjust-ments[1] US$m**	**1H10 under-lying US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**1,768**		**146**	**1,914**	**1,822**	**(31)**	**1,791**	**3**	**(6)**
Net fee income	**719**		**63**	**782**	**934**	**(3)**	**931**	**30**	**19**
Changes in fair value[5]	**(3)**	**3**							
Other income[6]	**1,525**		**137**	**1,662**	**1,742**	**(197)**	**1,545**	**14**	**(7)**
Net operating income[7]	**4,009**	**3**	**346**	**4,358**	**4,498**	**(231)**	**4,267**	**12**	**(2)**
Loan impairment charges and other credit risk provisions	**(531)**		**(53)**	**(584)**	**(147)**		**(147)**	**72**	**75**
Net operating income	**3,478**	**3**	**293**	**3,774**	**4,351**	**(231)**	**4,120**	**25**	**9**
Operating expenses	**(2,151)**		**(169)**	**(2,320)**	**(2,417)**	**19**	**(2,398)**	**(12)**	**(3)**
Operating profit	**1,327**	**3**	**124**	**1,454**	**1,934**	**(212)**	**1,722**	**46**	**18**
Income from associates	**695**			**695**	**1,051**		**1,051**	**51**	**51**

Profit before tax	**2,022**	**3**	**124**	**2,149**	**2,985**	**(212)**	**2,773**	**48**	**29**

For footnotes, see page 95.

HSBC s operations in the Rest of Asia-Pacific region reported pre-tax profits of US$3.0 billion compared with US$2.0 billion in the first half of 2009, an increase of 48 per cent. Within reported profits was an accounting gain of US$188 million arising from the dilution of HSBC s shareholding in Ping An Insurance following its issue of share capital to a third party in the first half of 2010. On an underlying basis, which excludes this dilution gain, pre-tax profit rose by 29 per cent as a result of increased economic activity, expanding trade flows and improved credit conditions.

HSBC s focus on the key regional markets of mainland China, India, Indonesia, Singapore, Malaysia and Australia, where the greatest opportunities have been identified to support customers growing local and international needs, resulted in expansion of the business in these countries, including the opening of new branches.
In addition, HSBC increased its shareholding in Bao Viet. The new mainland China head office building was opened in Shanghai in June which, along with the 100th HSBC branded outlet, reaffirmed HSBC s position as the leading foreign bank in the country. Two Hang Seng Bank branded outlets and one rural bank outlet were also opened in the first half of 2010. During the period, HSBC increased its investment in the Bank of Communications by agreeing to subscribe for its full entitlement of H-Shares in the Bank of Communications rights issue for a consideration of approximately US$921 million. The Group also subscribed for its entitlement in Industrial Bank s rights issue through its holding in Hang Seng Bank. In July 2010, HSBC agreed to acquire a substantial part of Royal Bank of Scotland Group plc s commercial and retail business in India with assets of US$1.8 billion as at 31 March 2010 and approximately 1.1 million customers.

Table of Contents

Advance was successfully launched in six countries and territories. The acquisition of Premier customers continued apace, with numbers growing by 15 per cent in the 15 countries and territories within Rest of Asia-Pacific where the proposition is offered. Commercial Banking further enhanced its international connectivity, with inward referrals from other regions and outward referrals increasing by 62 per cent and 75 per cent, respectively, providing evidence of its progress with implementing HSBC s strategic objective to be the leading international business bank.

Net interest income decreased by 6 per cent, mainly in Balance Sheet Management, driven by the maturing of higher yielding positions and the flattening of yield curves.

Lending increased as a result of business growth in Commercial Banking and Global Banking, primarily in mainland China but also in Singapore and Japan, in part reflecting the recovery in trade volumes in the region. Lending balances in Personal Financial Services also grew, particularly in the residential mortgage books in Malaysia, Australia, mainland China and Singapore. The risk profile of lending improved as the planned reduction in non-relationship managed cards and personal loans continued, particularly in India.

Asset spreads narrowed due to intensified market competition, primarily in residential mortgages in Personal Financial Services, and a change in the mix of assets towards more secured lending.

Customer deposits grew by 6 per cent from 30 June 2009, with continued growth in mainland China, Australia, Singapore and Malaysia. Premier customer balances in the region increased as demand for the proposition continued to expand.

Liability spreads remained constrained, reflecting low interest rates in many countries across the region. However, improvement was seen in Australia and mainland China, where overall spreads gradually widened in the first half of 2010.

Balance Sheet Management income declined from the exceptional results of the first half of 2009 as higher yielding trades matured, interest rates remained low and yield curves flattened, primarily in Japan, Singapore and Australia.

Net fee income was 19 per cent higher, driven by a rise in fees from funds under management, securities services and sales of investment products, all of which benefited from an improvement in equity markets and investor sentiment compared with the first half of 2009. Marketing activities were
increased to support revenue growth opportunities arising from these developments. Increased levels of regional trade generated higher fee income from greater volumes of remittances and credit facilities. Re-pricing initiatives taken in 2009 were also a contributing factor.

Net trading income declined by 22 per cent, as lower market volatility resulted in fewer trading opportunities in Credit, Rates and foreign exchange compared with the first half of 2009. Similarly, the non-recurrence of significant gains from credit trading in India and the one-off gains recognised on certain transactions in South Korea, further affected revenues. This was partly offset by higher interest income on trading products, notably in India, reflecting growth in the size of the trading portfolio.

Increased economic activity, expanding trade flows and improved credit conditions drove a 29 per cent increase in pre-tax profit in Rest of Asia-Pacific.

A net expense of US$2 million on *financial instruments designated at fair value* was recorded, compared with income of US$34 million in the first half of 2009. The movement was primarily driven by lower revaluation gains on assets linked to the insurance business. To the extent that the current period gains were attributed to policyholders, there was a corresponding change in *net insurance claims incurred and movement in liabilities to policyholders.*

Gains less losses from financial investments rose by US$52 million as a result of gains on sales of available-for-sale investments and the non-recurrence of impairments reported in the same period in 2009.

Net earned insurance premiums increased by 22 per cent to US$198 million, largely due to higher sales in Taiwan primarily from unit-linked products, and successful product launches and marketing campaigns in Malaysia. Growth in the insurance business resulted in an increase in *net insurance claims incurred and movement in liabilities to policyholders.*

Loan impairment charges decreased by 75 per cent to US$147 million. In Personal Financial Services, the decrease was driven by the planned reduction in cards and other unsecured lending balances in India, and the general improvement in economic conditions in the region. The economic environment also contributed to fewer individual loan impairment charges in Commercial Banking.

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Operating expenses increased marginally by 3 per cent to US$2.4 billion. Higher staff costs in mainland China, Singapore and Taiwan to support business expansion were partly offset by reduced costs due to lower headcount in most other countries in the region, as high utilisation of direct channels continued, reflecting the progressive benefits of cost efficiency programmes and technology enhancement.

Share of profit from associates and joint ventures in the region increased by 51 per cent, with a higher contribution from Ping An Insurance, which achieved very strong sales growth as the company capitalised on improved economic conditions. An increase in net interest income and net fee income in Bank of Communications and lower loan impairment charges in Industrial Bank also resulted in higher profits as both banks benefited from buoyant economic growth and a higher lending base in mainland China following the stimulus packages implemented in 2009.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)								
Rest of Asia-Pacific	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	1,771		47	1,818	1,822		1,822	3	
Net fee income	838		19	857	934		934	11	9
Other income[6]	1,385		40	1,425	1,742	(188)	1,554	26	9
Net operating income[7]	3,994		106	4,100	4,498	(188)	4,310	13	5
Loan impairment charges and other credit risk provisions	(365)		(14)	(379)	(147)		(147)	60	61
Net operating income	3,629		92	3,721	4,351	(188)	4,163	20	12
Operating expenses	(2,299)		(56)	(2,355)	(2,417)		(2,417)	(5)	(3)
Operating profit	1,330		36	1,366	1,934	(188)	1,746	45	28
Income from associates	848		1	849	1,051		1,051	24	24
Profit before tax	2,178		37	2,215	2,985	(188)	2,797	37	26

For footnotes, see page 95.

68

Table of Contents

Analysis by customer group and global business

Profit before tax

	Half-year to 30 June 2010						
Rest of Asia-Pacific	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking & Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[35] US$m**	**Total US$m**
Net interest income	**754**	**431**	**662**	**40**	**30**	**(95)**	**1,822**
Net fee income/(expense)	**320**	**204**	**385**	**30**	**(5)**		**934**
Trading income/(expense) excluding net interest income	**36**	**61**	**462**	**35**	**(8)**		**586**
Net interest income on trading activities			**98**		**1**	**95**	**194**
Net trading income/ (expense)[25]	**36**	**61**	**560**	**35**	**(7)**	**95**	**780**
Net income/(expense) from financial instruments designated at fair value	**2**	**1**			**(5)**		**(2)**
Gains less losses from financial investments	**1**	**3**	**30**	**2**	**3**		**39**
Dividend income			**1**				**1**
Net earned insurance premiums	**172**	**26**					**198**
Other operating income	**52**	**53**	**20**		**826**	**(74)**	**877**
Total operating income	**1,337**	**779**	**1,658**	**107**	**842**	**(74)**	**4,649**
Net insurance claims[26]	**(133)**	**(18)**					**(151)**
Net operating income[7]	**1,204**	**761**	**1,658**	**107**	**842**	**(74)**	**4,498**
Loan impairment (charges)/ recoveries and other credit risk provisions	**(175)**	**18**	**10**				**(147)**

Net operating income	**1,029**	**779**	**1,668**	**107**	**842**	**(74)**	**4,351**
Operating expenses	**(997)**	**(376)**	**(564)**	**(64)**	**(490)**	**74**	**(2,417)**
Operating profit	**32**	**403**	**1,104**	**43**	**352**		**1,934**
Share of profit in associates and joint ventures	**444**	**354**	**202**		**51**		**1,051**
Profit before tax	**476**	**757**	**1,306**	**43**	**403**		**2,985**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**4.3**	**6.8**	**11.8**	**0.4**	**3.6**		**26.9**
Cost efficiency ratio	**82.8**	**49.4**	**34.0**	**59.8**	**58.2**		**53.7**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**31,317**	**26,284**	**30,718**	**3,181**	**172**		**91,672**
Total assets	**42,096**	**34,810**	**153,877**	**12,013**	**10,393**	**(8,565)**	**244,624**
Customer accounts	**48,890**	**31,046**	**46,089**	**12,262**	**32**		**138,319**

69

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Profit before tax (continued)

	Half-year to 30 June 2009						
Rest of Asia-Pacific	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income	730	380	626	55	63	(86)	1,768
Net fee income/(expense)	254	154	294	25	(8)		719
Trading income/(expense) excluding net interest income	40	71	609	35	(15)		740
Net interest income/(expense) on trading activities	(1)		82		2	86	169
Net trading income/(expense)[25]	39	71	691	35	(13)	86	909
Net income/(expense) from financial instruments designated at fair value	34		(3)		(2)		29
Gains less losses from financial investments	5	3	(10)		(19)		(21)
Dividend income			1				1
Net earned insurance premiums	136	16					152
Other operating income	36	28	17		590	(63)	608
Total operating income	1,234	652	1,616	115	611	(63)	4,165
Net insurance claims[26]	(145)	(11)					(156)
Net operating income[7]	1,089	641	1,616	115	611	(63)	4,009
Loan impairment charges and other credit risk provisions	(375)	(151)	(5)				(531)

Net operating income	714	490	1,611	115	611	(63)	3,478
Operating expenses	(870)	(291)	(517)	(68)	(468)	63	(2,151)
Operating profit/(loss)	(156)	199	1,094	47	143		1,327
Share of profit/(loss) in associates and joint ventures	291	260	145		(1)		695
Profit before tax	135	459	1,239	47	142		2,022
	%	%	%	%	%		%
Share of HSBC s profit before tax	2.7	9.1	24.7	0.9	2.9		40.3
Cost efficiency ratio	79.9	45.4	32.0	59.1	76.6		53.7
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	27,780	21,693	21,682	2,739	168		74,062
Total assets	36,761	29,760	138,266	13,068	5,958	(6,019)	217,794
Customer accounts	45,179	26,031	42,712	12,624	37		126,583

70

Table of Contents

	Half-year to 31 December 2009						
Rest of Asia-Pacific	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income	763	427	548	60	28	(55)	1,771
Net fee income/(expense)	300	177	342	30	(11)		838
Trading income/(expense) excluding net interest income	40	63	404	20	(3)		524
Net interest income/(expense) on trading activities			120		(2)	55	173
Net trading income/ (expense)[25]	40	63	524	20	(5)	55	697
Net income from financial instruments designated at fair value	76	1	1		3		81
Gains less losses on financial investments		(1)	3				2
Dividend income					1		1
Net earned insurance premiums	201	12					213
Other operating income/ (expense)	31	38	24	(2)	610	(71)	630
Total operating income	1,411	717	1,442	108	626	(71)	4,233
Net insurance claims[26]	(235)	(4)					(239)
Net operating income[7]	1,176	713	1,442	108	626	(71)	3,994
Loan impairment charges and other credit risk provisions	(274)	(70)	(18)	(2)	(1)		(365)
Net operating income	902	643	1,424	106	625	(71)	3,629

Operating expenses	(969)	(345)	(489)	(63)	(504)	71	(2,299)
Operating profit/(loss)	(67)	298	935	43	121		1,330
Share of profit in associates and joint ventures	395	307	145		1		848
Profit before tax	328	605	1,080	43	122		2,178
	%	%	%	%	%		%
Share of HSBC s profit before tax	15.9	29.4	52.4	2.1	5.9		105.7
Cost efficiency ratio	82.4	48.4	33.9	58.3	80.5		57.6
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	30,433	22,595	23,989	2,834	192		80,043
Total assets	40,266	31,221	138,884	11,928	7,160	(7,320)	222,139
Customer accounts	47,573	30,196	43,698	12,496	36		133,999

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Middle East
Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2010						
Egypt	**18**	**41**	**19**			**78**
Qatar	**10**	**28**	**33**			**71**
United Arab Emirates	**7**	**98**	**24**	**(2)**	**(1)**	**126**
Other	**14**	**15**	**(64)**	**(1)**		**(36)**
Middle East (excluding Saudi Arabia)	**49**	**182**	**12**	**(3)**	**(1)**	**239**
Saudi Arabia	**9**	**76**	**37**	**(20)**	**5**	**107**
	58	**258**	**49**	**(23)**	**4**	**346**
Half-year to 30 June 2009						
Egypt	10	27	49		34	120
Qatar	10	29	35			74
United Arab Emirates	(14)	141	182	(1)	3	311
Other	9	6	(15)		(4)	(4)
Middle East (excluding Saudi Arabia)	15	203	251	(1)	33	501
Saudi Arabia	20	49	53	6	14	142
	35	252	304	5	47	643
Half-year to 31 December 2009						
Egypt	8	24	48		24	104
Qatar		31	31			62
United Arab Emirates	(163)	(277)	125	(1)	2	(314)
Other	(6)	(21)	(65)		1	(91)
	(161)	(243)	139	(1)	27	(239)

Middle East (excluding Saudi Arabia)						
Saudi Arabia		12	24	2	13	51
	(161)	(231)	163	1	40	(188)

Loans and advances to customers (net) by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Egypt	**2,689**	2,503	2,553
Qatar	**1,743**	1,802	1,811
United Arab Emirates	**14,350**	15,906	13,883
Other	**4,612**	4,886	4,597
	23,394	25,097	22,844

Customer accounts by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Egypt	**6,666**	5,642	5,743
Qatar	**3,192**	2,742	2,698
United Arab Emirates	**16,136**	19,284	17,498
Other	**6,983**	6,613	6,590
	32,977	34,281	32,529

Table of Contents

Profit/(loss) before tax

	Half-year to		
Middle East	**30 June 2010 US$m**	30 June 2009 US$m	31 December 2009 US$m
Net interest income	**667**	763	722
Net fee income	**356**	308	317
Net trading income	**194**	220	174
Gains less losses from financial investments	**(1)**	13	3
Dividend income	**5**	2	1
Other operating income/(expense)	**(33)**	63	8
Total operating income	**1,188**	1,369	1,225
Net insurance claims incurred and movement in liabilities to policyholders			
Net operating income before loan impairment charges and other credit risk provisions	**1,188**	1,369	1,225
Loan impairment charges and other credit risk provisions	**(438)**	(391)	(943)
Net operating income	**750**	978	282
Operating expenses	**(519)**	(482)	(519)
Operating profit/(loss)	**231**	496	(237)
Share of profit in associates and joint ventures	**115**	147	49
Profit/(loss) before tax	**346**	643	(188)
	%	%	%
Share of HSBC s profit before tax	**3.1**	12.8	(9.1)
Cost efficiency ratio	**43.7**	35.2	42.4
Period-end staff numbers (full-time equivalent)	**8,264**	8,819	8,281

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**23,394**	25,097	22,844
Loans and advances to banks (net)	**8,627**	6,556	8,420
Trading assets, financial instruments designated at fair value, and financial investments	**10,944**	10,064	10,230
Total assets	**49,637**	48,601	48,107
Deposits by banks	**1,938**	991	1,491
Customer accounts	**32,977**	34,281	32,529

For footnote, see page 95.

The commentary on Middle East is on an underlying basis unless stated otherwise.

Economic briefing

Most of the economies of the **Middle East** stabilised during the first half of 2010, but continued to show growth rates far short of pre-crisis levels. Resilient oil prices offered some support, particularly in the Gulf, with the US$77 per barrel average price of the first six months of 2010 sufficient to leave all the region s major oil producers with budget surpluses, supporting growth in public spending and a further reduction of public debt. However, while growth in public spending provided some impetus to regional economies, domestic demand struggled to build momentum. Most immediately, consumption and investment spending were held back by a limited access to credit, with lending growth remaining weak over the first few months of 2010. More difficult access to international debt and equity funding also weighed on the performance of the economy, particularly in the UAE. Egypt, meanwhile, took more convincing steps towards recovery, with the level of GDP in the first quarter rising by more than 5.5 per cent in year-on-year terms.

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
Middle East	**1H09 as reported US$m**	**1H09 adjust- ments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjust- ments[1] US$m**	**1H10 under- lying US$m**	**Re- ported change[4] %**	**Under- lying change[4] %**
Net interest income	**763**			**763**	**667**		**667**	**(13)**	**(13)**
Net fee income	**308**			**308**	**356**		**356**	**16**	**16**
Other income[6]	**298**			**298**	**165**	**47**	**212**	**(45)**	**(29)**
Net operating income[7]	**1,369**			**1,369**	**1,188**	**47**	**1,235**	**(13)**	**(10)**
Loan impairment charges and other credit risk provisions	**(391)**			**(391)**	**(438)**		**(438)**	**(12)**	**(12)**
Net operating income	**978**			**978**	**750**	**47**	**797**	**(23)**	**(19)**
Operating expenses	**(482)**			**(482)**	**(519)**		**(519)**	**(8)**	**(8)**
Operating profit	**496**			**496**	**231**	**47**	**278**	**(53)**	**(44)**
Income from associates	**147**			**147**	**115**		**115**	**(22)**	**(22)**
Profit before tax	**643**			**643**	**346**	**47**	**393**	**(46)**	**(39)**

For footnotes, see page 95.

HSBC s operations in the Middle East reported profit before tax of US$346 million, a decline of 46 per cent compared with US$643 million in the first half of 2009 but a significant improvement on the second half of 2009.

In June 2010, HSBC agreed to sell its shareholding in British Arab Commercial Bank plc, pending regulatory and other approvals. Reflecting the terms of the sale, an impairment of US$47 million was recognised following the reclassification of the asset as available for sale. On an underlying basis, and excluding this impairment, pre-tax profit declined by 39 per cent, largely due to the run-off of higher yielding loans and weaker economic conditions, which were reflected in a rise in loan impairment charges and other credit risk provisions and reduced revenues compared with the first half of 2009.

In light of the weaker economic backdrop, HSBC augmented its support for local internationally-focused businesses through the launch of a US$100 million fund targeted at SMEs in the UAE engaged in cross-border business. Over 75 per cent of these facilities were allocated at 30 June 2010.

The emphasis on attracting high quality Personal Financial Services customers continued with further roll out of Premier and the introduction of the Advance proposition in the region. The number of Premier customers grew by 21 per cent
in the first half of 2010 and the number of Advance customers reached 63,000 as at June 2010.

A rise in loan impairment charges and lower revenues reduced underlying pre-tax profit by 39 per cent in the Middle East.

Net interest income decreased by 13 per cent as average lending balances fell in both Personal Financial Services and Commercial Banking.

In Personal Financial Services, HSBC continued to manage down unsecured lending balances at greatest risk in the weaker economic conditions, and this more than offset new lending primarily targeted at more creditworthy Premier and Advance customers. The move from riskier unsecured lending to a higher quality portfolio resulted in a narrowing of spreads.

Average Commercial Banking lending fell compared with the first half of 2009, reflecting the decline in economic activity, particularly in construction. However, trade-related balances recovered from the low levels of the second half of 2009.

Average customer accounts declined as corporate customers reduced their funding requirements in response to lower activity levels and tighter liquidity in the local markets. This was partly offset by an increase in personal customer deposits as a result of successful marketing campaigns.

Table of Contents

Deposit spreads improved as fixed-term deposits raised at higher rates towards the end of 2008 matured in the second half of 2009.

Net fee income grew by 16 per cent, with increased volumes in credit facilities, primarily related to trade and guarantees, and remittances in Commercial Banking. Global Banking and Markets generated higher fee income from export and project finance and an increase in the institutional equities business.

Net trading income declined by 12 per cent to US$194 million. In Credit, lower revenues were due to the non-recurrence of gains which had resulted from the tightening of credit spreads on trading positions in the first half of 2009, coupled with lower liquidity levels in the regional markets. The decrease in foreign exchange income was driven by lower market volatility as speculation regarding the unpegging of Gulf currencies from the US dollar receded.

Other operating income declined by 78 per cent. The first half of 2009 benefited from the gains arising from the one-off buy-back and extinguishment of own debt.

Loan impairment charges and other credit risk provisions rose by 12 per cent compared with the first half of 2009 to US$438 million, although this reflected a significant decline on the second half of the year. The increase on the comparable period was
driven by the economic downturn which occurred in the latter part of 2009 and continued to affect activity in the first half of 2010. This, combined with further restructuring activity, led to additional loan impairment charges in Global Banking and Markets related to the UAE.

Loan impairment charges fell by 43 per cent in Commercial Banking compared with the first half of 2009 and by 90 per cent from their peak in the second half of 2009 as incremental new impairment allowances were required on only a small number of customer accounts. In Personal Financial Services, loan impairment charges were lower than in both halves of 2009 as measures taken to improve loan quality, primarily from repositioning the loan book to more creditworthy customers, strengthening origination criteria and collections processes and running off certain mass market portfolios, resulted in lower delinquency rates.

Operating expenses increased by 8 per cent. Staff costs were unchanged and other costs increased, reflecting higher premises costs, property write-downs in the UAE and higher litigation provisions.

Profit from associates and joint ventures declined by 22 per cent, principally driven by a fall in contribution from The Saudi British Bank as loan impairment charges rose and revenue declined in the challenging operating conditions as lending contracted.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)								
Middle East	2H09 as reported US$m	2H09 adjust-ments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange rates[8] US$m	1H10 as reported US$m	1H10 adjust-ments[1] US$m	1H10 under-lying US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	722		(1)	721	667		667	(8)	(7)
Net fee income	317			317	356		356	12	12
Other income[6]	186		(1)	185	165	47	212	(11)	15
Net operating income[7]	1,225		(2)	1,223	1,188	47	1,235	(3)	1
	(943)			(943)	(438)		(438)	54	54

Loan impairment charges and other credit risk provisions								
Net operating income	282	(2)	280	750	47	797	166	185
Operating expenses	(519)	1	(518)	(519)		(519)		
Operating profit/(loss)	(237)	(1)	(238)	231	47	278	197	217
Income from associates	49		49	115		115	135	135
Profit/(loss) before tax	(188)	(1)	(189)	346	47	393	284	308

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2010						
Middle East	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income	**287**	**214**	**163**	**1**	**5**	**(3)**	**667**
Net fee income	**103**	**134**	**113**	**6**			**356**
Trading income/(expense) excluding net interest income	**30**	**44**	**113**		**(3)**		**184**
Net interest income on trading activities	**1**	**3**	**5**		**(2)**	**3**	**10**
Net trading income/(expense)[25]	**31**	**47**	**118**		**(5)**	**3**	**194**
Gains less losses from financial investments	**1**		**(1)**		**(1)**		**(1)**
Dividend income	**2**	**1**	**2**				**5**
Other operating income/(expense)	**11**	**(20)**	**(11)**		**16**	**(29)**	**(33)**
Total operating income	**435**	**376**	**384**	**7**	**15**	**(29)**	**1,188**
Net insurance claims[26]							
Net operating income[7]	**435**	**376**	**384**	**7**	**15**	**(29)**	**1,188**
Loan impairment charges and other credit risk provisions	**(141)**	**(47)**	**(250)**				**(438)**

Net operating income	**294**	**329**	**134**	**7**	**15**	**(29)**	**750**
Operating expenses	**(245)**	**(150)**	**(127)**	**(10)**	**(16)**	**29**	**(519)**
Operating profit/(loss)	**49**	**179**	**7**	**(3)**	**(1)**		**231**
Share of profit/(loss) in associates and joint ventures	**9**	**79**	**42**	**(20)**	**5**		**115**
Profit/(loss) before tax	**58**	**258**	**49**	**(23)**	**4**		**346**
	%	%	%	%	%		%
Share of HSBC s profit before tax	**0.5**	**2.3**	**0.4**	**(0.2)**	**0.1**		**3.1**
Cost efficiency ratio	**56.3**	**39.9**	**33.1**	**142.9**	**106.7**		**43.7**
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	**5,443**	**11,541**	**6,389**	**18**	**3**		**23,394**
Total assets	**6,238**	**13,892**	**29,106**	**(267)**	**4,247**	**(3,579)**	**49,637**
Customer accounts	**16,449**	**10,482**	**5,359**	**641**	**46**		**32,977**

76

	Half-year to 30 June 2009						
Middle East	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income	343	243	149	1	27		763
Net fee income	99	109	98	1	1		308
Trading income excluding net interest income	26	37	146		1		210
Net interest income on trading activities			10				10
Net trading income[25]	26	37	156		1		220
Gains less losses from financial investments	11	(2)	(1)		5		13
Dividend income			2				2
Other operating income	24	33	25	2	19	(40)	63
Total operating income	503	420	429	4	53	(40)	1,369
Net insurance claims[26]							
Net operating income[7]	503	420	429	4	53	(40)	1,369

Loan impairment charges and other credit risk provisions	(244)	(83)	(64)				(391)
Net operating income	259	337	365	4	53	(40)	978
Operating expenses	(245)	(135)	(117)	(5)	(20)	40	(482)
Operating profit/(loss)	14	202	248	(1)	33		496
Share of profit in associates and joint ventures	21	50	56	6	14		147
Profit before tax	35	252	304	5	47		643
	%	%	%	%	%		%
Share of HSBC s profit before tax	0.7	5.0	6.1	0.1	0.9		12.8
Cost efficiency ratio	48.7	32.1	27.3	125.0	37.7		35.2
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	6,645	11,567	6,799	31	55		25,097
Total assets	7,578	13,040	27,423	95	5,285	(4,820)	48,601
Customer accounts	14,967	9,844	7,312	1,645	513		34,281

77

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit/(loss) before tax (continued)

	Half-year to 31 December 2009						
Middle East	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income	301	221	181		19		722
Net fee income	104	110	100	2	1		317
Trading income excluding net interest income	29	38	89	1	2		159
Net interest income on trading activities			10		5		15
Net trading income[25]	29	38	99	1	7		174
Gains less losses from financial investments	1		2				3
Dividend income			1				1
Other operating income/(expense)	11	6	10	(3)	20	(36)	8
Total operating income	446	375	393		47	(36)	1,225
Net insurance claims[26]							
Net operating income[7]	446	375	393		47	(36)	1,225
Loan impairment charges and other credit risk provisions	(344)	(490)	(109)				(943)

Net operating income/(expense)	102	(115)	284		47	(36)	(282)
Operating expenses	(263)	(134)	(138)	(1)	(19)	36	(519)
Operating profit/(loss)	(161)	(249)	146	(1)	28		(237)
Share of profit in associates and joint ventures		18	17	2	12		49
Profit/(loss) before tax	(161)	(231)	163	1	40		(188)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(7.8)	(11.1)	7.9		1.9		(9.1)
Cost efficiency ratio	59.0	35.7	35.1		40.4		42.4
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	5,979	10,281	6,554	28	2		22,844
Total assets	6,810	11,861	28,189	96	4,952	(3,801)	48,107
Customer accounts	15,074	10,122	5,752	1,172	409		32,529

For footnotes, see page 95.

Table of Contents

North America

Profit/(loss) before tax by country within customer groups and global businesses

Half-year to 30 June 2010	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Total US$m
US	**(1,579)**	**265**	**843**	**55**	**342**	**(74)**
Canada	**73**	**289**	**133**		**7**	**502**
Bermuda	**22**	**18**	**21**	**(2)**	**7**	**66**
Other			**1**	**1**	**(4)**	**(2)**
	(1,484)	**572**	**998**	**54**	**352**	**492**
Half-year to 30 June 2009						
US	(2,858)	52	384	23	(1,519)	(3,918)
Canada	(12)	151	75		(70)	144
Bermuda	30	19	19	2	3	73
Other	(3)	2	(1)	(2)	2	(2)
	(2,843)	224	477	23	(1,584)	(3,703)
Half-year to 31 December 2009						
US	(2,434)	106	121	(72)	(2,107)	(4,386)
Canada	29	196	84		(30)	279
Bermuda	19	18	28	(4)	7	68
Other	3	(1)	2	3	(3)	4
	(2,383)	319	235	(73)	(2,133)	(4,035)

Loans and advances to customers (net) by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
US	**156,288**	177,641	156,638
Canada	**48,448**	45,761	47,158
Bermuda	**3,405**	2,856	3,057

	208,141	226,258	206,853

Customer accounts by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
US	**97,804**	96,059	99,371
Canada	**42,438**	36,514	41,565
Bermuda	**9,196**	7,768	8,221
	149,438	140,341	149,157

Economic briefing
Economic conditions improved in the **US** during the first half of the year. The level of GDP rose by 3.7 per cent and 2.4 per cent in the first and second quarters, respectively, in seasonally adjusted, annualised terms. The housing sector, typically a strong contributor to recovery from recession, continued to experience difficult conditions. Temporary tax subsidies for home purchases helped stabilise home sales and prices for a time, but once these incentives expired, both sales and prices came
under renewed downward pressure. The high rate of unemployment, averaging 9.7 per cent in the second quarter of 2010, contributed to concerns over the rising trend of delinquencies on secured debt within the household sector while also working to depress consumer confidence and household expenditure growth. Consumer prices also proved weak during the first half of 2010, with the annual rate of inflation falling to 1.1 per cent in June 2010 from 2.7 per cent in December 2009. The Federal Reserve s programme to purchase a large quantity

Table of Contents

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Profit/(loss) before tax

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
North America	**US$m**	US$m	US$m
Net interest income	**6,353**	7,177	6,493
Net fee income	**1,801**	2,535	2,282
Net trading income/(expense)	**(67)**	394	(63)
Changes in fair value of long-term debt issued and related derivatives	**412**	(1,507)	(1,990)
Net income/(expense) from other financial instruments designated at fair value	**2**	(2)	3
Net income/(expense) from financial instruments designated at fair value	**414**	(1,509)	(1,987)
Gains less losses from financial investments	**118**	257	39
Dividend income	**21**	23	30
Net earned insurance premiums	**126**	164	145
Other operating income	**306**	292	274
Total operating income	**9,072**	9,333	7,213
Net insurance claims incurred and movement in liabilities to policyholders	**(72)**	(143)	(98)
Net operating income before loan impairment charges and other credit risk provisions	**9,000**	9,190	7,115
Loan impairment charges and other credit risk provisions	**(4,554)**	(8,538)	(7,126)
Net operating income/(expense)	**4,446**	652	(11)
Operating expenses	**(3,957)**	(4,362)	(4,029)
Operating profit/(loss)	**489**	(3,710)	(4,040)
Share of profit in associates and joint ventures	**3**	7	5
Profit/(loss) before tax	**492**	(3,703)	(4,035)

	%	%	%
Share of HSBC s profit before tax	**4.4**	(73.8)	(195.9)
Cost efficiency ratio	**44.0**	47.5	56.6
Period-end staff numbers (full-time equivalent)	**33,988**	37,021	35,458

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**208,141**	226,258	206,853
Loans and advances to banks (net)	**17,068**	10,048	15,386
Trading assets, financial instruments designated at fair value, and financial investments[29]	**142,628**	125,321	123,288
Total assets	**495,408**	494,778	475,014
Deposits by banks	**16,905**	12,389	13,970
Customer accounts	**149,438**	140,341	149,157

For footnotes, see page 95.

The commentary on North America is on an underlying basis unless stated otherwise.

of government-sponsored agency debt and mortgage-backed securities came to an end in March 2010. However, the Federal Reserve maintained an accommodative policy stance, holding the fed funds rate to a narrow range between zero and 25 basis points throughout the first half of 2010.

Canadian GDP rose by 2.7 per cent during the first five months of 2010 compared with the equivalent period of 2009, helped by a rebound in output within the manufacturing sector. Labour market conditions also improved as the unemployment rate fell from 8.4 per cent in December 2009 to 7.9 per cent in June 2010, while the headline CPI inflation rate proved volatile during the period, falling from 1.9 per cent in January 2010 to 1.0 per cent in June 2010. Responding to the improved economic outlook, the Bank of Canada increased its overnight interest rate to 0.5 per cent in June 2010.

Table of Contents

Review of business performance

Reconciliation of reported and underlying profit/(loss) before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 30 June 2009 (1H09)								
North America	**1H09 as reported US$m**	**1H09 adjust- ments[1] US$m**	**Currency translation[2] US$m**	**1H09 at 1H10 exchange rates[3] US$m**	**1H10 as reported US$m**	**1H10 adjust- ments[1] US$m**	**1H10 under- lying US$m**	**Re- ported change[4] %**	**Under- lying change[4] %**
Net interest income	**7,177**		**100**	**7,277**	**6,353**		**6,353**	**(11)**	**(13)**
Net fee income	**2,535**		**40**	**2,575**	**1,801**		**1,801**	**(29)**	**(30)**
Changes in fair value[5]	**(1,616)**	**1,616**			**506**	**(506)**			
Other income[6]	**1,094**		**14**	**1,108**	**340**	**(66)**	**274**	**(69)**	**(75)**
Net operating income[7]	**9,190**	**1,616**	**154**	**10,960**	**9,000**	**(572)**	**8,428**	**(2)**	**(23)**
Loan impairment charges and other credit risk provisions	**(8,538)**		**(42)**	**(8,580)**	**(4,554)**		**(4,554)**	**47**	**47**
Net operating income	**652**	**1,616**	**112**	**2,380**	**4,446**	**(572)**	**3,874**	**582**	**63**
Operating expenses	**(4,362)**		**(75)**	**(4,437)**	**(3,957)**		**(3,957)**	**9**	**11**
Operating profit/(loss)	**(3,710)**	**1,616**	**37**	**(2,057)**	**489**	**(572)**	**(83)**		**96**
Income from associates	**7**			**7**	**3**		**3**	**(57)**	**(57)**
Profit/(loss) before tax	**(3,703)**	**1,616**	**37**	**(2,050)**	**492**	**(572)**	**(80)**		**96**

For footnotes, see page 95.

In North America, HSBC reported a profit before tax of US$492 million for the first half of 2010 compared with a loss before tax of US$3.7 billion in the first half of 2009. On an underlying basis, a loss before tax of US$80 million compared with a loss before tax of US$2.1 billion in the first half of 2009, reflecting a marked decline in loan impairment charges partly offset by reduced revenue, in both cases driven by continued portfolio run-off.

HSBC continued to leverage on the Group s global scale and connectivity to grow in selected markets. The number of Premier customers increased by 20 per cent to over 600,000. In Commercial Banking, successful referrals to other regions increased by 15 per cent, and Global Banking and Markets continued to benefit from business flows from the Group s presence in emerging markets, especially Latin America.

Net interest income fell by 13 per cent compared with the first half of 2009, driven by the planned decline in lending balances in the run-off portfolios and lower lending balances in Card and Retail Services, lower overall yields, a shift in loan mix and a decline in revenue from Balance Sheet Management. These factors were partly offset by lower funding costs and repricing intiatives.

In May 2009, the CARD Act was passed into law in the US. HSBC has implemented the changes that have taken effect to date and will continue to make changes in order to comply with the remaining requirements by the effective date of August 2010. Management s current estimate is that the effect of the CARD Act, after taking mitigating action, will be to reduce revenue, net of loan impairment charges, by between US$200 million and US$300 million in 2010, mainly in the second half of the year.

Customer asset balances declined, compared with the first half of 2009, mainly due to the run-off of the Consumer Lending, Mortgage Services and vehicle finance portfolios. In order to accelerate this process, HSBC Finance sold US$1.0 billion of vehicle finance loans to Santander Consumer USA Inc. in the first half of 2010. In July 2010 HSBC reached agreement in principle with an unaffiliated third party to sell the remainder of the portfolio (US$4.3 billion). In Card and Retail Services, lower lending balances largely reflected fewer active accounts, the effects of management actions taken to reduce risk and an increased focus by consumers on reducing credit card debt.

Asset spreads in the real estate secured portfolios widened due to a lower cost of funds, partly offset by a reduction in yields. This reflected a change in mix as the proportion of modified or delinquent loans rose and there was an increase in the expected duration of participation by customers in payment incentive programmes. In Card and Retail Services, asset spreads widened due to repricing initiatives and a lower cost of funds, partly offset by the CARD Act as noted above. In

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Commercial Banking, spreads benefited from loan repricing initiatives in the second half of 2009.

Deposit balances remained buoyant reflecting the strength of HSBC s deposit franchise. Balances rose moderately from 31 December 2009, with larger year-on-year increases for Commercial Banking and Personal Financial Services. In Personal Financial Services, deposit growth reflected the ongoing success of HSBC s Premier and branch expansion strategies, in addition to the continued rise in online savings.

Liability spreads widened modestly but remained constrained in the low interest rate environment. Spreads benefited from re-pricing initiatives and less intensive price competition.

Net interest income from Balance Sheet Management activities declined markedly compared with the record first half of 2009 due to lower interest rates and flatter yield curves.

As portfolios ran off, loan impairment charges fell, driving significantly improved performance in North America.

Net fee income declined by 30 per cent, mainly in the US credit card portfolio due to a decline in late and overlimit fees driven by lower volumes and delinquency levels, and changes in customer payment behaviour. Overlimit fees also fell due to changes in fee practices because of the requirements of the CARD Act. Enhancement services fee income declined due to fewer accounts and lower balances.

Net trading expense of US$67 million compared with net trading income in the first half of 2009. In Global Banking and Markets, trading income rose by US$325 million as higher asset prices generated recoveries of previous write-downs on legacy positions in credit trading and on monoline exposures. This compared with charges in the first half of 2009, and was offset by declines in trading income from Rates and foreign exchange, due to a rise in competition, and a decrease in market volatility. The increase in Global Banking and Markets was more than offset by fair value losses from non-qualifying hedges, mainly interest rate swaps used to economically hedge floating rate debt issued by HSBC Finance. The deterioration in marketplace and economic conditions since 2006 resulted in Consumer Lending and Mortgage Services mortgage loans remaining on the balance sheet longer because of lower prepayment rates due to loan modifications and the lack of refinancing alternatives. To offset the increase in duration of the mortgage loan portfolio and to mitigate the corresponding increase in interest rate risk, interest rate swap positions were entered into to more closely align the duration of the liabilities. The loss recognised in respect of non-qualifying hedges was a result of fair value losses on these instruments primarily driven by the decrease in long-term US interest rates. In the first half of 2009, fair value gains were recorded on these instruments.

A net expense of US$92 million was incurred on *financial instruments designated at fair value*, compared with net income of US$109 million in the first half of 2009, arising from fair value losses from interest rate ineffectiveness in the hedging of long-term debt designated at fair value issued by the Group s North American subsidiaries. This compared with gains on ineffectiveness in the economic hedging of long-term debt designated at fair value in the first half of 2009.

Gains less losses from financial investments declined by 55 per cent to US$118 million, due to lower gains on the disposal of available-for-sale assets in Balance Sheet Management, partly offset by gains on private equity investments compared with losses in the first half of 2009.

Net earned insurance premiums and *net insurance claims incurred and movement in liabilities to policyholders* both declined, This reflected the run-off of payment protection insurance following the decision to cease new real estate lending in HSBC Finance. The improvement in the economy and lower unemployment also led to lower claims. The business continued to collect premiums and pay claims on existing policies. There was also a significant reduction in reserving by the reinsurance business.

Other operating income declined by 16 per cent to US$240 million. This included a loss of US$77 million from the sale of the vehicle finance servicing operations and a US$1.0 billion associated loan portfolio to Santander Consumer USA Inc. and the non-recurrence of gains in the first half of 2009 which arose from the refinement of the income recognition methodology for long-term insurance contracts in HSBC Finance, and gains from the sale of prime residential mortgages. The decline was mitigated by a gain of US$56 million in the current period on the sale of HSBC s headquarters in New York and reduced losses on foreclosed properties as house prices continued to stabilise.

Loan impairment charges and other credit risk provisions decreased by 47 per cent to US$4.6 billion. The reduction reflected a marked decline in loan impairment charges in the HSBC Finance portfolios and, to a lesser extent, improvement across all customer groups in HSBC Bank USA and in

Canada. Balances declined and delinquencies fell as economic conditions and credit quality improved.

Loan impairment charges in Card and Retail Services decreased by 51 per cent to US$1.3 billion. This was driven by a decline in lending balances as a result of actions taken in 2007 to manage risk, and better early stage delinquency rates which reflected improvements in economic conditions and the credit quality of the portfolio. The effects of the economic environment on loan impairment charges were less severe than had been expected, in part due to improved cash flow from government stimulus programmes that benefited customers significantly.

Loan impairment charges fell in Consumer Lending by 29 per cent to US$2.3 billion and, in the Mortgage Services portfolio, by 25 per cent to US$813 million. These declines in loan impairment charges were driven by the reduction in loan balances as noted above, fewer new delinquencies, improved economic conditions and less severe losses, which together more than offset a rise in the volume of restructured loans in both portfolios.

Loan impairment charges in the Personal Financial Services business of HSBC Bank USA declined, as delinquencies stabilised, the severity of losses on mortgage lending moderated and balances fell, leading to lower future loss estimates.

In Global Banking and Markets, there was a net recovery of loan impairment charges and other credit risk provisions as the credit environment improved and asset prices rose. Loan impairment charges in Commercial Banking fell from US$288 million to US$104 million as the upturn in the economy and managed reductions in exposures were reflected in lower write-offs and impairment of assets and fewer customer downgrades in all sectors in the US, and in the manufacturing, trade and service sectors in Canada.

Information on credit quality in the US Personal Financial Services portfolios is provided in Areas of special interest personal lending on page 150.

Operating expenses declined by 11 per cent to US$4.0 billion, mainly from a US$147 million pension curtailment accounting gain and the non-recurrence of restructuring costs associated with the closure of the Consumer Lending branch network in the first half of 2009. Excluding these items, operating expenses declined by 4 per cent due to lower staff costs in HSBC Finance following the run-off of the Consumer Lending, Mortgage Services and vehicle finance portfolios. Marketing expenditure rose modestly in Card and Retail Services as HSBC targeted certain segments selected for the resumption of new account originations, though these remained at low levels. Other administrative costs benefited from lower deposit insurance costs as a special assessment in the first half of 2009 did not recur, partly offset by increased expenses relating to real estate owned properties.

Reconciliation of reported and underlying profit/(loss) before tax

	Half-year to 30 June 2010 (1H10) compared with half-year to 31 December 2009 (2H09)								
North America	2H09 as reported US$m	2H09 adjustments[1] US$m	Currency translation[2] US$m	2H09 at 1H10 exchange rates[8] US$m	1H10 as reported US$m	1H10 adjustments[1] US$m	1H10 underlying US$m	Reported change[4] %	Underlying change[4] %
Net interest income	6,493		29	6,522	6,353		6,353	(2)	(3)
Net fee income	2,282		12	2,294	1,801		1,801	(21)	(21)
Changes in fair value[5]	(2,072)	2,072			506	(506)			
Other income[6]	412		(1)	411	340	(66)	274	(17)	(33)
Net operating income[7]	7,115	2,072	40	9,227	9,000	(572)	8,428	26	(9)
	(7,126)		(9)	(7,135)	(4,554)		(4,554)	36	36

Loan impairment charges and other credit risk provisions									
Net operating income/ (expense)	(11)	2,072	31	2,092	4,446	(572)	3,874		85
Operating expenses	(4,029)		(24)	(4,053)	(3,957)		(3,957)	2	2
Operating profit/(loss)	(4,040)	2,072	7	(1,961)	489	(572)	(83)		96
Income from associates	5			5	3		3	(40)	(40)
Profit/(loss) before tax	(4,035)	2,072	7	(1,956)	492	(572)	(80)		96

For footnotes, see page 95.

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2010						
North America	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking & Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[35] US$m**	**Total US$m**
Net interest income/(expense)	**5,190**	**758**	**425**	**94**	**(86)**	**(28)**	**6,353**
Net fee income/(expense)	**1,031**	**252**	**453**	**71**	**(6)**		**1,801**
Trading income/(expense) excluding net interest income	**(567)**	**12**	**401**	**9**	**(16)**		**(161)**
Net interest income on trading activities	**13**	**1**	**40**		**12**	**28**	**94**
Net trading income/ (expense)[25]	**(554)**	**13**	**441**	**9**	**(4)**	**28**	**(67)**
Net income/(expense) from financial instruments designated at fair value			**(3)**		**417**		**414**
Gains less losses from financial investments			**121**		**(3)**		**118**
Dividend income	**9**	**3**	**6**	**1**	**2**		**21**
Net earned insurance premiums	**126**						**126**
Other operating income/ (expense)	**(4)**	**160**	**79**	**11**	**1,213**	**(1,153)**	**306**
	5,798	**1,186**	**1,522**	**186**	**1,533**	**(1,153)**	**9,072**

Total operating income							
Net insurance claims[26]	**(76)**				**4**		**(72)**
Net operating income[7]	**5,722**	**1,186**	**1,522**	**186**	**1,537**	**(1,153)**	**9,000**
Loan impairment (charges)/ recoveries and other credit risk provisions	**(4,613)**	**(104)**	**152**	**11**			**(4,554)**
Net operating income	**1,109**	**1,082**	**1,674**	**197**	**1,537**	**(1,153)**	**4,446**
Operating expenses	**(2,593)**	**(511)**	**(676)**	**(143)**	**(1,187)**	**1,153**	**(3,957)**
Operating profit/(loss)	**(1,484)**	**571**	**998**	**54**	**350**		**489**
Share of profit in associates and joint ventures		**1**			**2**		**3**
Profit/(loss) before tax	**(1,484)**	**572**	**998**	**54**	**352**		**492**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**(13.4)**	**5.1**	**9.0**	**0.5**	**3.2**		**4.4**
Cost efficiency ratio	**45.3**	**43.1**	**44.4**	**76.9**	**77.2**		**44.0**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**140,501**	**30,498**	**32,861**	**4,281**			**208,141**
Total assets	**164,555**	**38,525**	**299,345**	**5,608**	**7,290**	**(19,915)**	**495,408**
	74,475	**42,853**	**19,229**	**12,814**	**67**		**149,438**

Customer
accounts

	Half-year to 30 June 2009						
North America	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
Net interest income/ (expense)	5,976	661	528	91	(51)	(28)	7,177
Net fee income	1,711	213	539	69	3		2,535
Trading income/(expense) excluding net interest income	204		(18)	4	13		203
Net interest income on trading activities	37	2	124			28	191
Net trading income[25]	241	2	106	4	13	28	394
Net expense from financial instruments designated at fair value			(4)		(1,505)		(1,509)
Gains less losses from financial investments	6	4	248		(1)		257
Dividend income	10	2	7	1	3		23
Net earned insurance premiums	164						164
Other operating income/ (expense)	(74)	78	223	6	975	(916)	292
Total operating income/ (expense)	8,034	960	1,647	171	(563)	(916)	9,333
Net insurance claims[26]	(143)						(143)
Net operating income/	7,891	960	1,647	171	(563)	(916)	9,190

(expense)[7]							
Loan impairment charges and other credit risk provisions	(7,825)	(271)	(438)	(4)			(8,538)
Net operating income/ (expense)	66	689	1,209	167	(563)	(916)	652
Operating expenses	(2,909)	(473)	(732)	(144)	(1,020)	916	(4,362)
Operating profit/(loss)	(2,843)	216	477	23	(1,583)		(3,710)
Share of profit/(loss) in associates and joint ventures		8			(1)		7
Profit/(loss) before tax	(2,843)	224	477	23	(1,584)		(3,703)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(56.7)	4.5	9.5	0.5	(31.6)		(73.8)
Cost efficiency ratio	36.9	49.3	44.4	84.2	(181.2)		47.5
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	160,293	33,011	28,320	4,634			226,258
Total assets	185,347	39,657	269,492	6,523	4,453	(10,694)	494,778
Customer accounts	71,176	37,601	19,268	12,185	111		140,341

85

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit/(loss) before tax (continued)

	Half-year to 31 December 2009						
orth America	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[35] US$m	Total US$m
et interest come/ (expense)	5,268	730	471	87	(33)	(30)	6,493
et fee income	1,463	240	506	73			2,282
ading come/(expense) cluding net terest income	53	(10)	(161)	(7)	(43)		(168
et interest come/(expense) n trading tivities	23	1	51	(1)	1	30	105
et trading come/ xpense)[25]	76	(9)	(110)	(8)	(42)	30	(63
et come/(expense) om financial struments signated at fair lue			4		(1,991)		(1,987
ains less losses om financial vestments	10	(1)	29		1		39
vidend income	11	3	20	1	(5)		30
et earned surance emiums	145						145
her operating come	83	84	94	5	853	(845)	274
otal operating come/ (expense)	7,056	1,047	1,014	158	(1,217)	(845)	7,213
	(98)						(98

et insurance aims[26]							
et operating come/ xpense)[7]	6,958	1,047	1,014	158	(1,217)	(845)	7,115
oan impairment arges and other edit risk ovisions	(6,599)	(248)	(183)	(94)	(2)		(7,126
et operating come/ (expense)	359	799	831	64	(1,219)	(845)	(11
perating penses	(2,742)	(485)	(596)	(137)	(914)	845	(4,029
perating ofit/(loss)	(2,383)	314	235	(73)	(2,133)		(4,040
hare of profit in sociates and int ventures		5					5
ofit/(loss) fore tax	(2,383)	319	235	(73)	(2,133)		(4,035
	%	%	%	%	%		%
hare of HSBC s ofit before tax	(115.7)	15.4	11.4	(3.5)	(103.5)		(195.9
ost efficiency tio	39.4	46.3	58.8	86.7	75.1		56.6
alance sheet ta[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
oans and vances to stomers (net)	151,671	31,292	18,654	5,236			206,853
otal assets	179,597	38,232	260,131	6,572	2,071	(11,589)	475,014
ustomer counts	74,228	42,900	19,095	12,834	100		149,157

For footnotes, see page 95.

Table of Contents

Latin America

Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking & Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2010						
Argentina	**38**	**41**	**54**			**133**
Brazil	**34**	**160**	**253**	**2**	**29**	**478**
Mexico	**91**	**(2)**	**116**	**1**	**18**	**224**
Panama	**18**	**26**	**15**	**1**		**60**
Other	**(44)**	**11**	**27**		**(6)**	**(12)**
	137	**236**	**465**	**4**	**41**	**883**
Half-year to 30 June 2009						
Argentina	13	42	62			117
Brazil	(165)	107	267	2	3	214
Mexico	8	51	115	3		177
Panama	41	25	7			73
Other	(22)	(4)	29	(1)	(3)	(1)
	(125)	221	480	4		580
Half-year to 31 December 2009						
Argentina	11	44	60			115
Brazil	(59)	104	248	3		296
Mexico	(39)	15	115	4		95
Panama	28	30	17			75
Other	(32)	(15)	11		(1)	(37)
	(91)	178	451	7	(1)	544

Loans and advances to customers (net) by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Argentina	**2,796**	2,222	2,319
Brazil	**23,474**	20,038	22,765

Mexico	**11,901**	11,913	12,114
Panama	**5,973**	5,921	5,989
Other	**4,685**	4,596	4,442
	48,829	44,690	47,629

Customer accounts by country

	At 30 June 2010 US$m	At 30 June 2009 US$m	At 31 December 2009 US$m
Argentina	**3,505**	2,963	3,083
Brazil	**41,001**	33,508	39,022
Mexico	**18,160**	16,311	18,195
Panama	**7,083**	6,468	6,996
Other	**5,468**	5,631	5,593
	75,217	64,881	72,889

Table of Contents

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Profit before tax

	Half-year to		
	30 June 2010	30 June 2009	31 December 2009
Latin America	**US$m**	US$m	US$m
Net interest income	**3,119**	2,620	2,953
Net fee income	**855**	823	906
Net trading income	**353**	599	249
Changes in fair value from long-term debt issued and related derivatives			
Net income from other financial instruments designated at fair value	**130**	188	307
Net income from financial instruments designated at fair value	**130**	188	307
Gains less losses from financial investments	**53**	132	36
Dividend income	**5**	4	7
Net earned insurance premiums	**957**	724	1,176
Other operating income	**10**	61	72
Total operating income	**5,482**	5,151	5,706
Net insurance claims incurred and movement in liabilities to policyholders	**(767)**	(699)	(1,134)
Net operating income before loan impairment charges and other credit risk provisions	**4,715**	4,452	4,572
Loan impairment charges and other credit risk provisions	**(820)**	(1,385)	(1,141)