HSBC HOLDINGS PLC
Form 6-K
August 05, 2011
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a 16 or 15d 16 of

the Securities Exchange Act of 1934

For the month of August 2011

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 ¨

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

Yes ¨ No þ

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2011 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158054, 333-158065, 333-162565 and 333-17025.

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HSBC HOLDINGS PLC

Interim Report 2011

Certain defined terms

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

Interim financial statements and notes

HSBC s Interim Consolidated Financial Statements and Notes thereon, as set out on pages 171 to 218, 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 as endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2010 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 2010, there were no unendorsed standards effective for the year ended 31 December 2010 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 2010 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2011, there were no unendorsed standards effective for the period ended 30 June 2011 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

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

When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 10) eliminating the impact of fair value movements in respect of credit spread changes on HSBC s own debt and adjusted for the effects of acquisitions and disposals.

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

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HSBC HOLDINGS PLC

Interim Report 2011

Headquartered in London, HSBC is one of the world s largest banking and financial services organisations and one of the industry s most valuable brands. We provide a comprehensive range of financial services to around 89 million customers through two customer groups, Retail Banking and Wealth Management (formerly Personal Financial Services) and Commercial Banking, and two global businesses, Global Banking and Markets and Global Private Banking.

Our international network covers 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, 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 129 countries and territories.

Highlights

Profit attributable to ordinary shareholders of US$8.9bn, up 35% on 1H10 and 46% on 2H10.

Earnings per share of US$0.51, up 34% on 1H10 and 46% on 2H10.

Net assets per share of US$8.59, up 17% on 1H10 and 8% on 2H10.

Reported pre-tax profit of US$11.5bn, up 3% on 1H10, and 45% on 2H10.

Profitable in all regions, with profits up in Hong Kong, Rest of Asia-Pacific, Latin America, Middle East and North Africa and North America.

Cost efficiency ratio of 57.5% compared with 50.9% in 1H10 and 59.9% in 2H10.

Return on average ordinary shareholders equity of 12.3%, up from 10.4% in 1H10, and 8.9% in 2H10.

Dividends declared in respect of 2011 totalling US$0.18 per ordinary share, up 12.5%.

Core tier 1 ratio increased from 10.5% to 10.8% during the period, driven by profit generation.

Cover theme

An evening view of the Central Elevated Walkway in Hong Kong s business district. Used by tens of thousands of commuters every day, this walkway forms a vital artery through the heart of Asia s pre-eminent financial centre, which hosts over 190 banks and deposit-taking companies from all over the world.

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HSBC HOLDINGS PLC

Overview

Financial highlights

Earnings per share	Dividends per share[1]	Net assets per share
US$0.51 *up 34%*	US$0.21	US$8.59
30 June 2010: US$0.38	30 June 2010: US$0.18	30 June 2010: US$7.35
31 December 2010: US$0.35	31 December 2010: US$0.16	31 December 2010: US$7.94

For the period

Profit before taxation	Underlying profit before taxation	Total operating income
US$11,474m *up 3%*	US$11,437m *up 13%*	US$42,311m *up 4%*
30 June 2010: US$11,104m	30 June 2010: US$10,109m	30 June 2010: US$40,672m
31 December 2010: US$7,933m	31 December 2010: US$8,918m	31 December 2010: US$39,342m

Net operating income before loan impairment charges and other credit risk provisions	Profit attributable to ordinary shareholders of the parent company
	US$8,929m *up 35%*

US$35,694m

30 June 2010: US$6,629m

31 December 2010: US$6,117m

30 June 2010: US$35,551m

31 December 2010: US$32,696m

At the period-end

Loans and advances to customers	Customer accounts	Ratio of customer advances to customer accounts
US$1,038bn *up 8%*	US$1,319bn *up 7%*	78.7%
30 June 2010: US$893bn	30 June 2010: US$1,147bn	30 June 2010: 77.9%
31 December 2010: US$958bn	31 December 2010: US$1,228bn	31 December 2010: 78.1%

Total equity	Average total shareholders equity to average total assets	Risk-weighted assets
US$168bn *up 8%*	5.7%	US$1,169bn *up 6%*
30 June 2010: US$143bn	30 June 2010: 5.5%	30 June 2010: US$1,075bn
31 December 2010: US$155bn	31 December 2010: 5.5%	31 December 2010: US$1,103bn

Capital ratios

Core tier 1 ratio	Tier 1 ratio	Total capital ratio
10.8%	12.2%	14.9%
30 June 2010: 9.9%	30 June 2010: 11.5%	30 June 2010: 14.4%
31 December 2010: 10.5%	31 December 2010: 12.1%	31 December 2010: 15.2%

Percentage growth rates compare with figures at 30 June 2010 for income statement items and 31 December 2010 for balance sheet items.

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Overview (continued)

Performance ratios (annualised)

Credit coverage ratios

Loan impairment charges to total operating income	Loan impairment charges to average gross customer advances	Total impairment allowances to impaired loans at period-end
11.8%	1.0%	72.2%
30 June 2010: 17.8%	30 June 2010: 1.7%	30 June 2010: 79.0%
31 December 2010: 16.1%	31 December 2010: 1.4%	31 December 2010: 71.6%

Return ratios

Return on average invested capital[2]	Return on average ordinary shareholders equity[3]	Post-tax return on average total assets	Pre-tax return on average risk-weighted assets
11.4%	12.3%	0.7%	2.0%
30 June 2010: 9.4%	30 June 2010: 10.4%	30 June 2010: 0.6%	30 June 2010: 2.0%
31 December 2010: 8.2%	31 December 2010: 8.9%	31 December 2010: 0.5%	31 December 2010: 1.4%

Efficiency and revenue mix ratios

Cost efficiency ratio[4]	Net interest income to	Net fee income to	Net trading income to

	total operating income	total operating income	total operating income
57.5%	47.8%	20.8%	11.4%
30 June 2010: 50.9%	30 June 2010: 48.6%	30 June 2010: 20.9%	30 June 2010: 8.7%
31 December 2010: 59.9%	31 December 2010: 50.0%	31 December 2010: 22.5%	31 December 2010: 9.3%

Share information at the period-end

US$0.50 ordinary shares in issue	Market capitalisation	Closing market price London	Hong Kong	American Depositary Share[5]
17,818m	US$177bn	£6.18	HK$77.05	US$49.62
30 Jun 2010: 17,510m 31 Dec 2010: 17,686m	30 Jun 2010: US$161bn 31 Dec 2010: US$180bn	30 Jun 2010: £6.15 31 Dec 2010: £6.51	30 Jun 2010: HK$72.65 31 Dec 2010: HK$79.70	30 Jun 2010: US$45.59 31 Dec 2010: US$51.04

	Total shareholder return[6] Over 1 year	Over 3 years	Over 5 years
To 30 June 2011	104.6	104.9	95.6
Benchmarks:			
FTSE 100[7]	124.9	118.4	122.6
MSCI World[8]	122.3	127.9	132.6
MSCI Banks[8]	111.0	103.2	77.5

For footnotes, see page 81.

Cautionary statement regarding forward-looking statements

This *Interim Report 2011* 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 variations on such 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, 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 Interim Management Report . A more detailed cautionary statement is given on page 379 of the *Annual Report and Accounts 2010.*

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HSBC HOLDINGS PLC

Overview (continued)

Group Chairman s Statement

Good progress has been made during the first half of 2011 in setting the necessary course to build further sustainable value from HSBC s many advantaged positions in attractive markets and customer-facing businesses. The priorities, set out in the Strategy Day which Stuart Gulliver, Group Chief Executive, presented with his team in early May this year, are now being actioned, as Stuart sets out clearly in his review. Against the backdrop of the significant regulatory change which is under way, our clear focus is to concentrate HSBC s capital allocation and resources on the market segments which we are best able to serve competitively and efficiently.

Our ability to make progress on these strategic issues has been enhanced by a period of relative stability in operating performance as revenue strength in the faster growing economies continued to offset the constraining impact of the wind-down of our exit portfolios. With credit experience also continuing to improve, earnings per share for the first half of 2011 of US$0.51 were 34% higher than those delivered in the first half of last year. The Group Chief Executive s review describes in more detail the drivers of this encouraging performance.

As foreshadowed when we reported our 2010 results, the Board has declared two interim dividends of US$0.09 per ordinary share in respect of 2011, with the second interim dividend payable on 6 October 2011 to holders of record on 18 August 2011 on the Hong Kong Overseas Branch Register and 19 August 2011 on the Principal Register in the United Kingdom or on the Bermuda Overseas Branch Register. These dividends are 12.5% higher than those declared at the comparable stages last year.

Given the intense current focus amongst the regulatory and political communities on bank capital strength, it is very positive to note both that our capital position strengthened during the period and that we comfortably passed the European Banking Authority s industry wide stress test, the results of which were made public on 15 July 2011. The Group s core tier 1 ratio, which is the ratio most critically monitored by regulators, increased to 10.8% at 30 June 2011 from 10.5% at 31 December 2010 and 9.9% at 30 June 2010.

There has been significant further activity on the regulatory reform front in the period. The Independent Commission on Banking in the UK published its Interim Report on 11 April 2011 and we submitted our comments on its preliminary conclusions on 4 July 2011 in line with the timetable laid down. HSBC has been very actively involved in the debate around one of the principal reform ideas raised in this report, namely the concept of structurally ring-fencing certain of the core activities contained within UK-incorporated universal banks; in our case this would affect our UK subsidiary, HSBC Bank plc. The objective of ring-fencing certain activities from other activities is to facilitate the resolution and continuation of the core activities contained within the ring-fence , at little or no cost to the taxpayer in the event of a future crisis.

Much of the ongoing debate is around assessing the likely impact of various alternative ring-fencing definitions on credit supply to the real economy in the UK and on the competitiveness of UK-incorporated banks. We believe the critical judgements ultimately to be made must consider two principal factors. The first of these is how any restructuring will likely affect the quantum and cost of credit supply to the real economy. The second is whether the benefit of this incremental restructuring on top of the aggregate of all the reform measures already in hand under Basel III and EU directives outweighs the considerable cost and time commitment involved.

In another major new development, the Basel Committee and the Financial Stability Board have now issued consultation documents concerning additional capital requirements for banks identified as global systemically important financial institutions. Incremental common equity of between 1% and 2.5% of risk-weighted assets on top of Basel III requirements is being proposed. We expect HSBC will fall at the higher end of incremental capital requirements. This level of capital is consistent with the expectation of Basel III common

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HSBC HOLDINGS PLC

Overview (continued)

equity tier 1 ratio levels of between 9.5% and 10.5% referred to in our *Annual Report and Accounts 2010*.

The pace and quantum of regulatory reform continues to increase at the same time as the global economy appears to be losing momentum in its recovery. We are concerned about the possible pro-cyclical impacts of further deleveraging of the global economy arising from the regulatory reform agenda, at the same time as sovereign credit concerns and fiscal consolidation challenges become more critical.

Financial markets globally will likely be volatile over the rest of this year and into 2012 as participants assess and react to the possibility of political constraints preventing timely or optimal economic decisions. The global economy is currently facing many such situations, ranging from reaching a sustainable solution to eurozone sovereign indebtedness through dealing with the impact of inflationary pressures and commodity price increases on developing economies, supporting social reform and cohesion in the Middle East, balancing the growth imperative in the faster-growing economies with the consequences of asset price bubbles and, most importantly, negotiating a long-term framework for budget discipline and related financing in the United States.

Finally, I am delighted to report how effectively the new management team under the leadership of Stuart Gulliver is working together and making progress, under the governance and supervision of the Board, in delivering the strategic agenda which has been agreed. There is much to do and, as noted above, the current economic backdrop contains many challenges. However, the mood in the organisation is upbeat and there is real commitment and enthusiasm to tackle the tasks ahead of us.

D J Flint, *Group Chairman*

1 August 2011

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HSBC HOLDINGS PLC

Overview (continued)

Group Chief Executive s Review

HSBC s financial performance improved.

- Reported profit before tax was US$11.5bn, up 3% from 1H10 and 45% from 2H10.
- Profit attributable to ordinary shareholders was US$8.9bn, up 35% from 1H10 and 46% from 2H10.
- Return on average ordinary shareholders equity was 12.3%, up from 10.4% in 1H10 and 8.9% in 2H10.
- The cost efficiency ratio was 57.5%, up from 50.9% in 1H10 but down from 59.9% in 2H10.
- The advances-to-deposits ratio was 78.7%, up from 77.9% in 1H10 and 78.1% in 2H10.
- We declared two interim dividends in respect of 2011 totalling US$0.18 per ordinary share, up 12.5% year on year.
- The core tier 1 capital ratio was 10.8% at 30 June 2011, compared with 10.5% at 31 December 2010.

Progress on strategy

HSBC s global network covers the majority of world trade and capital flows, and provides access to faster-growing economies as well as the mature economies where wealth is stored. In May, we articulated our strategy to become the world s leading international bank by building on this distinctive position to leverage global economic and demographic trends. We also outlined our plans to deploy capital more efficiently, to improve cost efficiency and to target growth in selected markets. We are making progress in all three areas:

- First, as a result of our portfolio review and application of a five-filter framework, we announced a number of closures and disposals. These included the closure of our retail businesses in Russia and Poland and the disposal of three insurance businesses. More materially, in the US we are progressing the strategic review of our credit card business, and announced the disposal of 195 non-strategic branches, principally in upstate New York.

Second, we are targeting US$2.5-3.5bn of sustainable cost savings by 2013. Since the start of 2011, we have begun operational restructurings in Latin America, the US, the UK, France and the Middle East which will reduce headcount by around 5,000. We launched a programme to reduce the costs of our head office and global support functions. We also initiated more efficient business operating models for Commercial Banking and Retail Banking and Wealth Management. We expect there will be some 25,000 job losses by the end of 2013, although we plan to recruit in support of our strategic initiatives.

Third, we continued to position the business for growth. We increased revenues in target markets and we made progress in wealth management, where we saw higher investment income, especially in Asia, and funds under management in Global Asset Management reached a record high at the end of the period.

Revenues

At US$35.7bn, total Group revenues were stable compared with 1H10 and up 9% compared with 2H10.

We recorded double-digit revenue growth in Hong Kong, Rest of Asia-Pacific and Latin America compared with 1H10.

As we had forecast, revenue declined in the US as we continued to manage down balances in the run-off portfolios, and in Balance Sheet Management as positions matured. Along with many peers, we saw weaker Credit and Rates revenues in Europe in Global Banking and Markets.

Loan impairment charges

Loan impairment charges were US$5.3bn compared with US$7.5bn in 1H10 and US$6.5bn in 2H10.

Most of the improvement was in the US. The Consumer Finance run-off and Cards portfolios

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HSBC HOLDINGS PLC

Overview (continued)

recorded lower balances as well as improved delinquency rates, although we saw a slowing of delinquency trend improvements in the second quarter.

In Global Banking and Markets, loan impairment charges and other credit risk provisions were lower.

Cost efficiency

The cost efficiency ratio rose from 50.9% to 57.5% compared with 1H10. Reflecting strategic investment in the business, key drivers behind the increase were higher staff numbers, wage inflation, and other costs related to business growth. We also reported a number of notable cost items during the period.

The cost efficiency ratio fell compared with 59.9% in 2H10 as we controlled discretionary spend and took action to make sustainable savings.

Significantly, on a quarterly basis, the cost efficiency ratio was 54.4% in 2Q11, lower than in each of the previous three quarters.

Balance sheet

Compared with year-end 2010, customer account balances increased by 7% or US$91.3bn to US$1.3 trillion, with most of the increase in Europe and Asia.

Compared with year-end 2010, total customer loan balances increased by 8% or US$79.5bn to US$1.0 trillion, rising in all regions except North America, where we managed down balances in the Consumer Finance portfolios.

The core tier 1 ratio increased during the period from 10.5% at the end of 2010 to 10.8%, driven primarily by profit generation.

Economic outlook

We remain positive on the outlook for emerging markets. We expect a soft landing in China and we believe Hong Kong is well-equipped to mitigate overheating pressures. We expect continued growth in the rest of Asia-Pacific and Latin America and take comfort from the focus of the authorities on managing inflationary pressures. In the Middle East, the outlook for the Gulf Cooperation Council economies is also positive.

In the developed world, growth in the US and Europe is likely to remain sluggish as long as the impact of high debt levels and government budget cuts weigh on economic activity. In the UK, we remain concerned that regulatory actions being contemplated and the ongoing regulatory uncertainty will constrain the supply of credit to the real economy and contribute to sub-par economic growth.

In closing, I would add that I am pleased with these results, which mark a first step in the right direction on what will be a long journey.

S T Gulliver, *Group Chief Executive*

1 August 2011

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HSBC HOLDINGS PLC

Overview (continued)

Principal activities

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$177bn at 30 June 2011.

Through our subsidiaries and associates, we provide a comprehensive range of banking and related financial services. Headquartered in London, we operate through long-established businesses and have an international network of around 7,500 offices in 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa (MENA), 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.

HSBC s values

The role of HSBC s values in daily operating practice has taken on increased significance in the context of the global financial crisis, with changes to regulatory policy, investor confidence and society s view of the role of banks. We expect our executives and staff to act with courageous integrity in the execution of their duties.

HSBC s values are being:

- dependable and doing the right thing;
- open to different ideas and cultures; and
- connected with our customers, communities, regulators and each other.

We have strengthened our values-led culture by embedding HSBC s values into our operating standards, training, development and employee induction, and through the personal sponsorship of senior executives. These initiatives will continue in 2011 and beyond.

Strategic direction

HSBC s objective is to deliver sustainable long-term value to shareholders through consistent earnings and superior risk-adjusted returns. We have a clear strategy to become the leading international bank, based on two main elements which are aligned with the key trends shaping the global economy:

international connectivity we are strengthening our presence in those markets and businesses that are most relevant to global trade and capital flows; and

economic development and wealth creation we are investing to capture wealth creation in the selected markets and focusing on retail banking only in those markets where we can achieve profitable scale.

To deliver on our strategy, we are taking action in three areas:

Capital deployment we are improving the way we deploy capital as part of our efforts to achieve our targeted return on equity of 12% to 15% over the business cycle. We have introduced a strategic framework assessing each of our businesses on a set of five strategic evaluation criteria, namely international connectivity, economic development, profitability, cost efficiency and liquidity. The results of this review determine whether we invest in, turn around, continue with or exit businesses;

Cost efficiency we have launched a transformation programme to achieve sustainable cost savings of between US$2.5bn and US$3.5bn over the next three years. Sustainable cost savings are intended to facilitate self-funded growth in key markets and investment in new products, processes and technology, and provide a buffer against regulatory and inflationary headwinds; and

Growth we continue to position ourselves for growth. We are increasing our relevance in fast-growing markets and in wealth management, and are improving the collaboration between our international network of businesses, particularly between Commercial Banking and Global Banking and Markets.

The objectives and incentives of management are aligned to delivering the strategy. Progress is measured through our quarterly financial performance and will be reviewed at the annual Strategy Investor Day.

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HSBC HOLDINGS PLC

Overview (continued)

Top and emerging risks

All of our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks which we assess on a Group-wide basis. We classify certain risks as top or emerging . A top risk is a current, visible risk with the potential to have a material effect on our financial results or our reputation. An emerging risk is one with large unknown components which could have a material impact on our long-term strategy. Top and emerging risks are viewed as falling under the following four broad categories:

- challenges to our business operations;
- challenges to our governance and internal control systems;
- macro-economic and geopolitical risk; and
- macro-prudential and regulatory risks to our business model.

The top and emerging risks are summarised below:

Challenges to our business operations

- Challenges to our operating model in an economic downturn (in developed countries) and rapid growth (in emerging markets)
- Internet crime and fraud

Challenges to our governance and internal control systems

- Level of change creating operational complexity

Information security risk

Macro-economic and geopolitical risk

Eurozone crisis, US deficit and elevated risk from potentially overheating economies in emerging markets

Increased geopolitical risk in the Middle East and North Africa

Macro-prudential and regulatory risks to our business model

Regulatory change impacting our business model and Group profitability

Regulatory and legislative requirements affecting conduct of business

A detailed account of HSBC s challenges and uncertainties is provided on pages 84 to 88. Further comments on expected risks and uncertainties are made throughout the Interim Management Report, particularly in the section on Risk.

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. Our operations are closely integrated and, accordingly, the presentation of customer group and global business 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.

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Interim Management Report

Financial summary

Reconciliation of reported and underlying profit before tax

In addition to results reported on an IFRSs basis, we measure our performance internally on a like-for-like basis by eliminating the effects of foreign currency translation differences, acquisitions and disposals of subsidiaries and businesses, and fair value movements on own debt attributable to credit spread where the net result of such movements will be zero upon maturity of the debt; all of which distort period-on-period comparisons. We refer to this as our underlying performance.

Reported results include the effects of the above items. They are excluded when monitoring progress against operating plans and past results because management believes that the underlying basis more accurately reflects operating performance.

Constant currency

Constant currency comparatives for the half-years to 30 June 2010 and 31 December 2010, used in the 2011 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 2010 and 31 December 2010 at the average rates of exchange for the half-year to 30 June 2011; and
- the balance sheets at 30 June 2010 and 31 December 2010 at the rates of exchange ruling at 30 June 2011.

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 our underlying performance for the half-year to 30 June 2011 with the half-years to 30 June 2010 and 31 December 2010. Equivalent tables are provided for each of HSBC s customer groups, global businesses and geographical segments on www.hsbc.com and on pages 37a and 79a.

The foreign currency translation differences reflect the relative weakening of the US dollar against most major currencies.

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

- the gain of US$62m on reclassification of Bao Viet Holdings (Bao Viet) from an available-for-sale asset to an associate in January 2010;
- the gain of US$66m on sale of our stake in Wells Fargo HSBC Trade Bank in March 2010;
- the gain of US$107m on disposal of HSBC Insurance Brokers Limited in April 2010;
- the dilution gains which arose on our holding in Ping An Insurance (Group) Company of China, Limited (Ping An) following the issue of share capital to third parties in both May 2010 and June 2011 of US$188m and US$181m, respectively;
- the loss on the sale of our investment in British Arab Commercial Bank plc in 2010;
- the gain of US$74m on the deconsolidation of private equity funds following the management buy-out of Headland Capital Partners Ltd (formerly known as HSBC Private Equity (Asia) Ltd) in November 2010;
- the operating results of Eversholt Rail Group for the half year to 30 June 2010 and the gain on the sale of US$255m in December 2010.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported	1H10 adjust-ments[9]	Currency translation[10]	1H10 at 1H11 exchange rates[11]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
HSBC									
Net interest income	19,757	17	698	20,472	20,235		20,235	2	(1)
Net fee income	8,518	(50)	288	8,756	8,807		8,807	3	1
Changes in fair value[13]	1,074	(1,074)			(143)	143			
Other income[14]	6,202	(404)	254	6,052	6,795	(180)	6,615	10	9
Net operating income[15]	35,551	(1,511)	1,240	35,280	35,694	(37)	35,657		1
Loan impairment charges and other credit risk provisions	(7,523)		(176)	(7,699)	(5,266)		(5,266)	30	32
Net operating income	28,028	(1,511)	1,064	27,581	30,428	(37)	30,391	9	10
Operating expenses	(18,111)	148	(737)	(18,700)	(20,510)		(20,510)	(13)	(10)
Operating profit	9,917	(1,363)	327	8,881	9,918	(37)	9,881		11
Share of profit in associates and joint ventures	1,187		41	1,228	1,556		1,556	31	27
Profit before tax	11,104	(1,363)	368	10,109	11,474	(37)	11,437	3	13
By geographical region									
Europe	3,521	(594)	140	3,067	2,147	71	2,218	(39)	(28)
Hong Kong	2,877	(56)	(3)	2,818	3,081		3,081	7	9
Rest of Asia-Pacific	2,985	(188)	151	2,948	3,742	(178)	3,564	25	21
Middle East and North Africa	346	47	(5)	388	747	4	751	116	94
North America	492	(572)	29	(51)	606	66	672	23	
Latin America	883		56	939	1,151		1,151	30	23
Profit before tax	11,104	(1,363)	368	10,109	11,474	(37)	11,437	3	13
By customer group and global business									

Retail Banking and Wealth Management[16]	**1,352**	**(3)**	**85**	**1,434**	**3,126**		**3,126**	**131**	**118**
Commercial Banking	**3,204**	**(116)**	**99**	**3,187**	**4,189**		**4,189**	**31**	**31**
Global Banking and Markets[16]	**5,452**	**80**	**183**	**5,715**	**4,811**		**4,811**	**(12)**	**(16)**
Global Private Banking	**556**		**5**	**561**	**552**		**552**	**(1)**	**(2)**
Other	**540**	**(1,324)**	**(4)**	**(788)**	**(1,204)**	**(37)**	**(1,241)**		**(57)**
Profit before tax	**11,104**	**(1,363)**	**368**	**10,109**	**11,474**	**(37)**	**11,437**	**3**	**13**

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Interim Management Report (continued)

Reconciliation of reported and underlying profit before tax (continued)

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)								
	2H10 as reported	2H10 adjust- ments[9]	Currency translation[10]	2H10 at 1H11 exchange rates[17]	1H11 as reported	1H11 adjust- ments[9]	1H11 under- lying	Re- ported change[12]	Under- lying change[12]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
HSBC									
Net interest income	19,684	1	424	20,109	20,235		20,235	3	1
Net fee income	8,837		195	9,032	8,807		8,807		(2)
Changes in fair value[13]	(1,137)	1,137			(143)	143		87	
Other income[14]	5,312	(334)	123	5,101	6,795	(180)	6,615	28	30
Net operating income[15]	32,696	804	742	34,242	35,694	(37)	35,657	9	4
Loan impairment charges and other credit risk provisions	(6,516)		(116)	(6,632)	(5,266)		(5,266)	19	21
Net operating income	26,180	804	626	27,610	30,428	(37)	30,391	16	10
Operating expenses	(19,577)		(471)	(20,048)	(20,510)		(20,510)	(5)	(2)
Operating profit	6,603	804	155	7,562	9,918	(37)	9,881	50	31
Share of profit in associates and joint ventures	1,330	(1)	27	1,356	1,556		1,556	17	15
Profit before tax	7,933	803	182	8,918	11,474	(37)	11,437	45	28
By geographical region									
Europe	781	518	52	1,351	2,147	71	2,218	175	64
Hong Kong	2,815	(74)	(5)	2,736	3,081		3,081	9	13
Rest of Asia-Pacific	2,917	1	83	3,001	3,742	(178)	3,564	28	19
Middle East and North Africa	546	(5)	(4)	537	747	4	751	37	40
North America	(38)	363	19	344	606	66	672		95
Latin America	912		37	949	1,151		1,151	26	21
Profit before tax	7,933	803	182	8,918	11,474	(37)	11,437	45	28

By customer group and global business									
Retail Banking and Wealth Management[16]	2,487		51	2,538	3,126		3,126	26	23
Commercial Banking	2,886	(3)	54	2,937	4,189		4,189	45	43
Global Banking and Markets[16]	3,763	(331)	65	3,497	4,811		4,811	28	38
Global Private Banking	498		3	501	552		552	11	10
Other	(1,701)	1,137	9	(555)	(1,204)	(37)	(1,241)	29	(124)
Profit before tax	7,933	803	182	8,918	11,474	(37)	11,437	45	28

For footnotes, see page 81.

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Interim Management Report (continued)

Consolidated income statement

Summary income statement

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Net interest income	**20,235**	19,757	19,684
Net fee income	**8,807**	8,518	8,837
Net trading income	**4,812**	3,552	3,658
Net income/(expense) from financial instruments designated at fair value	**(100)**	1,085	135
Gains less losses from financial investments	**485**	557	411
Gains arising from dilution of interests in associates	**181**	188	
Dividend income	**87**	59	53
Net earned insurance premiums	**6,700**	5,666	5,480
Other operating income	**1,104**	1,290	1,084
Total operating income	**42,311**	40,672	39,342
Net insurance claims incurred and movement in liabilities to policyholders	**(6,617)**	(5,121)	(6,646)
Net operating income before loan impairment charges and other credit risk provisions	**35,694**	35,551	32,696
Loan impairment charges and other credit risk provisions	**(5,266)**	(7,523)	(6,516)
Net operating income	**30,428**	28,028	26,180
Total operating expenses	**(20,510)**	(18,111)	(19,577)
Operating profit	**9,918**	9,917	6,603
Share of profit in associates and joint ventures	**1,556**	1,187	1,330
Profit before tax	**11,474**	11,104	7,933
Tax expense	**(1,712)**	(3,856)	(990)
Profit for the period	**9,762**	7,248	6,943

Profit attributable to shareholders of the parent company	**9,215**	6,763	6,396
Profit attributable to non-controlling interests	**547**	485	547
Average foreign exchange translation rates to US$:			
US$1: £	**0.619**	0.656	0.639
US$1:	**0.714**	0.755	0.755

Interim Management Report (continued)

Reported profit before tax of US$11.5bn in the first half of 2011 was 3% higher than in the first half of 2010, 13% on an underlying basis, with a continued reduction in loan impairment charges more than offsetting higher operating costs. The difference between reported and underlying results is explained on page 10. Except where otherwise stated, the commentaries in the Financial Summary are on an underlying basis.

Net operating income before loan impairment charges and other credit risk provisions (revenue) was marginally higher than in the first half of 2010. Revenue rose across Hong Kong, Rest of Asia-Pacific and Latin America supported by strong lending growth, notably in Commercial Banking (CMB) and Global Banking and Markets (GB&M), and increasing trade and transaction volumes. This was coupled with growth in investment and insurance income in Retail Banking and Wealth Management (RBWM) as markets improved. We also recorded sustained growth in our mortgage portfolios, notably in the UK and Hong Kong. Offsetting these factors were the ongoing decrease in balances in North America in the Cards and run-off portfolios. Performance in GB&M was affected by lower revenues in legacy Credit, and in Balance Sheet Management.

Loan impairment charges and other credit risk provisions were US$2.4bn or 32% lower than in the first half of 2010 and the lowest reported since the first half of 2006, reflecting the benefits of our exit strategies for higher risk portfolios, ongoing risk management, a sustained trend towards higher quality, more secure lending and a general improvement in credit quality. This was most notable in North America in HSBC Finance as we continued the managed run-off of our sub-prime mortgage portfolio and the loss experience on credit card portfolios improved.

Operating expenses of US$20.5bn were 10% higher than in the first half of 2010, reflecting increased headcount, wage inflation in key markets and ongoing investment in strategic projects in GB&M and in the branch network, as well as a number of notable items. These included an increase of US$477m in restructuring costs which were incurred as a result of actions taken following the review of our businesses announced on the Strategy Day and the ongoing review of our cost base. In addition, operating expenses included provisions relating to customer redress programmes of US$611m, including a provision in respect of the adverse judgement in the Judicial Review relating to sales of payment protection insurance (PPI) in the UK. This was offset by a credit of US$587m resulting from a change in the inflation measure used to calculate the defined benefit obligation of the HSBC Bank (UK) Pension Scheme defined benefit plan for deferred pensions (for further details see Note 5 on page 183). As a result of the increasing costs, our cost efficiency ratio for the first half of 2011 was 57.5%, higher than in the first half of 2010 and outside our target range. Significantly, however, it improved compared with both the second half of 2010 and the first quarter of 2011.

Reported profit after tax was US$2.5bn or 35% higher than in the first half of 2010, reflecting the increase in profit before tax and a lower tax charge in the first half of 2011. The latter included the benefit of deferred tax now eligible to be recognised in respect of foreign tax credits, partly offset by a current period tax charge in respect of prior periods. The tax charge in the first half of 2010 was exceptionally high as it included US$1.6bn attributable to a taxable gain arising from an internal reorganisation within our North American operations.

Group performance by income and expense item

Net interest income

		Half-year to	
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Interest income	**31,046**	28,686	29,659
Interest expense	**(10,811)**	(8,929)	(9,975)
Net interest income[18] (US$m)	**20,235**	19,757	19,684
Average interest-earning assets (US$m)	**1,607,626**	1,431,458	1,512,462
Gross interest yield[19] (%)	**3.89**	4.04	3.89
Net interest spread[20] (%)	**2.37**	2.68	2.43
Net interest margin[21] (%)	**2.54**	2.78	2.58

For footnotes, see page 81.

Net interest income increased by 2% compared with the first half of 2010. On an underlying basis, net interest income was broadly in line with the first half of 2010, as significant balance growth was offset by continuing pressure on spreads.

Average loans and advances to customers grew strongly in the first half of 2011, particularly in commercial lending in CMB and GB&M Group-wide and mortgages in the UK and Hong Kong. The benefit to interest income from higher balances was partly offset by the effect of declining yields on lending, as we continued to reposition the customer loan portfolio towards higher quality assets and reduce our exposure to higher yielding unsecured personal lending, coupled with intensive competition in certain markets.

The average balance of loans and advances to banks and financial investments also rose due to higher placements with central and commercial banks and this, together with rising yields in Asia, led to an increase in interest income. This was partly offset by Balance Sheet Management, where revenues continued to fall as higher-yielding positions matured and the opportunity to maintain yields on reinvestment was limited by the prevailing low interest rate environment, notably in Europe.

The increase in interest income was offset by higher interest expense on customer accounts and debt issued by the Group. Average customer account balances grew significantly, notably in Hong Kong and Rest of Asia-Pacific, reflecting the growth in

customer numbers and the success of deposit campaigns. The cost of funds across the Group also rose, driven by base rate increases and higher rates paid to customers in competitive markets.

The interest expense on debt issued by the Group also rose, reflecting a general rise in credit spreads in the financial sector which led to an increase in the cost of funds for new issuances in most regions during the second half of 2010 and the first half of 2011.

Net interest income includes the expense of internally funding trading assets, while related revenue is reported in Net trading income . The cost of funding these assets rose as a result of growth in average trading assets. In reporting our customer group and global business results, this cost is included within Net trading income .

The net interest spread decreased due to lower yields on loans and advances to customers as we continued to target higher quality assets, and the rising cost of funds relating to customer accounts and debt issued by the Group. Our net interest margin fell by a lesser amount due to the benefit from net free funds. The increase in net free funds was partly attributable to a rise in funding in line with the growth in trading assets. In addition, customers held more funds in liquid non-interest bearing current accounts in the low interest rate environment. The rise in the Group s cost of funds also contributed to the benefit from net free funds.

Net fee income

		Half-year to	
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Cards	**1,977**	1,900	1,901
Account services	**1,846**	1,821	1,811
Funds under management	**1,414**	1,181	1,330
Broking income	**933**	766	1,023
Credit facilities	**849**	827	808
Imports/exports	**552**	466	525
Insurance	**545**	578	569
Global custody	**391**	439	261
Unit trusts	**374**	267	293
Remittances	**371**	329	351
Underwriting	**332**	264	359
Corporate finance	**235**	248	192
Trust income	**148**	141	150
Mortgage servicing	**56**	60	58
Taxpayer Financial Services	**1**	91	(18)
Maintenance income on operating leases		53	46
Other	**920**	974	1,053
Fee income	**10,944**	10,405	10,712
Less: fee expense	**(2,137)**	(1,887)	(1,875)
Net fee income	**8,807**	8,518	8,837

Reported net fee income rose by 3.4% to US$8.8bn, and was in line on an underlying basis.

Fee income from wealth management products increased considerably within Asia and Europe, due to higher transaction volumes. This was particularly so for unit trusts in Hong Kong and funds under management in Europe, where growth was driven by stronger investment performance due to improved market conditions.

Trade-related fee income increased, notably in Hong Kong and the Rest of Asia-Pacific region due to higher trade and transaction volumes.

Net fee income related to cards increased in the first half of 2011, notably in the UK and in Hong Kong due to higher transaction volumes which were driven by increased retail spending and customer promotions. This was partly offset in North America, where reduced late and overlimit fees reflected lower delinquency and an increased willingness by customers to pay down their credit card debt, combined with the effects of lower balances and changes to charging practices under the Credit Card Accountability, Responsibility and Disclosure Act (CARD Act).

Underwriting fees increased in GB&M as we increased our market share of global bond issuance volumes in the first half of 2011.

The negligible income from Taxpayer Financial Services in the US resulted from the decision to exit the business.

Fee expenses increased, notably in GB&M, which benefited from higher recoveries from the securities investment conduits in the first half of 2010.

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Interim Management Report (continued)

Net trading income

		Half-year to	
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Trading activities	**3,615**	3,419	2,289
Net interest income on trading activities	**1,581**	1,242	1,288
Gain/(loss) on termination of hedges	**5**	(3)	3
Other trading income hedge ineffectiveness:			
on cash flow hedges	**2**	(24)	15
on fair value hedges	**(77)**	17	21
Non-qualifying hedges	**(314)**	(1,099)	42
Net trading income[22,23]	**4,812**	3,552	3,658

For footnotes, see page 81.

Reported net trading income was US$4.8bn, 35% higher than in the first half of 2010. On an underlying basis, it rose by 23%.

This increase was driven by lower adverse fair value movements on non-qualifying hedges compared with the first half of 2010. These instruments are derivatives entered into as part of a documented interest rate management strategy for which hedge accounting was not, or could not be, applied. They are principally cross-currency and interest rate swaps used to economically hedge fixed rate debt issued by HSBC Holdings and floating rate debt issued by HSBC Finance Corporation (HSBC Finance). Long-term US interest rates declined during the first half of 2011 but to a lesser extent than in the corresponding period in 2010, and the decrease relative to sterling and euro rates was also less pronounced, benefiting net trading income in North America and Europe. The size and direction of the changes in fair value of non-qualifying hedges that 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 increased by 21%, attributable to a rise in holdings of government and government agency debt securities. The cost of internally funding these assets also

increased, but this interest expense is reported under Net interest income and excluded from net trading income.

In GB&M, net income from trading activities declined, mainly driven by Rates, largely due to lower favourable fair value movements on structured liabilities as credit spreads widened to a lesser extent than in the first half of 2010. The decline was partly offset by higher revenues as customer demand for structured products increased.

This was partly offset by a rise in Equities revenues as improved competitive positioning helped capture increasing client flows, particularly during the global rally in the first quarter of 2011.

In addition, net trading income included favourable foreign exchange movements on trading assets held as economic hedges of foreign currency debt designated at fair value. These offset adverse foreign exchange movements on the foreign currency debt which are reported in Net income from financial instruments designated at fair value .

The decline in GB&M was offset by other movements, notably in RBWM in North America where, in the first half of 2011, provisions for mortgage loan repurchase obligations associated with loans previously sold were lower. This related mainly to mortgages originated through broker channels. We regard these mortgage loan repurchase obligations as trading assets.

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

	Half-year to		
	30 June 2011	30 June 2010	31 December 2010
	US$m	US$m	US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**547**	(229)	2,578
liabilities to customers under investment contracts	**(186)**	184	(1,130)
HSBC s long-term debt issued and related derivatives	**(494)**	1,125	(1,383)
Change in own credit spread on long-term debt[24]	**(143)**	1,074	(1,137)
Other changes in fair value[25]	**(351)**	51	(246)
other instruments designated at fair value and related derivatives	**33**	5	70
Net income/(expense) from financial instruments designated at fair value	**(100)**	1,085	135

Assets and liabilities from which net income/(expense) from financial instruments designated at fair value arose

	At		
	30 June 2011	30 June 2010	31 December 2010
	US$m	US$m	US$m
Financial assets designated at fair value at period-end	**39,565**	32,243	37,011
Financial liabilities designated at fair value at period-end	**98,280**	80,436	88,133
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DPF[26]	**8,109**	5,894	7,167
unit-linked insurance and other insurance and investment contracts	**21,584**	16,145	19,725
Long-term debt issues designated at fair value	**79,574**	63,692	69,906

For footnotes, see page 81.

The accounting policies for the designation of financial instruments at fair value and the treatment of the associated income and expenses are described in Notes 2i and 2b of the *Annual Report and Accounts 2010*, respectively.

The majority of the financial liabilities designated at fair value relate to 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. The movement in fair value of these long-term debt issues includes the effect of our 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 the credit spread on our debt and ineffectiveness, which are 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, fair value movements arising from changes in our own credit spread on long-term debt and other fair value movements on the debt and related derivatives are not regarded internally as part of managed performance and are therefore not allocated to

customer groups or global businesses, but are reported in Other . Credit spread movements on own debt are excluded from underlying results, and related fair value movements are not included in the calculation of regulatory capital.

We reported a net expense from financial instruments designated at fair value of US$0.1bn in the first half of 2011 compared with net income of US$1.1bn in the first half of 2010. On an underlying basis, the equivalent figures were income of US$43m and an expense of US$5m, respectively. The difference between the reported and underlying results arose from the exclusion from the latter of the credit spread-related movements in the fair value of our own long-term debt, on which we reported adverse fair value movements of US$143m in the first half of 2011 and favourable movements of US$1.1bn in the first half of 2010. The adverse fair value movements during the first half of 2011 were driven by the tightening of credit spreads in Europe and North America, compared with widening credit spreads in the first half of 2010.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts reflected investment gains in the period as equity markets improved, compared with losses in the first half of 2010. This predominantly affected

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the value of assets held to support unit-linked insurance and investment contracts in the UK and Hong Kong and participating contracts in France, while gains in Brazil were higher than in the comparable period in 2010.

The investment gains arising from the improved equity markets resulted in a corresponding increase in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where the gains relate to assets held to back investment contracts, the corresponding increase in liabilities to customers is also recorded under Net income from financial

instruments designated at fair value . This is in contrast to gains related to assets held to back insurance contracts or investment contracts with discretionary participation features (DPF), where the corresponding increase in liabilities to customers is recorded under Net insurance claims incurred and movement in liabilities to policyholders .

Net income from financial instruments designated at fair value also included adverse foreign exchange movements on foreign currency debt designated at fair value, issued as part of our overall funding strategy, with an offset from trading assets held as economic hedges reported in Net trading income .

Gains less losses from financial investments

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Net gains/(losses) from disposal of:			
debt securities	**306**	382	182
equity securities	**213**	223	293
other financial investments	**(3)**	(8)	1
	516	597	476
Impairment of available-for-sale equity securities	**(31)**	(40)	(65)
Gains less losses from financial investments	**485**	557	411

Net gains from financial investments decreased by 13% and 5% on a reported and an underlying basis, respectively, the latter excluding an accounting gain from the reclassification of Bao Viet as an associate following the purchase of additional shares in the first half of 2010.

The decline was driven by lower net gains on the disposal of debt securities, including available-for-sale government debt securities and mortgage-backed

securities, mostly due to the high level of realised gains in Hong Kong and Rest of Asia-Pacific in the first half of 2010.

The decrease was partly offset by an increase in net gains on the disposal of available-for-sale equity investments, and a lower level of impairments on available-for-sale investments reflecting a general improvement in the economic environment.

Net earned insurance premiums

		Half-year to	
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Gross insurance premium income	**6,928**	5,902	5,707
Reinsurance premiums	**(228)**	(236)	(227)
Net earned insurance premiums	**6,700**	5,666	5,480

Net earned insurance premiums increased by 18% and 14% on a reported and an underlying basis, respectively. This was primarily attributable to the continued growth of the life insurance business, particularly in Hong Kong.

In Hong Kong, sales of unit-linked and deferred annuity products rose. This resulted from increased demand for insurance products, together with higher levels of renewals from a larger in-force book of

business. Sales were also higher in Rest of Asia-Pacific, particularly in Singapore and Malaysia, driven by successful sales initiatives and increased demand for insurance products as economic conditions in the region continued to improve.

Investment products with DPF continued to generate strong net earned premium income in France, driven by successful targeted sales campaigns. Life insurance premiums in the UK were

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also higher, due to increased sales of a unit-linked product driven by our enhanced distribution capabilities.

In Latin America, net earned premium growth was strong, particularly for credit-related, term life and unit-linked products in Brazil, reflecting the improved economic environment and an increase in

the salesforce. In Argentina, repricing initiatives drove higher premiums on the motor book.

The above growth was partly offset by a reduction in premiums resulting from the non-renewal and transfer to third parties of certain contracts in our Irish business, and the run-off of the legacy motor book in the UK.

Other operating income

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Rent received	**75**	297	238
Losses recognised on assets held for sale	**(4)**	(100)	(163)
Valuation gains/(losses) on investment properties	**38**	(8)	101
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**27**	274	427
Gains arising from dilution of interests in associates	**181**	188	
Change in present value of in-force long-term insurance business	**658**	325	380
Other	**310**	502	101
Other operating income	**1,285**	1,478	1,084

Reported other operating income of US$1.3bn decreased by 13% in the first half of 2011. Income in the period included a gain of US$181m arising from a further dilution of our holding in Ping An following its issue of share capital to a third party. Income in the first half of 2010 also included a gain of US$188m following a dilution of our holding in Ping An, a gain of US$107m from the sale of HSBC Insurance Brokers, a gain of US$66m from the disposal of our interest in the Wells Fargo HSBC Trade Bank and a write-down of US$47m resulting from an agreement to sell our shareholding in British Arab Commercial Bank plc. The first half of 2010 also included rent received as a component of the operating result of Eversholt Rail Group which was sold in December 2010.

On an underlying basis, excluding these items, other operating income increased by 13% as the non-recurrence of gains of US$194m and US$56m recognised in 2010 on the sale and leaseback of our Paris and New York headquarters, respectively, was more than offset by favourable movements in the present value of in-force (PVIF) long-term insurance business. The calculation of the PVIF asset was refined during the period to bring greater comparability and consistency across our insurance operations, which led to a gain of US$243m (see footnote 27 on page 81). Higher sales of life insurance products, notably in Hong Kong, also contributed to the increase in the PVIF asset.

Net losses recognised on assets held for sale declined as a US$77m loss recognised on the sale of the US vehicle finance servicing operations and associated US$1.0bn loan portfolio in the first half of 2010 did not recur. In addition, the first half of 2011 included gains on the sale of buildings including the sale and leaseback of branches in Mexico.

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Interim Management Report (continued)

Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**6,761**	5,281	6,688
reinsurers share	**(144)**	(160)	(42)
net[28]	**6,617**	5,121	6,646

For footnote, see page 81.

Net insurance claims incurred and movement in liabilities to policyholders increased by 29% on a reported basis and by 26% on an underlying basis.

Additional reserves were established for new business written, driven by premium growth in Hong Kong, Rest of Asia-Pacific, Latin America and Europe, reflecting sales campaigns and improved market conditions.

Further increases in the movement in liabilities to policyholders resulted from gains on the fair value of the assets held to support policyholder funds as equity markets improved, particularly on unit-linked contracts in the UK and Hong Kong and on investment contracts with DPF in France, compared with losses in the first half of 2010. Gains on the fair

value of the assets held to support unit-linked contracts in Brazil increased compared with the equivalent period in 2010.

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 .

The non-renewal and transfer to third parties of certain contracts in the Irish business and the run-off of the legacy motor book in the UK resulted in a decrease in net insurance claims incurred and movement in liabilities to policyholders, partly offsetting the above.

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
Loan impairment charges			
New allowances net of allowance releases	**5,703**	7,687	6,881
Recoveries of amounts previously written off	**(730)**	(453)	(567)
	4,973	7,234	6,314
Individually assessed allowances	**638**	1,069	1,556
Collectively assessed allowances	**4,335**	6,165	4,758
Impairment of available-for-sale debt securities	**308**	282	190
Other credit risk provisions/(recoveries)	**(15)**	7	12
Loan impairment charges and other credit risk provisions	**5,266**	7,523	6,516
	%	%	%
as a percentage of net operating income excluding the effect of fair value movements in respect of credit spread on own debt and before loan impairment charges and other credit risk provisions	**14.7**	21.8	19.3
Impairment charges on loans and advances to customers as a percentage of gross average loans and advances to customers (annualised)	**1.0**	1.7	1.4
	US$m	US$m	US$m
Customer impaired loans	**25,982**	27,887	28,091
Customer loan impairment allowances	**18,732**	22,033	20,083

On a reported basis loan impairment charges and other credit risk provisions decreased from US$7.5bn to US$5.3bn, a decline of 30% compared with the first half of 2010 and 32% on an underlying

basis. Within this, collectively assessed allowances and individually assessed impairment allowances fell by 31% and 43%, respectively.

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At 30 June 2011, the aggregate balance of customer loan impairment allowances was US$18.7bn. This represented 2% of gross loans and advances to customers (net of reverse repos and settlement accounts) compared with 3% at 30 June 2010.

The improvement in loan impairment charges and other credit risk provisions was seen across all regions. The most significant diminution in loan impairment charges was in RBWM in North America due to the continued decline in the run-off portfolios and the ongoing reduction of outstanding credit card debt by customers in the Card and Retail Services business, as well as a general improvement in credit quality. In addition, credit quality also improved for our RBWM business in Europe, reflecting the continued shift from unsecured to secured lending. Loan impairment charges and other credit risk provisions in GB&M and CMB also declined.

Impairments on available-for-sale debt securities were broadly in line with the first half of 2010.

In North America, loan impairment charges and other credit risk provisions fell by 33% to US$3bn, representing 62% of the Group s reduction in loan impairment charges and other credit risk provisions compared with the first half of 2010.

Loan impairment charges in our Consumer Lending and Mortgage Services businesses in the US fell by 30% to US$2.2bn, driven by lower lending balances, delinquency and write-off levels as the portfolios continued to run off. These decreases were partly offset by an incremental charge resulting from changes to economic assumptions on the pace of recovery in home prices and delays in the timing of expected cash flows as a consequence of the suspension of foreclosure activity which began in late 2010.

In Card and Retail Services, loan impairment charges fell by 47% to US$705m. The decrease was driven by lower lending balances reflecting fewer active accounts and consumers continued efforts to reduce their credit card debt. The easing in economic conditions, lower delinquency levels and higher recovery rates were also factors in the reduction.

In Europe, loan impairment charges and other credit risk provisions decreased by 26% to US$1.2bn. In RBWM, loan impairment charges declined due to improved delinquency trends across both the secured and unsecured portfolios, reflecting enhanced credit risk management practices, improved collections and the effects of the low interest rate environment in the UK. In CMB, loan

impairment charges and other credit risk provisions fell by US$69m, driven by lower customer-specific impairments.

In Europe we recorded an impairment of US$105m in the first half of 2011 in respect of available-for-sale Greek sovereign debt. Further information on our exposures to countries in the eurozone, is provided in Areas of special interest wholesale lending on page 98.

In the Middle East and North Africa, loan impairment charges and other credit risk provisions declined by 77% to US$99m, primarily in our GB&M business, due to the non-recurrence of impairment charges against a small number of large corporate customers in the United Arab Emirates (UAE) in the first half of 2010. In our RBWM business, loan impairment charges also reduced, by 59% to US$58m, due to lower lending balances and a significant improvement in delinquency rates driven by the repositioning of the loan book, higher quality lending and strengthened collections practices.

Loan impairment charges and other credit risk provisions in Latin America decreased by 8% to US$820m, primarily in RBWM. This was mainly in the credit card portfolios in Mexico due to the managed decline of riskier portfolios and lower delinquency rates as a result of tightened underwriting criteria, better collections practices and improved credit conditions. In our CMB portfolios, loan impairment charges and other credit risk provisions declined by 3% to US$180m, principally as improved economic conditions resulted in lower specific impairment charges against commercial real estate exposures in Mexico.

In the Rest of Asia-Pacific region, loan impairment charges decreased by 36%, notably in RBWM as certain unsecured lending portfolios continued to be managed down in India. This reduction was partly offset by the non-recurrence of impairment releases in GB&M that occurred in the first half of 2010.

In Hong Kong, loan impairment charges and other credit risk provisions fell by 60% to US$25m, primarily from the non-recurrence of a specific impairment charge in GB&M along with higher recoveries and a reduction in the level of collective loan impairment allowances in the first half of 2011. Despite the low level of impairment charges in the region, we remained vigilant on maintaining underwriting standards and continued to focus on maintaining high levels of asset quality.

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Operating expenses

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010
	US$m	US$m	US$m
By expense category			
Employee compensation and benefits	**10,521**	9,806	10,030
Premises and equipment (excluding depreciation and impairment)	**2,196**	2,089	2,259
General and administrative expenses	**6,223**	4,925	5,883
Administrative expenses	**18,940**	16,820	18,172
Depreciation and impairment of property, plant and equipment	**805**	834	879
Amortisation and impairment of intangible assets	**765**	457	526
Operating expenses	**20,510**	18,111	19,577

	At		
	30 June	30 June	31 December
	2011	2010	2010
Staff numbers (full-time equivalent)			
Europe	**76,879**	73,431	75,698
Hong Kong	**30,214**	28,397	29,171
Rest of Asia-Pacific	**91,924**	88,605	91,607
Middle East and North Africa	**8,755**	8,264	8,676
North America	**32,605**	33,988	33,865
Latin America	**55,618**	54,886	56,044
Staff numbers	**295,995**	287,571	295,061

Cost efficiency ratios

	Half-year to		
	30 June	30 June	31 December
	2011	2010	2010

	%	%	%
HSBC	**57.5**	50.9	59.9
Geographical regions			
Europe	**70.7**	60.6	77.2
Hong Kong	**43.2**	40.2	46.4
Rest of Asia-Pacific	**53.0**	53.7	57.6
Middle East and North Africa	**46.4**	43.7	45.7
North America	**55.8**	44.0	54.2
Latin America	**65.3**	63.9	67.4
Customer groups and global businesses			
Retail Banking and Wealth Management[16]	**61.2**	56.5	59.7
Commercial Banking	**45.1**	48.5	50.3
Global Banking and Markets[16]	**50.2**	44.6	53.8
Global Private Banking	**66.1**	62.7	68.9

For footnote, see page 81.

Operating expenses increased by 13% to US$20.5bn on a reported basis. On an underlying basis, they increased by 10% and 2% compared with the first and second halves of 2010, respectively. There were a number of significant items during the first half of 2011, notably US$611m of provisions relating to customer redress programmes in the UK, including a provision of US$455m in respect of the adverse judgement in the Judicial Review relating to sales of PPI. Litigation costs increased in the US. This was offset by a credit of US$587m resulting from a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred

pensions. In the first half of 2010, payroll and bonus taxes in the UK and France amounting in aggregate to US$398m (US$367m as reported) and the US pension curtailment, which generated accounting credits of US$148m, were recorded.

The growth in business volumes, which was primarily in Hong Kong, Rest of Asia-Pacific and Latin America and was partly driven by expansion during 2010 and the first half of 2011, was supported by a rise in staff numbers as we recruited selectively. Overall average staff numbers (expressed in full-time equivalents) grew by 3% over the comparable

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period and by 2% over the second half of 2010. Higher wages and salaries reflected the rising demand for talent in certain countries, union-agreed salary increases and an acceleration in the expense recognition for deferred bonus awards of US$138m as employees now have a better understanding of the likely nature of their deferred awards. (See page 80).

GB&M continued to develop the operational capabilities of their Prime Services and equity market products and expanded their Rates and Foreign Exchange e-commerce platforms, which resulted in higher costs.

Marketing and advertising costs increased, primarily in support of the Group brand through the sponsorship of various activities.

In order to improve cost efficiency and organisational effectiveness we initiated a Group-wide review during the period which resulted in restructuring costs of US$477m, primarily in the US, Latin America and Europe, which included impairments on certain software projects now deferred or cancelled.

Share of profit in associates and joint ventures

	Half-year to		
	30 June 2011 US$m	30 June 2010 US$m	31 December 2010 US$m
Associates			
Bank of Communications Co., Limited	**642**	467	520
Ping An Insurance (Group) Company of China, Limited	**469**	377	471
Industrial Bank Co., Limited	**199**	146	181
The Saudi British Bank	**171**	101	60
Other	**56**	84	72
Share of profit in associates	**1,537**	1,175	1,304
Share of profit in joint ventures	**19**	12	26
Share of profit in associates and joint ventures	**1,556**	1,187	1,330

The share of profit in associates and joint ventures was US$1.6bn, an increase of 31% compared with the first half of 2010 on a reported basis and 27% on an underlying basis. This increase was driven by higher contributions from the mainland China associates as they capitalised on the robust economic conditions in the country.

Our share of profits from the Bank of Communications Co., Limited (Bank of

Communications) was 32% higher than in the first half of 2010 from strong loan growth, an improvement in deposit spreads as base rates increased and expanding fee-based revenue streams. Profits from Ping An also rose, driven by strong sales growth and the performance of the insurance, banking and wealth management business. Profits from Industrial Bank Co., Limited (Industrial Bank) similarly increased as a result of continued strong loan growth.

Tax expense

	Half-year to		
	30 June 2011 US$m	30 June 2010 US$m	31 December 2010 US$m
Profit before tax	**11,474**	11,104	7,933
Tax expense	**(1,712)**	(3,856)	(990)
Profit after tax	**9,762**	7,248	6,943
Effective tax rate	**14.9%**	34.7%	12.5%

Our tax charge in the first half of 2011 was 55.6% lower than in the first half of 2010 on a reported basis. The lower tax charge in the first half of 2011 included the benefit of deferred tax now eligible to be recognised in respect of foreign tax credits, partly offset by a current period tax charge in respect of prior periods.

The tax charge in the first half of 2010 included US$1.6bn attributable to a taxable gain arising from an internal reorganisation within our North American operations. The resulting reported effective tax rate for the first half of 2011 was 14.9% compared with 34.7% for the first half of 2010.

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Interim Management Report (continued)

Consolidated balance sheet

Summary consolidated balance sheet

	At 30 June 2011 US$m	At 30 June 2010 US$m	At 31 December 2010 US$m
ASSETS			
Cash and balances at central banks	**68,218**	71,576	57,383
Trading assets	**474,950**	403,800	385,052
Financial assets designated at fair value	**39,565**	32,243	37,011
Derivatives	**260,672**	288,279	260,757
Loans and advances to banks	**226,043**	196,296	208,271
Loans and advances to customers[29]	**1,037,888**	893,337	958,366
Financial investments	**416,857**	385,471	400,755
Other assets	**166,794**	147,452	147,094
Total assets	**2,690,987**	2,418,454	2,454,689
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**125,479**	127,316	110,584
Customer accounts	**1,318,987**	1,147,321	1,227,725
Trading liabilities	**385,824**	274,836	300,703
Financial liabilities designated at fair value	**98,280**	80,436	88,133
Derivatives	**257,025**	287,014	258,665
Debt securities in issue	**149,803**	153,600	145,401
Liabilities under insurance contracts	**64,451**	52,516	58,609
Other liabilities	**123,601**	152,092	109,954
Total liabilities	**2,523,450**	2,275,131	2,299,774

Equity			
Total shareholders equity	**160,250**	135,943	147,667
Non-controlling interests	**7,287**	7,380	7,248
Total equity	**167,537**	143,323	154,915
Total equity and liabilities	**2,690,987**	2,418,454	2,454,689
Selected financial information			
Called up share capital	**8,909**	8,755	8,843
Capital resources[30,31]	**173,784**	154,886	167,555
Undated subordinated loan capital	**2,782**	2,780	2,781
Preferred securities and dated subordinated loan capital[32]	**53,659**	48,118	54,421
Risk-weighted assets and capital ratios[30]			
Risk-weighted assets	**1,168,529**	1,075,264	1,103,113
	%	%	%
Core tier 1 ratio	**10.8**	9.9	10.5
Tier 1 ratio	**12.2**	11.5	12.1
Financial statistics			
Loans and advances to customers as a percentage of customer accounts	**78.7**	77.9	78.1
Average total shareholders equity to average total assets	**5.7**	5.5	5.5
Net asset value per ordinary share at period-end[33] (US$)	**8.59**	7.35	7.94
Number of US$0.50 ordinary shares in issue (millions)	**17,818**	17,510	17,686
Closing foreign exchange translation rates to US$:			
US$1: £	**0.625**	0.667	0.644
US$1:	**0.690**	0.815	0.748

For footnotes, see page 81.

A more detailed consolidated balance sheet is contained in the Financial Statements on page 173.

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Interim Management Report (continued)

Movement from 31 December 2010 to 30 June 2011

Total reported assets were US$2.7 trillion, 10% higher than at 31 December 2010. Underlying assets, excluding the effect of currency movements, increased by 7%. Strong deposit gathering activities across all regions led to significant growth in customer accounts, which enabled us to support our customers borrowing requirements. Growth in trading assets reflected an improvement in trading activity in the first half of 2011 and an increase in our share of global bond issuances for clients. We remain well capitalised and strongly liquid.

The following commentary is on an underlying basis, compared with the balance sheet at 31 December 2010.

Assets

Cash and balances at central banks rose by 16% due to higher overnight balances with central banks in North America and Asia. This was partly offset by lower residual cash from daily operations placed with central banks in Europe.

Trading assets grew by 20%. Holdings of debt securities, including government and government agency debt securities, increased, reflecting both our role as primary market maker and customer demand. Settlement account balances, which vary considerably in proportion to the level of trading activity, also grew significantly. Higher reverse repo balances were attributable to an increase in client trading and the development of repo products across the regions.

Financial assets designated at fair value were broadly in line with 31 December 2010 levels.

Derivative assets fell by 4%, largely driven by a reduction in the fair value of interest rate contracts in Europe as the euro yield curve moved upwards, coupled with higher netting as we increased our trading through clearing houses. This was partly offset by an increase in the fair value of foreign exchange contracts due to higher levels of client demand.

Loans and advances to banks increased by 5% due to a rise in term placements with commercial and central banks, particularly in Asia.

Loans and advances to customers rose by 6% with increases in all regions except North America. This reflected targeted customer lending growth in CMB and GB&M, mainly in Europe, Hong Kong and Rest of Asia-Pacific, as the economic environment improved and trade flows rose. Mortgage balances increased in Hong Kong and the

UK as we continued to reposition RBWM towards higher quality secured lending and focus on target markets. This was partly offset by the planned decline in lending balances in the run-off portfolios in North America, coupled with a reduction in credit card advances as our customers continued to pay down their credit card debt.

Financial investments rose by 2% due to purchases of government, government agency and highly rated corporate debt securities, in line with the growth in deposit balances.

Other assets increased by 13% due to a rise in items in the course of collection, reflecting increased activity within the central clearing system, notably in Hong Kong.

Liabilities

Deposits by banks increased by 9% due to a rise in funds placed with HSBC by other financial institutions including higher balances relating to our Payments and Cash Management business.

Customer accounts were 5% higher. Strong growth was seen across most customer groups and regions, reflecting an increase in customer numbers and the success of promotional deposit campaigns. Repo balances also rose in Europe, driven by higher customer activity.

Trading liabilities grew by 24% due to an increase in settlement account balances which vary in proportion to the volume of trading activity. Repo balances increased to finance a rise in long inventory and client-driven trading positions. Short bond positions also rose, in line with the growth in the Rates portfolio.

Financial liabilities designated at fair value rose by 9% due to debt issuances by HSBC entities in Europe in the first half of 2011. This was partly offset by debt maturities that were not replaced in North America due to lower funding requirements as the consumer finance portfolios continued to decline.

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

Debt securities in issue remained in line with 31 December 2010 levels as new issuances in Europe and Latin America were largely offset by lower funding requirements in North America in line with the reduction in lending balances.

Liabilities under insurance contracts grew by 6%, driven by higher sales and renewals of life insurance products in Hong Kong.

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Other liabilities rose by 10% due to an increase in items in the course of transmission to other banks in Hong Kong, corresponding with the increase in items in the course of collection above.

Equity

Total shareholders equity increased by 6%, driven by profits generated during the period and a reduction in the negative balance of the available-for-sale reserve reflecting a rise in market prices.

Reconciliation of reported and underlying changes in assets and liabilities

	30 June 2011 compared with 31 December 2010						
	31 Dec 10 as reported US$m	Currency translation[34] US$m	31 Dec 10 at 30 Jun 11 exchange rates US$m	Underlying change US$m	30 Jun 11 as reported US$m	Reported change %	Under-lying change %
HSBC							
Cash and balances at central banks	**57,383**	**1,621**	**59,004**	**9,214**	**68,218**	**19**	**16**
Trading assets	**385,052**	**12,279**	**397,331**	**77,619**	**474,950**	**23**	**20**
Financial assets designated at fair value	**37,011**	**1,541**	**38,552**	**1,013**	**39,565**	**7**	**3**
Derivative assets	**260,757**	**10,881**	**271,638**	**(10,966)**	**260,672**		**(4)**
Loans and advances to banks	**208,271**	**7,330**	**215,601**	**10,442**	**226,043**	**9**	**5**
Loans and advances to customers	**958,366**	**24,619**	**982,985**	**54,903**	**1,037,888**	**8**	**6**
Financial investments	**400,755**	**6,983**	**407,738**	**9,119**	**416,857**	**4**	**2**
Other assets	**147,094**	**704**	**147,798**	**18,996**	**166,794**	**13**	**13**
Total assets	**2,454,689**	**65,958**	**2,520,647**	**170,340**	**2,690,987**	**10**	**7**
	110,584	**4,188**	**114,772**	**10,707**	**125,479**	**13**	**9**

Deposits by banks							
Customer accounts	**1,227,725**	**27,220**	**1,254,945**	**64,042**	**1,318,987**	**7**	**5**
Trading liabilities	**300,703**	**9,627**	**310,330**	**75,494**	**385,824**	**28**	**24**
Financial liabilities designated at fair value	**88,133**	**2,041**	**90,174**	**8,106**	**98,280**	**12**	**9**
Derivative liabilities	**258,665**	**10,844**	**269,509**	**(12,484)**	**257,025**	**(1)**	**(5)**
Debt securities in issue	**145,401**	**3,778**	**149,179**	**624**	**149,803**	**3**	
Liabilities under insurance contracts	**58,609**	**2,377**	**60,986**	**3,465**	**64,451**	**10**	**6**
Other liabilities	**109,954**	**1,929**	**111,883**	**11,718**	**123,601**	**12**	**10**
Total liabilities	**2,299,774**	**62,004**	**2,361,778**	**161,672**	**2,523,450**	**10**	**7**
Total shareholders equity	**147,667**	**3,895**	**151,562**	**8,688**	**160,250**	**9**	**6**
Non-controlling interests	**7,248**	**59**	**7,307**	**(20)**	**7,287**	**1**	
Total equity	**154,915**	**3,954**	**158,869**	**8,668**	**167,537**	**8**	**5**
Total equity and liabilities	**2,454,689**	**65,958**	**2,520,647**	**170,340**	**2,690,987**	**10**	**7**

For footnote, see page 81.

In the first half of 2011, the effect of acquisitions and disposals was not significant.

Economic profit/(loss)

Our internal performance measures include economic profit/(loss), a calculation which compares the return on financial capital invested in HSBC by our shareholders with the cost of that capital. We price our 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. In order to concentrate on external factors rather than measurement bases, we emphasise the trend in economic profit/(loss) ahead of absolute amounts.

Our long-term cost of capital is reviewed annually and is 11% for 2011; this remains unchanged from 2010. We use the Capital Asset Pricing Model to determine our cost of capital. The following commentary is on a reported basis.

Economic profit/(loss)

The return on invested capital increased by 2.0 percentage points to 11.4%, which is broadly in line with our benchmark cost of capital. Our economic profit was US$0.3bn, an increase of US$1.5bn compared with a loss at 30 June 2010, due to an increase in profit attributable to shareholders. This was predominantly driven by a lower tax charge as well as an increase in reported profit before tax due to lower loan impairment charges across all regions, notably in the US, partly offset by an increase in costs.

The increase in average invested capital reflected higher retained earnings and an increase in the average foreign exchange reserves primarily due to the effect of euro and sterling rate movements on our underlying assets.

	Half-year to					
	30 June 2011		30 June 2010		31 December 2010	
	US$m	**%[35]**	US$m	%[35]	US$m	%[35]
Average total shareholders equity	**153,312**		131,198		143,712	
Adjusted by:						
Goodwill previously amortised or written off	**8,123**		8,123		8,123	
Property revaluation reserves	**(916)**		(786)		(820)	
Reserves representing unrealised losses on effective cash flow hedges	**384**		25		155	
Reserves representing unrealised losses on available-for-sale securities	**3,699**		7,590		4,298	
Preference shares and other equity instruments	**(7,256)**		(3,661)		(7,256)	
Average invested capital[36]	**157,346**		142,489		148,212	
Return on invested capital[37]	**8,929**	**11.4**	6,629	9.4	6,117	8.2
Benchmark cost of capital	**(8,583)**	**(11.0)**	(7,772)	(11.0)	(8,320)	(11.0)
Economic profit/(loss) and spread	**346**	**0.4**	(1,143)	(1.6)	(2,203)	(2.8)

For footnotes, see page 81.

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

	Half-year to 30 June 2011	Year ended 31 December 2010	2009	2008	2007	2006
Ratios of earnings to combined fixed charges and preference share dividends:[1]						
excluding interest on deposits	**6.36**	5.89	2.64	2.97	6.96	7.22
including interest on deposits	**1.71**	1.69	1.20	1.13	1.34	1.40
Ratios of earnings to combined fixed charges:[1]						
excluding interest on deposits	**7.79**	7.10	2.99	3.17	7.52	7.93
including interest on deposits	**1.76**	1.73	1.22	1.14	1.34	1.41

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

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Interim Management Report (continued)

Customer accounts by country

Europe

	At 30 June 2011 US$m	At 30 June 2010 US$m	At 31 December 2010 US$m
UK	**366,134**	335,493	351,522
France[56]	**101,032**	68,942	65,407
Germany	**9,046**	7,698	7,063
Malta	**6,200**	5,084	5,968
Switzerland	**46,790**	41,556	43,098
Turkey	**7,583**	5,888	6,602
Other	**12,026**	12,597	11,903
	548,811	477,258	491,563
Hong Kong	**305,726**	274,112	297,484
Rest of Asia-Pacific			
Australia	**18,780**	12,641	16,640
India	**11,732**	11,269	12,143
Indonesia	**5,982**	5,599	5,572
Japan	**5,378**	4,432	5,575
Mainland China	**28,481**	21,893	27,007
Malaysia	**16,962**	13,751	15,257
Singapore	**40,906**	34,696	38,951
South Korea	**5,278**	4,258	4,303
Taiwan	**11,968**	10,385	12,131
Vietnam	**1,543**	1,358	1,255
Other	**21,579**	16,679	19,321
	168,589	138,319	158,155

Middle East and North Africa			
Egypt	**7,103**	6,666	6,881
Qatar	**3,319**	3,192	3,069
United Arab Emirates	**18,558**	16,136	16,332
Other	**8,139**	6,983	7,229
	37,119	32,977	33,511
North America			
US	**104,749**	97,804	103,007
Canada	**47,049**	42,438	45,772
Bermuda	**10,835**	9,196	9,707
	162,633	149,438	158,486
Latin America			
Argentina	**4,403**	3,505	3,983
Brazil	**52,285**	41,001	49,253
Mexico	**25,326**	18,160	21,295
Panama	**7,535**	7,083	7,429
Other	**6,560**	5,468	6,566
	96,109	75,217	88,526

For footnote, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (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 41.

In addition to utilising information by geographical region, management assesses performance through two customer groups, Retail Banking and Wealth Management (RBWM),

(formerly Personal Financial Services (PFS)) and Commercial Banking (CMB), and two global businesses, Global Banking and Markets (GB&M) and Global Private Banking (GPB). RBWM incorporates the Group s consumer finance businesses.

With effect from 1 March 2011, our Global Asset Management business was moved from GB&M to RBWM. This resulted in a reallocation between the two of US$181m and US$140m in profit before tax in the first and second halves of 2010, respectively, and in total assets of US$3bn and US$3.3bn at 30 June 2010 and 31 December 2010, respectively. All periods presented have been adjusted accordingly.

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 10) unless stated otherwise.

Profit/(loss) before tax

	Half-year to		
	30 June 2011	30 June 2010	31 December 2010

	US$m	%	US$m	%	US$m	%
Retail Banking and Wealth Management[16]	**3,126**	**27.3**	1,352	12.1	2,487	31.4
Commercial Banking	**4,189**	**36.5**	3,204	28.9	2,886	36.4
Global Banking and Markets[16]	**4,811**	**41.9**	5,452	49.1	3,763	47.4
Global Private Banking	**552**	**4.8**	556	5.0	498	6.3
Other[38]	**(1,204)**	**(10.5)**	540	4.9	(1,701)	(21.5)
	11,474	**100.0**	11,104	100.0	7,933	100.0

Total assets[39]

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management[16]	**557,952**	**20.7**	510,092	21.1	530,970	21.6
Commercial Banking	**336,094**	**12.5**	264,077	10.9	296,797	12.1
Global Banking and Markets[16]	**1,942,835**	**72.2**	1,774,639	73.4	1,755,043	71.5
Global Private Banking	**122,888**	**4.6**	108,499	4.5	116,846	4.8
Other	**189,912**	**7.0**	189,153	7.8	161,458	6.6
Intra-HSBC items	**(458,694)**	**(17.0)**	(428,006)	(17.7)	(406,425)	(16.6)
	2,690,987	**100.0**	2,418,454	100.0	2,454,689	100.0

Risk-weighted assets[40]

	At 30 June 2011		At 31 December 2010	
	US$bn	**%**	US$bn	%
Total	**1,168.5**	**100.0**	1,103.1	100.0
Retail Banking and Wealth Management	**365.0**	**31.2**	357.0	32.4
Commercial Banking	**363.3**	**31.1**	334.4	30.3
Global Banking and Markets	**385.4**	**33.0**	353.2	32.0
Global Private Banking	**23.9**	**2.1**	24.9	2.3
Other	**30.9**	**2.6**	33.6	3.0

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Retail Banking and Wealth Management

RBWM provides 85 million individual and self-employed customers with financial services in over 60 markets worldwide.

	Half-year to[16]		
	30 Jun 2011	30 Jun 2010	31 Dec 2010
	US$m	US$m	US$m
Net interest income	**12,086**	12,194	11,972
Net fee income	**4,212**	4,060	4,337
Other income	**1,274**	299	749
Net operating income[41]	**17,572**	16,553	17,058
Impairment charges[42]	**(4,270)**	(6,318)	(4,941)
Net operating income	**13,302**	10,235	12,117
Total operating expenses	**(10,746)**	(9,349)	(10,190)
Operating profit	**2,556**	886	1,927
Income from associates[43]	**570**	466	560
Profit before tax	**3,126**	1,352	2,487
RoRWA[44]	**1.8%**	0.8%	1.4%

Significant growth in

insurance and investments

Run-off portfolio balances reduced by

US$4.9bn

Best retail bank in Hong Kong *(The Asian Banker)*	**Best foreign bank in China** *(The Asian Banker)*

Strategic direction

RBWM s aim is to provide consistent and high quality retail banking and wealth management services to our customers. We will provide retail banking services in markets where we already have scale or where scale can be built over time and we will implement standardised distribution and service models to ensure we can deliver them more efficiently. As wealth creation continues to grow in both developed and emerging markets, we will leverage our global propositions such as Premier and our bancassurance and asset management capabilities to deepen our existing customer relationships and the penetration of our wealth management services.

We focus on three strategic imperatives:

- developing world class wealth management for retail customers;
- leveraging global expertise in retail banking; and
- portfolio management to drive superior returns.

For footnotes, see page 81.

Review of performance

As announced last year, RBWM was created with effect from 1 March 2011, bringing together the PFS, insurance and Global Asset Management businesses under a unified management structure. This will enable us to drive our strategy of streamlining our retail banking businesses and developing world class wealth management services for retail customers.

RBWM reported a profit before tax of US$3.1bn in the first half of 2011, more than double that in the first half of 2010. This was largely attributable to a decline in loan impairment charges, particularly in the US, where delinquency trends continued to improve following the managed reduction in the run-off portfolios.

We continued to rebalance revenue and profit contribution with growth in our priority markets, offsetting declines in run-off portfolios in the US.

Revenue increased by 3%, as income rose in Hong Kong and Rest of Asia-Pacific from an increase in the sales of wealth management products. In Europe, revenue rose as a result of increased lending, notably in mortgages, and net insurance income, driven by successful targeted sales campaigns, particularly in France. Net interest income increased in Rest of Asia-Pacific and Latin America from higher volumes. Deposit spreads increased in parts of Rest of Asia-Pacific due to increases in interest rates, particularly in mainland China, India and Malaysia. This was partly offset by reductions in North America due to lower lending balances in both the run-off portfolio and in the Card and Retail Services business. In a number of markets, particularly Mexico, India and the UAE, we continued to reposition our lending portfolio to lower risk, lower yielding assets. Europe, Hong Kong and Rest of Asia-Pacific benefited from an increase in PVIF due to refinement to the calculation of the PVIF asset (see footnote 27).

Loan impairment charges fell by 34%, reflecting the managed decline of riskier portfolios, and enhanced collection processes and underwriting practices. The loan book continued to decline in the US, and some high risk portfolios in Latin America, Rest of Asia-Pacific and Middle East and North Africa were managed down.

Operating expenses increased by 10% to US$10.7bn. The rise in costs resulted mainly from increases in front office headcount in Hong Kong, Rest of Asia-Pacific and Brazil as we

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invested in these key growth markets, coupled with wage inflation in certain markets. Operating expenses included US$589m of provisions relating to customer redress programmes in the UK, including a provision in respect of the adverse judgement in the Judicial Review relating to sales of PPI. Litigation provisions increased in the US. Operating costs also rose as we wrote off certain previously capitalised software development expenses and incurred other restructuring costs as part of our new strategic priorities. This was partly offset by a credit of US$264m resulting from a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions.

The share of profits from associates increased by 18%, mainly in Ping An due to an increase in profits driven by strong sales growth and the performance of its wealth management businesses and banking business.

Developing world class wealth management for retail customers

Our World Selection global investment offering continued to grow and total assets under management were US$9.0bn at 30 June 2011, compared with US$7.2bn at 31 December 2010.

Our insurance operations performed strongly in the first half of 2011, with increased net earned premiums compared with 2010. This was driven by a growing demand for life insurance products. The improved outlook for investment markets in 2011 generated increased demand for wealth products in Asia and a rise in new business sales in Hong Kong. In Latin America, increased premium income reflected an improving economic environment and investment in the sales network, notably in Brazil. The contribution from our investment in Ping An also increased, driven by growth in its life insurance business.

Global Asset Management increased management fees by 6% on the first half of 2010, most notably in Europe, Hong Kong and Latin America. Funds under management (FuM) reached a record period-end high of US$449bn of which emerging markets FuM were US$135bn. This represented growth in total FuM of 10% and emerging markets FuM of 14% compared with the first half of 2010. The increasing focus on our wealth management proposition generated US$4.4bn of net inflows in the first half of 2011 compared with US$1.3bn in 2010.

Leveraging global expertise in retail banking

We enhanced our services with a number of innovative developments, including the launch of renminbi-denominated deposits in an additional seven markets across Asia in the first half of 2011, and extended our mobile banking solution to Canada, Malaysia and Singapore.

We continued to grow mortgage lending in the UK and in Asia, particularly in Hong Kong where our volume growth in mortgages enabled us to maintain our market leadership. In Australia, Singapore and Malaysia we increased mortgage balances through targeted marketing campaigns. Customer account balances also grew in Rest of Asia-Pacific, reflecting an increase in customer numbers, and in Europe due to competitive pricing and acquisition campaigns.

Portfolio management to drive superior returns

During the first half of 2011, we continued to reposition our operations and optimise our businesses. In line with this, in April, we announced the sale of HSBC Afore, our pension administration business in Mexico, which is expected to be completed in the third quarter of 2011. Also in April, following a strategic review of our operations in Russia, we announced our withdrawal from the retail business, and have now agreed the sale of some elements of this business.

In May 2011, we sold our Insurance Captive Management business which provided third party property and third party insurance claim administration services. This is part of our strategy to focus our insurance business on connectivity to core banking customers and wealth management product offerings.

In July, we announced the sale of our UK motor insurance portfolio and the closure of retail banking operations in Poland.

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Interim Management Report (continued)

Commercial Banking

CMB offers a full range of commercial financial services to 3.6m customers ranging from sole proprietors to publicly quoted companies in 65 countries.

	Half-year to		
	30 Jun 2011 US$m	30 Jun 2010 US$m	31 Dec 2010 US$m
Net interest income	**4,814**	4,024	4,463
Net fee income	**2,131**	1,935	2,029
Other income	**735**	781	602
Net operating income[41]	**7,680**	6,740	7,094
Impairment charges[42]	**(642)**	(705)	(1,100)
Net operating income	**7,038**	6,035	5,994
Total operating expenses	**(3,465)**	(3,266)	(3,565)
Operating profit	**3,573**	2,769	2,429
Income from associates[43]	**616**	435	457
Profit before tax	**4,189**	3,204	2,886
RoRWA[44]	**2.4%**	2.2%	1.8%

Revenue growth of

12%

ahead of cost growth of 3%

on an underlying basis

Trade revenue grew

26%

compared with world GDP growth of 3%

Strong revenue growth from

the sale of GB&M products

Strategic direction

CMB aims to be the banking partner of choice for international businesses by building on our rich heritage, international capabilities and relationships to enable connectivity and support trade and capital flows around the world, thereby strengthening our leading position in international business and trade.

We focus on four strategic imperatives:

- focus on faster-growing markets while connecting revenue and investment flows with developed markets;
- enhance collaboration with GB&M, providing capital market access and a wider range of sophisticated risk management and liquidity products to the growing mid-market corporates;
- capture growth in international small and medium-sized enterprises; and
- drive efficiency gains through adopting a global operating model.

For footnotes, see page 81.

Review of performance

In the first half of 2011, CMB reported a profit before tax of US$4.2bn, US$1.0bn or 31% higher than in the first half of 2010. On an underlying basis, profit before tax also increased by 31%, reflecting higher lending balances and an expansion in world trade, in particular in the faster-growing markets. Income from our associate, Bank of Communications, also increased reflecting strong loan growth and wider spreads. Profit before tax grew in all regions except North America where we are investing in areas of strong international connectivity.

Customer lending balances rose from the end of 2010 by 9% to US$268bn, primarily in Asia, Europe and Latin America, driven by the expanding trade flows and increased business activity. Demand for credit remained strong in Hong Kong, Malaysia and Brazil. Lending balances also increased in the UK by 2% to US$69.9bn.

Credit quality improved as our exposure to higher risk portfolios was managed down and the economic environment generally improved. As a result, loan impairment charges and other credit risk provisions declined by 14%. In the first half of 2011, there was a marked decline in loan impairment charges against specific exposures in Europe while, in North America, there were notable falls in loan impairment charges.

In the first half of 2011, CMB grew customer account balances by 3% to US$301bn, with significant growth in Asia and Latin America driven partly by new customer acquisitions.

Shift towards faster-growing markets while connecting with developed markets

Revenue increased by 12%, primarily in Latin America (specifically Brazil, Mexico and Argentina), Hong Kong and the Rest of Asia-Pacific region (specifically mainland China, India and Singapore). This was driven by lending to meet higher credit demand as a result of improved trade and business volumes, and deposit balance growth. Net fee income also increased from rising sales of trade, payments and cash management, investment and Global Markets products.

In line with our aspiration to double our trade revenue over the medium term, we merged our Trade and Supply Chain and Receivables Finance businesses, allowing us to build on the scale of our trade business to expand our receivables finance offerings from the existing base of 23 countries.

In the first half of 2011, our trade revenue was US$1bn, an increase of 26% compared with the first half of 2010. Significantly, growth in our trade revenue was more than eight times that of world GDP growth, reflecting our concentration in the faster growing markets.

Our geographic presence across both mature and faster-growing markets allowed us to capitalise on the rising levels of international trade and investment flows. We achieved a significant number of mandates to provide cross-border payments and cash management solutions for our corporate customers, reinforcing the importance of our geographic network to this customer segment.

In the first half of 2011, the number of successful cross-border referrals increased by 43% compared with the first half of 2010, with a transaction value of over US$12bn. Notably, 66% of this increase came from mainland China, demonstrating its significance to CMB.

We continued to strengthen our position as a leading international bank for renminbi product offerings through product innovation in over 50 locations on six continents. In the first half of 2011, we were the first international bank to provide commercial banking customers with a dedicated renminbi Business Card in Hong Kong, minimising their foreign exchange risk, and in Singapore we expanded our renminbi capabilities, including an e-platform for payments in the currency.

Enhance collaboration with GB&M

Our customers benefit from the diversity of products and services available from a universal bank. This includes Global Markets products provided to CMB customers with more complex requirements, as well as GPB and Premier services for our business customers personal wealth requirements.

CMB revenue generated from the sale of Global Markets products grew strongly compared with the first half of 2010, with strong momentum in Asia and Latin America.

Capture growth in international SMEs

We are focusing our Business Banking propositions on attracting the growing number of internationally aspirant small and medium-sized enterprises (SME s). 82% of SMEs in Hong Kong rate us as the best bank for international business and in the UK we have over 130 International Commercial Managers to support the Business Banking segment.
In the Middle East and North Africa, we pledged a second US$100m during the period to SME customers in the UAE engaged in cross-border business and the amount has been fully utilised.

In Mexico, we launched the HSBC Business Card to facilitate working capital requirements and more effectively service the needs of our SME client base. Despite muted demand, CMB increased gross new lending to UK SMEs by 20% as we continued to support this important sector and assist new business start-ups. We are in line with our targets as set out in the Merlin Agreement between the major UK banks and the UK government.

Drive efficiency gains through adopting a global operating model

We continue to enhance and tailor CMB s direct banking solutions to improve our customer experience. We recognise our customers are increasingly more technologically oriented and CMB will continue to invest in and expand the transactional functionality and information services we offer. For example, in the UK, we were one of the first international financial institutions to offer a dedicated Business Mobile Banking iApp, achieving almost 70,000 downloads in the first month. For our corporate segment customers, HSBCnet for Mobile was piloted in 40 countries in the first half of 2011, with a further 25 countries due to go live by the end of 2011, subject to regulatory approvals.

Operating expenses rose by 3% to US$3.5bn. Excluding a credit of US$212m resulting from a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions, they increased by 9% to US$3.7bn. On the same basis, after adjusting for this credit, our cost efficiency ratio improved from 49.2% to 47.8%, reflecting a disciplined approach to managing the cost base. In the Rest of Asia-Pacific region, the cost efficiency ratio improved by 2 percentage points to 47.2% despite inflationary pressures and the addition of almost 200 new staff as we expanded our business in this strategically important market.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Banking and Markets

GB&M is a global business which provides tailored financial solutions to major government, corporate and institutional clients worldwide.

		Half-year to[16]	
	30 Jun 2011	30 Jun 2010	31 Dec 2010
	US$m	US$m	US$m
Net interest income	**3,603**	3,724	3,619
Net fee income	**1,730**	1,879	1,785
Net trading income[45]	**3,827**	3,754	2,076
Other income	**529**	963	1,112
Net operating income[41]	**9,689**	10,320	8,592
Impairment charges[42]	**(334)**	(499)	(491)
Net operating income	**9,355**	9,821	8,101
Total operating expenses	**(4,860)**	(4,607)	(4,621)
Operating profit	**4,495**	5,214	3,480
Income from associates[43]	**316**	238	283
Profit before tax	**4,811**	5,452	3,763
RoRWA[44]	**2.6%**	2.9%	2.0%

Significant contribution from

faster-growing markets with

particularly strong performances

in Latin America and Rest of Asia-Pacific

Best Global Risk

Management House

Best Debt House:

in Asia

in Middle East

(Euromoney Awards for

Excellence 2011)

Best Domestic

Equity House

Hong Kong

(Asiamoney Best Bank

2011 Awards)

Best Investment Bank

in Hong Kong

(FinanceAsia Country Awards)

Strategic direction

GB&M continues to pursue its well established emerging markets-led and financing-focused strategy, with the objective of being a leading global wholesale bank. This strategy has evolved to include a greater emphasis on connectivity, leveraging the Group s extensive distribution network.

We focus on four strategic imperatives:

- reinforce client coverage and client-led solutions for major government, corporate and institutional clients;
- continue to defend core, enhance existing and build new capabilities in major hubs to support the delivery of an integrated suite of products and services;
- enhance collaboration with other customer groups, particularly CMB, to deliver incremental revenues; and
- focus on business re-engineering to ensure the efficiency of our platform.

For footnotes, see page 81.

Review of performance

GB&M reported profit before tax of US$4.8bn, 12% lower than in the first half of 2010 as a result of the challenging trading environment, which was dominated by uncertainty around eurozone sovereign debt. On an underlying basis, profit before tax declined by 16% as a result of lower revenues in legacy Credit, and in Balance Sheet Management, coupled with the cost of continued strategic investment. These factors were partly offset by higher revenues in Global Banking, Equities and Securities Services and a significant decrease in loan impairment charges.

We continued to leverage our unique geographical franchise and global connectivity, particularly focused on South-South trade corridors, to capitalise on opportunities presented by growing international trade flows. We also focused on connecting with other areas of HSBC, notably CMB, where gross revenues from the cross-sale of GB&M products increased, and GPB through the Family Office partnership. Investment in people and infrastructure continued during the first half of 2011 to enhance our product offerings. These strategic initiatives include the development of Prime Services and equity market capabilities together with the expansion of the Rates and Foreign Exchange e-commerce platforms which remain key to supporting our customer-focused strategy over the long term through enhanced competitive positioning.

Net operating income before loan impairment charges and other credit risk provisions decreased by 9%. This was primarily due to lower income in Balance Sheet Management, reflecting the continuing effect of prevailing low interest rates and flattening yield curves. Legacy Credit was affected by lower recoveries generated from the securities investment conduits, a reduction in effective yields and lower holdings of legacy assets. Revenues in Credit were also affected by the re-emergence of uncertainty in the eurozone sovereign credit markets in the second quarter of 2011. Trading income from structured liabilities declined, mainly in Rates, due to lower favourable fair value movements as credit spreads widened to a lesser extent than a year ago; a gain of US$60m compared with a reported gain of US$255m in the first half of 2010.

Loan impairment charges and other credit risk provisions were significantly lower than both halves of 2010. Loan impairment charges were US$70m compared with the US$233m in the

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Management view of total operating income

	Half-year to[16]		
	30 Jun 2011 US$m	30 Jun 2010 US$m	31 Dec 2010 US$m
Global Markets[46]	**5,146**	5,542	3,631
Credit	**530**	1,043	606
Rates	**1,355**	1,529	523
Foreign Exchange	**1,517**	1,513	1,239
Equities	**612**	479	276
Securities Services[47]	**854**	718	793
Asset and Structured Finance	**278**	260	194
Global Banking	**2,670**	2,288	2,333
Financing and Equity Capital Markets	**1,664**	1,420	1,432
Payments and Cash Management[48]	**695**	542	591
Other transaction services[49]	**311**	326	310
Balance Sheet Management	**1,765**	2,269	1,833
Principal Investments	**175**	126	193
Other[50]	**(67)**	95	602
Total operating income	**9,689**	10,320	8,592

For footnotes, see page 81.

first half of 2010, driven by a general improvement in the credit environment and the non-recurrence of significant impairment charges taken against a small number of clients in 2010. Credit risk provisions fell by US$29m to US$263m, despite a US$65m charge recorded in respect of Greek sovereign debt in the first half of 2011. Asset-backed securities accounted for US$238m of US$263m, compared with impairments of US$256m reported in the first half of 2010.

Operating expenses increased, reflecting continued investment in GB&M platforms to deliver revenue growth and improved process automation in light of increasing competition and changing regulatory demands. Performance costs rose due to increased amortisation charges for previous years performance shares and accelerated expense recognition for future deferred bonus awards. Offsetting these factors was a credit of US$111m in the first half of 2011 arising from a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions. In addition, the first half of 2010 included the cost of payroll and bonus taxes in the UK and

France on certain bonuses paid in respect of 2009. The cost efficiency ratio, at 50.2%, was 6.2 percentage points higher than in the first half of 2010 reflecting both our investment in the business and the effect of prevailing market conditions on income.

Global Markets delivered first half revenues in excess of US$5bn for the third consecutive year in a very uncertain trading environment. The decrease compared with the first half of 2010 was mainly due to a decline in legacy Credit, as noted above. Credit revenues were also affected by the re-emergence of eurozone sovereign debt concerns in the second quarter of 2011, resulting in a decline in client activity and a general widening of credit spreads. These were partly offset by improved performance in primary markets as HSBC increased its market share of global bond issuance volumes. Revenues in Rates declined due to lower favourable fair value movements on structured liabilities, partly offset by higher customer demand for structured products. Equities revenues rose as improved competitive positioning helped capture increasing client flows, particularly during the global rally in the first quarter of 2011. Securities Services revenues increased by 14%, benefiting from balance growth in Europe, higher spreads in Asia and Latin America and increased transaction volumes.

Global Banking revenues rose by 12% as it maintained its focus on deepening key client relationships. This growth was led by continued momentum in project and export finance. Lending revenues were broadly in line, as higher income fuelled by asset growth in Asia, was offset by narrower spreads and limited demand in Europe and North America as clients in developed markets focused on refinancing existing facilities. Payments and Cash Management revenue rose by 24%, driven by Asia, with higher net interest income reflecting strong growth in deposit balances and wider spreads following interest rate rises in certain markets; fee income also benefited from growth in transaction volumes.

Revenues in Balance Sheet Management continued to reduce as higher-yielding positions matured and the opportunity for maintaining yields on reinvestment was limited by the prevailing low interest rate environment. Gains on disposal of securities in the available-for-sale portfolio also fell from the high level of realised gains primarily in Hong Kong and Rest of Asia-Pacific in the first half of 2010.

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Interim Management Report (continued)

Global Private Banking

GPB works with high net worth clients to manage and preserve their wealth while connecting them to global opportunities.

	Half-year to		
	30 Jun 2011 US$m	30 Jun 2010 US$m	31 Dec 2010 US$m
Net interest income	**729**	646	699
Net fee income	**731**	643	656
Other income	**229**	254	195
Net operating income[41]	**1,689**	1,543	1,550
Impairment (charges)/ recoveries[42]	**(22)**		12
Net operating income	**1,667**	1,543	1,562
Total operating expenses	**(1,117)**	(967)	(1,068)
Operating profit	**550**	576	494
Income from associates[43]	**2**	(20)	4
Profit before tax	**552**	556	498
RoRWA[44]	**4.5%**	4.3%	3.9%

Client assets 7% up at

US$416bn

US$13bn **net new money**

Best Private Bank in Asia

(Euromoney 2011 Private Banking Survey)

Best Private Bank in Hong Kong	**Outstanding Private Bank Middle East**
(FinanceAsia Country Awards 2010)	*(Private Banker International Awards 2010)*

Strategic direction

GPB serves high-net worth customers with complex and international needs. We focus on four strategic imperatives:

- further expand our business in the domestic and faster-growing markets through the recruitment of front office staff and the delivery of faster-growing market products to clients in developed markets;
- continue to leverage our intra-Group strengths, including referrals with CMB and RBWM and our Family Office Partnership with GB&M;
- increase our managed assets, through building on our expertise in alternative investments, faster-growing markets and foreign exchange; and
- continue to invest in front-office systems with strong data security, while maintaining a focus on risk management and cost control.

For footnotes, see page 81.

Review of performance

Reported profit before tax was US$552m, marginally lower than in the first half of 2010 on both a reported and an underlying basis, as strong revenue growth, driven by increases in client assets under management and activity levels, was offset by a rise in costs and impairment charges.

Although clients remained cautious in the prevailing market environment, risk appetite showed signs of improvement. Net fee income rose as a result of higher transaction volumes and growth in average client assets under management, driven by net new money inflows and our focus on faster growing markets. Demand for lending continued to recover which, together with improved spreads, led to higher net interest income.

The increase in operating expenses was primarily driven by the strengthening of the Swiss franc (see footnote 51), which accounts for a significant proportion of our cost base, together with higher costs incurred as a result of the developing regulatory environment, the hiring of front office staff to cover faster growing markets and an acceleration in the expense recognition for deferred bonus awards. A restructuring programme started in the first half of 2011, the benefits of which are expected in future reporting periods.

Loan impairment charges and other credit risk provisions increased, due to the impairment of available-for-sale debt securities.

Client assets

	Half-year to		
	30 Jun 2011 US$bn	30 Jun 2010 US$bn	31 Dec 2010 US$bn

At beginning of period	**390**	367	354
Net new money	**13**	7	6
Value change	**1**	(4)	17
Exchange/other	**12**	(16)	13
At end of period	**416**	354	390

Reported client assets, which include funds under management and cash deposits, increased due to US$13bn of net new money inflows, together with favourable foreign exchange and market movements. Net new money continued to benefit from intra-Group referrals and strong inflows from Asia and Latin America. As a result, reported Total client assets , the equivalent to many industry definitions of assets under management which includes some non-financial assets held in client trusts, increased by 11% since 31 December 2010 to US$556bn.

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Interim Management Report (continued)

Other

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

		Half-year to	
	30 Jun	30 Jun	31 Dec
	2011	2010	2010
	US$m	US$m	US$m
Net interest expense	**(481)**	(537)	(461)
Net trading income/ (expense)	**(222)**	(572)	261
Net income/(expense) from financial instruments designated at fair value	**(286)**	1,178	(1,394)
Other income	**3,017**	3,163	3,022
Net operating income[41]	**2,028**	3,232	1,428
Impairment (charges)/ recoveries[42]	**2**	(1)	4
Net operating income	**2,030**	3,231	1,432
Total operating expenses	**(3,286)**	(2,759)	(3,159)
Operating profit/(loss)	**(1,256)**	472	(1,727)
Income from associates[43]	**52**	68	26
Profit/(loss) before tax	**(1,204)**	540	(1,701)

US$1.2bn

reduction in profit before tax

due to fair value movements

on own debt

Increase in operating expenses due to restructuring costs

in Latin America and centralisation of processes

For footnotes, see page 81.

Notes

Reported loss before tax of US$1.2bn compared with a profit before tax of US$540m in the first half of 2010. This included losses of US$143m on the fair value of HSBC s own debt attributable to a narrowing in credit spreads compared with gains of US$1.1bn in the first half of 2010. In addition, reported profits included a gain of US$62m on the reclassification of Bao Viet as an associate in the first half of 2010 and accounting gains of US$188m and US$181m in the first halves of 2010 and 2011, respectively, arising from the dilution of our shareholding in Ping An following its issue of share capital to third parties. On an underlying basis, the loss before tax increased by 57% to US$1.2bn. For a description of the main items reported under Other , see footnote 38.

Net interest expense substantially comprised interest expense on long-term debt issued by HSBC Holdings.

Net trading expense fell by US$350m, primarily driven by lower adverse fair value movements on non-qualifying hedges, mainly cross-currency swaps used to economically hedge fixed rate long-term debt issued by HSBC Holdings. This was the result of a less pronounced decrease in long-term US interest rates relative to sterling and euro interest rates than in the first half of 2010.

Net expense from financial instruments designated at fair value of US$143m compared with income of US$112m in the first half of 2010 due to adverse fair value movements from interest and exchange rate ineffectiveness in the hedging of long-term debt designated at fair value issued by HSBC Holdings and our European and North American subsidiaries.

Other operating income reduced as gains of US$250m recognised from the sale and leaseback of our Paris and New York headquarters did not recur.

Operating expenses increased by 18% to US$3.3bn driven by restructuring costs in Latin America of US$149m as we took measures to improve efficiencies and processes in order to reduce the future cost base of our operations. The increasing number of centralised operational and migrated activities also contributed to higher costs in the period. 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 .

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

Retail Banking and Wealth Management

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)[16]								
	1H10 as reported	1H10 adjust-ments[9]	Currency translation[10]	1H10 at 1H11 exchange rates[11]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Net interest income	12,194		382	12,576	12,086		12,086	(1)	(4)
Net fee income	4,060	(2)	138	4,196	4,212		4,212	4	
Other income[14]	299	(3)	37	333	1,274		1,274	326	283
Net operating income[15]	**16,553**	**(5)**	**557**	**17,105**	**17,572**		**17,572**	**6**	**3**
Loan impairment charges and other credit risk provisions	(6,318)		(105)	(6,423)	(4,270)		(4,270)	32	34
Net operating income	**10,235**	**(5)**	**452**	**10,682**	**13,302**		**13,302**	**30**	**25**
Operating expenses	(9,349)	2	(386)	(9,733)	(10,746)		(10,746)	(15)	(10)
Operating profit	**886**	**(3)**	**66**	**949**	**2,556**		**2,556**	**188**	**169**
Share of profit in associates and joint ventures	466		19	485	570		570	22	18
Profit before tax	**1,352**	**(3)**	**85**	**1,434**	**3,126**		**3,126**	**131**	**118**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]								
	2H10	2H10 adjust-	Currency	2H10	1H11	1H11	1H11	Re-	Under-

	as	ments[9] US$m	translation[10]	at 1H11 exchange	as	adjust-	under-	ported	lying
	reported		US$m	rates[17]	reported	ments[9]	lying	change[12]	change[12]
	US$m			US$m	US$m	US$m	US$m	%	%
Net interest income	11,972		235	12,207	12,086		12,086	1	(1)
Net fee income	4,337		88	4,425	4,212		4,212	(3)	(5)
Other income[14]	749		18	767	1,274		1,274	70	66
Net operating income[15]	17,058		341	17,399	17,572		17,572	3	1
Loan impairment charges and other credit risk provisions	(4,941)		(55)	(4,996)	(4,270)		(4,270)	14	15
Net operating income	12,117		286	12,403	13,302		13,302	10	7
Operating expenses	(10,190)		(249)	(10,439)	(10,746)		(10,746)	(5)	(3)
Operating profit	1,927		37	1,964	2,556		2,556	33	31
Share of profit in associates and joint ventures	560		14	574	570		570	2	(1)
Profit/(loss) before tax	2,487		51	2,538	3,126		3,126	26	23

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Commercial Banking

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported	1H10 adjust-ments[9]	Currency translation[10]	1H10 at 1H11 exchange rates[11]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Net interest income	4,024	(1)	172	4,195	4,814		4,814	20	15
Net fee income	1,935	(37)	82	1,980	2,131		2,131	10	8
Other income[14]	781	(116)	22	687	735		735	(6)	7
Net operating income[15]	**6,740**	**(154)**	**276**	**6,862**	**7,680**		**7,680**	**14**	**12**
Loan impairment charges and other credit risk provisions	(705)		(43)	(748)	(642)		(642)	9	14
Net operating income	**6,035**	**(154)**	**233**	**6,114**	**7,038**		**7,038**	**17**	**15**
Operating expenses	(3,266)	38	(146)	(3,374)	(3,465)		(3,465)	(6)	(3)
Operating profit	**2,769**	**(116)**	**87**	**2,740**	**3,573**		**3,573**	**29**	**30**
Share of profit in associates and joint ventures	435		12	447	616		616	42	38
Profit before tax	**3,204**	**(116)**	**99**	**3,187**	**4,189**		**4,189**	**31**	**31**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)								
	2H10 as reported	2H10 adjust-ments[9]	Currency translation[10]	2H10 at 1H11 exchange rates[17]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]
		US$m	US$m						

	US$m			US$m	US$m	US$m	US$m	%	%
Net interest income	4,463	1	121	4,585	4,814		4,814	8	5
Net fee income	2,029		55	2,084	2,131		2,131	5	2
Other income[14]	602	(3)	9	608	735		735	22	21
Net operating income[15]	7,094	(2)	185	7,277	7,680		7,680	8	6
Loan impairment charges and other credit risk provisions	(1,100)		(35)	(1,135)	(642)		(642)	42	43
Net operating income	5,994	(2)	150	6,142	7,038		7,038	17	15
Operating expenses	(3,565)	(1)	(104)	(3,670)	(3,465)		(3,465)	3	6
Operating profit	2,429	(3)	46	2,472	3,573		3,573	47	45
Share of profit in associates and joint ventures	457		8	465	616		616	35	32
Profit before tax	2,886	(3)	54	2,937	4,189		4,189	45	43

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Banking and Markets

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)[16]								
	1H10 as reported	1H10 adjust-ments[9]	Currency translation[10]	1H10 at 1H11 exchange rates[11]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Net interest income	3,724	18	159	3,901	3,603		3,603	(3)	(8)
Net fee income	1,879	(11)	59	1,927	1,730		1,730	(8)	(10)
Other income[14]	4,717	(35)	189	4,871	4,356		4,356	(8)	(11)
Net operating income[15]	**10,320**	**(28)**	**407**	**10,699**	**9,689**		**9,689**	**(6)**	**(9)**
Loan impairment charges and other credit risk provisions	(499)		(27)	(526)	(334)		(334)	33	37
Net operating income	**9,821**	**(28)**	**380**	**10,173**	**9,355**		**9,355**	**(5)**	**(8)**
Operating expenses	(4,607)	108	(204)	(4,703)	(4,860)		(4,860)	(5)	(3)
Operating profit	**5,214**	**80**	**176**	**5,470**	**4,495**		**4,495**	**(14)**	**(18)**
Share of profit in associates and joint ventures	238		7	245	316		316	33	29
Profit before tax	**5,452**	**80**	**183**	**5,715**	**4,811**		**4,811**	**(12)**	**(16)**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]								
	2H10 as reported	2H10 adjust-ments[9] US$m	Currency translation[10] US$m	2H10 at 1H11 exchange rates[17]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]

	US$m			US$m	US$m	US$m	US$m	%	%
Net interest income	3,619		83	3,702	3,603		3,603		(3)
Net fee income	1,785	1	44	1,830	1,730		1,730	(3)	(5)
Other income[14]	3,188	(332)	84	2,940	4,356		4,356	37	48
Net operating income[15]	8,592	(331)	211	8,472	9,689		9,689	13	14
Loan impairment charges and other credit risk provisions	(491)		(23)	(514)	(334)		(334)	32	35
Net operating income	8,101	(331)	188	7,958	9,355		9,355	15	18
Operating expenses	(4,621)		(126)	(4,747)	(4,860)		(4,860)	(5)	(2)
Operating profit	3,480	(331)	62	3,211	4,495		4,495	29	40
Share of profit in associates and joint ventures	283		3	286	316		316	12	10
Profit before tax	3,763	(331)	65	3,497	4,811		4,811	28	38

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Balance sheet data significant to Global Banking and Markets[16]

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2011							
Trading assets[1]	**299,734**	**29,105**	**17,686**	**1,138**	**106,329**	**13,286**	**467,278**
Derivative assets[2]	**215,099**	**24,324**	**16,490**	**1,087**	**65,681**	**4,381**	**327,062**
Trading liabilities	**232,676**	**12,700**	**4,372**	**522**	**111,927**	**5,262**	**367,459**
Derivative liabilities[2]	**197,486**	**24,447**	**17,225**	**1,075**	**67,225**	**3,835**	**311,293**
At 30 June 2010							
Trading assets[1]	265,958	26,406	19,976	733	76,015	6,786	395,874
Derivative assets[2]	227,337	18,858	17,268	827	71,490	3,268	339,048
Trading liabilities	162,471	9,838	5,131	48	81,118	4,616	263,222
Derivative liabilities[2]	227,156	19,159	16,744	849	71,874	3,545	339,327
At 31 December 2010							
Trading assets[1]	232,918	32,023	18,256	958	87,120	6,459	377,734
Derivative assets[2]	199,654	21,644	17,135	832	65,153	3,955	308,373
Trading liabilities	178,861	8,650	3,846	122	91,980	2,702	286,161
Derivative liabilities[2]	199,751	22,622	17,121	845	66,323	3,913	310,575

1 *Trading assets, financial instruments designated at fair value and financial investments held in Europe, and by GB&M in North America, include financial assets which may be repledged or resold by counterparties.*

2 *Derivative assets and derivative liabilities of GB&M include derivative transactions between different regions of GB&M.*

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Private Banking

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported	1H10 adjust-ments[9]	Currency translation[10]	1H10 at 1H11 exchange rates[11]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Net interest income	646		9	655	729		729	13	11
Net fee income	643		12	655	731		731	14	12
Other income[14]	254		3	257	229		229	(10)	(11)
Net operating income[15]	**1,543**		**24**	**1,567**	**1,689**		**1,689**	**9**	**8**
Loan impairment charges and other credit risk provisions			(1)	(1)	(22)		(22)		(2,100)
Net operating income	**1,543**		**23**	**1,566**	**1,667**		**1,667**	**8**	**6**
Operating expenses	(967)		(18)	(985)	(1,117)		(1,117)	(16)	(13)
Operating profit	**576**		**5**	**581**	**550**		**550**	**(5)**	**(5)**
Share of profit in associates and joint ventures	(20)			(20)	2		2		
Profit before tax	**556**		**5**	**561**	**552**		**552**	**(1)**	**(2)**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)								
	2H10 as reported	2H10 adjust-ments[9] US$m	Currency translation[10] US$m	2H10 at 1H11 exchange rates[17]	1H11 as reported	1H11 adjust-ments[9]	1H11 under-lying	Re-ported change[12]	Under-lying change[12]

	US$m		US$m	US$m	US$m	US$m	%	%
Net interest income	699	6	705	729		729	4	3
Net fee income	656	6	662	731		731	11	10
Other income[14]	195		195	229		229	17	17
Net operating income[15]	1,550	12	1,562	1,689		1,689	9	8
Loan impairment (charges)/recoveries and other credit risk provisions	12		12	(22)		(22)		
Net operating income	1,562	12	1,574	1,667		1,667	7	6
Operating expenses	(1,068)	(9)	(1,077)	(1,117)		(1,117)	(5)	(4)
Operating profit	494	3	497	550		550	11	11
Share of profit in associates and joint ventures	4		4	2		2	(50)	(50)
Profit before tax	498	3	501	552		552	11	10

For footnotes, see page 81.

Interim Management Report (continued)

Other

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported US$m	1H10 adjustments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjustments[9] US$m	1H11 underlying US$m	Reported change[12] %	Underlying change[12] %
Net interest expense	(537)		(4)	(541)	(481)		(481)	10	11
Net fee income	1		(3)	(2)	3		3	200	(250)
Changes in fair value[13]	1,074	(1,074)			(143)	143			
Other income[14]	2,694	(250)	31	2,475	2,649	(180)	2,467	(2)	(0)
Net operating income[15]	**3,232**	**(1,324)**	**24**	**1,932**	**2,028**	**(37)**	**1,989**	**(37)**	**3**
Loan impairment (charges)/ recoveries and other credit risk provisions	(1)			(1)	2		1		
Net operating income	**3,231**	**(1,324)**	**24**	**1,931**	**2,030**	**(37)**	**1,990**	**(37)**	**3**
Operating expenses	(2,759)		(31)	(2,790)	(3,286)		(3,285)	(19)	(18)
Operating profit/(loss)	**472**	**(1,324)**	**(7)**	**(859)**	**(1,256)**	**(37)**	**(1,295)**		**(51)**
Share of profit in associates and joint ventures	68		3	71	52		52	(24)	(27)
Profit/(loss) before tax	**540**	**(1,324)**	**(4)**	**(788)**	**(1,204)**	**(37)**	**(1,243)**		**(58)**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)								
	2H10	2H10	Currency	2H10	1H11	1H11	1H11	Re-	Under-

	as reported US$m	adjust-ments[9] US$m	translation[10] US$m	at 1H11 exchange rates[17] US$m	as reported US$m	adjust-ments[9] US$m	under-lying US$m	ported change[12] %	lying change[12] %
Net interest expense	(461)		(39)	(500)	(481)		(481)	(4)	4
Net fee income	30	(1)	2	31	3		3	(90)	(90)
Changes in fair value[13]	(1,137)	1,137			(143)	143		87	
Other income[14]	2,996	1	70	3,067	2,649	(180)	2,469	(12)	(20)
Net operating income[15]	1,428	1,137	33	2,598	2,028	(37)	1,991	42	(23)
Loan impairment (charges)/recoveries and other credit risk provisions	4		(3)	1	2		2	(50)	100
Net operating income	1,432	1,137	30	2,599	2,030	(37)	1,993	42	(23)
Operating expenses	(3,159)	1	(23)	(3,181)	(3,286)		(3,286)	4	(3)
Operating loss	(1,727)	1,138	7	(582)	(1,256)	(37)	(1,293)	(27)	(122)
Share of profit in associates and joint ventures	26	(1)	2	27	52		52	100	93
Loss before tax	(1,701)	1,137	9	(555)	(1,204)	(37)	(1,271)	(29)	129

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Analysis by customer group and global business

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

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other[38]	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/(expense)	12,086	4,814	3,603	729	(481)	(516)	20,235
Net fee income	4,212	2,131	1,730	731	3		8,807
Trading income/(expense) excluding net interest income	166	280	2,830	198	(243)		3,231
Net interest income on trading activities	22	16	997	9	21	516	1,581
Net trading income/(expense)[45]	188	296	3,827	207	(222)	516	4,812
Net income/(expense) from financial instruments designated at fair value	343	55	(212)		(286)		(100)
Gains less losses from financial investments	70	2	414	(3)	2		485
Dividend income	14	8	39	4	22		87
Net earned insurance premiums	5,698	985	23		(6)		6,700
Other operating income	688	263	280	21	2,997	(2,964)	1,285
Total operating income	23,299	8,554	9,704	1,689	2,029	(2,964)	42,311
	(5,727)	(874)	(15)		(1)		(6,617)

Net insurance claims[53]							
Net operating income[41]	**17,572**	**7,680**	**9,689**	**1,689**	**2,028**	**(2,964)**	**35,694**
Loan impairment (charges)/recoveries and other credit risk provisions	**(4,270)**	**(642)**	**(334)**	**(22)**	**2**		**(5,266)**
Net operating income	**13,302**	**7,038**	**9,355**	**1,667**	**2,030**	**(2,964)**	**30,428**
Employee expenses[54]	**(3,169)**	**(1,210)**	**(2,396)**	**(688)**	**(3,058)**		**(10,521)**
Other operating expenses	**(7,577)**	**(2,255)**	**(2,464)**	**(429)**	**(228)**	**2,964**	**(9,989)**
Total operating expenses	**(10,746)**	**(3,465)**	**(4,860)**	**(1,117)**	**(3,286)**	**2,964**	**(20,510)**
Operating profit/(loss)	**2,556**	**3,573**	**4,495**	**550**	**(1,256)**		**9,918**
Share of profit in associates and joint ventures	**570**	**616**	**316**	**2**	**52**		**1,556**
Profit/(loss) before tax	**3,126**	**4,189**	**4,811**	**552**	**(1,204)**		**11,474**
	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**27.3**	**36.5**	**41.9**	**4.8**	**(10.5)**		**100.0**
Cost efficiency ratio	**61.2**	**45.1**	**50.2**	**66.1**	**162.0**		**57.5**
Balance sheet data[39]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**400,944**	**268,037**	**321,061**	**44,612**	**3,234**		**1,037,888**
Total assets	**557,952**	**336,094**	**1,942,835**	**122,888**	**189,912**	**(458,694)**	**2,690,987**
Customer accounts	**541,998**	**301,169**	**359,757**	**115,245**	**818**		**1,318,987**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16]	Commercial Banking	Global Banking and Markets[16]	Global Private Banking	Other[38]	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/(expense)	12,194	4,024	3,724	646	(537)	(294)	19,757
Net fee income	4,060	1,935	1,879	643	1		8,518
Trading income/(expense) excluding net interest income	(391)	222	2,866	209	(597)		2,309
Net interest income on trading activities	15	11	888	10	25	294	1,243
Net trading income/(expense)[45]	(376)	233	3,754	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	1	3	507	11	35		557
Dividend income	14	5	22	3	15		59
Net earned insurance premiums	4,954	696	21		(5)		5,666
Other operating income	405	355	420	21	3,114	(2,837)	1,478
Total operating income	21,125	7,277	10,335	1,543	3,229	(2,837)	40,672
Net insurance claims[53]	(4,572)	(537)	(15)		3		(5,121)
Net operating income[41]	16,553	6,740	10,320	1,543	3,232	(2,837)	35,551
	(6,318)	(705)	(499)		(1)		(7,523)

Loan impairment charges and other credit risk provisions							
Net operating income	10,235	6,035	9,821	1,543	3,231	(2,837)	28,028
Employee expenses[54]	(2,757)	(1,063)	(2,347)	(609)	(3,030)		(9,806)
Other operating (expenses)/income	(6,592)	(2,203)	(2,260)	(358)	271	2,837	(8,305)
Total operating expenses	(9,349)	(3,266)	(4,607)	(967)	(2,759)	2,837	(18,111)
Operating profit	886	2,769	5,214	576	472		9,917
Share of profit/(loss) in associates and joint ventures	466	435	238	(20)	68		1,187
Profit before tax	1,352	3,204	5,452	556	540		11,104
	%	%	%	%	%		%
Share of HSBC s profit before tax	12.1	28.9	49.1	5.0	4.9		100.0
Cost efficiency ratio	56.5	48.5	44.6	62.7	85.4		50.9
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	377,478	207,763	268,495	36,590	3,011		893,337
Total assets	510,092	264,077	1,774,639	108,499	189,153	(428,006)	2,418,454
Customer accounts	488,251	263,616	290,672	104,025	757		1,147,321

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

	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16]	Commercial Banking	Global Banking and Markets[16]	Global Private Banking	Other[38]	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/(expense)	11,972	4,463	3,619	699	(461)	(608)	19,684
Net fee income	4,337	2,029	1,785	656	30		8,837
Trading income excluding net interest income	285	205	1,460	182	239		2,371
Net interest income on trading activities	13	17	616	11	22	608	1,287
Net trading income[45]	298	222	2,076	193	261	608	3,658
Net income/(expense) from financial instruments designated at fair value	1,337	164	28		(1,394)		135
Gains less losses from financial investments	(25)	(4)	356	(17)	101		411
Dividend income	13	7	26	2	5		53
Net earned insurance premiums	4,783	683	20		(6)		5,480
Other operating income	279	230	693	17	2,891	(3,026)	1,084
Total operating income	22,994	7,794	8,603	1,550	1,427	(3,026)	39,342
Net insurance claims[53]	(5,936)	(700)	(11)		1		(6,646)
Net operating income[41]	17,058	7,094	8,592	1,550	1,428	(3,026)	32,696
	(4,941)	(1,100)	(491)	12	4		(6,516)

Loan impairment (charges)/recoveries and other credit risk provisions							
Net operating income	12,117	5,994	8,101	1,562	1,432	(3,026)	26,180
Employee expenses[54]	(3,013)	(1,090)	(2,006)	(628)	(3,293)		(10,030)
Other operating (expenses)/income	(7,177)	(2,475)	(2,615)	(440)	134	3,026	(9,547)
Total operating expenses	(10,190)	(3,565)	(4,621)	(1,068)	(3,159)	3,026	(19,577)
Operating profit/(loss)	1,927	2,429	3,480	494	(1,727)		6,603
Share of profit in associates and joint ventures	560	457	283	4	26		1,330
Profit/(loss) before tax	2,487	2,886	3,763	498	(1,701)		7,933
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	31.4	36.4	47.4	6.3	(21.5)		100.0
Cost efficiency ratio	59.7	50.3	53.8	68.9	221.2		59.9
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	390,963	239,286	284,497	40,665	2,955		958,366
Total assets	530,970	296,797	1,755,043	116,846	161,458	(406,425)	2,454,689
Customer accounts	525,221	286,007	308,416	107,130	951		1,227,725

For footnotes, see page 81.

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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$1,567m (first half of 2010: US$1,467m; second half of 2010: US$1,658m).

Profit/(loss) before tax

	Half-year to					
	30 June 2011		30 June 2010		31 December 2010	
	US$m	**%**	US$m	%	US$m	%
Europe	**2,147**	**18.7**	3,521	31.7	781	9.8
Hong Kong	**3,081**	**26.9**	2,877	25.9	2,815	35.5
Rest of Asia-Pacific	**3,742**	**32.6**	2,985	26.9	2,917	36.8
Middle East and North Africa	**747**	**6.5**	346	3.1	546	6.9
North America	**606**	**5.3**	492	4.4	(38)	(0.5)
Latin America	**1,151**	**10.0**	883	8.0	912	11.5
	11,474	**100.0**	11,104	100.0	7,933	100.0

Total assets[39]

	At 30 June 2011 US$m	%	At 30 June 2010 US$m	%	At 31 December 2010 US$m	%
Europe	**1,379,308**	**51.2**	1,280,698	52.9	1,249,527	50.9
Hong Kong	**474,044**	**17.6**	410,991	17.0	429,565	17.5
Rest of Asia-Pacific	**298,590**	**11.1**	244,624	10.1	278,062	11.3
Middle East and North Africa	**58,038**	**2.2**	49,637	2.1	52,757	2.1
North America	**529,386**	**19.7**	495,408	20.5	492,487	20.1
Latin America	**163,611**	**6.1**	121,885	5.0	139,938	5.7
Intra-HSBC items	**(211,990)**	**(7.9)**	(184,789)	(7.6)	(187,647)	(7.6)
	2,690,987	**100.0**	2,418,454	100.0	2,454,689	100.0

Risk-weighted assets[55]

	At 30 June 2011 US$bn	%	At 31 December 2010 US$bn	%
Total	**1,168.5**		1,103.1	
Europe	**315.7**	**26.9**	301.6	27.2
Hong Kong	**110.8**	**9.5**	106.9	9.7
Rest of Asia-Pacific	**241.1**	**20.6**	217.5	19.6
Middle East and North Africa	**58.1**	**5.0**	54.1	4.9
North America	**335.8**	**28.6**	330.7	29.9
Latin America	**110.5**	**9.4**	95.9	8.7

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Europe

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

	Half-year to		
	30 Jun 2011 US$m	30 Jun 2010 US$m	31 Dec 2010 US$m
Net interest income	**5,566**	5,802	5,448
Net fee income	**3,131**	3,177	3,194
Net trading income	**2,007**	1,604	1,259
Other income/(expense)	**636**	2,138	128
Net operating income[41]	**11,340**	12,721	10,029
Impairment charges[42]	**(1,173)**	(1,501)	(1,519)
Net operating income	**10,167**	11,220	8,510
Total operating expenses	**(8,014)**	(7,704)	(7,741)
Operating profit	**2,153**	3,516	769
Income from associates[43]	**(6)**	5	12
Profit before tax	**2,147**	3,521	781
Cost efficiency ratio	**70.7%**	60.6%	77.2%
RoRWA[44]	**1.4%**	2.2%	0.5%
Period-end staff numbers	**76,879**	73,431	75,698

Reduction in reported

loan impairment charges[42]

22%

Market share of new

UK mortgage lending

11%

Strong trade revenue growth

For footnotes, see page 81.

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

Economic background

The UK s economic recovery remained disappointingly lacklustre in the first half of 2011. In the first quarter, the level of real Gross Domestic Product (GDP) rose by 0.5%, having fallen by 0.5% in the previous quarter. The unemployment rate edged down to 7.7% in the three months to April as modest job shedding in the public sector, in reaction to ongoing fiscal austerity, was offset by job gains in the private sector. The level of turnover in the housing market remained subdued. The Bank of England left interest rates unchanged at 0.5% and the Asset Purchase Facility remained steady at £200bn. CPI inflation was well above the Bank of England s 2% target throughout the period, reaching 4.5% in May, partly from the rise in VAT at the start of the year, and increases in commodity prices.

The eurozone recovery continued to be uneven, with countries in the north of the region demonstrating strong growth while economies in the south, particularly those focused on fiscal consolidation, saw more modest levels of activity. In part because of rising commodity prices, eurozone inflation rose above the European Central Bank s (ECB s) target, reaching 2.7% in June, and the ECB began to tighten monetary policy, raising the refi rate in April and July, taking it to 1.5%. For certain countries, particularly Greece, concerns in sovereign bond markets intensified. As it became clear that Greece would be unable to return to the private capital markets in the first half of 2012, the eurozone heads of state arranged in July 2011 for further medium-term financial assistance to be provided to the country.

Review of performance

Our European operations reported a pre-tax profit of US$2.1bn, compared with US$3.5bn in the first half of 2010, a decrease of 39%. Included within these results were adverse fair value movements of US$71m in the first half of 2011 due to the change in credit spreads on the Group s own debt held at fair value, compared with favourable fair value movements of US$574m in the first half of 2010. The first half of 2010 included a gain of US$107m on the disposal of the HSBC Insurance Brokers business along with the operating results of Eversholt Rail Group which was sold in December 2010. Excluding these items, underlying pre-tax profits decreased by 28%, mainly due to lower revenues in GB&M.

In GB&M, we are investing in the business by expanding our capabilities across the region and further enhancing our product offering in areas such as Payments and Cash Management, Securities

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2011						
UK	**634**	**761**	**483**	**108**	**(862)**	**1,124**
France[56]	**139**	**111**	**274**	**10**	**(89)**	**445**
Germany	**23**	**38**	**121**	**21**	**6**	**209**
Malta	**31**	**34**	**6**			**71**
Switzerland		**(5)**		**122**		**117**
Turkey	**11**	**42**	**31**			**84**
Other	**(69)**	**63**	**87**	**54**	**(38)**	**97**
	769	**1,044**	**1,002**	**315**	**(983)**	**2,147**
Half-year to 30 June 2010						
UK	483	500	1,356	116	(366)	2,089
France[56]	87	83	401	6	157	734
Germany	19	17	127	18	(4)	177
Malta	21	28	7			56
Switzerland				161		161
Turkey	35	47	58			140
Other	(46)	34	99	58	19	164
	599	709	2,048	359	(194)	3,521
Half-year to 31 December 2010						
UK	698	327	416	107	(1,239)	309
France[56]	51	52	(25)	12	(131)	(41)
Germany	17	15	104	12	8	156
Malta	16	28	10			54
Switzerland		(5)		104		99
Turkey	29	33	47	1		110
Other	(98)	46	103	45	(2)	94
	713	496	655	281	(1,364)	781

For footnotes, see page 81.

Services, Prime Services and Equities. Lower revenues compared with the first half of 2010 were driven by reductions in Balance Sheet Management and legacy Credit.

In the UK CMB business, income from UK based customers using products to support international activity grew by 16% compared with the first half of 2010. We remain on track to achieve our lending goals under the Merlin Agreement with the UK government, having made available total new facilities of £22.7bn (US$36.3bn) in the first half of 2011, compared with a full year target of £38.8bn (US$62.1bn), with capacity to increase this to £44.1bn (US$70.6bn) if there is sufficient demand on commercial terms. For UK SMEs, we have provided gross new facilities of £5.6bn (US$9.0bn), compared with a goal of £11.7bn (US$18.7bn) for the full year, with committed capacity for additional facilities of at least £1.2bn (US$1.9bn) if required.

In the UK personal sector, we delivered further growth in mortgage balances and increased our market share of new lending to 11% while maintaining a conservative new lending loan-to-value ratio of 53%. The investment business

continued to grow and we increased our assets under management of HSBC World Selection by 20% to US$3.9bn in the first half of the year.

Within Continental Europe, there was a continued focus on selected markets where we have scale and opportunities for growth, particularly in wealth management, CMB and GB&M.

In GPB, the focus remained on enhancing client experience through the delivery of bespoke services and global connections. Client assets increased due to net new money inflows, together with favourable market and foreign exchange movements.

Across the region there was a drive to improve efficiency and rationalise the portfolio and, to that end, we announced the closure of our retail businesses in Russia and Poland, as well as initiatives to improve operational efficiency in France and the UK. We continued to monitor our portfolio against strict targets, and keep our cost base under review.

Net interest income decreased by 9% as Balance Sheet Management revenues reduced. This was due to higher-yielding positions maturing and

HSBC HOLDINGS PLC

Interim Management Report (continued)

opportunities for reinvestment at similar yields being limited by the prevailing low interest rate environment and flatter yield curves. It was partly offset by growth in mortgage and commercial lending balances and wider lending spreads. We continued to build on our strong deposit base in the UK despite fierce competition for customer deposits.

Net fee income decreased by 4%. The increases in GPB from growth in assets under management and higher levels of client activity, along with an increase in domestic and international payments in the UK, did not offset lower fee income in GB&M for management services as the comparable period in 2010 benefited from higher fees generated from the securities investment conduits.

Net trading income increased by 7%. There were lower adverse fair value movements on non-qualifying hedges used to economically hedge fixed-rate long-term debt issued by HSBC Holdings. These were driven by a less pronounced decrease in long-term US interest rates relative to sterling and euro interest rates than those experienced in the first half of 2010. In addition, there were favourable foreign exchange movements on trading assets held as economic hedges of foreign currency debt designated at fair value. These offset adverse foreign exchange movements on the foreign currency debt which is reported in Net expense from financial instruments designated at fair value .

Excluding the above items, net trading income decreased. This reflected lower favourable fair value movements on structured liabilities, mainly in Rates. Credit trading revenues were affected by the re-emergence of eurozone sovereign debt concerns in the second quarter of 2011 which resulted in a reduction in client activity and a general widening of credit spreads. In addition, foreign exchange revenues were constrained by continued spread compression due to increased competition. Benefiting from recent investment spending, higher revenues in Equities reflected an improved competitive positioning which helped capture increasing client flows, particularly during the rally in global equity markets in the first quarter of 2011.

Net expense from financial instruments designated at fair value increased by US$143m. There were adverse foreign exchange movements on foreign currency debt designated at fair value, issued as part of our overall funding strategy, with an offset reported in Net trading income . These adverse movements were partly mitigated by gains on the fair value of assets held to meet liabilities under insurance and investment contracts that were recognised as equity markets rose, compared with

losses experienced in the first half of 2010. To the extent that these gains accrued to policyholders holding unit-linked insurance policies and insurance or investment contracts with DPF, there was a corresponding increase in Net insurance claims incurred and movement in liabilities to policyholders .

Gains less losses from financial investments increased by US$62m, driven by gains on certain securitised debt portfolios.

Net earned insurance premiums increased by 6% reflecting successful targeted sales campaigns in RBWM, notably for investment contracts with DPF in France, and higher sales of unit-linked products in the UK. This was partly offset by a reduction in premiums resulting from the non-renewal and transfer to third parties of certain contracts in our Irish business, and the run-off of the legacy motor book in the UK.

Other operating income decreased by 23%, largely reflecting the non-recurrence of a gain on the sale and leaseback of our Paris headquarters in the first half of 2010, partly offset by the benefit from a refinement of the calculation of the PVIF asset during the period (see footnote 27 on page 81).

Net insurance claims incurred and movement in liabilities to policyholders increased by 23%. Investment gains, which contrasted with investment losses in the first half of 2010, led to an increase in the movement in liabilities to policyholders. Additional reserves were also established for new business written, consistent with the increase in net earned insurance premiums. The non-renewal and transfer to third parties of certain contracts in the Irish business and the run-off of the legacy motor book in the UK resulted in a decrease in net insurance claims incurred and movement in liabilities to policyholders, partly offsetting the above.

Loan impairment charges and other credit risk provisions decreased by 26% to US$1.2bn, reflecting an improved credit environment in the region and successful risk mitigation by management in RBWM. The decline in loan impairment charges was also attributable to lower delinquency rates across both the secured and unsecured lending portfolios in the UK as a result of better collections capability and enhanced credit risk management practices. In CMB, loan impairment charges fell in the UK across a range of industry sectors. In GB&M, loan impairment charges and other credit risk provisions declined despite recording a charge of US$65m to write down to market value available-for-sale Greek sovereign debt now judged to be impaired. In addition, impairments of US$40m were included in our GPB and insurance businesses in relation to Greek available-for-sale debt securities.

Operating expenses in the first half of 2011 included US$611m of provisions relating to UK customer redress programmes, including a provision in respect of the adverse judgement in the Judicial Review relating to sales of PPI in the UK. This was offset by a credit of US$587m resulting from a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred

pensions. The first half of 2010 included one-off payroll and bonus taxes of US$398m (US$367m as reported) in the UK and France. Excluding these items, operating expenses increased by 6%. This included an acceleration in the expense recognition of deferred bonus awards. We also continued to invest in strategic initiatives in GB&M, including the development of Prime Services and equity market capabilities and the expansion of the Rates and Foreign Exchange e-commerce platforms.

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Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data *Europe*

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,861	1,522	1,107	476	(271)	(129)	5,566
Net fee income/(expense)	1,323	813	516	496	(17)		3,131
Trading income/(expense) excluding net interest income	36	6	1,268	84	(196)		1,198
Net interest income on trading activities	6	8	636	9	21	129	809
Net trading income/(expense)[45]	42	14	1,904	93	(175)	129	2,007
Net income/(expense) from financial instruments designated at fair value	105	25	(211)		(159)		(240)
Gains less losses from financial investments	56	1	254	(4)	5		312
Dividend income	1	1	19	3	1		25
Net earned insurance premiums	2,201	191			(6)		2,386
Other operating income	142	40	96	8	264	102	652
Total operating income/(expense)	6,731	2,607	3,685	1,072	(358)	102	13,839
Net insurance claims[53]	(2,316)	(180)			(3)		(2,499)

Net operating income/(expense)[41]	**4,415**	**2,427**	**3,685**	**1,072**	**(361)**	**102**	**11,340**
Loan impairment (charges)/ recoveries and other credit risk provisions	**(394)**	**(369)**	**(382)**	**(34)**	**6**		**(1,173)**
Net operating income/(expense)	**4,021**	**2,058**	**3,303**	**1,038**	**(355)**	**102**	**10,167**
Operating expenses	**(3,249)**	**(1,013)**	**(2,299)**	**(723)**	**(628)**	**(102)**	**(8,014)**
Operating profit/(loss)	**772**	**1,045**	**1,004**	**315**	**(983)**		**2,153**
Share of profit/(loss) in associates and joint ventures	**(3)**	**(1)**	**(2)**				**(6)**
Profit/(loss) before tax	**769**	**1,044**	**1,002**	**315**	**(983)**		**2,147**
	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**6.7**	**9.1**	**8.7**	**2.8**	**(8.6)**		**18.7**
Cost efficiency ratio	**73.6**	**41.7**	**62.4**	**67.4**	**(173.5)**		**70.7**
Balance sheet data[39]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**154,055**	**100,140**	**200,498**	**30,354**	**1,284**		**486,331**
Total assets	**221,095**	**123,446**	**1,075,148**	**80,073**	**72,488**	**(192,942)**	**1,379,308**
Customer accounts	**178,819**	**101,195**	**207,891**	**60,906**			**548,811**

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Interim Management Report (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,706	1,324	1,648	424	(292)	(8)	5,802
Net fee income/(expense)	1,221	796	719	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)[45]	(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	(1)		241	1	(4)		237
Dividend income			12	2			14
Net earned insurance premiums	2,012	130			(5)		2,137
Other operating income	104	125	303	4	479	126	1,141
Total operating income	5,902	2,370	4,934	990	363	126	14,685
Net insurance claims[53]	(1,882)	(81)			(1)		(1,964)
Net operating income[41]	4,020	2,289	4,934	990	362	126	12,721
Loan impairment charges and other credit risk provisions	(686)	(410)	(394)	(11)			(1,501)
Net operating income	3,334	1,879	4,540	979	362	126	11,220
Operating expenses	(2,738)	(1,171)	(2,493)	(620)	(556)	(126)	(7,704)
Operating profit/(loss)	596	708	2,047	359	(194)		3,516
Share of profit in associates and joint ventures	3	1	1				5
Profit/(loss) before tax	599	709	2,048	359	(194)		3,521

	%	%	%	%	%		%
Share of HSBC s profit before tax	5.4	6.3	18.5	3.2	(1.7)		31.7
Cost efficiency ratio	68.1	51.2	50.5	62.6	153.6		60.6
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	135,746	82,822	163,020	24,717	921		407,226
Total assets	193,060	105,134	1,019,364	70,116	74,744	(181,720)	1,280,698
Customer accounts	156,581	95,558	170,695	54,423	1		477,258

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Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Europe (continued)

	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	2,831	1,450	1,287	447	(362)	(205)	5,448
Net fee income	1,338	774	601	439	42		3,194
Trading income/(expense) excluding net interest income	13	(11)	199	80	308		589
Net interest income on trading activities	(1)	12	427	11	16	205	670
Net trading income[45]	12	1	626	91	324	205	1,259
Net income/(expense) from financial instruments designated at fair value	617	139	8		(1,055)		(291)
Gains less losses from financial investments	(35)		284	(8)	8		249
Dividend income		1	4		1		6
Net earned insurance premiums	1,788	148			(6)		1,930
Other operating income	83	38	514	3	275	63	976
Total operating income/ (expense)	6,634	2,551	3,324	972	(773)	63	12,771
Net insurance claims[53]	(2,482)	(261)			1		(2,742)
Net operating income/ (expense)[41]	4,152	2,290	3,324	972	(772)	63	10,029

Loan impairment (charges)/ recoveries and other credit risk provisions	(531)	(587)	(389)	(15)	3		(1,519)
Net operating income/ (expense)	3,621	1,703	2,935	957	(769)	63	8,510
Operating expenses	(2,909)	(1,207)	(2,291)	(676)	(595)	(63)	(7,741)
Operating profit/(loss)	712	496	644	281	(1,364)		769
Share of profit in associates and joint ventures	1		11				12
Profit/(loss) before tax	713	496	655	281	(1,364)		781
	%	%	%	%	%		%
Share of HSBC s profit before tax	9.0	6.3	8.3	3.5	(17.3)		9.8
Cost efficiency ratio	70.1	52.7	68.9	69.5	(77.1)		77.2
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	145,069	91,744	170,369	27,629	988		435,799
Total assets	205,032	111,356	962,861	76,631	65,824	(172,177)	1,249,527
Customer accounts	169,016	96,597	169,836	56,114			491,563

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Hong Kong

HSBC s principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in the Asia-Pacific region. It is one of Hong Kong s three note-issuing banks, accounting for approximately 65% by value of banknotes in circulation in the first half of 2011.

		Half-year to	
	30 Jun	30 Jun	31 Dec
	2011	2010	2010
	US$m	US$m	US$m
Net interest income	**2,249**	1,994	2,252
Net fee income	**1,612**	1,395	1,567
Net trading income	**669**	688	624
Other income	**884**	819	863
Net operating income[41]	**5,414**	4,896	5,306
Impairment charges[42]	**(25)**	(63)	(51)
Net operating income	**5,389**	4,833	5,255
Total operating expenses	**(2,339)**	(1,968)	(2,463)
Operating profit	**3,050**	2,865	2,792
Income from associates[43]	**31**	12	23
Profit before tax	**3,081**	2,877	2,815
Cost efficiency ratio	**43.2%**	40.2%	46.4%
RoRWA[44]	**5.6%**	5.1%	5.0%
Period-end staff numbers	**30,214**	28,397	29,171

Best Bank in Hong Kong

(FinanceAsia Country Awards 2011)

Market leadership in mortgages,

cards, life insurance

and deposits

More than 50%

increase in the number of CMB

cross-border referrals between

Hong Kong and mainland China

For footnotes, see page 81.

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

Economic background

Hong Kong continued to demonstrate robust growth in economic activity, helped by strong demand from mainland China and low interest rates, with the Hong Kong Monetary Authority (HKMA) maintaining rates at 0.5% since April 2008. Inflationary pressures built during the period, spurred by rapid gains in the price of food and property. CPI inflation rose to 5.3% in May 2011, compared with 2.9% in December 2010.

Review of performance

Our operations in Hong Kong reported pre-tax profits of US$3.1bn compared with US$2.9bn in the first half of 2010, an increase of 7%. On an underlying basis, profit before tax increased by 9%.

The increase in profitability was driven by strong balance sheet growth from 2010 onwards, higher sales of wealth management products, increased underwriting fees and higher sales of trade-related products. There was also a gain from the refinement of the calculation of the PVIF asset. Staff and support costs rose, driven by the increase in business volumes and the need to maintain our strong competitive position.

We successfully retained market leadership in Hong Kong in mortgages, deposits, credit cards and life insurance. Robust growth in lending balances continued, increasing by 13% compared with 31 December 2010, while deposit balances continued to grow.

We remained ideally positioned to capture cross-border opportunities, particularly with mainland China. The number of CMB cross-border referrals between Hong Kong and mainland China increased by more than 50% and Premier referrals rose by 47%.

Collaboration between CMB and GB&M continued to meet the demands of fast growing mid-market companies by providing foreign exchange and derivatives products as well as access to debt and equity markets to fund business growth.

We continued to bolster our position as a leading international renminbi bank. We were appointed as joint lead arranger for Hong Kong s first renminbi-denominated equity initial public offering, and led the market in offshore renminbi bond issuance. We were the first international bank to offer CMB customers a dedicated renminbi Business Card in Hong Kong.

Net interest income was 13% higher than in the first half of 2010, primarily due to strong loan

HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to		
	30 June 2011	30 June 2010	31 December 2010
	US$m	US$m	US$m
Retail Banking and Wealth Management[16]	**1,599**	1,462	1,539
Commercial Banking	**825**	672	680
Global Banking and Markets[16]	**631**	690	657
Global Private Banking	**130**	119	108
Other	**(104)**	(66)	(169)
Profit before tax	**3,081**	2,877	2,815

For footnote, see page 81.

growth, particularly in CMB and GB&M, partly offset by lower asset spreads in RBWM and CMB resulting from competitive pressures. Balance Sheet Management results remained strong.

The targeted expansion of our lending book reflected our balance sheet strength, together with continued strong economic growth and trade flows. The resultant increase in demand for credit saw significant increases in lending balances in CMB, notably in trade-related lending, and in GB&M. Average personal lending balances rose, primarily in residential mortgage lending as a result of the strong property market and our leadership in new mortgage business. The continued strength of the Hong Kong property market led the HKMA to introduce further prudential measures on loan-to-value ratios in June 2011, following similar measures taken in 2010 designed to calm upward property price movement. We continued to lend prudently and average loan-to-value ratios were 51% on new residential mortgage draw-downs and an estimated 35% on the portfolio as a whole.

Asset spreads narrowed relative to the same period in 2010 as a result of competitive pressures, particularly in trade-related and term lending and HIBOR-linked residential mortgages.

Balance Sheet Management income rose due to the increased duration in the overall portfolio.

Momentum continued in the growth of deposit balances in GB&M and in CMB, reflecting increased customer numbers.

Net fee income increased by 16%, primarily from increased sales of wealth management products in the low interest rate environment, particularly unit trusts, driven by improved investor sentiment and supported by an increase in sales staff in our wealth management business. In addition, fees from funds under management grew as a result of higher net inflows including the launch of two new funds in 2011. Underwriting fees increased from our involvement in several significant IPOs, and trade-

related fees and remittances also rose as transaction volumes increased, driven by economic growth.

Net trading income reduced by 3%. Revenue from foreign exchange trading increased due to higher levels of customer-driven activity and the successful capture of market volatility. The Rates and Equities businesses also performed well. This was offset by lower revenue in credit trading as credit spreads widened in some markets.

Net income from financial instruments designated at fair value rose by US$51m due to investment gains in the first half of 2011 on assets held by the insurance business as equity markets improved, compared with revaluation losses in the same period in 2010. To the extent that these gains were attributed to policyholders, there was an offsetting change in Net insurance claims incurred and movement in liabilities to policyholders .

Net earned insurance premiums increased by 15% from the rise in sales of unit-linked insurance and deferred annuity products, reflecting the increased demand. This growth in insurance sales resulted in a related increase in *Net insurance claims incurred and movement in liabilities to policyholders.*

Gains less losses from financial investments were 63% lower, primarily due to the non-recurrence of significant gains on the sale of debt securities in the first half of 2010 in Balance Sheet Management.

Other operating income increased by 41% to US$911m, primarily in insurance due to the refinement of the calculation of the PVIF asset during the period of US$135m (see footnote 27 on page 81), and higher life insurance sales in the first half of 2011.

Loan impairment charges and other credit risk provisions decreased from US$63m to US$25m, driven by releases and recoveries in GB&M compared with a specific impairment charge in the same period in 2010. Though impairment charges were low, we remained cautious on the outlook for credit and continued to focus on maintaining high levels of asset quality.

Operating expenses rose by 19% as business volumes grew. Staff costs increased due to wage inflation in the competitive marketplace, increased headcount, particularly in front office functions to strengthen our sales capacity, and higher sales incentives which reflected our strong business performance in the first half of 2011. Staff costs also rose due to an acceleration in the expense recognition of deferred bonus awards.

We continued to invest in developing our key capabilities, most notably in equities, Prime Services and commodities, to drive future revenue growth. Marketing and support costs also increased in line with higher business volumes and product development. Although our cost efficiency ratio is already relatively low in Hong Kong, we continue to focus on improving operational efficiency while maintaining market leadership and strong growth.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Hong Kong

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,249	625	501	88	(234)	20	2,249
Net fee income	908	356	241	97	10		1,612
Trading income/(expense) excluding net interest income	89	86	320	69	(9)		555
Net interest income on trading activities	4		124		6	(20)	114
Net trading income/(expense)[45]	93	86	444	69	(3)	(20)	669
Net income/(expense) from financial instruments designated at fair value	50	(27)	2		1		26
Gains less losses from financial investments			20		(2)		18
Dividend income		1	11		19		31
Net earned insurance premiums	2,193	390	5				2,588
Other operating income	375	83	22	6	556	(131)	911
Total operating income	4,868	1,514	1,246	260	347	(131)	8,104
Net insurance claims[53]	(2,344)	(342)	(5)		1		(2,690)

Net operating income[41]	**2,524**	**1,172**	**1,241**	**260**	**348**	**(131)**	**5,414**
Loan impairment (charges)/ recoveries and other credit risk provisions	**(38)**	**(7)**	**22**	**(1)**	**(1)**		**(25)**
Net operating income	**2,486**	**1,165**	**1,263**	**259**	**347**	**(131)**	**5,389**
Operating expenses	**(889)**	**(342)**	**(633)**	**(129)**	**(477)**	**131**	**(2,339)**
Operating profit/(loss)	**1,597**	**823**	**630**	**130**	**(130)**		**3,050**
Share of profit in associates and joint ventures	**2**	**2**	**1**		**26**		**31**
Profit/(loss) before tax	**1,599**	**825**	**631**	**130**	**(104)**		**3,081**
	%	***%***	***%***	***%***	***%***		***%***
Share of HSBC s profit before tax	**13.9**	**7.2**	**5.5**	**1.1**	**(0.8)**		**26.9**
Cost efficiency ratio	**35.2**	**29.2**	**51.0**	**49.6**	**137.1**		**43.2**
Balance sheet data[39]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**53,999**	**58,529**	**39,124**	**5,949**	**1,769**		**159,370**
Total assets	**82,184**	**66,563**	**232,057**	**21,545**	**81,316**	**(9,621)**	**474,044**
Customer accounts	**175,641**	**74,760**	**34,348**	**20,378**	**599**		**305,726**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,279	504	437	77	(247)	(56)	1,994
Net fee income	761	305	242	78	9		1,395
Trading income excluding net interest income	108	53	367	59	4		591
Net interest income on trading activities	1		34		6	56	97
Net trading income[45]	109	53	401	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	228	27	24	5	499	(139)	644
Total operating income	4,141	1,281	1,214	227	339	(139)	7,063
Net insurance claims[53]	(1,853)	(309)	(5)				(2,167)

Net operating income[41]	2,288	972	1,209	227	339	(139)	4,896
Loan impairment (charges)/ recoveries and other credit risk provisions	(42)	(2)	(20)		1		(63)
Net operating income	2,246	970	1,189	227	340	(139)	4,833
Operating expenses	(786)	(298)	(499)	(108)	(416)	139	(1,968)
Operating profit/(loss)	1,460	672	690	119	(76)		2,865
Share of profit in associates and joint ventures	2				10		12
Profit/(loss) before tax	1,462	672	690	119	(66)		2,877
	%	%	%	%	%		%
Share of HSBC s profit before tax	13.2	6.1	6.2	1.1	(0.7)		25.9
Cost efficiency ratio	34.4	30.7	41.3	47.6	122.7		40.2
Balance sheet data[39]							
	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	69,187	44,409	213,956	19,919	92,165	(28,645)	410,991
Customer accounts	165,238	63,562	26,142	18,559	611		274,112

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Hong Kong (continued)

	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,325	602	478	96	(216)	(33)	2,252
Net fee income	895	329	253	85	5		1,567
Trading income/(expense) excluding net interest income	90	68	313	61	(16)		516
Net interest income on trading activities	3		66		6	33	108
Net trading income/ (expense)[45]	93	68	379	61	(10)	33	624
Net income/(expense) from financial instruments designated at fair value	438	(33)	19		(16)		408
Gains less losses from financial investments			(7)	(7)	1		(13)
Dividend income		1	12		4		17
Net earned insurance premiums	1,781	296	7				2,084
Other operating income	285	41	132	7	641	(144)	962
Total operating income	4,817	1,304	1,273	242	409	(144)	7,901
	(2,340)	(250)	(5)				(2,595)

Net insurance claims[53]							
Net operating income[41]	2,477	1,054	1,268	242	409	(144)	5,306
Loan impairment (charges)/ recoveries and other credit risk provisions	(34)	(26)	10		(1)		(51)
Net operating income	2,443	1,028	1,278	242	408	(144)	5,255
Operating expenses	(907)	(355)	(625)	(134)	(586)	144	(2,463)
Operating profit/(loss)	1,536	673	653	108	(178)		2,792
Share of profit in associates and joint ventures	3	7	4		9		23
Profit/(loss) before tax	1,539	680	657	108	(169)		2,815
	%	%	%	%	%		%
Share of HSBC s profit before tax	19.4	8.6	8.3	1.4	(2.2)		35.5
Cost efficiency ratio	36.6	33.7	49.3	55.4	143.3		46.4
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	50,983	48,670	34,491	4,760	1,787		140,691
Total assets	76,871	55,030	223,286	20,598	62,486	(8,706)	429,565
Customer accounts	176,960	71,209	29,388	19,241	686		297,484

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Rest of Asia-Pacific

We offer a full range of banking and financial services in mainland China, mainly through our local subsidiary, HSBC Bank (China) Company Limited. We also participate indirectly in mainland China through our four associates.

Outside Hong Kong and mainland China, we conduct business in 22 countries and territories in the Rest of Asia-Pacific region, primarily through branches and subsidiaries of The Hongkong and Shanghai Banking Corporation, with particularly strong coverage in Australia, India, Indonesia, Malaysia and Singapore.

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2011	2010	2010
	US$m	US$m	US$m
Net interest income	**2,381**	1,822	2,006
Net fee income	**1,117**	934	998
Net trading income	**862**	780	838
Other income	**988**	962	892
Net operating income[41]	**5,348**	4,498	4,734
Impairment charges[42]	**(100)**	(147)	(292)
Net operating income	**5,248**	4,351	4,442
Total operating expenses	**(2,836)**	(2,417)	(2,726)
Operating profit	**2,412**	1,934	1,716
	1,330	1,051	1,201

Income from associates[43]			
Profit before tax	**3,742**	2,985	2,917
Cost efficiency ratio	**53.0%**	53.7%	57.6%
RoRWA[44]	**3.3%**	3.3%	2.8%
Period-end staff numbers	**91,924**	88,605	91,607

25%

growth in reported pre-tax profit

Best foreign Commercial Bank

in mainland China

(FinanceAsia)

Best International Trade Bank

in mainland China

(Trade Finance)

For footnotes, see page 81.

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

Economic background

In mainland China, strong inflationary pressures caused the People s Bank of China to continue raising interest rates and the Reserve Requirement Ratio on bank deposits during the first half of 2011, and GDP growth began to show signs of slowing as a result. The deceleration was modest, however, with activity in the second quarter of 2011 9.5% higher than a year ago. Investment spending remained particularly strong, growing by 26% in the first half of the year compared with the same period in 2010. Inflation reached 6.4% in June.

Economic conditions deteriorated sharply in Japan during the first quarter of 2011, following the earthquake and tsunami in March 2011. By 30 June, economic activity was beginning to accelerate. Having fallen by more than 15% in March, industrial output recovered by 7.9% in the two months to May, despite electricity shortages. The Bank of Japan kept the target unsecured overnight call rate at 0.1% and introduced measures to ensure credit and liquidity were made available.

GDP was particularly strong in Singapore in the first quarter of 2011 but fell sharply in the second quarter, with the pharmaceutical sector accounting for much of this volatility. GDP was 0.5% higher than in 2010 with inflation remaining relatively high. The annual pace of GDP growth in India slowed to 7.8% in the first quarter of 2011 from 8.3% in the final quarter of 2010, in part due to the tightening of monetary policy, with a further slowdown expected in the second quarter. Wholesale price inflation of 9.4% in June 2011 remained above the Reserve Bank of India s range. In other parts of Asia-Pacific growth showed signs of slowing. The South Korean economy continued to perform well. Exports slowed in the second quarter, but domestic demand held up well. Employment remained robust and the Bank of Korea raised interest rates by 75 basis points in the first half of the year. GDP continued to grow in the Philippines and Vietnam, though there was some evidence of a slowdown in the second quarter. CPI inflation remained a major concern in Vietnam, reaching 20% in May. In Indonesia, domestic consumption continued to support GDP growth but, like elsewhere in the region, inflation was uncomfortably high. In Malaysia and Taiwan, exports were adversely affected by supply chain disruptions following the Japanese tsunami, but domestic consumption helped support overall GDP growth. In Thailand, the recent election brought political stability and the outlook for domestic consumption and investment improved.

Interim Management Report (continued)

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

	Retail Banking and Wealth Management[16] US$m	**Commercial Banking US$m**	**Global Banking and Markets[16] US$m**	**Global Private Banking US$m**	**Other US$m**	**Total US$m**
Half-year to 30 June 2011						
Australia	**36**	**33**	**70**		**(4)**	**135**
India	**(4)**	**78**	**292**	**3**	**82**	**451**
Indonesia	**(1)**	**47**	**68**			**114**
Japan	**4**		**27**	**2**	**(8)**	**25**
Mainland China	**490**	**617**	**472**	**(2)**	**194**	**1,771**
Associates	**524**	**539**	**248**		**181**	**1,492**
Other mainland China	**(34)**	**78**	**224**	**(2)**	**13**	**279**
Malaysia	**77**	**56**	**114**		**4**	**251**
Singapore	**95**	**62**	**126**	**46**	**(2)**	**327**
South Korea	**6**		**118**		**20**	**144**
Taiwan	**33**	**11**	**67**		**6**	**117**
Vietnam	**1**	**26**	**40**		**15**	**82**
Other	**29**	**131**	**146**		**19**	**325**
	766	**1,061**	**1,540**	**49**	**326**	**3,742**
Half-year to 30 June 2010						
Australia	23	42	68		3	136
India	(49)	39	244	3	103	340
Indonesia	(3)	48	60		(3)	102
Japan	(9)		39		(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
	54	45	96		6	201

Malaysia						
Singapore	85	42	91	43	3	264
South Korea	8	(4)	180		29	213
Taiwan	26	32	37		(9)	86
Vietnam	(9)	21	22		4	38
Other	34	102	124	1	35	296
	524	757	1,258	43	403	2,985
Half-year to 31 December 2010						
Australia	36	54	27		5	122
India	(34)	32	264	1	76	339
Indonesia	15	46	56			117
Japan	(24)		37	(1)	(4)	8
Mainland China	475	443	386	(3)	(17)	1,284
Associates	558	390	228		(4)	1,172
Other mainland China	(83)	53	158	(3)	(13)	112
Malaysia	66	43	98		(7)	200
Singapore	84	45	9	41	81	260
South Korea	(6)		125		21	140
Taiwan	5	4	50		2	61
Vietnam	2	29	39		3	73
Other	19	103	139		52	313
	638	799	1,230	38	212	2,917

For footnote, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Review of performance

Our operations in the Rest of Asia-Pacific region reported pre-tax profits of US$3.7bn compared with US$3.0bn in the first half of 2010, an increase of 25%. Reported profits included accounting gains arising from the dilution of HSBC s shareholding in Ping An following its issue of share capital to third parties in both 2010 (US$188m) and 2011 (US$181m). On an underlying basis, which excludes these dilution gains, pre-tax profit rose by 21%.

The growth in profitability in the region in the first half of 2011 reflected strong lending and deposit growth coupled with widening deposit spreads, higher trade volumes and a growing demand for wealth management products. The contribution from our associates in mainland China also grew. Costs increased, although to a lesser extent than revenues, to support business growth and maintain our competitive position in the region.

We continued building a domestic franchise in mainland China where we remained a leading foreign bank. Asset balances grew by 9% over the first six months of 2011, and our ratio of advances to deposits in mainland China remained conservative at 74%. We now have 108 outlets, 16 rural bank outlets and 38 Hang Seng Bank outlets in our branch network. We were awarded the Best International Trade Bank by *Trade Finance* and the Best Foreign Commercial Bank by *FinanceAsia*, reinforcing our strong corporate brand in mainland China. We expanded our renminbi services and now offer trade products in over 50 countries worldwide and renminbi services to RBWM customers in 11 countries in Asia.

We utilised our international connectivity to capture trade, capital and wealth flows across the region, in particular with mainland China. As cross-border referrals between mainland China and the rest of the world increased by more than 50%, we continued to facilitate outbound and inbound flows, particularly with Hong Kong, but also with Singapore, Latin America and the Middle East.

We continued to invest and build scale in the other key strategic markets of India, Singapore, Malaysia, Indonesia and Australia. In India, we made progress in RBWM with our deposit-led strategy and focus on secured lending. In Malaysia, we are the leading foreign bank by total assets and size of branch network and HSBC Amanah was named the world s number one Sukuk underwriter.

Net interest income increased by 23% due to strong loan and deposit growth coupled with wider deposit spreads as base rates rose in certain

countries, partly offset by lower asset spreads than in the first half of 2010 from increased competition.

Average lending balances increased primarily in trade and term lending in GB&M and CMB due to a higher demand for credit as a result of improved trade and business volumes in the region. RBWM lending balances also rose, mainly in residential mortgages, most notably in Australia and Singapore, driven by local marketing campaigns and increased demand for credit.

Asset spreads narrowed compared with the same period in 2010, primarily due to increased market competition.

Customer deposit balances grew in CMB, GB&M and RBWM, principally in mainland China, Singapore and Australia, reflecting an increase in customer numbers and strong economic conditions across the region.

Deposit spreads increased as interest rates rose in certain countries, primarily in mainland China, India and Malaysia. Balance Sheet Management income was higher than in the comparative period, notably in mainland China and Singapore. In the former, this was driven by profit opportunities in the interbank market and the widening of onshore US dollar lending spreads. In Singapore, results reflected the higher return from short-term lending and balance sheet growth.

Net fee income rose by 11%. Trade-related fees and fees arising on Payments and Cash Management increased in CMB and GB&M, reflecting higher trade and transaction volumes in the region. Securities Services fee income increased, as equity market performance drove higher volumes and growth in assets under custody. Fee income in RBWM also rose as a result of the increased demand for investment products, notably in unit trusts, reflecting successful sales activity, improved investor sentiment and the expansion of the structured products business in mainland China.

Net trading income increased by 4%, primarily from higher Foreign Exchange trading revenues. This was most notable in mainland China, Taiwan and India as the increased market volatility led to higher client volumes and wider spreads.

Net income from financial instruments designated at fair value increased by US$7m due to higher valuation gains on assets held by the insurance business, primarily in Singapore. To the extent that these higher investment gains were attributed to policyholders, there was a corresponding increase in Net insurance claims

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HSBC HOLDINGS PLC

Interim Management Report (continued)

incurred and movement in liabilities to policyholders .

Losses from financial investments were US$22m compared with gains of US$41m in the first half of 2010, due to losses on disposals of debt securities, notably government bonds, coupled with an impairment loss on an equity investment in 2011.

Net earned insurance premiums increased by 57% to US$340m, largely due to higher sales of insurance products in the region, most notably in Singapore and Malaysia. This was driven by successful sales initiatives and increased demand for wealth products as economic conditions improved strongly. The growth in the insurance business resulted in a related increase in *Net insurance claims incurred and movement in liabilities to policyholders*.

Other operating income increased by 4% to US$752m, including a favourable movement due to the refinement of the calculation of the PVIF asset during the period (see footnote 27 on page 81) and higher life insurance sales in the region.

Loan impairment charges and other credit risk provisions decreased by 36% to US$100m as credit conditions throughout the region continued to improve. Loan impairment charges fell in RBWM, particularly in India, as certain unsecured lending portfolios were managed down. We remained cautious on the outlook for credit and sustained our focus on maintaining high levels of underwriting and asset quality.

Operating expenses increased by 10% as volumes grew due to the continued strong economic growth in the region. We hired more sales staff to support our continued business expansion in our key strategic markets and average wages rose, reflecting the increased demand for talent in the region.

Share of profit from associates and joint ventures increased by 21%. A higher contribution from Bank of Communications was driven by strong loan growth, an improvement in spreads and an increase in fee-based revenue streams. Income from Industrial Bank similarly rose as a result of loan growth, while strong sales growth in insurance, banking and wealth management business drove an increased contribution from Ping An.

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Interim Management Report (continued)

Profit before tax and balance sheet data   Rest of Asia-Pacific

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit before tax							
Net interest income	891	580	900	58	59	(107)	2,381
Net fee income	463	259	359	32	4		1,117
Trading income/(expense) excluding net interest income	50	75	583	30	(29)		709
Net interest income/(expense) on trading activities			51		(5)	107	153
Net trading income/ (expense)[45]	50	75	634	30	(34)	107	862
Net income/(expense) from financial instruments designated at fair value	7	2	1		(7)		3
Gains less losses from financial investments		1	(23)	1	(1)		(22)
Dividend income			1				1
Net earned insurance premiums	225	115					340
Other operating income	71	33	35	1	877	(85)	932
Total operating income	1,707	1,065	1,907	122	898	(85)	5,614
Net insurance claims[53]	(173)	(94)			1		(266)
Net operating income[41]	1,534	971	1,907	122	899	(85)	5,348
Loan impairment (charges)/ recoveries and other credit risk provisions	(112)	7	4	2	(1)		(100)
Net operating income	1,422	978	1,911	124	898	(85)	5,248
Operating expenses	(1,188)	(458)	(626)	(75)	(574)	85	(2,836)
Operating profit	234	520	1,285	49	324		2,412
Share of profit in associates and joint ventures	532	541	255		2		1,330
Profit before tax	766	1,061	1,540	49	326		3,742

	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**6.7**	**9.2**	**13.4**	**0.4**	**2.8**		**32.6**
Cost efficiency ratio	**77.4**	**47.2**	**32.8**	**61.5**	**63.8**		**53.0**
Balance sheet data[39]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**41,707**	**36,128**	**39,569**	**3,846**	**179**		**121,429**
Total assets	**54,326**	**47,028**	**181,947**	**12,802**	**15,215**	**(12,728)**	**298,590**
Customer accounts	**59,352**	**39,922**	**56,262**	**13,014**	**39**		**168,589**

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Interim Management Report (continued)

Profit before tax and balance sheet data Rest of Asia-Pacific (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16]	Commercial Banking	Global Banking and Markets[16]	Global Private Banking	Other	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit before tax							
Net interest income	754	431	662	40	30	(95)	1,822
Net fee income/(expense)	399	204	306	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)[45]	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		3	31	2	3		39
Dividend income			1				1
Net earned insurance premiums	172	26					198
Other operating income	53	53	19		826	(74)	877
Total operating income	1,416	779	1,579	107	842	(74)	4,649
Net insurance claims[53]	(133)	(18)					(151)
Net operating income[41]	1,283	761	1,579	107	842	(74)	4,498
Loan impairment (charges)/ recoveries and other credit risk provisions	(175)	18	10				(147)
Net operating income	1,108	779	1,589	107	842	(74)	4,351
Operating expenses	(1,028)	(376)	(533)	(64)	(490)	74	(2,417)
Operating profit	80	403	1,056	43	352		1,934

Share of profit in associates and joint ventures	444	354	202		51		1,051
Profit before tax	524	757	1,258	43	403		2,985
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.7	6.8	11.3	0.4	3.6		26.9
Cost efficiency ratio	80.1	49.4	33.8	59.8	58.2		53.7
Balance sheet data[39]							
	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	42,334	34,810	153,639	12,013	10,393	(8,565)	244,624
Customer accounts	48,890	31,046	46,089	12,262	32		138,319

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Interim Management Report (continued)

	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit before tax							
Net interest income	827	507	773	51	25	(177)	2,006
Net fee income/(expense)	435	238	305	25	(5)		998
Trading income/(expense) excluding net interest income	44	68	505	34	(30)		621
Net interest income/(expense) on trading activities			40			177	217
Net trading income/ (expense)[45]	44	68	545	34	(30)	177	838
Net income/(expense) from financial instruments designated at fair value	39	1	(1)		(13)		26
Gains less losses on financial investments			20	(2)	89		107
Dividend income							
Net earned insurance premiums	214	36					250
Other operating income	56	33	36	1	673	(78)	721
Total operating income	1,615	883	1,678	109	739	(78)	4,946
Net insurance claims[53]	(191)	(21)					(212)
Net operating income[41]	1,424	862	1,678	109	739	(78)	4,734
Loan impairment charges and other credit risk provisions	(123)	(37)	(132)				(292)
Net operating income	1,301	825	1,546	109	739	(78)	4,442
Operating expenses	(1,205)	(423)	(561)	(71)	(544)	78	(2,726)
Operating profit	96	402	985	38	195		1,716
Share of profit in associates and joint ventures	542	397	245		17		1,201
Profit before tax	638	799	1,230	38	212		2,917

	%	%	%	%	%		%
Share of HSBC s profit before tax	8.0	10.1	15.5	0.5	2.7		36.8
Cost efficiency ratio	84.6	49.1	33.4	65.1	73.6		57.6
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	37,831	31,423	35,810	3,489	178		108,731
Total assets	49,758	41,588	166,710	12,126	19,450	(11,570)	278,062
Customer accounts	54,741	36,943	53,752	12,620	99		158,155

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Middle East and North Africa

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

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2011	2010	2010
	US$m	US$m	US$m
Net interest income	**673**	667	700
Net fee income	**327**	356	321
Net trading income	**237**	194	176
Other income/(expense)	**(1)**	(29)	25
Net operating income[41]	**1,236**	1,188	1,222
Impairment charges[42]	**(99)**	(438)	(189)
Net operating income	**1,137**	750	1,033
Total operating expenses	**(574)**	(519)	(559)
Operating profit	**563**	231	474
Income from associates[43]	**184**	115	72
Profit before tax	**747**	346	546
Cost efficiency ratio	**46.4%**	43.7%	45.7%
RoRWA[44]	**2.7%**	1.3%	2.0%
Period-end staff numbers	**8,755**	8,264	8,676

Underlying profits nearly doubled despite political unrest and economic pressures

Loan impairment charges declined to their lowest levels since 1H08

Best International Islamic Bank	**Best Risk Advisor in**
(Euromoney Islamic	**Middle East**
Finance Awards 2011)	*(Euromoney Awards for Excellence 2011)*

For footnotes, see page 81.

The commentary on the Middle East and North Africa is on an

underlying basis unless stated otherwise.

Economic background

Political unrest weighed heavily on economic performance in the Middle East and North Africa in the first half of 2011. Those economies that saw the most pronounced turmoil fell into recession as production was disrupted, consumption scaled back and investor confidence compromised. While in economies such as Egypt there were early signs of economic activity normalising as political conditions improved, in others where unrest continued, output losses were substantial and ongoing. Continued high oil prices allowed the region s key energy exporters to increase public spending, providing a significant boost to domestic demand. Access to domestic credit improved as the effect of the 2008/09 downturn continued to fade and interest rates remained at historic lows. Inflation was subdued region-wide.

Review of performance

Our operations in the Middle East and North Africa reported a profit before tax of US$747m. On an underlying basis, pre-tax profits increased by 94%, largely driven by the non-recurrence of significant loan impairment charges. This was partly offset by higher operating expenses as we continued to invest in distribution and marketing initiatives to drive future revenue growth.

The increase in profits reflected strong risk management practices, and was achieved despite political unrest and economic pressures in 10 of the 14 countries in which we operate in the region. The overall resilience of the oil-based regional economies and the strength of the HSBC brand were evidenced by a robust growth in deposits during the volatile conditions experienced in the region in the first half of 2011. Except when instructed to close by the central bank in Egypt and the one day of closure in Bahrain, our branch network in the region remained open for business throughout the period, reflecting our commitment to serve our customers.

In RBWM, we continued to build long-term relationships through our Premier and Advance customer offerings, focusing on wealth management and secured lending for affluent expatriates in the region.

We also strengthened our position as the leading international trade and business bank and achieved strong synergies by connecting our CMB and GB&M businesses, with CMB revenues from GB&M products increasing compared with the first half of 2010. As part of our continued

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2011						
Egypt	**15**	**32**	**67**		**(1)**	**113**
Qatar	**(1)**	**23**	**39**			**61**
United Arab Emirates	**40**	**120**	**119**	**(3)**	**(11)**	**265**
Other	**10**	**62**	**53**			**125**
MENA (excluding Saudi Arabia)	**64**	**237**	**278**	**(3)**	**(12)**	**564**
Saudi Arabia	**37**	**59**	**61**	**2**	**24**	**183**
	101	**296**	**339**	**(1)**	**12**	**747**
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)
MENA (excluding Saudi Arabia)	49	182	12	(3)	(1)	239
Saudi Arabia	16	76	30	(20)	5	107
	65	258	42	(23)	4	346

Half-year to 31 December 2010						
Egypt	20	41	58		(2)	117
Qatar	9	24	34			67
United Arab Emirates	10	88	97	3		198
Other	5	42	45	1		93
MENA (excluding Saudi Arabia)	44	195	234	4	(2)	475
Saudi Arabia	9	31	23	4	4	71
	53	226	257	8	2	546

For footnote see page 81.

support to local internationally-focused businesses, we pledged a second US$100m fund to UAE SME customers engaged in cross-border business during the period, and the amount has been fully utilised.

In GB&M, we won a number of awards, including Best Overall Primary Debt Provider and Best for Middle East Currencies from *Euromoney* and Best Middle East House in the *EuroWeek* Bond Market Awards.

Net interest income rose marginally, driven by higher trade balances in CMB as we saw increased opportunities to support global and intra-regional trade flows. This was partly offset by lower average lending balances and narrower spreads in RBWM as unsecured lending portfolios continued to be managed down and new lending was directed to higher quality but lower yielding lending.

Net fee income decreased by 8% despite higher trade volumes in CMB as institutional equity activity receded in the challenging political and economic environment. In addition, card fee income decreased due to a decline in the number of credit cards in

issue in RBWM as certain portfolios were managed down.

Trading income benefited from higher local currency Rates trading due to a combination of new customer trades along with valuation gains on trading positions in relation to Middle East currency derivatives.

Loan impairment charges and other credit risk provisions declined to their lowest levels since the first half of 2008, driven by an overall improvement in credit conditions. Repositioning of the loan book towards higher quality lending, and strengthened collection practices contributed to a significant improvement in delinquency rates in RBWM. In CMB, loan impairment charges and other credit risk provisions remained broadly in line with the first half of 2010 and included specific impairments in relation to a few corporate customers reflecting economic uncertainty in the region. Loan impairment charges and other credit risk provisions in GB&M reduced markedly as loan impairment charges which followed restructuring activity for a small number of large UAE corporate customers in the first half of 2010 did not recur.

Operating expenses increased by 11%, mainly as a result of higher staff costs driven by a rise in staff numbers, as the branch network was expanded, and wage inflation. The increase included restructuring costs of US$16m across the region as initiatives taken as a result of the strategic review of costs to drive future revenue growth were implemented. Marketing and advertising costs also

rose as we increased investment in the promotion of the HSBC brand, including at the Abu Dhabi International and Dubai International airports. Excluding restructuring costs, expenses were broadly in line with the second half of 2010.

Profit from associates and joint ventures increased by 60%, mainly from the Saudi British Bank, driven by strong revenues, good cost control and a decline in loan impairment charges as operating conditions improved.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Middle East and North Africa

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income	253	243	174	1	3	(1)	673
Net fee income/(expense)	90	135	96	8	(2)		327
Trading income/(expense) excluding net interest income	30	48	129		(1)		206
Net interest income on trading activities	1	7	22			1	31
Net trading income/(expense)[45]	31	55	151		(1)	1	237
Net expense from financial instruments designated at fair value					(6)		(6)
Gains less losses from financial investments			(6)				(6)
Dividend income			1		1		2
Other operating income	10	7	3		43	(54)	9
Total operating income	384	440	419	9	38	(54)	1,236
Net insurance claims[53]							
Net operating income[41]	384	440	419	9	38	(54)	1,236
Loan impairment (charges)/recoveries and other credit risk provisions	(58)	(48)	6		1		(99)
Net operating income	326	392	425	9	39	(54)	1,137
Operating expenses	(263)	(155)	(148)	(12)	(50)	54	(574)
Operating profit/(loss)	63	237	277	(3)	(11)		563
Share of profit in associates and joint ventures	38	59	62	2	23		184
Profit/(loss) before tax	101	296	339	(1)	12		747

	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**0.9**	**2.6**	**3.0**				**6.5**
Cost efficiency ratio	**68.5**	**35.2**	**35.3**	**133.3**	**131.6**		**46.4**
Balance sheet data[39]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**4,861**	**13,189**	**7,611**	**31**	**2**		**25,694**
Total assets	**6,383**	**14,950**	**34,306**	**73**	**4,958**	**(2,632)**	**58,038**
Customer accounts	**19,301**	**11,101**	**6,275**	**363**	**79**		**37,119**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Middle East and North Africa (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16]	Commercial Banking	Global Banking and Markets[16]	Global Private Banking	Other	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
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/(expense) on trading activities	1	3	5		(2)	3	10
Net trading income/(expense)[45]	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)
	435	376	384	7	15	(29)	1,188

Total operating income							
Net insurance claims[53]							
Net operating income[41]	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	16	79	35	(20)	5		115
Profit/(loss) before tax	65	258	42	(23)	4		346
	%	%	%	%	%		%
Share of HSBC s profit before tax	0.6	2.3	0.3	(0.2)	0.1		3.1
Cost efficiency ratio	56.3	39.9	33.1	142.9	106.7		43.7
Balance sheet data[39]							
	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	6,266	13,892	29,078	(267)	4,247	(3,579)	49,637
Customer accounts	16,449	10,482	5,359	641	46		32,977

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	266	259	171	(1)	9	(4)	700
Net fee income	97	124	89	11			321
Trading income/(expense) excluding net interest income	29	41	92	1	(4)		159
Net interest income/(expense) on trading activities		4	13		(4)	4	17
Net trading income/(expense)[45]	29	45	105	1	(8)	4	176
Gains less losses from financial investments			(2)				(2)
Dividend income			2				2
Other operating income	16	12	10	1	24	(38)	25
Total operating income	408	440	375	12	25	(38)	1,222
Net insurance claims[53]							

Net operating income[41]	408	440	375	12	25	(38)	1,222
Loan impairment charges and other credit risk provisions	(86)	(98)	(5)				(189)
Net operating income	322	342	370	12	25	(38)	1,033
Operating expenses	(279)	(147)	(136)	(8)	(27)	38	(559)
Operating profit/(loss)	43	195	234	4	(2)		474
Share of profit in associates and joint ventures	10	31	23	4	4		72
Profit before tax	53	226	257	8	2		546
	%	%	%	%	%		%
Share of HSBC s profit before tax	0.7	2.8	3.2	0.1	0.1		6.9
Cost efficiency ratio	68.4	33.4	36.3	66.7	108.0		45.7
Balance sheet data[39]	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	5,063	12,293	7,247	21	2		24,626
Total assets	6,286	13,991	31,253	59	4,129	(2,961)	52,757
Customer accounts	17,538	10,319	5,306	290	58		33,511

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

North America

Our North American businesses are located in the US, Canada and Bermuda. Operations in the US are primarily conducted through HSBC Bank USA, N.A., which is concentrated in New York State, and HSBC Finance, a national consumer finance company based near Chicago. HSBC Markets (USA) Inc. is the intermediate holding company of, inter alia, HSBC Securities (USA) Inc. HSBC Bank Canada and HSBC Bank Bermuda operate in their respective countries.

	Half-year to		
	30 Jun 2011 US$m	30 Jun 2010 US$m	31 Dec 2010 US$m
Net interest income	**5,849**	6,353	6,086
Net fee income	**1,718**	1,801	1,863
Net trading income/ (expense)	**448**	(67)	381
Other income/(expense)	**225**	913	(283)
Net operating income[41]	**8,240**	9,000	8,047
Impairment charges[42]	**(3,049)**	(4,554)	(3,741)
Net operating income	**5,191**	4,446	4,306
Total operating expenses	**(4,602)**	(3,957)	(4,365)
Operating profit/(loss)	**589**	489	(59)
Income from associates[43]	**17**	3	21
Profit/(loss) before tax	**606**	492	(38)
Cost efficiency ratio	**55.8%**	44.0%	54.2%
RoRWA[44]	**0.4%**	0.3%	
Period-end staff numbers	**32,605**	33,988	33,865

Card and Retail Services

pre-tax profit 1H11

US$1.0bn

Continued improvement in

loan impairment charges

Operations in Canada contributed

US$520m

to North America profit before tax

For footnotes, see page 81.

The commentary on North America is on an underlying basis

unless stated otherwise.

Economic background

The process of reducing debt levels following the credit boom of the past decade continued to restrain growth in the US as households saved more and the rise in consumer spending was subdued. High oil prices made the process of reducing debt more difficult. In the first quarter, the growth of real consumer spending was only 2.2% higher than the level a year ago, compared with a long-run average annual growth rate of 3.3%. This depressed overall growth in GDP to a 2.8% annual rate since the recession ended in mid-2009. Reductions in spending among state and local governments also constrained economic activity. Slow GDP growth kept the unemployment rate high, at 9.2% in June, down only slightly from the peak of 10.1% in 2010. In response to slow growth and low inflation, the Federal Reserve maintained the Fed funds rate in the range of zero to 0.25% and undertook large-scale purchases of fixed-income securities.

Canadian GDP rose by 2.9% in the year ended 31 March 2011, up from 2.1% the year before. Labour market conditions improved with the unemployment rate dropping to 7.4% in June from 7.9% in June 2010. Steep increases in crude oil and gasoline prices drove the headline rate of inflation up to 3.7% in May 2011 from 1.4% a year earlier. However, the core rate of inflation followed by the Bank of Canada (BoC) was steady at 1.8%. In response to these conditions, the BoC maintained its overnight lending rate at 1.0% throughout the period.

Review of performance

In North America, we reported a profit before tax of US$606m in the first half of 2011, compared with a profit before tax of US$492m in the first half of 2010. Our results included movements on our own debt designated at fair value resulting from changes in credit spreads, while 2010 also included a US$66m gain from the sale of our stake in the Wells Fargo HSBC Trade Bank. On an underlying basis, which excludes these items, the pre-tax profit was US$672m in the first half of 2011, compared with a pre-tax loss of US$51m. This improvement in performance resulted from a significant decline in loan impairment charges, partly offset by a reduction in revenue, both reflecting lower lending balances in HSBC Finance.

During the first half of 2011, we continued to evaluate the strategic options for elements within our US operations and remained focused on managing down our run-off assets sensitively and effectively. In addition, we continued to work closely with our regulators to ensure full compliance with new and existing frameworks and policies.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2011						
US	**(568)**	**177**	**599**	**47**	**(244)**	**11**
Canada	**95**	**297**	**134**		**(6)**	**520**
Bermuda	**28**	**14**	**23**	**2**	**8**	**75**
Other						
	(445)	**488**	**756**	**49**	**(242)**	**606**
Half-year to 30 June 2010						
US	(1,576)	265	840	55	342	(74)
Canada	82	289	124		7	502
Bermuda	27	18	16	(2)	7	66
Other	1			1	(4)	(2)
	(1,466)	572	980	54	352	492
Half-year to 31 December 2010						
US	(729)	137	444	58	(381)	(471)
Canada	49	216	103		(3)	365
Bermuda	31	14	22	(1)		66
Other	(1)				3	2
	(650)	367	569	57	(381)	(38)

For footnotes, see page 81.

The North American economies continue to represent a significant share of international trade, and in our CMB and GB&M businesses we remain focused on expanding our business further into areas with strong international connectivity. In CMB, we expanded our operations in the West Coast of the US and in Texas and Florida as well as in eastern Canada to attract the growing number of businesses that trade internationally. Successful cross-border referrals from North America to other HSBC sites increased by 11% from the first half of 2010.

In GB&M, profit before tax fell in the first half of 2011 due to lower releases of collective loan impairment allowances, an increase in compliance costs and a change in the expense recognition of bonus awards. We successfully utilised our established platform in New York to interconnect more closely our GB&M businesses across the Americas and, in the first half of 2011, we syndicated several significant financing transactions for customers in Latin America.

The region represents a significant wealth management market and we continued to direct resources towards the expansion of wealth services and Premier, and remain focused on providing differentiated premium services to internationally minded, upwardly mobile customers.

Net interest income decreased by 9% to US$5.8bn, primarily due to lower lending balances in our Consumer Lending and Mortgage Services portfolios due to continued run-off, and in our Card and Retail Services portfolio as customers continued to pay down outstanding debt. In addition, balances declined following the sale of the vehicle finance portfolio in 2010. This was partly offset by wider asset spreads in our Consumer Lending and Mortgage Services portfolios as the cost of funds fell.

Average customer deposit balances increased in CMB in both the US and Canada as we continued to expand on the West Coast, Texas, Florida and Eastern Canada, and in RBWM due to growth in branch-based deposit products driven by our Premier strategy. In GB&M, increased deposit balances reflected a rise in repurchase transactions.

Net fee income declined by 6% to US$1.7bn, as a result of lower late and overlimit fees in our Card and Retail Services business, reflecting lower volumes and delinquency rates, customers actively seeking to reduce their credit card debt and changes required by the CARD Act.

In December 2010, we exited the Taxpayer Financial Services business, further reducing our fee income compared with the first half of 2010.

HSBC HOLDINGS PLC

Interim Management Report (continued)

Net trading income increased by US$511m to US$448m, driven by fair value movements on non-qualifying hedges which reflected fluctuations in long-term US interest rates. In the first half of 2011, these rates declined, but to a lesser extent than in the corresponding period in 2010, resulting in lower adverse fair value movements in non-qualifying hedges.

In addition, in the first half of 2011 loss provisions for loan repurchase obligations relating to loans previously sold were lower while, in our GB&M business, trading income remained broadly flat. This reflected higher deal volumes in foreign exchange, metals and interest rate and emerging markets derivatives, and improved revenue on structured credit products which was broadly offset by the non-recurrence of a gain in the first half of 2010 associated with a settlement relating to certain loans previously purchased for re-sale from a third party.

Net expense from financial instruments designated at fair value of US$53m was 42% less than in the first half of 2010. This was due to lower adverse fair value movements from interest rate ineffectiveness in the economic hedging of our long-term debt designated at fair value, reflecting the decrease in long-term US interest rates.

Gains less losses from financial investments declined by 7% to US$110m, mainly due to lower gains on the disposal of private equity investments.

Other operating income declined by 29% to US$168m due to higher losses on foreclosed properties, reflecting an increase in the number of such properties sold and declines in house prices in the first half of 2011 and the non-recurrence of a US$56m gain on the sale of our New York headquarters. This was partly offset by the non-recurrence of a US$77m loss on the sale of the vehicle finance loan portfolio and servicing operation in the first half of 2010.

Loan impairment charges and other credit risk provisions decreased by 33% to US$3.0bn, primarily due to lower lending balances in our run-off Consumer Lending and Mortgage Services portfolios and in our Card and Retail Services portfolio. The decline also reflected an overall improvement in credit quality resulting in lower delinquency levels and reduced write-offs. In our Consumer Lending and Mortgage Services business, the improvement was partly offset by an incremental charge resulting from adverse changes to economic assumptions on the pace of recovery in home prices and delays in the timing of expected cash flows, mainly as a result of the suspension of foreclosure activity that began in late 2010.

Loan impairment charges and other credit risk provisions in CMB declined by 58% to US$45m, driven by lower impairment allowances relating to commercial real estate and middle market exposures and lower write-offs in business banking, reflecting improved credit quality and lower delinquency. This was partially offset by a specific loan impairment charge associated with the downgrade of an individual commercial real estate loan.

In GB&M, net recoveries of loan impairment charges and other credit risk provisions were 85% lower than in the first half of 2010 as a reduction in higher-risk balances and a stabilisation of credit quality resulted in a reduced release of collective loan impairment allowances in the first half of 2011.

Further commentary on delinquency trends in the US RBWM portfolios is provided in Areas of special interest US personal lending on page 107.

Operating expenses increased by 15%. This included a charge of US$144m relating to the impairment of certain previously capitalised software development costs in the first half of 2011 and the non-recurrence of a pension curtailment gain in the first half of 2010. Excluding these items, operating expenses grew by 8%, mainly due to an increase in litigation provisions and, in GB&M, an increase in amortisation charges for previous years performance shares and accelerated expense recognition for future deferred bonus awards. In addition, legal and compliance costs were higher and marketing expenses in Card and Retail Services rose, driven by an increase in direct mail volumes, albeit at lower than historical levels. Also notable in the first half of 2011 were severance costs of US$46m resulting from a planned reduction in staff numbers. Partly offsetting these increases were lower costs following the sale of the vehicle finance servicing operation and closure of the Taxpayer Financial Services business.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data North America

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	4,617	748	465	94	(37)	(38)	5,849
Net fee income	936	276	420	79	7		1,718
Trading income/(expense) excluding net interest income	(68)	16	344	13	(11)		294
Net interest income/(expense) on trading activities	10	1	106		(1)	38	154
Net trading income/(expense)[45]	(58)	17	450	13	(12)	38	448
Net expense from financial instruments designated at fair value			(4)		(115)		(119)
Gains less losses from financial investments	14		96				110
Dividend income	8	4	7	1	1		21
Net earned insurance premiums	118						118
Other operating income/ (expense)	(28)	60	100	5	1,130	(1,099)	168
Total operating income	5,607	1,105	1,534	192	974	(1,099)	8,313
Net insurance claims[53]	(73)						(73)

Net operating income[41]	5,534	1,105	1,534	192	974	(1,099)	8,240
Loan impairment (charges)/recoveries and other credit risk provisions	(3,035)	(45)	23	11	(3)		(3,049)
Net operating income	2,499	1,060	1,557	203	971	(1,099)	5,191
Operating expenses	(2,945)	(587)	(801)	(154)	(1,214)	1,099	(4,602)
Operating profit/(loss)	(446)	473	756	49	(243)		589
Share of profit in associates and joint ventures	1	15			1		17
Profit/(loss) before tax	(445)	488	756	49	(242)		606
	%	%	%	%	%		%
Share of HSBC s profit before tax	(3.9)	4.3	6.6	0.4	(2.1)		5.3
Cost efficiency ratio	53.2	53.1	52.2	80.2	124.6		55.8
Balance sheet data[39]	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	123,891	31,015	19,988	4,368			179,262
Total assets	153,098	42,971	341,246	6,831	13,009	(27,769)	529,386
Customer accounts	76,266	46,940	25,579	13,747	101		162,633

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data North America (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	5,190	758	425	94	(86)	(28)	6,353
Net fee income/(expense)	1,084	252	400	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)[45]	(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)	(8)	160	83	11	1,213	(1,153)	306
Total operating income	5,847	1,186	1,473	186	1,533	(1,153)	9,072
Net insurance claims[53]	(76)				4		(72)

Net operating income[41]	5,771	1,186	1,473	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	1,158	1,082	1,625	197	1,537	(1,153)	4,446
Operating expenses	(2,624)	(511)	(645)	(143)	(1,187)	1,153	(3,957)
Operating profit/(loss)	(1,466)	571	980	54	350		489
Share of profit in associates and joint ventures		1			2		3
Profit/(loss) before tax	(1,466)	572	980	54	352		492
	%	%	%	%	%		%
Share of HSBC s profit before tax	(13.2)	5.1	8.8	0.5	3.2		4.4
Cost efficiency ratio	45.5	43.1	43.8	76.9	77.2		44.0
Balance sheet data[39]							
	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	164,600	38,525	299,300	5,608	7,290	(19,915)	495,408
Customer accounts	74,475	42,853	19,229	12,814	67		149,438

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16]	Commercial Banking	Global Banking and Markets[16]	Global Private Banking	Other	Inter-segment elimination[52]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income	4,722	767	527	96	15	(41)	6,086
Net fee income	1,058	282	445	78			1,863
Trading income excluding net interest income	95	5	162	4	4		270
Net interest income on trading activities	11	1	53		5	41	111
Net trading income[45]	106	6	215	4	9	41	381
Net income/(expense) from financial instruments designated at fair value	6		1		(310)		(303)
Gains less losses from financial investments	5	(6)	20		6		25
Dividend income	9	4	6	2			21
Net earned insurance premiums	119						119
Other operating income/(expense)	(242)	82	(12)	4	1,138	(1,043)	(73)
Total operating income	5,783	1,135	1,202	184	858	(1,043)	8,119
	(72)						(72)

Net insurance claims[53]							
Net operating income[41]	5,711	1,135	1,202	184	858	(1,043)	8,047
Loan impairment (charges)/recoveries and other credit risk provisions	(3,581)	(219)	32	27			(3,741)
Net operating income	2,130	916	1,234	211	858	(1,043)	4,306
Operating expenses	(2,784)	(570)	(665)	(154)	(1,235)	1,043	(4,365)
Operating profit/(loss)	(654)	346	569	57	(377)		(59)
Share of profit/(loss) in associates and joint ventures	4	21			(4)		21
Profit/(loss) before tax	(650)	367	569	57	(381)		(38)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(8.2)	4.6	7.2	0.7	(4.8)		(0.5)
Cost efficiency ratio	48.7	50.2	55.3	83.7	143.9		54.2
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	131,194	30,277	24,338	4,723			190,532
Total assets	154,204	39,213	306,298	5,824	9,373	(22,425)	492,487
Customer accounts	76,817	46,425	22,324	12,812	108		158,486

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Latin America

Our operations in Latin America principally comprise HSBC Bank Brasil S.A.-Banco Múltiplo, HSBC México, S.A., HSBC Bank Argentina S.A. and HSBC Bank (Panama) S.A. In addition to banking services, we operate insurance businesses in Brazil, Mexico, Argentina, Panama and a range of smaller markets.

		Half-year to	
	30 Jun 2011 US$m	30 Jun 2010 US$m	31 Dec 2010 US$m
Net interest income	**3,517**	3,119	3,192
Net fee income	**902**	855	894
Net trading income	**589**	353	380
Other income	**675**	388	550
Net operating income[41]	**5,683**	4,715	5,016
Impairment charges[42]	**(820)**	(820)	(724)
Net operating income	**4,863**	3,895	4,292
Total operating expenses	**(3,712)**	(3,013)	(3,381)
Operating profit	**1,151**	882 1	911 1

Income from associates[43]			
Profit before tax	**1,151**	883	912
Cost efficiency ratio	**65.3%**	63.9%	67.4%
RoRWA[44]	**2.2%**	2.1%	2.0%
Period-end staff numbers	**55,618**	54,886	56,044

30%

increase in profit before tax

13%

increase in lending balances

since the end of 2010

8%

reduction in impairment charges on an underlying basis

For footnotes, see page 81.

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

Economic background

After a very strong 2010, Latin American growth slowed in the first half of 2011 due to a combination of weaker global demand and a downturn in domestic demand following a considerable tightening of monetary conditions in the period. Monetary policy rates rose by 2% in Chile, 1.5% in Brazil and Uruguay, and 1.25% in Colombia and Peru. In Brazil, the annual pace of GDP growth eased to 4.2% in the first quarter of 2011 from 7.5% in the comparable period in 2010.

The slowdown in activity, coupled with some easing in the rate of growth of food prices, helped to moderate inflation in the region, although it remained above the mid-point target of most countries that had adopted explicit inflation targets. Inflationary risks continued in Argentina, Brazil, Chile and Uruguay, where very high employment put upward pressure on wage growth.

Given its close ties to the US, Mexico suffered more immediately from the reduction in the growth of US demand. Some easing in global commodity prices and the strength of the Mexican peso helped restrain inflation and, accordingly, Banco de México left the monetary policy rate unchanged at 4.5% in the period.

Review of performance

Our operations in Latin America reported a profit before tax of US$1.2bn for the first half of 2011, representing an increase of 30% over the same period in 2010. On an underlying basis, pre-tax profits increased by 23% due to increased revenues in CMB and RBWM and lower loan impairment charges, partly offset by higher costs as a result of inflationary pressures, strategic business growth and restructuring costs.

Several strategic measures were implemented, focusing on organic growth and improving efficiency. We increased the number of relationship managers in Brazil, mainly in RBWM and CMB, to leverage on the strong economic environment and, in Mexico, to grow our CMB business. We consolidated the branch network in Mexico, reducing it by 66 during the first half of 2011, and restructured the regional and country support functions, thereby improving the efficiency of the business. To ensure the strategic alignment of our portfolios, we entered into a sale agreement for HSBC Afore (the Mexican pension business) which is expected to be completed in the second half of 2011. Also, in RBWM we continued to reposition our lending portfolio to higher quality customers, achieving a better risk-adjusted return.

HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2011						
Argentina	**49**	**46**	**67**		**(8)**	**154**
Brazil	**136**	**294**	**250**	**7**	**(50)**	**637**
Mexico	**169**	**103**	**171**	**2**	**(142)**	**303**
Panama	**17**	**27**	**26**	**1**	**(2)**	**69**
Other	**(35)**	**5**	**29**		**(11)**	**(12)**
	336	**475**	**543**	**10**	**(213)**	**1,151**
Half-year to 30 June 2010						
Argentina	39	41	53			133
Brazil	60	160	227	2	29	478
Mexico	95	(2)	112	1	18	224
Panama	18	26	15	1		60
Other	(44)	11	27		(6)	(12)
	168	236	434	4	41	883
Half-year to 31 December 2010						
Argentina	50	49	52			151
Brazil	91	222	203	4	35	555
Mexico	79	26	98	3	(29)	177
Panama	30	31	18	1		80
Other	(56)	(10)	24	(2)	(7)	(51)
	194	318	395	6	(1)	912

For footnote, see page 81.

Net interest income increased by 5% compared with the first half of 2010, driven by higher lending balances in the stronger economic environment. Net interest income in CMB grew by 29%, supported by strong asset growth of 33% with moderate spread compression in the competitive environment. In RBWM, lending grew in personal loans, mortgages, overdrafts and cards in Brazil and, in Argentina, on strong consumer demand. In Mexico, net interest income in RBWM fell by 15% as we continued to shift our portfolio to lower risk, lower yielding assets. This fall was partly offset by strong balance growth in personal and payroll lending.

In Balance Sheet Management, results were affected by higher funding costs, in line with an increase in interest rates, and higher yielding deals maturing.

Fee income fell marginally compared with the first half of 2010. Higher card transaction volumes, current accounts and Payments and Cash Management revenues in Brazil were offset by a decline in the volumes of cards and fewer account services and automated teller machine (ATM) transactions in Mexico, where increased regulatory charges to non-HSBC customers led to a change in customer behaviour.

Net trading income of US$589m was 56% higher than in the first half of 2010, primarily due to a rise in volumes, mainly in Brazil; the cost of internally funding these assets also increased, but this interest expense is reported under Net interest income . Revenue in Brazil further benefited from a significant growth in sales of GB&M products across customer groups. In Mexico, revenue increased due to a limited number of large derivative transactions.

Net income on financial instruments designated at fair value increased by 70% due to growth of a unit-linked product in Brazil, where new money received was invested in assets designated at fair value, and an increase was registered in the value of policyholder assets supporting these contracts. An offsetting increase was recorded in Net insurance claims incurred and movement in liabilities to policyholders .

Gains less losses from financial investments increased by US$17m, mainly due to a gain on the sale of shares in a Mexican listed company.

Other operating income increased by US$168m, primarily due to the gain on sale of buildings including the sale and leaseback of branches in Mexico.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Net earned insurance premiums increased by 24% to US$1.3bn, driven by increased sales in Brazil of both credit-related products and term life insurance, and higher contributions on a unit-linked product which reflected the improved economic environment and an increase in the sales force. Premiums also rose in Argentina, mainly from repricing initiatives in the motor insurance segment. This growth resulted in an increase in *Net insurance claims and movement in liabilities to policyholders*.

Loan impairment charges and other credit risk provisions declined by 8%, mainly in RBWM, where riskier portfolios of credit cards in Mexico were managed down and collections and underwriting processes were tightened. The decline in loan impairment charges also reflected an improvement in the economic environment. In CMB, loan impairment charges increased by 3%. This increase

occurred mainly in Brazil following a significant expansion in lending since the first half of 2010, and was partly offset by the non-recurrence of individual loan impairment charges booked in the first half of 2010 in the real estate portfolio in Mexico.

Operating expenses increased by 15%, in part due to restructuring costs of US$149m recognised in the first half of 2011 as we took measures to improve the efficiency of our processes in order to lower the future cost base of our operations. This included charges relating to certain regional projects, restructuring regional and country support functions and consolidating the branch network in Mexico. Costs also rose due to inflationary pressures, union-agreed wage increases in Brazil and Argentina, increased front office staffing levels in Brazil and Mexico to support strategic growth and volume-driven transactional taxes in Brazil and Argentina.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Latin America

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	2,215	1,096	456	12	(1)	(261)	3,517
Net fee income	492	292	98	19	1		902
Trading income excluding net interest income	29	49	186	2	3		269
Net interest income on trading activities	1		58			261	320
Net trading income[45]	30	49	244	2	3	261	589
Net income from financial instruments designated at fair value	181	55					236
Gains less losses from financial investments			73				73
Dividend income	5	2					7
Net earned insurance premiums	961	289	18				1,268
Other operating income	118	40	24	1	127	(130)	180
Total operating income	4,002	1,823	913	34	130	(130)	6,772
Net insurance claims[53]	(821)	(258)	(10)				(1,089)
Net operating income[41]	3,181	1,565	903	34	130	(130)	5,683
Loan impairment charges and other credit risk provisions	(633)	(180)	(7)				(820)
Net operating income	2,548	1,385	896	34	130	(130)	4,863
Operating expenses	(2,212)	(910)	(353)	(24)	(343)	130	(3,712)
Operating profit/(loss)	336	475	543	10	(213)		1,151
Share of profit in associates and joint ventures							

Profit/(loss) before tax	**336**	**475**	**543**	**10**	**(213)**		**1,151**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**2.9**	**4.1**	**4.7**	**0.1**	**(1.8)**		**10.0**
Cost efficiency ratio	**69.5**	**58.1**	**39.1**	**70.6**	**263.8**	**100**	**65.3**
Balance sheet data[39]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**22,431**	**29,036**	**14,271**	**64**			**65,802**
Total assets	**40,866**	**41,136**	**78,131**	**1,564**	**2,926**	**(1,012)**	**163,611**
Customer accounts	**32,619**	**27,251**	**29,402**	**6,837**			**96,109**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Latin America (continued)

	Half-year to 30 June 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	1,978	793	389	10	53	(104)	3,119
Net fee income	492	244	99	14	6		855
Trading income/(expense) excluding net interest income	21	38	181	1	(4)		237
Net interest income on trading activities			11		1	104	116
Net trading income/ (expense)[45]	21	38	192	1	(3)	104	353
Net income from financial instruments designated at fair value	102	28					130
Gains less losses from financial investments	1		52				53
Dividend income	3	1	1				5
Net earned insurance premiums	770	171	16				957
Other operating income	17	10	2	1	81	(101)	10
Total operating income	3,384	1,285	751	26	137	(101)	5,482
Net insurance claims[53]	(628)	(129)	(10)				(767)
Net operating income[41]	2,756	1,156	741	26	137	(101)	4,715
Loan impairment (charges)/ recoveries and other credit risk provisions	(661)	(160)	3		(2)		(820)
Net operating income	2,095	996	744	26	135	(101)	3,895
Operating expenses	(1,928)	(760)	(310)	(22)	(94)	101	(3,013)
Operating profit	167	236	434	4	41		882

Share of profit in associates and joint ventures	1						1
Profit before tax	168	236	434	4	41		883
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.5	2.2	3.9		0.4		8.0
Cost efficiency ratio	70.0	65.7	41.8	84.6	68.6		63.9
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	19,350	19,434	10,006	39			48,829
Total assets	34,645	27,307	59,302	1,110	314	(793)	121,885
Customer accounts	26,618	20,115	23,158	5,326			75,217

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	Half-year to 31 December 2010						
	Retail Banking and Wealth Management[16] US$m	Commercial Banking US$m	Global Banking and Markets[16] US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[52] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	2,001	878	383	10	68	(148)	3,192
Net fee income/(expense)	514	282	92	18	(12)		894
Trading income/(expense) excluding net interest income	14	34	189	2	(23)		216
Net interest income/(expense) on trading activities			17		(1)	148	164
Net trading income/(expense)[45]	14	34	206	2	(24)	148	380
Net income from financial instruments designated at fair value	237	57	1				295
Gains less losses from financial investments	5	2	41		(3)		45
Dividend income	4	1	2				7
Net earned insurance premiums	881	203	13				1,097
Other operating income	81	24	13	1	140	(128)	131
Total operating income	3,737	1,481	751	31	169	(128)	6,041
Net insurance claims[53]	(851)	(168)	(6)				(1,025)
Net operating income[41]	2,886	1,313	745	31	169	(128)	5,016
	(586)	(133)	(7)		2		(724)

Loan impairment (charges)/ recoveries and other credit risk provisions							
Net operating income	2,300	1,180	738	31	171	(128)	4,292
Operating expenses	(2,106)	(863)	(343)	(25)	(172)	128	(3,381)
Operating profit/(loss)	194	317	395	6	(1)		911
Share of profit in associates and joint ventures		1					1
Profit/(loss) before tax	194	318	395	6	(1)		912
	%	%	%	%	%		%
Share of HSBC s profit before tax	2.5	4.0	5.0				11.5
Cost efficiency ratio	73.0	65.7	46.0	80.6	101.8		67.4
Balance sheet data[39]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	20,823	24,879	12,242	43			57,987
Total assets	38,819	35,619	64,635	1,608	196	(939)	139,938
Customer accounts	30,149	24,514	27,810	6,053			88,526

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

Europe

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported US$m	1H10 adjust-ments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	5,802	17	312	6,131	5,566		5,566	(4)	(9)
Net fee income	3,177	(50)	139	3,266	3,131		3,131	(1)	(4)
Changes in fair value[13]	574	(574)			(71)	71			
Other income[14]	3,168	(135)	156	3,189	2,714		2,714	(14)	(15)
Net operating income[15]	**12,721**	**(742)**	**607**	**12,586**	**11,340**	**71**	**11,411**	**(11)**	**(9)**
Loan impairment charges and other credit risk provisions	(1,501)		(93)	(1,594)	(1,173)		(1,173)	22	26
Net operating income	**11,220**	**(742)**	**514**	**10,992**	**10,167**	**71**	**10,238**	**(9)**	**(7)**
Operating expenses	(7,704)	148	(368)	(7,924)	(8,014)		(8,014)	(4)	(1)
	3,516	(594)	146	3,068	2,153	71	2,224	(39)	(28)

Operating profit									
Share of profit in associates and joint ventures	**5**		**(6)**	**(1)**	**(6)**		**(6)**		**(500)**
Profit before tax	**3,521**	**(594)**	**140**	**3,067**	**2,147**	**71**	**2,218**	**(39)**	**(28)**

30 June 2011 compared with 31 December 2010

Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]

	2H10 as reported US$m	2H10 adjust-ments[9] US$m	Currency translation[10] US$m	2H10 at 1H11 exchange rates[17] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	5,448	1	176	5,625	5,566		5,566	2	(1)
Net fee income	3,194		98	3,292	3,131		3,131	(2)	(5)
Changes in fair value[13]	(773)	773			(71)	71		91	
Other income[14]	2,160	(255)	56	1,961	2,714		2,714	26	38
Net operating income[15]	10,029	519	330	10,878	11,340	71	11,411	13	5
Loan impairment charges and other credit risk provisions	(1,519)		(53)	(1,572)	(1,173)		(1,173)	23	25
Net operating income	8,510	519	277	9,306	10,167	71	10,238	19	10
Operating expenses	(7,741)		(220)	(7,961)	(8,014)		(8,014)	(4)	(1)
Operating profit	769	519	57	1,345	2,153	71	2,224	180	65
Share of profit in associates and joint ventures	12	(1)	(5)	6	(6)		(6)		
Profit before tax	781	518	52	1,351	2,147	71	2,218	175	64

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Interim Management Report (continued)

Hong Kong

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10[6])								
	1H10 as reported US$m	1H10 adjustments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjustments[9] US$m	1H11 underlying US$m	Reported change[12] %	Underlying change[12] %
Net interest income	1,994		1	1,995	2,249		2,249	13	13
Net fee income	1,395			1,395	1,612		1,612	16	16
Changes in fair value[13]	(6)	6						100	
Other income[14]	1,513	(62)	(3)	1,448	1,553		1,553	3	7
Net operating income[15]	**4,896**	**(56)**	**(2)**	**4,838**	**5,414**		**5,414**	**11**	**12**
Loan impairment charges and other credit risk provisions	(63)			(63)	(25)		(25)	60	60
Net operating income	**4,833**	**(56)**	**(2)**	**4,775**	**5,389**		**5,389**	**11**	**13**
Operating expenses	(1,968)		(1)	(1,969)	(2,339)		(2,339)	(19)	(19)
Operating profit	**2,865**	**(56)**	**(3)**	**2,806**	**3,050**		**3,050**	**6**	**9**
Share of profit in associates and joint ventures	12			12	31		31	158	158

Profit before tax	**2,877**	**(56)**	**(3)**	**2,818**	**3,081**		**3,081**	**7**	**9**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]								
	2H10 as reported US$m	2H10 adjust-ments[9] US$m	Currency translation[10] US$m	2H10 at 1H11 exchange rates[17] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	2,252		(2)	2,250	2,249		2,249		
Net fee income	1,567		(2)	1,565	1,612		1,612	3	3
Other income[14]	1,487	(74)	(4)	1,409	1,553		1,553	4	10
Net operating income[15]	5,306	(74)	(8)	5,224	5,414		5,414	2	4
Loan impairment charges and other credit risk provisions	(51)		(1)	(52)	(25)		(25)	51	52
Net operating income	5,255	(74)	(9)	5,172	5,389		5,389	3	4
Operating expenses	(2,463)		3	(2,460)	(2,339)		(2,339)	5	5
Operating profit	2,792	(74)	(6)	2,712	3,050		3,050	9	12
Share of profit in associates and joint ventures	23		1	24	31		31	35	29
Profit before tax	2,815	(74)	(5)	2,736	3,081		3,081	9	13

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Rest of Asia-Pacific

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported US$m	1H10 adjust-ments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	1,822		116	1,938	2,381		2,381	31	23
Net fee income	934		68	1,002	1,117		1,117	20	11
Changes in fair value[13]					(2)	2			
Other income[14]	1,742	(188)	81	1,635	1,852	(180)	1,672	6	2
Net operating income[15]	**4,498**	**(188)**	**265**	**4,575**	**5,348**	**(178)**	**5,170**	**19**	**13**
Loan impairment charges and other credit risk provisions	(147)		(10)	(157)	(100)		(100)	32	36
Net operating income	**4,351**	**(188)**	**255**	**4,418**	**5,248**	**(178)**	**5,070**	**21**	**15**
Operating expenses	(2,417)		(151)	(2,568)	(2,836)		(2,836)	(17)	(10)
Operating profit	**1,934**	**(188)**	**104**	**1,850**	**2,412**	**(178)**	**2,234**	**25**	**21**
Share of profit in associates and joint ventures	1,051		47	1,098	1,330		1,330	27	21
Profit before tax	**2,985**	**(188)**	**151**	**2,948**	**3,742**	**(178)**	**3,564**	**25**	**21**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)								
	2H10	2H10	Currency	2H10	1H11	1H11	1H11 under-	Re-	Under-

	as reported US$m	adjust-ments[9] US$m	translation[10] US$m	at 1H11 exchange rates[17] US$m	as reported US$m	adjust-ments[9] US$m	lying US$m	ported change[12] %	lying change[12] %
Net interest income	2,006		68	2,074	2,381		2,381	19	15
Net fee income	998		39	1,037	1,117		1,117	12	8
Changes in fair value[13]	(1)	1			(2)	2		(100)	
Other income[14]	1,731		51	1,782	1,852	(180)	1,672	7	6
Net operating income[15]	4,734	1	158	4,893	5,348	(178)	5,170	13	6
Loan impairment charges and other credit risk provisions	(292)		(12)	(304)	(100)		(100)	66	67
Net operating income	4,442	1	146	4,589	5,248	(178)	5,070	18	10
Operating expenses	(2,726)		(94)	(2,820)	(2,836)		(2,836)	(4)	(1)
Operating profit	1,716	1	52	1,769	2,412	(178)	2,234	41	26
Share of profit in associates and joint ventures	1,201		31	1,232	1,330		1,330	11	8
Profit before tax	2,917	1	83	3,001	3,742	(178)	3,564	28	19

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Interim Management Report (continued)

Middle East and North Africa

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)[16]								
	1H10 as reported US$m	1H10 adjust-ments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	667		(7)	660	673		673	1	2
Net fee income	356		(2)	354	327		327	(8)	(8)
Other income[14]	165	47	(2)	210	236	4	240	45	14
Net operating income[15]	**1,188**	**47**	**(11)**	**1,224**	**1,236**	**4**	**1,240**	**4**	**1**
Loan impairment charges and other credit risk provisions	(438)		2	(436)	(99)		(99)	77	77
Net operating income	**750**	**47**	**(9)**	**788**	**1,137**	**4**	**1,141**	**52**	**45**
Operating expenses	(519)		4	(515)	(574)		(574)	(11)	(11)
Operating profit	**231**	**47**	**(5)**	**273**	**563**	**4**	**567**	**144**	**108**
Share of profit in associates and joint ventures	115			115	184		184	60	60
Profit before tax	**346**	**47**	**(5)**	**388**	**747**	**4**	**751**	**116**	**94**

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]								
	2H10	2H10	Currency	2H10	1H11	1H11	1H11 under-lying	Re-	Under-

	as reported US$m	adjust- ments[9] US$m	translation[10] US$m	at 1H11 exchange rates[17] US$m	as reported US$m	adjust- ments[9] US$m	US$m	ported change[12] %	lying change[12] %
Net interest income	700		(4)	696	673		673	(4)	(3)
Net fee income	321		(2)	319	327		327	2	3
Other income[14]	201	(5)		196	236	4	240	17	22
Net operating income[15]	1,222	(5)	(6)	1,211	1,236	4	1,240	1	2
Loan impairment charges and other credit risk provisions	(189)			(189)	(99)		(99)	48	48
Net operating income	1,033	(5)	(6)	1,022	1,137	4	1,141	10	12
Operating expenses	(559)		3	(556)	(574)		(574)	(3)	(3)
Operating profit	474	(5)	(3)	466	563	4	567	19	22
Share of profit in associates and joint ventures	72		(1)	71	184		184	156	159
Profit before tax	546	(5)	(4)	537	747	4	751	37	40

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North America

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)								
	1H10 as reported US$m	1H10 adjust-ments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	6,353		45	6,398	5,849		5,849	(8)	(9)
Net fee income	1,801		19	1,820	1,718		1,718	(5)	(6)
Changes in fair value[13]	506	(506)			(66)	66			
Other income[14]	340	(66)	4	278	739		739	117	166
Net operating income[15]	9,000	(572)	68	8,496	8,240	66	8,306	(8)	(2)
Loan impairment charges and other credit risk provisions	(4,554)		(8)	(4,562)	(3,049)		(3,049)	33	33
Net operating income	4,446	(572)	60	3,934	5,191	66	5,257	17	34
Operating expenses	(3,957)		(32)	(3,989)	(4,602)		(4,602)	(16)	(15)
Operating profit	489	(572)	28	(55)	589	66	655	20	
Share of profit in associates and joint ventures	3		1	4	17		17	467	325

Profit before tax	**492**	**(572)**	**29**	**(51)**	**606**	**66**	**672**	**23**	

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]								
	2H10 as reported US$m	2H10 adjust-ments[9] US$m	Currency translation[10] US$m	2H10 at 1H11 exchange rates[17] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	6,086		40	6,126	5,849		5,849	(4)	(5)
Net fee income	1,863		18	1,881	1,718		1,718	(8)	(9)
Changes in fair value[13]	(363)	363			(66)	66		82	
Other income[14]	461		2	462	739		739	61	60
Net operating income[15]	8,047	363	59	8,469	8,240	66	8,306	2	(2)
Loan impairment charges and other credit risk provisions	(3,741)		(11)	(3,752)	(3,049)		(3,049)	18	19
Net operating income	4,306	363	48	4,717	5,191	66	5,257	21	11
Operating expenses	(4,365)		(30)	(4,395)	(4,602)		(4,602)	(5)	(5)
Operating profit/(loss)	(59)	363	18	322	589	66	655		103
Share of profit in associates and joint ventures	21		1	22	17		17	(19)	(23)
Profit/(loss) before tax	(38)	363	19	344	606	66	672		95

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Latin America

30 June 2011 compared with 30 June 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 30 June 2010 (1H10)[16]								
	1H10 as reported US$m	1H10 adjust-ments[9] US$m	Currency translation[10] US$m	1H10 at 1H11 exchange rates[11] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	3,119		231	3,350	3,517		3,517	13	5
Net fee income	855		64	919	902		902	6	(2)
Other income[14]	741		49	790	1,264		1,264	71	60
Net operating income[15]	4,715		344	5,059	5,683		5,683	21	12
Loan impairment charges and other credit risk provisions	(820)		(67)	(887)	(820)		(820)		8
Net operating income	3,895		277	4,172	4,863		4,863	25	17
Operating expenses	(3,013)		(220)	(3,233)	(3,712)		(3,712)	(23)	(15)
Operating profit	882		57	939	1,151		1,151	31	23
Share of profit in associates and joint ventures	1		(1)					(100)	
	883		56	939	1,151		1,151	30	23

Profit before tax

30 June 2011 compared with 31 December 2010

	Half-year to 30 June 2011 (1H11) compared with half-year to 31 December 2010 (2H10)[16]								
	2H10 as reported US$m	2H10 adjust-ments[9] US$m	Currency translation[10] US$m	2H10 at 1H11 exchange rates[17] US$m	1H11 as reported US$m	1H11 adjust-ments[9] US$m	1H11 under-lying US$m	Re-ported change[12] %	Under-lying change[12] %
Net interest income	3,192		146	3,338	3,517		3,517	10	5
Net fee income	894		44	938	902		902	1	(4)
Other income[14]	930		44	974	1,264		1,264	36	30
Net operating income[15]	5,016		234	5,250	5,683		5,683	13	8
Loan impairment charges and other credit risk provisions	(724)		(39)	(763)	(820)		(820)	(13)	(7)
Net operating income	4,292		195	4,487	4,863		4,863	13	8
Operating expenses	(3,381)		(158)	(3,539)	(3,712)		(3,712)	(10)	(5)
Operating profit	911		37	948	1,151		1,151	26	21
Share of profit in associates and joint ventures	1			1				(100)	(100)
Profit before tax	912		37	949	1,151		1,151	26	21

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Interim Management Report (continued)

Other information

Funds under management and assets held in custody

		Half-year to	
	30 June 2011 US$bn	30 June 2010 US$bn	31 December 2010 US$bn
Funds under management			
At beginning of period	**925**	857	828
Net new money	**16**	25	17
Value change	**3**	(16)	49
Exchange and other	**4**	(38)	31
At end of period	**948**	828	925
Funds under management by business			
HSBC Global Asset Management	**449**	407	439
Global Private Banking	**297**	245	277
Affiliates	**3**	3	3
Other	**199**	173	206
	948	828	925

Funds under management (FuM) at 30 June 2011 amounted to US$948bn, an increase of 2% when compared with 31 December 2010. Both Global Asset Management and GPB fund holdings increased.

Global Asset Management funds, including emerging market funds, increased by 2% to US$449bn. The increase in FuM was primarily driven by favourable foreign exchange movements together with net inflows in Europe and Latin America. We remain one of the world s largest emerging market asset managers with FuM of US$135bn at 30 June 2011 in countries outside North America, Western Europe, Japan and Australia.

GPB FuM increased by 7% compared with 31 December 2010 to US$297bn, driven by strong net inflows, which benefited from cross-business referrals and the hiring of relationship managers, together with favourable foreign exchange movements. Client assets, which include FuM and cash deposits and provide an indicator of overall GPB volumes, increased by US$26bn to US$416bn due to the growth in FuM.

Other FuM decreased marginally to US$199bn primarily due to the disposal of real estate and infra-structure fund management activity during the year.

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 2011, we held assets as custodian of US$5.9 trillion, 3% higher than the US$5.7 trillion held at 31 December 2010. This was mainly driven by favourable foreign exchange and market movements.

Our 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 2011, the value of assets held under administration by the Group amounted to US$2.8 trillion, an increase from US$2.7 trillion at 31 December 2010 primarily due to favourable foreign exchange movements.

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 2010*, 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.

Accounting for deferred bonus arrangements

Recent regulatory and best practice guidance has clarified the required structure and terms of deferred bonus arrangements awarded to employees, who now have a better understanding of the likely nature of awards to be granted in respect of a particular financial year. As a result, the vesting period in respect of deferred awards expected to be granted in March 2012 is therefore determined to have started on 1 January 2011. An additional expense of US$138m in respect of these deferred awards was recognised in Operating expenses in the first half of 2011.

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Interim Management Report (continued)

Footnotes to pages 2 to 80

Financial highlights

1 *Dividends recorded in the financial statements are dividends per ordinary share declared in the first six months of 2011 and are not dividends in respect of, or for, the period.*
2 *Return on invested capital is based on the profit attributable to ordinary shareholders. Average invested capital is measured as average total shareholders equity after adding back goodwill previously written-off directly to reserves, deducting average equity preference shares issued by HSBC Holdings and deducting/(adding) average reserves for unrealised gains/(losses) on effective cash flow hedges and available-for-sale securities. This measure reflects capital initially invested and subsequent profit.*
3 *The return on average ordinary shareholders equity is defined as profit attributable to shareholders of the parent company divided by average ordinary shareholders equity.*
4 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*
5 *Each ADS represents five ordinary shares.*
6 *Total shareholder return is defined on page 84 of the* Annual Report and Accounts 2010.
7 *The Financial Times Stock Exchange 100 Index.*
8 *The Morgan Stanley Capital International World Index and the Morgan Stanley Capital International World Banks Index.*

Reconciliations of reported and underlying profit before tax

9 *These columns comprise the net increments or decrements in profits in the current half-year (compared with the previous half-years) which are attributable to acquisitions or disposals of subsidiaries, gains arising on the dilution of interests in associates and/or movements in fair value of own debt designated at fair value attributable to credit spread. The inclusion of acquisitions and disposals is determined in the light of events in each period.*
10 *Currency translation is the effect of translating the results of subsidiaries and associates for the previous half-years at the average rates of exchange applicable in the current half-year.*
11 *Excluding adjustments in the first half of 2010.*
12 *Positive numbers are favourable: negative numbers are unfavourable.*
13 *Changes in fair value due to movements in own credit spread on long-term debt issued. This does not include the fair value changes due to own credit spread on structured notes issued and other hybrid instruments included within trading liabilities.*
14 *Other income in this context comprises net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net earned insurance premiums and other operating income less net insurance claims incurred and movement in liabilities to policyholders.*
15 *Net operating income before loan impairment charges and other credit risk provisions.*
16 *With effect from 1 March 2011, our Global Asset Management business was moved from GB&M to RBWM. Comparative data have been adjusted accordingly.*
17 *Excluding adjustments and disposals in the second half of 2010.*

Financial summary

18 *Net interest income includes the cost of funding trading assets, while the related external revenues are reported in trading income. In HSBC s customer group results, the cost of funding trading assets is included within Global Banking and Markets net trading income as an interest expense.*
19 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets (AIEA).*
20 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*
21 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*
22

The cost of internal funding of trading assets was US$516m (first half of 2010: US$294m; second half of 2010: US$608m) and is excluded from the reported Net trading income line and included in Net interest income . However, this cost is reinstated in Net trading income in HSBC s customer group and global business reporting.

23 *Net trading income includes an income of US$60m (first half of 2010: income of US$255m; second half of 2009: expense of US$232m) associated with changes in the fair value of issued structured notes and other hybrid instrument liabilities derived from movements in HSBC issuance spreads.*

24 *The change in fair value related to movements in the Group s credit spread on long-term debt resulted in an expense of US$143m in the first half of 2011 (first half of 2010: income of US$1.1bn; second half of 2010: expense of US$1.1bn).*

25 *Includes gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with HSBC s long-term debt issued.*

26 *Discretionary participation features.*

27 *The calculation of the PVIF asset was refined during the period to bring greater comparability and consistency across the Group s insurance operations. This was achieved by incorporating explicit margins and allowances for certain risks and uncertainties in place of implicit adjustments to the discount rate. The change in calculation reflected explicit risk margins for non-economic risks in the projection assumptions, and explicit allowances for financial options and guarantees using stochastic methods. Discount rates have been reduced as a result of removing the implicit adjustments. In certain circumstances, the implicit adjustments were different from the explicit amounts, resulting in a gain of US$243m which was included in Other operating income .*

28 *Net insurance claims incurred and movement in liabilities to policyholders arise from both life and non-life insurance business. For non-life business, amounts reported represent the cost of claims paid during the year and the estimated cost of notified claims. For life business, the main element of claims is the liability to policyholders created on the initial underwriting of the policy and any subsequent movement in the liability that arises, primarily from the attribution of investment performance to savings-related policies. Consequently, claims rise in line with increases in sales of savings-related business and with investment market growth.*

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Consolidated balance sheet

29 *Net of impairment allowances.*
30 *The calculation of capital resources, capital ratios and risk-weighted assets is on a Basel II basis.*
31 *Capital resources are total regulatory capital, the calculation of which is set out on page 161.*
32 *Includes perpetual preferred securities.*
33 *The definition of net asset value per share is total shareholders equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue.*
34 *Currency translation is the effect of translating the assets and liabilities of subsidiaries and associates for the previous year-end at the rates of exchange applicable at the current period-end.*

Economic profit

35 *Expressed as a percentage of average invested capital.*
36 *Average invested capital is measured as average total shareholders equity after:*
adding back the average balance of goodwill amortised before the transition to IFRSs or subsequently written off directly to reserves (less goodwill previously amortised in respect of the French regional banks sold in 2008);
deducting the average balance of HSBC s revaluation surplus relating to property held for own use. This reserve was generated when determining the deemed cost of such properties on transition to IFRSs and will run down as the properties are sold;
deducting average preference shares and other equity instruments issued by HSBC Holdings; and
deducting average reserves for unrealised gains/(losses) on effective cash flow hedges and available-for-sale securities.
37 *Return on invested capital is based on the profit attributable to ordinary shareholders of the parent company.*

Analyses by customer group and global business and by geographical region

38 *The main items reported under Other are certain property activities, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value (the remainder of the Group s gain on own debt is included in GB&M), and HSBC s holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the Group Management Office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries.*
39 *Assets by geographical region and customer group include intra-HSBC items. These items are eliminated, where appropriate, under the headings Intra-HSBC items or Inter-segment elimination .*
40 *RWAs from associates have been reallocated in order to properly align with the classification of income. RWAs from Global Asset Management have been reallocated to RBWM, principally from GB&M. Both items represent a reclassification from the basis used in HSBC s 2010 Pillar 3 disclosures. Comparative data have been adjusted accordingly.*
41 *Net operating income before loan impairment charges and other credit risk provisions.*
42 *Loan impairment charges and other credit risk provisions.*
43 *Share of profit in associates and joint ventures.*
44 *Pre-tax return on average risk-weighted assets.*
45 *In the analysis of customer groups and global businesses, net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities classified as held for trading, related external and internal interest income and interest expense, and dividends received; in the statutory presentation internal interest income and expense are eliminated.*
46 *In the first half of 2011, Global Markets included a favourable fair value movement of US$60m on the widening of credit spreads on structured liabilities (first half of 2010: favourable fair value movement of US$255m; second half of 2010: adverse fair value movement of US$232m).*
47 *Total income earned on Securities Services products in the Group amounted to US$0.9bn (first half of 2010: US$0.7bn; second half of 2010: US$0.8bn), of which US$0.9bn was in GB&M (first half of 2010: US$0.7bn; second half of 2010: US$0.8bn) and US$19m was in CMB (first half of 2010: US$11m; second half of 2010: US$18m).*

48 *Total income earned on Payments and Cash Management products in the Group amounted to US$2.6bn (first half of 2010: US$2.1bn; second half of 2010: US$2.3bn), of which US$1.9bn was in CMB (first half of 2010: US$1.6bn; second half of 2010: US$1.7bn) and US$0.7bn was in GB&M (first half of 2010: US$0.5bn; second half of 2010: US$0.6bn).*

49 *Total income earned on other transaction services in the Group amounted to US$1.3bn (first half of 2010: US$1.1bn; second half of 2010: US$1.2bn). Of this US$1.0bn was in CMB relating to trade and supply chain (first half of 2010: US$0.8bn; second half of 2010: US$0.8bn) and US$0.3bn was in GB&M of which US$0.3bn related to trade and supply chain (first half of 2010: US$0.3bn; second half of 2010: US$0.2bn) and US$20m related to banknotes and other (first half of 2010: US$71m; second half of 2010: US$42m).*

50 *Other in GB&M includes net interest earned on free capital held in the global business not assigned to products.*

51 *The foreign exchange effect is not eliminated on an underlying basis as the reporting currency of the principal business within GPB is US dollars.*

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

53 *Net insurance claims incurred and movement in liabilities to policyholders.*

54 *Employee expenses comprises costs directly incurred by each customer group. The reallocation and recharging of employee and other expenses directly incurred in the Other customer group is shown in Other operating expenses .*

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

56 *France primarily comprises the domestic operations of HSBC France, HSBC Assurances Vie and the Paris branch of HSBC Bank plc.*

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Risk

Risk Profile

Managing our risk profile

- A strong balance sheet is core to our philosophy.
- We ensured that our portfolios remain aligned to our risk appetite and strategy.
- We actively managed our risks, supported by strong forward looking risk identification.

Maintaining capital strength and strong liquidity position

- Our core tier 1 capital ratio remains strong at 10.8%.
- We have sustained our strong liquidity position throughout the first half of 2011.
- The ratio of customer advances to deposits remains below 80%.

Strong governance

Robust risk governance and accountability is embedded across the Group.

The Board, advised by the Group Risk Committee, approves our risk appetite.

A new global operating model has been developed and adopted for the Risk function.

Our top and emerging risks

Challenges to our business operations.

Challenges to our governance and internal control systems.

Macro-economic and geopolitical risk.

Macro-prudential and regulatory risks.

Managing risk

The continued growth in our business in the first half of 2011 was achieved while ensuring risks were assumed in a measured manner and in line with our risk appetite.

Balance sheet assets grew by 10% compared with the end of 2010, while our credit risk-weighted assets increased by 6% during the period.

During the first six months of 2011 financial markets were dominated by concerns over sovereign debt default risk and its contagion effects, Middle East turmoil, and the perception that the world economic recovery remained fragile. This created volatility in financial markets, and inflationary pressures affected emerging markets. Within an ever-changing economic and financial environment, we maintained our conservative risk profile by reducing exposure to the most likely areas of stress. Stress tests are run regularly to evaluate the potential impact of emerging scenarios. Where applicable and necessary we have adjusted our risk appetite.

We continued to manage selectively our exposure to sovereign debt, with the overall quality of the portfolio remaining strong. We regularly updated our assessment of higher risk countries and adjusted our risk appetite and exposures to reflect the updates.

The diversification of our lending portfolio across the regions, together with our broad range of customer groups and products, ensured that we were not overly dependent on a few countries or markets to generate income and growth. Our geographical diversification also supported our strategies for growth in faster-growing markets and those with international connectivity.

We continued to increase lending in all regions except North America. All regions experienced an improvement in loan impairment charges and other credit risk provisions as we reduced our portfolio risk and improved collections. On a constant currency basis, in the first half of 2011 our loan impairment charges and other credit risk provisions fell by 32% compared with the first half of 2010, to US$5.3bn. The US accounted for a significant proportion of the decline due to lower lending balances in the run-off Consumer Lending and Mortgage Services portfolios and in the Card and Retail Services portfolio, combined with lower delinquencies.

For details of HSBC s policies and practices regarding risk management and governance see the Appendix to Risk on page 148.

HSBC HOLDINGS PLC

Interim Management Report (continued)

Capital and liquidity

Preserving our strong capital position has long been, and will remain, a key priority for HSBC. We are well equipped to respond to the capital requirements imposed by Basel III, which are discussed further on page 162, and to sustain future growth. We utilise an enterprise-wide approach to testing the sensitivities of our capital plans against a number of scenarios; our approach to scenario stress testing analysis is discussed on page 148.

We continue to maintain a very strong liquidity position and are well positioned for the emerging new regulatory landscape.

Challenges and uncertainties

The top and emerging risks identified through our risk management processes and outlined on page 9 give rise to challenges and uncertainties as we carry out our activities. These are considered in further detail below.

Challenges to our business operations

Challenges to our operating model in an economic downturn (in developed countries) and rapid growth (in emerging markets)

Internet crime and fraud

Economic volatility heightens the degree of operational risk that we face.

We are exposed to many types of operational risk, including fraudulent and criminal activities, in particular a growing threat from internet crime. We also face breakdowns in processes or procedures and systems failure or unavailability and are subject to the risk of disruption to our business arising from events that are wholly or partially beyond our control such as natural disasters, acts of terrorism, epidemics and transport or utility failures. These may give rise to losses in service to customers and/or economic loss to HSBC. All of these risks also apply when we rely on external suppliers or vendors to provide services to us and our customers.

Challenges to our governance and internal control systems

Level of change creating operational complexity

Information security risk

The global financial services industry is facing several changes which increase the complexity of carrying out business.

The reliability and security of our information and technology infrastructure and customer databases and their ability, for example, to combat internet fraud are crucial to maintaining our banking applications and processes and to protecting the HSBC brand. Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to our ability to serve our clients, breach regulations under which we operate and cause long-term damage to our business and brand. Information security and the management of an increasingly complex operating infrastructure remain two of the key emerging operational risks that we face.

Macro-economic and geopolitical

Eurozone crisis, US deficit and elevated risk from potential overheating economies in emerging markets

Increased geopolitical risk in the Middle East and North Africa region

Prevailing economic and market conditions may adversely affect our results

Our earnings are affected by global and local economic and market conditions. Following the problems experienced in financial markets in 2007-8, concerted government action paved the way for a general improvement in the economic environment, though recovery was variable between regions. The peripheral eurozone economies came under increasing pressure in the first half of 2011, the dominant concern being over the sustainability of their sovereign debt. In the US, the large budget deficit, growing government indebtedness and failure to increase the Federal debt ceiling are generating concerns about the impact this will have on the US, the global economy and the financial services sector.

With unemployment remaining high and consumer confidence weak in developed markets, and amid signs of inflationary pressures in emerging markets, economic conditions remain fragile and volatile. Most emerging markets are growing rapidly but sluggish global demand and efficient monetary tightening should help in controlling imbalances. Moreover, domestic demand in many major emerging markets grew strongly, contributing to an output gap and reducing the risk of overheating. The global economy will remain volatile and subject to shocks and this could have an adverse effect on our results. In particular, we may face the following challenges to our operations and operating model in connection with these events:

- the demand for borrowing from creditworthy customers may diminish if economic activity slows or remains subdued;
- the elevated risk of overheating economies in emerging markets in recent years is giving rise to concerns that asset and credit bubbles may be created, leading to volatility and losses;
- European banks may come under stress if the sovereign debt crisis in the region increases the need to recapitalise parts of the sector;
- trade and capital flows may contract as a result of protectionist measures being introduced in certain markets or on the emergence of geopolitical risks;
- a prolonged period of modest interest rates will constrain, for example, through margin compression and low returns on assets, the interest income we earn on our excess deposits;
- our ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption, for example in the event of contagion from stress in the eurozone sovereign and financial sectors; and
- market developments may depress consumer and business confidence. If growth in the US or the UK remains subdued, for example, asset prices and payment patterns may be adversely affected, leading to increases in delinquencies and default rates, write-offs and loan impairment charges beyond our expectations.

We are subject to political and economic risks in the countries in which we operate

We continue to manage carefully our response to the aftermath of the financial crisis, events in the Middle East and the sovereign debt problems within the eurozone. During the first half of the year, we also played a positive role in maintaining credit and liquidity supply.

As an organisation which operates in 87 countries and territories, however, our results are subject to the risk of loss from unfavourable political developments, currency fluctuations, social instability and changes in government policies on such matters as expropriation, authorisations, international ownership, interest-rate caps, foreign exchange transferability and tax in the jurisdictions in which we operate.

The ability of our subsidiaries and affiliates to pay dividends could be restricted by changes in official banking measures, exchange controls and other requirements. We present our consolidated financial statements in US dollars but, because a portion of our assets, liabilities, revenues and expenses are denominated in other currencies, changes in foreign exchange rates affect our reported income, cash flows and shareholders equity.

Macro-prudential and regulatory

Regulatory and legislative requirements affecting conduct of business

Regulatory change impacting our business model and Group profitability

We face a number of challenges in regulation and supervision

Financial services providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, the conduct of business, the structure of our operations and the integrity of financial services delivery. Increased government intervention and control over financial institutions, together with measures to reduce systemic risk, may significantly alter the competitive landscape. These measures may be introduced as formal requirements in a super-equivalent manner and to differing timetables across regulatory regimes. This may result in Group and some of our operating entities in effect having to implement requirements ahead of some of its international peers and be potentially placed at a competitive disadvantage as a result.

In relation to capital management the FSA supervises HSBC on a consolidated basis, as well as HSBC Bank directly. This is explained on page 158.

Prudential measures aimed at increasing resilience in the financial system

In July 2011, the European Commission published proposals to implement the Basel III capital and liquidity standards within Europe. The proposals which consist of a new Regulation and a Directive, collectively known as CRD IV , will incorporate the current Capital Requirements Directive including changes already introduced to increase weightings risk for the trading book and for re-securitisations (due to take effect from 31 December 2011), and new risk-based remuneration rules. The measures are subject to agreement by EU member state governments and the European Parliament, a process that could take 12-18 months.

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Interim Management Report (continued)

New elements of CRD IV include:

Quality of capital: a further strengthening and harmonisation of the criteria for eligibility of capital instruments with an emphasis on common equity as the principal component of tier 1 capital, a minimum common equity requirement of 4.5% and increased deductions from shareholders equity to determine the level of regulatory capital. The new minimum requirements for common equity tier 1 and tier 1 capital are to be implemented gradually between 2013 and 2015. The new prudential adjustments are also to be introduced gradually, at a rate of 20% per annum from 2014, reaching 100% in 2018, with grandfathering of certain capital instruments over a 10-year period.

Capital buffers: proposals comprise a capital conservation buffer of 2.5% of risk-weighted assets to be built up during periods of economic growth, aimed at ensuring the capacity to absorb losses in stressed periods that may span a number of years; and a countercyclical capital buffer of up to an additional 2.5% to be built up in periods in which credit growth exceeds GDP growth. Capital buffers would be composed of tier 1 common equity. Banks whose capital falls below the buffers would be subject to restrictions on the distribution of profits, payments on non-equity capital instruments and the award of variable remuneration and discretionary pension benefits. It is not yet clear how these buffers may operate in practice and there is some doubt whether either supervisors or the market would support the release of a buffer as the economic cycle turns.

Counterparty credit risk: requirements for managing and capitalising counterparty credit risk are to be strengthened, with an additional capital charge for potential losses associated with the deterioration in the creditworthiness of individual counterparties.

Leverage: the Commission proposes to introduce a non-risk based leverage ratio, not as a binding prudential requirement but as an instrument for supervisory review (pillar 2). The implications of this ratio will be monitored prior to it potentially becoming a directly applicable prudential (pillar 1) requirement from 2018.

Liquidity and funding: a new minimum standard, the liquidity coverage ratio, designed to improve the short-term resilience of a bank s liquidity risk profile, will be introduced after an observation and review period in 2015. To address funding problems arising from asset-liability maturity mismatches, the European Commission will consider proposing a net stable funding ratio after an observation and review period in 2018.

Single rule book: the proposal harmonises divergent national supervisory approaches by removing options and discretions.

Enhanced governance: new rules aim to increase the effectiveness of risk oversight by boards, improve the status of the risk management function and ensure effective monitoring by supervisors of risk governance.

Sanctions: supervisors will be able to apply sanctions where prudential requirements are breached, such as imposing administrative fines of up to 10% of a bank s annual turnover, or temporary bans on members of a bank s management committee.

- *Enhanced supervision:* supervisors will be required to ensure the annual preparation of a supervisory programme for each supervised bank on the basis of a risk assessment; greater and more systematic use of on-site supervisory examinations; more robust standards; and more intrusive and forward-looking supervisory assessments.

The Financial Stability Board and the Basel Committee are currently consulting on an approach to define Global Systemically Important Financial Institutions (G-SIFI s), introduce more rigorous oversight and co-ordinated assessment of their risks through international supervisory colleges, provide for higher levels of capital and liquidity resilience, and require mandatory recovery and resolution plans with institution-specific crisis co-operation agreements between cross-border crisis management groups. Final recommendations will be submitted to the G20 group of countries in November 2011.

The European Commission is expected to introduce legislative proposals before the end of 2011 which will establish a cross-border crisis management framework encompassing recovery and resolution planning; early intervention tools; resolution tools including bridge banks, asset transfers and bail-in; resolution funds; and the conditions under which resolution will be applied.

A strong capital position has long been, and will remain, a key priority for HSBC.

HSBC HOLDINGS PLC

Interim Management Report (continued)

Other measures

Taxation of the financial sector: the European Commission is actively considering specific taxes for the financial sector following a consultation in the first three months of 2011.

Bank levy: legislation in respect of the UK bank levy was substantively enacted on 5 July 2011, after the balance sheet date. We estimate that the cost of the UK bank levy will be approximately US$600m for the full year 2011. No charge for the UK bank levy has been recognised in the first half of 2011. Other countries, including France, Germany and South Korea have also introduced bank levies. These do not have the same global basis as the UK bank levy and do not have a material impact on the Group at present.

Deposit Guarantee Schemes Directive: new EU rules, currently in negotiation, propose that deposit guarantee schemes will be required to pre-fund a percentage of covered deposits after a transitional period of 15 years. The final agreed level of pre-funding is likely to be in the 0.5-1.5% range.

The Volcker Rule : the rulemaking to implement those provisions of the Dodd-Frank Act limiting the ability of banking organisations with operations in the US to sponsor or invest in private equity or hedge funds and engage in certain types of proprietary trading in the US, is ongoing. It is expected that there will be a number of exceptions allowing an entity significant leeway to engage in client-serving trading, such as market-making and underwriting, and risk-mitigating hedging activities.

Derivatives and central counterparties regulation: Measures have been introduced to give effect to the G20 commitments designed to reduce systemic risk and volatility relating to derivatives trading. The G20 agreed that all standardised over-the-counter (OTC) derivatives were to be exchange traded where appropriate, reported to trade repositories and centrally cleared by the end of 2012. Higher capital requirements (under Basel III) will be imposed for bilateral (uncleared) transactions to incentivise use of clearing. In the US, rulemaking by the authorities is underway to implement the Dodd-Frank Act. The Act provides an extensive regulatory framework for OTC derivatives in addition to the mandatory clearing, exchange trading and reporting of certain swaps and security-based swaps. On 14 June 2011, the Commodity Futures Trading Commission unanimously voted to delay aspects of the Act that were scheduled to take effect on 16 July 2011 until as late as 31 December 2011. These include defining a swap trade, clearing exemptions for companies that use swaps to hedge everyday business risks, real-time reporting of derivatives trades, and capital and margin requirements for trades. The EU Commission proposals on central clearing and reporting of OTC derivatives launched in September 2010 are currently under negotiation. Exemptions for foreign exchange swaps and forwards have been proposed in the US and are currently being considered in the EU.

Retail Distribution Review: In 2006, the FSA initiated a fundamental review of how retail investment products are distributed in the market. In March 2010, it published rules with which firms must comply by January 2013. The rules introduce a system of adviser charging , requiring firms providing investment advice to set their own charges and to agree them with customers. They also ban product providers from offering commission.

Markets in financial instruments: the European Commission has conducted a major review of the Markets in Financial Instruments Directive and formal legislative proposals are expected during 2011. These potentially extend its scope beyond equities to other asset classes including bonds, exchange-traded funds and other equity-like and non-equity instruments, and promotes their trading on exchanges and other markets that will be subject to regulation. It also proposes giving additional powers to regulators to ban trading in products that are eligible to be cleared but for which no clearing arrangements are currently available.

The UK Independent Commission on Banking (ICB) published its Interim Report on 11 April 2011. The Commission s reform proposals could have wide ranging implications for the structure of the UK banking industry. In particular, the Commission is considering, *inter alia*, whether a separation of the retail and investment banking operations, through the creation of a ring-fenced retail bank, could make banks more stable. The Commission is further considering whether the ring-fenced retail bank should be required to have a ratio of, at least, 10% equity capital to risk-weighted assets calculated under the Basel III agreement, together with a level of loss-absorbent (bail-inable) debt. Were separation required,

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Interim Management Report (continued)

given the current legal frameworks, it is most likely that the ring-fenced retail bank would be spun-out from the existing UK incorporated universal bank.

We maintain that HSBC s existing model of universal banking, protected by geographic ring-fencing through subsidiarisation, is already achieving the main goals pursued by the ICB. However, while the Commission will not publish its final recommendations until September 2011, there is a strong possibility that it could recommend changes to the UK banking sector which may require us to make major changes to HSBC s corporate structure and business activities conducted in the UK through our major banking subsidiary, HSBC Bank plc. These changes would take an extended period to implement with a significant impact on costs to both implement the changes and run the ongoing operations as restructured. The nature, impact and timing of any such changes remains unclear, as is the effect of changes on the ratings afforded to the debt of HSBC Bank plc, which would be the most affected subsidiary.

The Chancellor of the Exchequer has indicated that the UK Government endorses in principle the proposals for bail-inable debt and the ring-fencing of retail banking operations, but the Government is not bound to adopt the Commission s recommendations.

Accounting standards: in working towards convergence to a single set of high-quality, global, independent accounting standards, the IASB has issued five significant new and revised accounting standards in 2011 and is continuing to work on projects on financial instruments, insurance, leasing and revenue recognition. The new and revised accounting standards, including IFRS 9 on the classification and measurement of financial instruments, are yet to be endorsed by the EU. These standards represent substantial accounting changes which will require implementation from 2013 and over which there remains uncertainty about the content and timing of the final requirements as well as EU endorsement. In the event of non-endorsement by the EU, this would result in additional reporting costs in order to produce two sets of financial statements in order to meet SEC requirements to comply with IFRSs as issued by the IASB and UK legal requirements to comply with EU-endorsed IFRSs.

Implementation risks

Both the current regulatory environment and the extensive programme of regulatory change carry significant implementation risks for authorities and industry participants alike, including:

disparities in implementation: many official measures are proposals in development and negotiation, and have yet to be enacted into regional and national legislation. Linked to this, some regulators are adopting or considering changes in applying existing rules relating to capital requirements. These processes could result in differing, fragmented and overlapping implementation around the world, leading to risks of regulatory arbitrage, a far from level competitive playing-field and increased compliance costs (including the risks of disparate capital requirements and differences in timing for new measures or changes), especially for global financial institutions such as HSBC. This could also affect our business model and profitability.

timetable and market expectations: while the Basel Committee has announced the timetable for its core proposals in Basel III, it remains uncertain how these and other measures will play out in practice, for instance with regard to differences in approach between Basel III and the Dodd-Frank Act in the US. Meanwhile, market expectations will exert pressure on institutions to assess and effect compliance well in advance of official timetables.

wider economic impact and unforeseen consequences: while the conclusions of official and industry studies have diverged, the measures proposed and other changes that may be made will clearly impact on financial and economic activity in ways that cannot yet be clearly foreseen. For example, higher capital requirements may seriously restrict the availability of funds for lending to support economic recovery.

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Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and derivatives, and from the Group s holdings of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks we incur.

There have been no material changes to our policies and practices for the management of credit risk as described in the *Annual Report and Accounts 2010.*

Total gross loans and advances increased by 8% to US$1,283bn primarily due to growth in Asia.

Impairment allowances decreased by 7% largely from the continued run-off of the Customer Lending and Mortgage Services portfolios in North America.

A summary of our current policies and practices regarding credit risk is provided in the Appendix to Risk on page 148.

Credit risk in the first half of 2011

Exposure, impairment allowances and charges

	At 30 Jun 2011 US$bn	At 30 Jun 2010 US$bn	At 31 Dec 2010 US$bn
Total gross loans and advances (A)	**1,282.8**	1,111.8	1,186.9
Impairment allowances	**18.9**	22.2	20.2
as a percentage of A	**1.47%**	2.00%	1.70%
Impairment charges	**5.0**	7.2	6.3

Loss experience

	Half-year to		
	30 Jun 2011	30 Jun 2010	31 Dec 2010
	US$m	US$m	US$m
Loan impairment charges and other credit risk provisions	**5,266**	7,523	6,516
	%	%	%
RBWM	**81**	84	76
GB&M	**6**	7	7
CMB	**12**	9	17
Other	**1**		
	100	100	100

In the first half of 2011, the Group increased its maximum exposure to credit risk, mainly from growth in gross loans and advances to customers and a rise in trading assets. Gross loans and advances increased by 8% from 31 December 2010, mainly in corporate and commercial lending, reflecting continued growth in trade and business activity in Asia.

On a constant currency basis, corporate and commercial lending increased by 7% from 31 December 2010 to US$491bn and was the Group s largest lending category at 47% of gross loans and advances to customers. Despite this strong growth, loan impairment charges in CMB and GB&M declined compared with the first half of 2010.

On a constant currency basis, the Group s personal lending was US$439bn at 30 June 2011, reflecting a small increase compared with 31 December 2010 as growth in mortgage lending, particularly in the UK and Hong Kong, where lending remained well secured, was partly offset by the continued run-off of the Consumer Lending and Mortgage Services portfolios in the US. Personal lending balances in the US declined by 7% from 31 December 2010 to US$102bn as balances in our run-off portfolios continued to diminish, although in the first half the rate of reduction was adversely

affected by the temporary suspension of foreclosure activity.

In the first half of 2011 the eurozone demonstrated signs of economic recovery, though there were regular periods of significant market volatility related to a number of sovereigns, notably Greece, Ireland, Portugal, Italy and Spain. We continued to closely monitor our exposure to sovereign debt during the first half of 2011. At 30 June 2011, our on-balance sheet exposure to the sovereign and agency debt of Greece, Ireland, Portugal, Italy and Spain was US$8.2bn. During the first half of 2011, an impairment charge of US$105m was recognised in respect of Greek sovereign and agency exposures classified as available for sale.

Overall credit quality improved during the first half of 2011. Loan impairment charges and other credit risk provisions were US$5.3bn, 32% lower than in the first half of 2010, with 65% of the overall decline attributable to RBWM in North America. In addition, both loan impairment allowances and impaired loans declined at 30 June 2011 compared with the end of 2010, mainly reflecting the continued run-off of the Consumer Lending and Mortgage Services portfolios and the reduction in balances in the Card and Retail Services portfolios.

For securitisation exposures and structured products the financial impact of the recent market disruption remained modest with net write-downs to the income statement of US$0.2bn (first half of 2010: US$0.1bn net write-backs) and a reduction in the available-for-sale ABSs reserve deficit of US$1.6bn to US$4.8bn.

Credit exposure

Maximum exposure to credit risk

Our credit exposure is spread across a broad range of asset classes, including derivatives, trading assets, loans and advances to customers, loans and advances to banks and financial investments. In the first half of 2011, our exposure to credit risk remained well diversified across asset classes. While we increased our overall exposure to credit risk in the period, the balance of exposure has remained broadly stable.

Our exposure to corporate and commercial lending also increased, mainly in Asia reflecting strong growth in trade and business activity. Exposure to personal lending remained significant as we grew mortgage lending balances, notably in the UK and Hong Kong where our portfolios are well secured. This growth partly offset the decline in the US reflecting the continued run-off of selected

portfolios. For further commentary on personal lending, see Areas of special interest personal lending on page 101.

In the first half of 2011, we increased our exposure to trading assets. Our holdings of debt securities rose reflecting our role as primary market-maker, as well as increased customer demand for government and government agency debt securities. In addition, settlement accounts, which vary in proportion to levels of trading activity, grew significantly, while our reverse repo exposure also rose reflecting increased client trading and the development of repo products.

Loss experience continued to be concentrated in the personal lending portfolios, with some 81% of our loan impairment charges and other credit risk provisions reported in RBWM, the majority of which related to US personal lending.

The table on page 92 presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

Collateral and other credit enhancements

The nature of collateral held against financial instruments presented in the Maximum exposure to credit risk table on page 92 is described in the Appendix to Risk on page 149.

Offsets

Loans and advances

The loans and advances offset adjustment in the table on page 92 primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

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Derivatives

The derivative offset amount in the table overleaf relates to exposures where the counterparty has an offsetting derivative exposure with HSBC, a master netting arrangement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash. At 30 June 2011, the total amount of such offsets was US$208.5bn (30 June 2010: US$219.2bn; 31 December 2010: US$197.5bn), of which US$188.2bn (30 June 2010: US$198.5bn; 31 December 2010: US$178.3bn) were offsets under a master netting arrangement, US$20.1bn (30 June 2010: US$20.5bn; 31 December 2010: US$19.0bn) was collateral received in cash and US$0.2bn (30 June 2010: US$0.2bn; 31 December 2010: US$0.2bn) was other collateral. These amounts do not qualify for net presentation for accounting purposes, as settlement may not actually be made on a net basis.

Concentration of exposure

Concentrations of credit risk are described in the Appendix to Risk on page 149.

Securities held for trading

Total securities held for trading within trading assets were US$269bn at 30 June 2011 (30 June 2010: US$244bn; 31 December 2010: US$235bn). The largest concentration of these assets was to government and government agency securities. A detailed analysis of securities held for trading is set out in Note 7 on the Financial Statements and an analysis of credit quality is provided on page 111.

Debt securities, treasury and other eligible bills

Our holdings of corporate debt, ABSs and other securities were spread across a wide range of issuers and geographical regions, with 24% invested in securities issued by banks and other financial institutions. A more detailed analysis of financial investments is set out in Note 13 on the Financial Statements and an analysis by credit quality is provided on page 111.

At 30 June 2011, our insurance businesses held diversified portfolios of debt and equity securities designated at fair value of US$31bn (30 June 2010: US$23bn; 31 December 2010: US$28bn) and debt securities classified as financial investments of US$42bn (30 June 2010: US$36bn; 31 December 2010: US$38bn). A more detailed analysis of securities held by the insurance businesses is set out on page 142.

Derivatives

On a reported basis, derivative assets at 30 June 2011 were US$261bn, in line with 31 December 2010. Our single largest exposure was to interest rate derivatives, and this balance was largely unchanged compared with the end of 2010, as a small increase in gross exposure, driven by an increased notional value of outstanding contracts, was offset by higher netting from increased trading with clearing houses.

Loans and advances

On a reported basis, gross loans and advances to customers (excluding the financial sector) at 30 June 2011 increased by US$60bn or 7% from 31 December 2010. On a constant currency basis the increase was 4%. The rise was primarily due to strong growth in Asia and Europe.

Summary of gross loans and advances to customers

The following commentary is on a constant currency basis:

Personal lending of US$439bn in the first half of 2011 was slightly higher than at 31 December 2010 as growth in residential mortgage lending was substantially offset by lower other personal lending balances. Personal lending represented 42% of our total lending to customers. At US$282bn, residential mortgage lending constituted the Group s largest concentration in a single exposure type, the most significant balances being in the UK, the US and Hong Kong.

Corporate and commercial lending was 47% of gross lending to customers at 30 June 2011, comprising our largest lending category. Commercial, industrial and international trade was the biggest portion of this category, increasing by 11% compared with 31 December 2010 as business and trade activity, particularly in Asia, grew. Commercial real estate lending, which represented 7% of total gross lending to customers, was broadly in line with 31 December 2010.

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Maximum exposure to credit risk

	At 30 June 2011			At 30 June 2010			At 31 December 2010		
	Maximum exposure US$m	**Offset US$m**	**Exposure to credit risk (net) US$m**	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m
Cash and balances at central banks	**68,218**		**68,218**	71,576		71,576	57,383		57,383
Items in the course of collection from other banks	**15,058**		**15,058**	11,195		11,195	6,072		6,072
Hong Kong Government certificates of indebtedness	**19,745**		**19,745**	18,364		18,364	19,057		19,057
Trading assets	**438,232**	**(10,491)**	**427,741**	376,440	(17,890)	358,550	343,966	(4,189)	339,777
Treasury and other eligible bills	**23,899**		**23,899**	22,236		22,236	25,620		25,620
Debt securities	**208,805**		**208,805**	194,390		194,390	168,268		168,268
Loans and advances:									
to banks	**100,134**		**100,134**	77,434		77,434	70,456		70,456
to customers	**105,394**	**(10,491)**	**94,903**	82,380	(17,890)	64,490	79,622	(4,189)	75,433
Financial assets designated at fair value	**19,977**		**19,977**	18,350		18,350	19,593		19,593
Treasury and other eligible bills	**207**		**207**	249		249	159		159
Debt securities	**18,496**		**18,496**	16,153		16,153	18,248		18,248
Loans and advances:									
to banks	**355**		**355**	1,149		1,149	315		315
to customers	**919**		**919**	799		799	871		871
Derivatives	**260,672**	**(208,471)**	**52,201**	288,279	(219,180)	69,099	260,757	(197,501)	63,256
Loans and advances held at amortised cost:	**1,263,931**	**(103,876)**	**1,160,055**	1,089,633	(89,301)	1,000,332	1,166,637	(91,966)	1,074,671
to banks	**226,043**	**(3,173)**	**222,870**	196,296	(330)	195,966	208,271	(3,099)	205,172
to customers	**1,037,888**	**(100,703)**	**937,185**	893,337	(88,971)	804,366	958,366	(88,867)	869,499
Financial investments	**408,650**		**408,650**	376,642		376,642	392,772		392,772

Treasury and other similar bills	**61,664**		**61,664**	61,275		61,275	57,129		57,129
Debt securities	**346,986**		**346,986**	315,367		315,367	335,643		335,643
Other assets	**36,789**	**(3)**	**36,786**	30,643	(15)	30,628	30,371	(29)	30,342
Endorsements and acceptances	**11,338**	**(3)**	**11,335**	9,573	(15)	9,558	10,116	(29)	10,087
Other	**25,451**		**25,451**	21,070		21,070	20,255		20,255
Financial guarantees and similar contracts	**52,232**		**52,232**	46,120		46,120	49,436		49,436
Loan and other credit-related commitments[1]	**660,175**		**660,175**	548,710		548,710	602,513		602,513
	3,243,679	**(322,841)**	**2,920,838**	2,875,952	(326,386)	2,549,566	2,948,557	(293,685)	2,654,872

For footnote, see page 146.

In the financial category, our largest exposure was to non-bank financial institutions which increased by 13% to US$118bn; this mainly comprised secured lending on trading accounts, mainly reverse-repo facilities.

Loans and advances to banks were widely distributed across major institutions in the first half of 2011 and increased by 5% as placements with commercial and central banks rose, particularly in

Hong Kong and Rest of Asia-Pacific.

The following tables analyse loans by industry sector and by the location of the principal operations of the lending subsidiary or, in the case of the operations of The Hongkong and Shanghai Banking Corporation, HSBC Bank, HSBC Bank Middle East and HSBC Bank USA, by the location of the lending branch.

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Gross loans and advances by industry sector

	At 31 December 2010 US$m	Currency effect US$m	Movement US$m	At 30 June 2011 US$m
Personal	425,320	**8,471**	**5,559**	**439,350**
Residential mortgages[2]	268,681	**5,579**	**7,831**	**282,091**
Other personal[3]	156,639	**2,892**	**(2,272)**	**157,259**
Corporate and commercial	445,512	**11,993**	**33,842**	**491,347**
Commercial, industrial and international trade	237,694	**6,458**	**26,457**	**270,609**
Commercial real estate	71,880	**1,995**	**(543)**	**73,332**
Other property-related	34,838	**403**	**1,816**	**37,057**
Government	8,594	**187**	**644**	**9,425**
Other commercial[4]	92,506	**2,950**	**5,468**	**100,924**
Financial	101,725	**4,347**	**14,187**	**120,259**
Non-bank financial institutions	100,163	**4,311**	**13,482**	**117,956**
Settlement accounts	1,562	**36**	**705**	**2,303**
Asset-backed securities reclassified	5,892	**164**	**(392)**	**5,664**
Total gross loans and advances to customers (TGLAC[5])	978,449	**24,975**	**53,196**	**1,056,620**
Gross loans and advances to banks	208,429	**7,329**	**10,447**	**226,205**
Total gross loans and advances	1,186,878	**32,304**	**63,643**	**1,282,825**
Impaired loans and advances to customers	28,091	**594**	**(2,703)**	**25,982**
as a percentage of TGLAC	2.9%			**2.5%**
Impairment allowances on loans and advances to customers	20,083	**356**	**(1,707)**	**18,732**
as a percentage of TGLAC	2.1%			**1.8%**
Charge for impairment losses to 30 June 2010	7,234	**(772)**	**(1,489)**	**4,973**
New allowances net of allowance releases	7,687	**(818)**	**(1,166)**	**5,703**
Recoveries	(453)	**46**	**(323)**	**(730)**

For footnotes, see page 146.

Gross loans and advances to customers by industry sector and by geographical region

Gross loans and advances to customers

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	As a % of total gross loans
At 30 June 2011								
Personal	**172,383**	**61,704**	**44,300**	**5,196**	**131,676**	**24,091**	**439,350**	**41.6**
Residential mortgages[2]	**119,993**	**45,496**	**32,224**	**1,791**	**76,690**	**5,897**	**282,091**	**26.7**
Other personal[3]	**52,390**	**16,208**	**12,076**	**3,405**	**54,986**	**18,194**	**157,259**	**14.9**
Corporate and commercial	**221,361**	**94,566**	**74,726**	**20,786**	**38,761**	**41,147**	**491,347**	**46.5**
Commercial, industrial and international trade	**125,668**	**42,587**	**46,128**	**12,316**	**16,766**	**27,144**	**270,609**	**25.6**
Commercial real estate	**31,066**	**20,379**	**9,728**	**1,037**	**7,673**	**3,449**	**73,332**	**6.9**
Other property-related	**7,189**	**16,097**	**5,643**	**1,897**	**5,391**	**840**	**37,057**	**3.5**
Government	**2,126**	**3,252**	**430**	**1,251**	**311**	**2,055**	**9,425**	**0.9**
Other commercial[4]	**55,312**	**12,251**	**12,797**	**4,285**	**8,620**	**7,659**	**100,924**	**9.6**
Financial	**92,799**	**3,673**	**3,231**	**1,281**	**16,563**	**2,712**	**120,259**	**11.4**
Non-bank financial institutions	**91,636**	**3,042**	**2,794**	**1,267**	**16,563**	**2,654**	**117,956**	**11.2**
Settlement accounts	**1,163**	**631**	**437**	**14**		**58**	**2,303**	**0.2**
Asset-backed securities reclassified	**5,120**				**544**		**5,664**	**0.5**
TGLAC[5]	**491,663**	**159,943**	**122,257**	**27,263**	**187,544**	**67,950**	**1,056,620**	**100.0**
Percentage of TGLAC by geographical region	**46.6%**	**15.1%**	**11.6%**	**2.6%**	**17.7%**	**6.4%**	**100.0%**	
Impaired loans	**10,202**	**510**	**1,208**	**2,195**	**9,346**	**2,521**	**25,982**	
as a percentage of TGLAC	**2.1%**	**0.3%**	**1.0%**	**8.1%**	**5.0%**	**3.7%**	**2.5%**	
Total impairment allowances	**5,332**	**573**	**828**	**1,569**	**8,282**	**2,148**	**18,732**	
as a percentage of TGLAC	**1.1%**	**0.4%**	**0.7%**	**5.8%**	**4.4%**	**3.2%**	**1.8%**	

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	Gross loans and advances to customers							As a %
	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	of total gross loans
At 30 June 2010								
Personal	150,801	50,734	33,637	5,763	148,869	20,248	410,052	44.8
Residential mortgages[2]	103,485	37,394	23,289	1,789	81,811	5,080	252,848	27.6
Other personal[3]	47,316	13,340	10,348	3,974	67,058	15,168	157,204	17.2
Corporate and commercial	186,547	60,728	56,394	17,670	39,021	28,230	388,590	42.4
Commercial, industrial and international trade	100,043	23,363	35,051	9,952	13,406	18,043	199,858	21.8
Commercial real estate	29,723	16,722	7,153	1,044	9,874	2,457	66,973	7.3
Other property-related	5,571	12,179	4,186	1,751	9,220	578	33,485	3.7
Government	1,664	357	660	1,533	406	1,774	6,394	0.7
Other commercial[4]	49,546	8,107	9,344	3,390	6,115	5,378	81,880	8.9
Financial	70,520	3,344	2,497	1,548	30,179	2,468	110,556	12.1
Non-bank financial institutions	69,909	2,523	2,196	1,539	29,845	2,390	108,402	11.9
Settlement accounts	611	821	301	9	334	78	2,154	0.2
Asset-backed securities reclassified	5,193				979		6,172	0.7
TGLAC[5]	413,061	114,806	92,528	24,981	219,048	50,946	915,370	100.0
Percentage of TGLAC by geographical region	45.1%	12.6%	10.1%	2.7%	23.9%	5.6%	100.0%	
Impaired loans	10,257	814	1,146	1,978	11,119	2,573	27,887	
as a percentage of TGLAC	2.5%	0.7%	1.2%	7.9%	5.1%	5.1%	3.0%	
Total impairment allowances	5,835	731	856	1,587	10,907	2,117	22,033	

as a percentage of TGLAC	1.4%	0.6%	0.9%	6.4%	5.0%	4.2%	2.4%	
At 31 December 2010								
Personal	161,717	57,308	40,184	5,371	139,117	21,623	425,320	43.4
Residential mortgages[2]	111,618	42,488	28,724	1,751	78,842	5,258	268,681	27.4
Other personal[3]	50,099	14,820	11,460	3,620	60,275	16,365	156,639	16.0
Corporate and commercial[6]	203,804	80,823	67,247	19,560	38,707	35,371	445,512	45.6
Commercial, industrial and international trade	111,980	33,451	41,274	11,173	16,737	23,079	237,694	24.3
Commercial real estate	30,629	19,678	8,732	1,085	8,768	2,988	71,880	7.3
Other property-related	6,401	15,232	5,426	1,785	5,109	885	34,838	3.6
Government	2,289	2,339	415	1,345	89	2,117	8,594	0.9
Other commercial[4]	52,505	10,123	11,400	4,172	8,004	6,302	92,506	9.5
Financial	70,725	3,189	2,259	1,347	21,202	3,003	101,725	10.4
Non-bank financial institutions	70,019	2,824	2,058	1,335	21,109	2,818	100,163	10.2
Settlement accounts	706	365	201	12	93	185	1,562	0.2
Asset-backed securities reclassified	5,216				676		5,892	0.6
TGLAC[5]	441,462	141,320	109,690	26,278	199,702	59,997	978,449	100.0
Percentage of TGLAC by geographical region	45.2%	14.4%	11.2%	2.7%	20.4%	6.1%	100.0%	
Impaired loans	10,557	660	1,324	2,433	10,727	2,390	28,091	
as a percentage of TGLAC	2.4%	0.5%	1.2%	9.3%	5.4%	4.0%	2.9%	
Total impairment allowances	5,663	629	959	1,652	9,170	2,010	20,083	
as a percentage of TGLAC	1.3%	0.4%	0.9%	6.3%	4.6%	3.4%	2.1%	

For footnotes, see page 146.

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Gross loans and advances to customers by country

	Residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 30 June 2011					
Europe	119,993	52,390	38,255	281,025	491,663
UK	110,768	25,666	26,486	189,926	352,846
France	3,864	10,233	9,316	66,192	89,605
Germany	11	339	51	4,929	5,330
Malta	1,850	645	585	1,740	4,820
Switzerland	1,502	12,043	165	2,250	15,960
Turkey	858	3,053	253	3,799	7,963
Other	1,140	411	1,399	12,189	15,139
Hong Kong	45,496	16,208	36,476	61,763	159,943
Rest of Asia-Pacific	32,224	12,076	15,371	62,586	122,257
Australia	9,418	1,384	2,375	5,192	18,369
India	949	446	732	3,989	6,116
Indonesia	84	511	112	4,283	4,990
Japan	244	193	1,163	1,922	3,522
Mainland China	2,441	307	4,332	14,115	21,195
Malaysia	4,158	2,125	1,344	6,289	13,916
Singapore	7,799	4,035	3,700	9,155	24,689
South Korea	2,312	205	96	3,015	5,628
Taiwan	3,261	578	129	3,997	7,965
Vietnam	45	211	78	1,457	1,791
Other	1,513	2,081	1,310	9,172	14,076
Middle East and North Africa (excluding Saudi Arabia)	1,791	3,405	2,934	19,133	27,263
Egypt	3	407	135	2,644	3,189
Qatar	9	455	417	1,323	2,204
UAE	1,500	1,915	1,451	11,386	16,252
Other	279	628	931	3,780	5,618

North America	**76,690**	**54,986**	**13,064**	**42,804**	**187,544**
US	**55,118**	**46,396**	**7,865**	**26,443**	**135,822**
Canada	**19,824**	**8,095**	**4,674**	**15,864**	**48,457**
Bermuda	**1,748**	**495**	**525**	**497**	**3,265**
Latin America	**5,897**	**18,194**	**4,289**	**39,570**	**67,950**
Argentina	**30**	**1,140**	**119**	**2,405**	**3,694**
Brazil	**1,554**	**12,156**	**1,781**	**20,219**	**35,710**
Mexico	**2,214**	**2,650**	**1,424**	**9,600**	**15,888**
Panama	**1,186**	**1,011**	**669**	**4,389**	**7,255**
Other	**913**	**1,237**	**296**	**2,957**	**5,403**
Total	**282,091**	**157,259**	**110,389**	**506,881**	**1,056,620**

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Interim Management Report (continued)

Gross loans and advances to customers by country (continued)

	Residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 30 June 2010					
Europe	103,485	47,316	35,294	226,966	413,061
UK	95,525	25,569	25,478	167,553	314,125
France	3,590	8,588	7,711	41,414	61,303
Germany	9	340	88	3,531	3,968
Malta	1,508	514	551	1,393	3,966
Switzerland	1,198	9,316	63	1,457	12,034
Turkey	773	2,650	223	2,676	6,322
Other	882	339	1,180	8,942	11,343
Hong Kong	37,394	13,340	28,901	35,171	114,806
Rest of Asia-Pacific	23,289	10,348	11,339	47,552	92,528
Australia	6,176	966	1,942	3,734	12,818
India	855	635	564	4,160	6,214
Indonesia	67	549	104	2,563	3,283
Japan	163	156	820	2,193	3,332
Mainland China	1,770	307	3,068	10,218	15,363
Malaysia	3,374	1,839	1,064	4,489	10,766
Singapore	5,380	3,204	2,676	6,379	17,639
South Korea	2,063	299	29	2,539	4,930
Taiwan	2,315	473	78	2,565	5,431
Vietnam	27	129	54	1,364	1,574
Other	1,099	1,791	940	7,348	11,178
Middle East and North Africa (excluding Saudi Arabia)	1,789	3,974	2,795	16,423	24,981
Egypt	4	360	95	2,314	2,773

Qatar	9	541	510	779	1,839
UAE	1,531	2,436	1,359	9,933	15,259
Other	245	637	831	3,397	5,110
North America	81,811	67,058	19,094	51,085	219,048
US	61,339	58,731	8,635	37,910	166,615
Canada	18,829	7,791	9,953	12,442	49,015
Bermuda	1,643	536	506	733	3,418
Latin America	5,080	15,168	3,035	27,663	50,946
Argentina	29	743	56	2,034	2,862
Brazil	806	9,998	1,164	12,853	24,821
Mexico	2,217	2,423	995	6,767	12,402
Panama	1,150	963	474	3,445	6,032
Other	878	1,041	346	2,564	4,829
Total	252,848	157,204	100,458	404,860	915,370

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Interim Management Report (continued)

	Residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 31 December 2010					
Europe	111,618	50,099	37,030	242,715	441,462
UK	103,037	25,636	26,002	165,283	319,958
France	3,749	9,550	8,737	56,613	78,649
Germany	11	356	79	4,015	4,461
Malta	1,656	599	563	1,643	4,461
Switzerland	1,358	10,708	114	1,837	14,017
Turkey	809	2,817	210	2,783	6,619
Other	998	433	1,325	10,541	13,297
Hong Kong	42,488	14,820	34,910	49,102	141,320
Rest of Asia-Pacific	28,724	11,460	14,158	55,348	109,690
Australia	8,405	1,267	2,346	4,867	16,885
India	920	526	680	4,583	6,709
Indonesia	74	531	115	3,374	4,094
Japan	226	199	1,214	2,503	4,142
Mainland China	2,046	310	3,836	12,932	19,124
Malaysia	3,833	2,053	1,361	4,845	12,092
Singapore	6,571	3,661	3,262	7,846	21,340
South Korea	2,295	248	58	2,494	5,095
Taiwan	3,002	527	135	2,832	6,496
Vietnam	35	162	59	1,255	1,511
Other	1,317	1,976	1,092	7,817	12,202
Middle East and North Africa (excluding Saudi Arabia)	1,751	3,620	2,870	18,037	26,278
Egypt	3	396	111	2,484	2,994
Qatar	8	491	404	918	1,821
UAE	1,477	2,099	1,359	11,043	15,978
Other	263	634	996	3,592	5,485
	78,842	60,275	13,877	46,708	199,702

North America					
US	57,630	51,686	8,269	31,496	149,081
Canada	19,505	8,070	5,079	14,711	47,365
Bermuda	1,707	519	529	501	3,256
Latin America	5,258	16,365	3,873	34,501	59,997
Argentina	30	918	103	2,172	3,223
Brazil	1,111	10,979	1,816	17,093	30,999
Mexico	2,097	2,365	1,146	8,622	14,230
Panama	1,155	982	489	3,794	6,420
Other	865	1,121	319	2,820	5,125
Total	268,681	156,639	106,718	446,411	978,449

Loans and advances to banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	Impair-ment allowances US$m
At 30 June 2011[7]	**83,153**	**37,334**	**50,331**	**7,786**	**19,865**	**27,736**	**226,205**	**(162)**
At 30 June 2010	82,119	31,633	35,338	8,644	17,132	21,595	196,461	(165)
At 31 December 2010	78,239	33,585	40,437	9,335	19,479	27,354	208,429	(158)

For footnote, see page 146.

Areas of special interest

Wholesale lending

Wholesale lending covers the range of credit facilities granted to sovereign borrowers, banks, non-bank financial institutions and corporate entities. Our wholesale portfolios are well diversified across geographical and industry sectors, with certain exposures subject to specific portfolio controls. Loan impairment charges fell during the first half of 2011, as economies generally demonstrated signs of recovery.

We continued to closely manage our exposure to sovereign debt in the first half of 2011. The overall quality of the portfolio was strong with most in-country and cross-border limits extended to countries with high-grade internal credit risk ratings. We regularly update our assessment of higher risk countries and adjust our risk appetite accordingly.

Exposures to countries in the eurozone

The eurozone as a whole retained substantial economic and financial strength and demonstrated positive signs of economic recovery in the first half of 2011, despite the stresses from the financial crisis.

However, the transfer of private sector liabilities to sovereign bodies which started after the 2007 financial crisis continued to put pressure on government balance sheets. The resulting fiscal imbalance in some industrialised economies led to intensified market concerns about sovereign credit risk in these countries.

In the first half of 2011, there were periods of significant market volatility related to a number of sovereigns in the eurozone, notably Greece, Ireland, Portugal, Italy and Spain. Sovereign spreads remained high and the lack of market access eventually resulted in Portugal joining Greece and Ireland in seeking bailout funding amounting to 78bn (US$113bn) from the European Financial Stability Facility (EFSF) and International Monetary Fund (IMF) in early April 2011. Political instability in Greece, Ireland and Portugal also exacerbated the situation and all three countries were downgraded by major credit rating agencies during the period. Italy and Spain made progress in implementing fiscal adjustments and banking reforms but still experienced volatility in credit spreads.

The tables overleaf summarise our exposures to selected eurozone countries, including:

- governments and central banks of selected eurozone countries along with near/quasi government agencies;
- banks; and
- other financial institutions and other corporates.

Exposures to banks, other financial institutions and other corporates are based on the country of domicile of the counterparty.

The countries presented were selected because during the period they exhibited levels of market volatility which exceeded other eurozone countries and demonstrated fiscal or political uncertainty which may persist through the second half of 2011. In addition, certain of these countries exhibit high sovereign debt to GDP ratios and short to medium-term maturity concentration of those liabilities. An analysis of loans and advances to customers by significant countries is provided on page 95.

Off-balance sheet exposures mainly relate to commitments to lend and the amount shown in the tables represents the maximum amount that could be drawn down by the counterparty.

Eurozone sovereigns and agencies

Concerns remained over the capacity of certain sovereign borrowers to refinance given the problems with market liquidity and the uncertainty surrounding support arrangements in the longer term.

In July 2011, the second Greek support package was formalised as EU leaders announced a 3-year programme that included 109bn (US$158bn) of new loans and a target of 37bn (US$54bn) in bondholder commitments. In addition, EFSF rules were changed to allow EFSF to buy bonds on the secondary market, finance the recapitalisation of banks and provide pre-emptive credit lines to eurozone countries under pressure in debt markets. This is intended to help contain the fears of contagion to other eurozone countries. HSBC in principle supports this programme, which is expected to trigger a selective default as predicted by two of the three major rating agencies.

In the second half of 2011, we expect that the ECB and eurozone countries will continue to focus on resolving intra-eurozone imbalances, rebuilding public finances, improving fiscal discipline, strengthening the banking system and managing cross-border risk. Concerns of contagion of the debt crisis in Greece, Ireland and Portugal to other peripheral countries, notably Italy and Spain, may persist, causing the risk premium on most European countries to remain high.

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Interim Management Report (continued)

At 30 June 2011, our exposure to the sovereign and agency debt of Greece, Ireland, Italy, Portugal and Spain was US$8.2bn. Of the total financial investments available for sale, approximately 43% matures within one year, 27% between one and three years and 30% in excess of three years.

During the first half of 2011, an impairment charge of US$105m was recognised in respect of Greek sovereign and agency exposures classified as available for sale, reflecting the further deterioration in Greece s fiscal position and the recently announced support measures. The amount of the

impairment charge represented the cumulative fair value loss on these securities as at 30 June 2011, and does not necessarily represent the expectation of future cash losses. The impairment charge was recycled from the available-for-sale reserve to the income statement. Our sovereign exposures to Ireland, Portugal, Italy and Spain are not considered to be impaired at 30 June 2011 because, despite financial difficulties in these countries, the situation is not severe enough to conclude that loss events have occurred which will have an impact on the future cash flows of these countries sovereign securities.

Exposures to selected eurozone countries sovereigns and agencies

	Greece US$bn	Ireland US$bn	Italy US$bn	Portugal US$bn	Spain US$bn	Total US$bn
At 30 June 2011						
Cash and balances at central banks	**0.1**				**0.1**	**0.2**
Assets held at amortised cost			**0.1**			**0.1**
Financial investments available for sale[8]	**0.2**	**0.1**	**1.5**	**0.1**	**1.0**	**2.9**
cumulative impairment	**0.1**					**0.1**
Net trading assets[9]	**0.7**	**0.2**	**3.0**	**0.4**	**0.3**	**4.6**
Derivatives[10]	**0.1**	**0.1**			**0.2**	**0.4**
Total	**1.1**	**0.4**	**4.6**	**0.5**	**1.6**	**8.2**
Off-balance sheet exposures					**0.7**	**0.7**
CDS asset positions	**0.9**	**0.2**	**0.2**	**0.2**	**0.2**	**1.7**
CDS liability positions	**(0.7)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(1.5)**
CDS asset notionals	**2.1**	**0.9**	**4.6**	**1.1**	**2.5**	**11.2**
CDS liability notionals	**1.8**	**1.0**	**4.5**	**1.0**	**2.6**	**10.9**

Exposures to selected eurozone countries banks

	Greece US$bn	Ireland US$bn	Italy US$bn	Portugal US$bn	Spain US$bn	Total US$bn
At 30 June 2011						
Loans and advances	**0.1**	**0.7**	**1.9**	**0.3**	**0.8**	**3.8**
Financial investments held to maturity		**0.3**	**0.2**			**0.5**
Financial investments available for sale[8]		**0.1**	**1.0**	**0.2**	**0.6**	**1.9**
Net trading assets[9]		**0.8**	**0.4**	**0.1**	**1.6**	**2.9**
Derivatives[10]	**0.3**	**0.3**	**0.1**		**0.5**	**1.2**
Total	**0.4**	**2.2**	**3.6**	**0.6**	**3.5**	**10.3**
Off-balance sheet exposures	**0.2**		**0.4**			**0.6**
CDS asset positions		**0.1**	**0.2**	**0.1**	**0.1**	**0.5**
CDS liability positions		**(0.1)**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.5)**
CDS asset notionals		**0.3**	**4.3**	**0.7**	**1.5**	**6.8**
CDS liability notionals		**0.3**	**4.0**	**0.9**	**2.0**	**7.2**

For footnote, see page 146.

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Interim Management Report (continued)

Eurozone banks

The banking sector in the eurozone remained under stress, mainly as a result of governments having to finance large budget deficits, weaknesses in property markets and slow credit growth. The size of the financial sector s exposure to sovereign debt in some eurozone countries rendered the re-capitalisation of European banks critical.

Concerns about the size and quality of eurozone banks exposure to weaker eurozone countries were entwined with concerns about their ability to obtain funding. It is estimated that European banks share over three quarters of the banks public and private sector debt in Greece, Ireland, Portugal, Italy and Spain, with regional and local banks in the eurozone considered to be more vulnerable than the diversified global banks. The second Greek rescue package announced in July 2011 involves the private sector sharing some economic loss. This is likely to put a strain on the banks with significant holdings of Greek bonds. The details of the plan, level of take-up and application will become clear in the second half of the year.

We expect that the pace of reforms outlined by various policymakers will gather speed in the second half of 2011, most notably the Basel III proposals. These regulations will require banks to hold more capital and a higher quality of capital and implement new liquidity rules, and are likely to result in a rise in the cost of funding and put pressure on credit pricing. The European Banking Authority published the results of this year s stress test on 15 July 2011. We successfully passed these tests with a core tier 1 ratio of 8.5% under the modelled adverse scenario, exceeding the post-stress minimum core tier 1 capital requirement of 5% used in this exercise.

Our overall exposure within the eurozone is largely to the banks in stronger countries. We continue to closely monitor and manage eurozone bank exposures in the weaker countries, and are cautious in lending to this sector. We regularly update our assessment of higher-risk eurozone banks and adjust our risk appetite accordingly. We also, where possible, seek to play a positive role in maintaining credit and liquidity supply. We have not recognised any impairment in respect of the exposures outlined above.

Exposures to selected eurozone countries other financial institutions and corporates

	Greece US$bn	Ireland US$bn	Italy US$bn	Portugal US$bn	Spain US$bn	Total US$bn
At 30 June 2011						
Loans and advances	3.5	2.4	1.1	0.1	5.4	12.5
gross	3.6	2.4	1.1	0.1	5.5	12.7
impairment allowances	(0.1)				(0.1)	(0.2)
Financial investments available for sale[8]			0.3	0.1	0.2	0.6
Net trading assets[9]					0.1	0.1
Derivatives[10]					0.2	0.2
Total	3.5	2.4	1.4	0.2	5.9	13.4

Off-balance sheet exposures	**2.1**	**0.1**	**1.0**		**0.2**	**3.4**
CDS asset positions		**0.1**		**0.1**		**0.2**
CDS liability positions				**(0.1)**		**(0.1)**
CDS asset notionals	**0.3**	**0.7**	**2.8**	**0.6**	**1.1**	**5.5**
CDS liability notionals	**0.3**	**0.3**	**3.8**	**0.9**	**1.5**	**6.8**

For footnotes, see page 146.

Other financial institutions and other corporates

The credit quality of the other financial institutions and other corporates portfolios remains strong with no significant impairments recognised in respect of these portfolios. The portfolios largely comprise large multinational corporates and other financial institutions with significant operations outside these countries that mitigate the risk. At 30 June 2011, our exposure to Greek shipping companies amounted to US$1.8bn. We believe the industry is less sensitive to the Greek economy as it is mainly dependent on international trade.

Personal lending

Our retail activities within these countries are limited, with our only significant exposures in Greece which amounted to US$1.2bn. Substantially all of this exposure is in the form of residential mortgage lending where the level of delinquencies is low.

US budget deficit

In the US, the large budget deficit, growing government indebtedness and continued failure to reach agreement on raising the Federal debt ceiling have resulted in increased scrutiny during the first half of 2011, to the extent that two major rating agencies placed their US sovereign debt rating on negative watch. While the need to build a political consensus around the interplay of budget discipline and an increase in the current sovereign debt ceiling has been the immediate concern, there is an underlying risk that lower growth, fiscal challenges and a general lack of political consensus will result in a deterioration in the US credit standing over the longer term.

While the potential effects of a US downgrade are broad and impossible to accurately predict, they could include a widening of sovereign and corporate credit spreads, devaluation of the US dollar and a general market move away from riskier assets.

We are monitoring events closely and have stress-tested our capital position for potential scenarios.

Elevated risk of overheating in emerging markets

Market concerns emerged during the first half of 2011 about the overheating of certain emerging market countries, mainly due to the inflationary pressures, growth rates, risk of asset bubbles and large potentially volatile capital inflows they are experiencing. The policy makers in countries including mainland China, India and Brazil have taken steps to address these issues including increasing interest rates, restricting capital flows and raising reserve requirements. We regularly perform economic analyses and closely monitor our exposures to these countries.

Middle East and North Africa

Although significant unrest and political change were witnessed in the Middle East and North Africa in the first half of 2011, the majority of the Group s exposures in the region were concentrated in our associate investment in Saudi Arabia and in the UAE, where the respective political landscapes remained stable and economic growth continued to recover. In the remaining countries in which we have a presence and there was unrest or political change (or which exhibited similar socio-economic, political and demographic profiles to countries experiencing unrest), we continued to carefully monitor and respond to developments while assisting our customers in managing their own risks in the volatile environment.

We also continued to work closely with Dubai World and the various entities related to the Government of Dubai to address their prevailing issues. In March 2011, Dubai World signed a final

deal with HSBC and other creditors restructuring US$25bn of its debt. The arrangement extends loan maturities for five to eight years at discounted rates, allowing Dubai World to sell off its non-core assets while focusing on its core earnings.

Commercial real estate

Our exposure to the commercial real estate sector is concentrated in Hong Kong, the UK and North America. In Hong Kong, the economy continued to grow and the market remained relatively buoyant during the first half of 2011, characterised by continuing demand and credit appetite. While the markets in the UK and North America have been relatively stable, this is in part supported by the continued low levels of interest rates.

On a constant currency basis, the aggregate of our commercial real estate and other property-related lending of US$110bn at 30 June 2011 was in line with our exposure at 31 December 2010 and represented 10% of total loans and advances to customers. In the first half of 2011, credit quality across this sector was generally stable but there remains risk of stress in certain markets.

Across our portfolios, credit risk is mitigated by long-standing and conservative policies on asset origination which focus on relationships with long-term customers and limited initial leverage. We also set and monitor sector risk appetite limits for the sector at Group and regional levels to detect and prevent higher risk concentrations. While individual regions may differ with regard to local market regulatory and legal structures and real estate market characteristics, typically origination loan-to-value ratios would be less than 65% across the Group.

Personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Given the diverse nature of the markets in which we operate, the range is not standard across all countries but is tailored to meet the demands of individual markets while using appropriate distribution channels and, wherever possible, global IT platforms.

Personal lending includes advances to customers for asset purchases, such as residential property and motor vehicles, where the loans are typically secured by the assets being acquired. We also offer loans secured on existing assets, such as first and second liens on residential property; unsecured lending products such as overdrafts, credit cards and payroll loans; and debt consolidation loans which may be secured or unsecured.

In the first half of 2011, credit quality in our personal lending portfolios improved, reflecting the continued recovery of economic conditions in most markets. Delinquency levels and loan impairment charges reduced as customer repayments remained strong, lending balances in the US run-off portfolios continued to decline and some higher-risk portfolios in Latin America, Rest of Asia-Pacific and the Middle East and North Africa were managed down.

The commentary that follows is on an underlying basis.

At 30 June 2011, total personal lending was US$439bn, slightly higher than at 31 December 2010 as growth in the UK and Hong Kong was partly offset by the continued planned decline in personal lending balances in the US. Within our RBWM business, total loan impairment charges and other credit risk provisions of US$4.3bn were 34% lower than in the first half of 2010 with the most significant fall in the US reflecting the reduction in balances and improved delinquency rates.

Total personal lending in the UK increased by 3% from 31 December 2010 to US$136bn. The increase was mainly due to growth in mortgage balances following the success of marketing campaigns and high levels of customer retention. (UK mortgage lending is discussed in greater detail on page 104). This was partly offset by a 3% fall in other personal lending balances, reflecting a

reduction in unsecured lending products, specifically the credit cards portfolio.

In Hong Kong, total personal lending grew by 8% to US$62bn, mainly due to growth in residential mortgage lending as the property market in the region remained strong, and as a result of our leadership in new mortgage business. Personal lending balances in Rest of Asia-Pacific also reflected a strong property sector with residential mortgage lending growth of 8%, most notably in Singapore and Australia.

Total personal lending balances in the US at 30 June 2011 were US$102bn, a decrease of 7% compared with the end of 2010. The decline reflected lower balances in our Card and Retail Services portfolio due to fewer active accounts, an increased focus by customers on reducing outstanding credit card debt and seasonal improvements in our collection activities as our customers used tax refunds to make repayments. Residential mortgage lending balances in the US continued to fall reflecting the run-off of our Consumer Lending and Mortgage Services portfolios. Based on current experience, we expect these portfolio balances to decline to between 40% and 50% of the 31 December 2010 balance.

For an analysis of loan impairment allowances and impaired loans, see page 115.

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Interim Management Report (continued)

Total personal lending

	UK US$m	Rest of Europe US$m	US[11] US$m	Rest of North America US$m	Other regions[12] US$m	Total US$m
At 30 June 2011						
Residential mortgages	**110,768**	**9,225**	**55,118**	**21,572**	**85,408**	**282,091**
Other personal lending	**25,666**	**26,724**	**46,396**	**8,590**	**49,883**	**157,259**
vehicle finance		**29**	**60**	**38**	**5,918**	**6,045**
credit cards	**11,122**	**2,007**	**30,670**	**1,282**	**14,048**	**59,129**
second lien mortgages	**795**	**1**	**8,509**	**553**	**288**	**10,146**
other	**13,749**	**24,687**	**7,157**	**6,717**	**29,629**	**81,939**
Total personal lending	**136,434**	**35,949**	**101,514**	**30,162**	**135,291**	**439,350**
Impairment allowances on personal lending						
Residential mortgages	**(336)**	**(61)**	**(3,980)**	**(24)**	**(323)**	**(4,724)**
Other personal lending	**(920)**	**(475)**	**(3,299)**	**(131)**	**(1,681)**	**(6,506)**
vehicle finance		**(4)**			**(233)**	**(237)**
credit cards	**(237)**	**(220)**	**(1,670)**	**(35)**	**(466)**	**(2,628)**
second lien mortgages	**(51)**		**(697)**	**(12)**		**(760)**
other	**(632)**	**(251)**	**(932)**	**(84)**	**(982)**	**(2,881)**
Total	**(1,256)**	**(536)**	**(7,279)**	**(155)**	**(2,004)**	**(11,230)**
as a percentage of total personal lending	**0.9%**	**1.5%**	**7.2%**	**0.5%**	**1.5%**	**2.6%**
At 30 June 2010						
Residential mortgages	95,525	7,960	61,339	20,472	67,552	252,848
Other personal lending	25,568	21,748	58,731	8,327	42,830	157,204
vehicle finance		52	4,232	71	5,796	10,151
credit cards	11,066	1,777	33,844	1,304	12,442	60,433
second lien mortgages	895	1	10,373	594	467	12,330
other	13,607	19,918	10,282	6,358	24,125	74,290
Total personal lending	121,093	29,708	120,070	28,799	110,382	410,052

Impairment allowances on personal lending						
Residential mortgages	(226)	(47)	(3,695)	(25)	(242)	(4,235)
Other personal lending	(1,241)	(538)	(5,970)	(175)	(1,850)	(9,774)
vehicle finance		(6)	(174)	(1)	(302)	(483)
credit cards	(492)	(250)	(2,948)	(56)	(618)	(4,364)
second lien mortgages	(68)		(1,212)	(25)		(1,305)
other	(681)	(282)	(1,636)	(93)	(930)	(3,622)
Total	(1,467)	(585)	(9,665)	(200)	(2,092)	(14,009)
as a percentage of total personal lending	1.2%	2.0%	8.0%	0.7%	1.9%	3.4%
At 31 December 2010						
Residential mortgages	103,037	8,581	57,630	21,212	78,221	268,681
Other personal lending	25,636	24,463	51,686	8,589	46,265	156,639
vehicle finance		35	72	55	5,886	6,048
credit cards	11,612	1,916	33,744	1,334	13,778	62,384
second lien mortgages	846	2	9,322	578	422	11,170
other	13,178	22,510	8,548	6,622	26,179	77,037
Total personal lending	128,673	33,044	109,316	29,801	124,486	425,320
Impairment allowances on personal lending						
Residential mortgages	(275)	(58)	(3,592)	(25)	(297)	(4,247)
Other personal lending	(1,348)	(467)	(4,436)	(179)	(1,616)	(8,046)
vehicle finance		(5)			(244)	(249)
credit cards	(506)	(216)	(2,256)	(62)	(483)	(3,523)
second lien mortgages	(58)		(889)	(19)		(966)
other	(784)	(246)	(1,291)	(98)	(889)	(3,308)
Total	(1,623)	(525)	(8,028)	(204)	(1,913)	(12,293)
as a percentage of total personal lending	1.3%	1.6%	7.3%	0.7%	1.5%	2.9%

For footnotes, see page 146.

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Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, interest-only, affordability and offset mortgages. The commentary that follows is on an underlying basis.

US mortgage lending

US mortgage lending balances, comprising residential and second lien lending, were US$64bn at 30 June 2011, a decline of 5% compared with the end of 2010. Overall, US mortgage lending represented 14% of the Group s total personal lending compared with 16% at the 31 December 2010.

Mortgage lending in HSBC Finance was US$47bn at 30 June 2011, a decline of 7% from 31 December 2010 due to the continued run-off in the Consumer Lending and Mortgage Services portfolios and the seasonal improvement in collections as some customers used tax refunds to make repayments. The rate at which balances declined slowed in the first half of 2011, as we continued to be affected by the lack of refinancing opportunities available to our customers, improvements in the flow of balances into late stage delinquency and delays in the foreclosure processes. See page 106 for a breakdown of mortgage lending in HSBC Finance.

In HSBC Bank USA, mortgage lending balances were US$16bn at 30 June 2011, an increase of 2% compared with the end of 2010. We continued to sell the majority of new originations to the secondary market as a means of managing our interest rate risk and improving structural liquidity. Additions to our portfolio primarily comprise Premier relationship products.

Following an industry-wide examination into foreclosure practices in 2010, we temporarily suspended foreclosures while we worked to implement improvements in our processes. We worked closely with the regulators to address these issues quickly and effectively, and made several improvements to enhance our processes. We have now resumed foreclosures on a limited basis in certain states, but it will be a number of months before we fully resume foreclosures in all states as we need to ensure that all necessary enhancements have been satisfactorily implemented.

The effects of the industry-wide slowdown in foreclosures remains highly uncertain, particularly in the long-term, as servicers begin to increase foreclosure activity and sell properties in large numbers, which may result in a significant oversupply. This may lead to a substantial increase in losses on foreclosed properties.

A discussion of credit trends in the US mortgage lending portfolio and the steps taken to mitigate risk is provided in US personal lending credit quality on page 107.

Mortgage lending rest of the world

Mortgage lending in the UK was US$112bn at 30 June 2011, the Group s largest concentration of this exposure. The balance was 4% higher than at the end of 2010.

Our UK mortgage portfolio remained of high quality with an average loan-to-value ratio for new business of 53%. We restricted lending to purchase residential property for the purpose of rental, and almost all new business was originated through our own salesforce, with the self-certification of income not permitted. The majority of mortgage lending was to existing customers holding current or savings accounts with HSBC.

Loan impairment charges and delinquency levels in our UK mortgage book remained at low levels, reflecting the economic environment and low interest rates which helped to make mortgage repayments more affordable for customers, some of whom were actively reducing their outstanding debt levels.

In Hong Kong, mortgage lending was US$45bn, an increase of 7% compared with the end of 2010 as the local property market remained strong. The continued strong growth in the Hong Kong property market led the HKMA to reduce the maximum loan-to-value ratios for new loans in both the second half of 2010 and in June 2011. The quality of our mortgage book was good with an average loan-to-value ratio of 51% on new mortgage sales.

The following table shows the levels of mortgage lending products in the various portfolios in the US, the UK and the rest of the HSBC Group.

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Interim Management Report (continued)

Mortgage lending products

	UK	Rest of Europe	US[11]	Rest of North America	Other regions[12]	Total
	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2011						
Residential mortgages	**110,768**	**9,225**	**55,118**	**21,572**	**85,408**	**282,091**
Second lien mortgages	**795**	**1**	**8,509**	**553**	**288**	**10,146**
Total mortgage lending	**111,563**	**9,226**	**63,627**	**22,125**	**85,696**	**292,237**
Second lien as percentage of total mortgage lending	**0.7%**		**13.4%**	**2.5%**	**0.3%**	**3.5%**
Impairment allowances on mortgage lending	**(387)**	**(61)**	**(4,677)**	**(36)**	**(323)**	**(5,484)**
Residential mortgages	**(336)**	**(61)**	**(3,980)**	**(24)**	**(323)**	**(4,724)**
Second lien mortgages	**(51)**		**(697)**	**(12)**		**(760)**
Interest-only (including endowment) mortgages	**45,730**	**54**		**810**	**1,362**	**47,956**
Affordability mortgages, including ARMs	**692**	**572**	**17,789**	**276**	**7,816**	**27,145**
Other	**118**				**195**	**313**
Total interest-only and affordability mortgages	**46,540**	**626**	**17,789**	**1,086**	**9,373**	**75,414**
as a percentage of total mortgage lending	**41.7%**	**6.8%**	**28.0%**	**4.9%**	**10.9%**	**25.8%**
Negative equity mortgages[13]	**2,365**		**16,368**	**86**	**317**	**19,136**
Other loan-to-value ratios greater than 90%[14]	**5,925**	**265**	**9,168**	**1,648**	**1,193**	**18,199**
Total negative equity and other mortgages	**8,290**	**265**	**25,536**	**1,734**	**1,510**	**37,335**
as a percentage of total mortgage lending	**7.4%**	**2.9%**	**40.1%**	**7.8%**	**1.8%**	**12.8%**
At 30 June 2010						
Residential mortgages	95,525	7,960	61,339	20,472	67,552	252,848
Second lien mortgages	895	1	10,373	594	467	12,330
Total mortgage lending	96,420	7,961	71,712	21,066	68,019	265,178

Second lien as percentage of total mortgage lending	0.9%		14.5%	2.8%	0.7%	4.6%
Impairment allowances on mortgage lending	(294)	(47)	(4,907)	(50)	(242)	(5,540)
Residential mortgages	(226)	(47)	(3,695)	(25)	(242)	(4,235)
Second lien mortgages	(68)		(1,212)	(25)		(1,305)
Interest-only (including endowment) mortgages	43,001	42		1,028	1,090	45,161
Affordability mortgages, including ARMs	1,666	1,139	19,556	243	5,943	28,547
Other	125				143	268
Total interest-only and affordability mortgages	44,792	1,181	19,556	1,271	7,176	73,976
as a percentage of total mortgage lending	46.5%	14.8%	27.3%	6.0%	10.5%	27.9%
Negative equity mortgages[13]	3,263		17,783	127	496	21,669
Other loan-to-value ratios greater than 90%[14]	6,618		11,418	1,785	1,367	21,188
Total negative equity and other mortgages	9,881		29,201	1,912	1,863	42,857
as a percentage of total mortgage lending	10.2%		40.7%	9.1%	2.7%	16.2%

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	UK US$m	Rest of Europe US$m	US[11] US$m	Rest of North America US$m	Other regions[12] US$m	Total US$m
At 31 December 2010						
Residential mortgages	103,037	8,581	57,630	21,212	78,221	268,681
Second lien mortgages	846	2	9,322	578	422	11,170
Total mortgage lending	103,883	8,583	66,952	21,790	78,643	279,851
Second lien as percentage of total mortgage lending	0.8%		13.9%	2.7%	0.5%	4.0%
Impairment allowances on mortgage lending	(333)	(58)	(4,481)	(44)	(297)	(5,213)
Residential mortgages	(275)	(58)	(3,592)	(25)	(297)	(4,247)
Second lien mortgages	(58)		(889)	(19)		(966)
Interest-only (including endowment) mortgages	45,039	51		908	1,282	47,280
Affordability mortgages, including ARMs	1,089	326	18,494	274	7,855	28,038
Other	102				183	285
Total interest-only and affordability mortgages	46,230	377	18,494	1,182	9,320	75,603
as a percentage of total mortgage lending	44.5%	4.4%	27.6%	5.4%	11.9%	27.0%
Negative equity mortgages[13]	2,436		15,199	103	291	18,029
Other loan-to-value ratios greater than 90%[14]	5,802	263	10,460	1,698	1,348	19,571
Total negative equity and other mortgages	8,238	263	25,659	1,801	1,639	37,600
as a percentage of total mortgage lending	7.9%	3.1%	38.3%	8.3%	2.1%	13.4%

For footnotes, see page 146.

HSBC Finance held approximately US$47bn of residential mortgage and second lien loans and advances to personal customers secured on real estate at 30 June 2011, 11% of the Group s gross loans and advances to personal customers. For a breakdown of these balances by portfolio, see below.

HSBC Finance US mortgage lending[15]

	At 30 June 2011			At 30 June 2010			At 31 December 2010		
	Mortgage Services US$m	**Consumer Lending US$m**	**Other mortgage lending US$m**	Mortgage Services US$m	Consumer Lending US$m	Other mortgage lending US$m	Mortgage Services US$m	Consumer Lending US$m	Other mortgage lending US$m
Fixed rate	**10,768**	**29,706**	**80**	12,436	34,523	97	11,447	31,759	87
Other	**5,325**	**1,391**	**2**	7,084	1,653	5	6,122	1,517	2
Adjustable-rate	**4,445**	**1,391**	**2**	5,799	1,653	5	5,042	1,517	2
Interest-only (affordability mortgages)[16]	**880**			1,285			1,080		
	16,093	**31,097**	**82**	19,520	36,176	102	17,569	33,276	89
First lien	**14,123**	**28,092**	**61**	16,898	32,296	77	15,300	29,950	66
Second lien	**1,970**	**3,005**	**21**	2,622	3,880	25	2,269	3,326	23
	16,093	**31,097**	**82**	19,520	36,176	102	17,569	33,276	89
Stated income[17]	**2,571**			3,360			2,905		
Negative equity mortgages[13]	**5,326**	**9,770**		6,096	10,413		5,161	8,910	
Impairment allowances	**1,783**	**2,721**		1,931	2,695	1	1,837	2,474	
as a percentage of total mortgage lending	**11.1%**	**8.8%**		9.9%	7.4%	1.0%	10.5%	7.4%	

For footnotes, see page 146.

Interim Management Report (continued)

US personal lending

Credit quality

During the first half of 2011, economic conditions in the US improved marginally, although the pace of the recovery in the second quarter slowed as a result of higher energy costs, supply disruptions in the manufacturing sector and a significant reduction in the pace of job creation. These factors undermined consumer confidence, which continued to be low by historical standards. In addition, uncertainty remained in the housing market resulting in continuing house price declines in many states.

Unemployment rates, which have been a major factor in the deterioration of credit quality and continue to affect our allowance for loan impairments, improved but remained high at 9.2% in June 2011, down from 9.4% in December 2010 and some 40 basis points higher than in March 2011. Unemployment rates were at or above the US national average in 18 states and were at or above 10% in 7 states, including California and Florida where we have lending balances in excess of 5% of HSBC Finance s total loan balance.

An improvement in the US economy depends on a sustained recovery in the housing market, a fall in unemployment rates, the stabilisation of energy prices and improved consumer confidence. Any further weakening in these factors may adversely affect consumer payment patterns and credit quality.

Mortgage lending

In the first half of 2011, we further reduced our mortgage exposure in the US as balances continued to run-off in our Consumer Lending and Mortgage Services portfolios, as discussed on page 104. At 30 June 2011, residential mortgage lending balances were US$55bn, a decline of 4% compared with the end of 2010.

Real estate markets in the majority of the US have been, and will continue to be, affected by stagnation or declines in property values. As a result, loan-to-value ratios for our real estate secured loans have generally deteriorated since origination. At 30 June 2011, loans in negative equity were US$16bn, compared with US$15bn at the end of 2010.

In both our Consumer Lending and Mortgage Services portfolios, despite continued high unemployment levels, two months or more delinquent balances declined compared with the end of 2010 as lending balances continued to run-off and economic conditions continued to recover. We also experienced

seasonal improvements in our collections as some of our customers used tax refunds to repay outstanding debt. The reduction was partly offset by our suspension of foreclosure activities, which resulted in a slowing in the rate at which lending balances were transferred to foreclosed. As a result of these factors, in our Consumer Lending portfolio two months or more delinquency rates improved from 16.2% at 31 December 2010 to 15.7%, while in our Mortgage Services portfolio they improved from 18.0% to 17.2%.

At HSBC Bank USA, two months or more delinquency rates improved from 7.9% to 7.6% at 31 December 2010, reflecting the improved credit quality, partly offset by the effects of higher levels of unemployment, the continued weakness in the housing market and the suspension of foreclosure activities, as discussed above.

Second lien mortgage loans have a risk profile characterised by higher loan-to-value ratios because in the majority of cases the loans were taken out to complete the refinancing of properties. Loss experience on default of second lien loans has typically approached 100% of the amount outstanding, as any equity in the property is initially applied to the first lien loan. In the US, second lien mortgage balances declined by 9% to US$9bn, representing 13% of the overall US mortgage lending portfolio. Two months or more delinquency rates improved from 9.1% at 31 December 2010 to 7.6% at 30 June 2011.

As previously reported, beginning in late 2010 we temporarily suspended all new foreclosure proceedings and in early 2011 ceased foreclosures where judgement had yet to be entered while we enhanced our processes. As a result, and together with an increase in sales, the number of foreclosed properties at HSBC Finance at 30 June 2011 decreased compared with the end of December 2010. We expect the number of foreclosed properties added to the inventory to remain low through the remainder of 2011 as the effects of the foreclosure suspension continue to be reflected in our reported numbers.

The average total loss on foreclosed properties increased slightly compared with the end of 2010 as a result of the continued declines in house prices, partly attributable to the high levels of foreclosed properties. The average loss on sale of foreclosed properties decreased compared with the end of 2010, reflecting lower sales of properties located in states that have experienced the greatest deterioration in house prices in the past few years.

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HSBC Finance: geographical concentration of US lending[15,18]

	Mortgage lending as a percentage of:		Other personal lending as a percentage of:		
	total lending	total mortgage lending	total lending	total other personal lending	Percentage of total lending
	%	%	%	%	%
California	6	10	4	10	10
New York	4	7	3	7	7
Florida	3	6	2	5	6
Texas	2	4	3	7	5
Pennsylvania	3	6	2	5	6
Ohio	3	6	2	5	5

For footnotes, see page 146.

HSBC Finance: foreclosed properties in the US

	Half year to 30 June	Quarter ended			
		30 June	31 March	31 December	30 September
	2011	2011	2011	2010	2010
Number of foreclosed properties at end of period	6,982	6,982	10,204	10,940	9,798
Number of properties added to foreclosed inventory in the half year/quarter	8,071	2,548	5,523	5,763	5,413
Average loss on sale of foreclosed properties[19]	14%	13%	15%	15%	10%
Average total loss on foreclosed properties[20]	55%	55%	55%	54%	52%
Average time to sell foreclosed properties (days)	168	169	167	165	158

For footnotes, see page 146.

Credit cards

In our US credit card business, which comprises both general and private label cards, lending balances declined by 9% from the end of 2010 to US$31bn despite consumer spending remaining relatively strong. The fall reflected fewer active accounts, an increase in focus by customers on reducing outstanding debt, seasonal improvements in our collections as some customers used tax refunds to repay credit card debt, lower balances in certain segments of the portfolio where we no longer originate new accounts and, in the private label portfolio, the exit of certain merchant relationships. Credit quality continued to improve in the first half of 2011, reflecting improved customer payment patterns which led to a continued fall in delinquency rates. In our credit card portfolio, two months or more delinquency rates declined to 3.3% at 30 June 2011, while in our private label cards portfolio, two months or more delinquency rates decreased to 2.4% at 30 June 2011.

Other personal lending

Unsecured personal lending balances in the US continued to fall, largely due to run-off. Two months or more delinquency rates declined reflecting the run-off and seasonal improvement in collections.

Loan delinquency

The table overleaf sets out the trends in two months and over contractual delinquencies.

Forbearance strategies and renegotiated loans

For a description of current policies and practices regarding forbearance and renegotiated loans, see page 150. There were no significant changes to them in the period.

Renegotiated loans that would otherwise be past due or impaired totalled US$33bn at 30 June 2011 (30 June 2010: US$36bn; 31 December 2010: US$35bn). The largest concentration was in the US and amounted to US$26bn or 78% (30 June 2010: US$31bn or 85%; 31 December 2010: US$28bn or 82%) of our total renegotiated loans, substantially all of which were held by HSBC Finance.

The second largest concentration was in Latin America and amounted to US$3bn (30 June 2010: US$1bn; 31 December 2010: US$2bn), constituting 10% of total renegotiated loans (30 June 2010: 3%; 31 December 2010: 5%). Although, Europe and the UK in particular represented the single largest lending portfolio, forbearance activities remained limited and renegotiated loans in the UK totalled only US$2bn (30 June 2010: US$2bn; 31 December 2010: US$2bn), reflecting the quality of the portfolios including the residential mortgage book.

Similarly, the continued economic growth in Hong Kong and Rest of Asia-Pacific meant that forbearance activity remained low and renegotiated loans totalled only US$0.4bn and US$0.5bn, respectively (30 June 2010: US$0.4bn and US$0.5bn; 31 December 2010: US$0.3bn and US$0.5bn).

HSBC Finance loan modifications and re-ageing

HSBC Finance maintains customer account management policies and practices, including account modification and re-age programmes. Modification occurs when the terms of a loan are changed either temporarily or permanently. Modification may also lead to a re-ageing of an account, although it may be re-aged without any modification to the original terms and conditions of the loan. In the first half of 2011, HSBC Finance modified 18,700 loans in Consumer Lending and Mortgage Services through its foreclosure avoidance and account modification programmes, with an aggregate balance of US$2.6bn.

At 30 June 2011, the total balance outstanding on HSBC Finance real estate secured accounts which had been re-aged or modified was US$25.4bn, compared with US$26.7bn at the end of 2010. US$10.4bn related to loans that had been re-aged without modification to the terms (30 June 2010: US$10.7bn; 31 December 2010: US$10.6bn), and US$13.3bn related to loans whose terms had been modified and re-aged (30 June 2010: US$14.6bn; 31 December 2010: US$13.9bn). These amounts are included in the renegotiated loans balance disclosed above. In addition, US$1.7bn of loans had been modified but not re-aged (30 June 2010: US$3.1bn; 31 December 2010: US$2.2bn) and as such did not meet the definition of a renegotiated loan as the impairment or past-due status of the loans did not change on modification. At 30 June 2011, 66% of modified or re-aged real estate loans remained up-to-date or past due less than 30 days (30 June 2010: 63%; 31 December 2010: 62%) and 24% were two or more months delinquent (30 June 2010: 25%; 31 December 2010: 26%).

Trends in two months and over contractual delinquency in the US

	At 30 Jun 2011 US$m	At 31 Dec 2010 US$m	At 30 Jun 2010 US$m
In Personal Lending in the US			
Residential mortgages	**7,864**	8,632	8,591
Second lien mortgage lending	**646**	847	930
Vehicle finance			152
Credit card	**628**	957	1,201
Private label	**285**	404	478
Personal non-credit card	**517**	811	987
Total	**9,940**	11,651	12,339

	%[21]	%[21]	%[21]
Residential mortgages	**14.28**	15.00	14.02
Second lien mortgage lending	**7.60**	9.10	8.98
Vehicle finance			3.59
Credit card	**3.33**	4.69	5.65
Private label	**2.41**	3.03	3.80
Personal non-credit card	**7.22**	9.49	9.60
Total	**9.80**	10.67	10.28

	At 30 Jun 2011 US$m	At 31 Dec 2010 US$m	At 30 Jun 2010 US$m
In Mortgage Services and Consumer Lending[22]			
Mortgage Services:	**2,596**	3,002	3,067
first lien	**2,432**	2,757	2,788
second lien	**164**	245	279
Consumer Lending:	**4,734**	5,284	5,278
first lien	**4,420**	4,861	4,795
second lien	**314**	423	483
	%[21]	%[21]	%[21]
Mortgage Services:			
first lien	**17.22**	18.02	16.50
second lien	**8.32**	10.80	10.63
total	**16.13**	17.09	15.71
Consumer Lending:			
first lien	**15.73**	16.23	14.85
second lien	**10.46**	12.72	12.44
total	**15.22**	15.88	14.59

For footnotes, see page 146.

Credit quality of financial instruments

The five classifications describing the credit quality of HSBC s lending, debt securities portfolios and derivatives are set out in the Appendix to Risk on page 150 and defined on page 114 of the *Annual Report and Accounts 2010.* Additional credit quality information in respect of our consolidated holdings of ABSs is provided on page 121.

For the purpose of the following disclosure, retail loans which are past due up to 89 days and are not otherwise classified as EL9 or EL10 are not disclosed within the EL grade to which they relate, but are separately classified as past due but not impaired.

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Distribution of financial instruments by credit quality

	Neither past due nor impaired				Past due		Impair-	
	Strong	Good	Satisfac-tory	Sub-standard	but not impaired	Impaired	ment allowances[25]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2011								
Cash and balances at central banks	66,860	999	229	130				68,218
Items in the course of collection from other banks	14,107	658	291	2				15,058
Hong Kong Government certificates of indebtedness	19,745							19,745
Trading assets[26]	318,456	51,432	62,735	5,609				438,232
treasury and other eligible bills	21,488	1,197	1,214					23,899
debt securities	173,233	10,726	22,215	2,631				208,805
loans and advances:								
to banks	73,490	20,773	4,347	1,524				100,134
to customers	50,245	18,736	34,959	1,454				105,394
Financial assets designated at fair value[26]	7,856	5,356	6,700	65				19,977
treasury and other eligible bills	207							207
debt securities	6,660	5,085	6,686	65				18,496
loans and advances:								
to banks	70	271	14					355
to customers	919							919
Derivatives[26]	211,625	34,718	11,096	3,233				260,672
Loans and advances held at amortised cost	692,926	306,987	193,916	33,765	29,052	26,179	(18,894)	1,263,931
to banks	182,273	35,168	7,666	785	116	197	(162)	226,043
to customers[27]	510,653	271,819	186,250	32,980	28,936	25,982	(18,732)	1,037,888
Financial investments	351,940	24,373	25,631	4,103		2,603		408,650
treasury and other similar bills	54,771	3,370	3,479	44				61,664
debt securities	297,169	21,003	22,152	4,059		2,603		346,986
Other assets	11,982	7,285	15,106	1,525	637	254		36,789
endorsements and acceptances	1,801	4,228	4,776	499	16	18		11,338
accrued income and other	10,181	3,057	10,330	1,026	621	236		25,451
Total financial instruments	1,695,497	431,808	315,704	48,432	29,689	29,036	(18,894)	2,531,272

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Interim Management Report (continued)

Distribution of financial instruments by credit quality (continued)

	Neither past due nor impaired				Past due		Impair-	
	Strong	Good	Satisfactory	Sub-standard	but not impaired	Impaired	ment allowances[25]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2010								
Cash and balances at central banks	67,466	1,899	1,910	301				71,576
Items in the course of collection from other banks	10,200	554	441					11,195
Hong Kong Government certificates of indebtedness	18,364							18,364
Trading assets[26]	278,887	52,634	43,105	1,814				376,440
treasury and other eligible bills	20,524	1,054	473	185				22,236
debt securities	173,483	7,709	12,539	659				194,390
loans and advances:								
to banks	50,641	21,567	4,960	266				77,434
to customers	34,239	22,304	25,133	704				82,380
Financial assets designated at fair value[26]	7,722	3,600	6,988	40				18,350
treasury and other eligible bills	215		34					249
debt securities	6,114	3,600	6,399	40				16,153
loans and advances:								
to banks	594		555					1,149
to customers	799							799
Derivatives[26]	196,558	70,831	18,587	2,303				288,279
Loans and advances held at amortised cost	585,784	234,005	188,792	40,386	34,749	28,115	(22,198)	1,089,633
to banks	142,135	40,911	12,064	983	140	228	(165)	196,296
to customers[27]	443,649	193,094	176,728	39,403	34,609	27,887	(22,033)	893,337
Financial investments	333,892	20,963	15,298	4,072		2,417		376,642
treasury and other similar bills	56,193	2,289	2,353	439		1		61,275
debt securities	277,699	18,674	12,945	3,633		2,416		315,367
Other assets	9,797	5,880	12,264	1,583	660	459		30,643
endorsements and acceptances	1,506	2,896	4,508	639	14	10		9,573
accrued income and other	8,291	2,984	7,756	944	646	449		21,070
Total financial instruments	1,508,670	390,366	287,385	50,499	35,409	30,991	(22,198)	2,281,122

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	Neither past due nor impaired				Past due		Impair-	
	Strong US$m	Good US$m	Satisfac-tory US$m	Sub-standard US$m	but not impaired US$m	Impaired US$m	ment allowances[25] US$m	Total US$m
At 31 December 2010								
Cash and balances at central banks	51,682	3,100	2,461	140				57,383
Items in the course of collection from other banks	5,631	101	340					6,072
Hong Kong Government certificates of indebtedness	19,057							19,057
Trading assets[26]	256,576	41,620	43,278	2,492				343,966
treasury and other eligible bills	23,663	1,000	957					25,620
debt securities	141,837	8,254	17,222	955				168,268
loans and advances:								
to banks	55,534	9,980	4,865	77				70,456
to customers	35,542	22,386	20,234	1,460				79,622
Financial assets designated at fair value[26]	8,377	4,640	6,536	40				19,593
treasury and other eligible bills	158		1					159
debt securities	7,310	4,368	6,530	40				18,248
loans and advances:								
to banks	38	272	5					315
to customers	871							871
Derivatives[26]	199,920	45,042	13,980	1,815				260,757
Loans and advances held at amortised cost	653,248	251,265	186,704	37,057	30,320	28,284	(20,241)	1,166,637
to banks	166,943	33,051	6,982	1,152	108	193	(158)	208,271
to customers[27]	486,305	218,214	179,722	35,905	30,212	28,091	(20,083)	958,366
Financial investments	345,265	23,253	17,168	4,479	16	2,591		392,772
treasury and other similar bills	52,423	2,702	1,882	115		7		57,129
debt securities	292,842	20,551	15,286	4,364	16	2,584		335,643
Other assets	9,752	6,067	12,212	1,510	513	317		30,371
endorsements and acceptances	2,074	3,305	4,227	493	9	8		10,116
accrued income and other	7,678	2,762	7,985	1,017	504	309		20,255
Total financial instruments	1,549,508	375,088	282,679	47,533	30,849	31,192	(20,241)	2,296,608

For footnotes, see page 146.

Financial instruments on which credit quality has been assessed increased by 10% to US$2,531bn in the first half of 2011, of which US$1,695bn or 67% was classified as strong . This percentage was in line with 31 December 2010. The proportion of financial instruments classified as good and satisfactory remained broadly stable at 17% and 12%, respectively. The proportion of sub-standard financial instruments was 2%.

Loans and advances held at amortised cost on which credit quality has been assessed increased by 8% to US$1,264bn. The increase in balances was mainly due to growth in corporate and commercial

lending, as economic conditions generally improved and trade flows increased. The proportion of balances classified as strong was broadly in line with the end of 2010 while the portion of balances classified as good increased from 22% to 24%.

Trading assets on which credit quality has been assessed grew by 27% to US$438bn from 31 December 2010. The rise reflected an increase in our holdings of debt securities, together with a rise in settlement accounts and higher reverse repo balances. The proportion of balances classified as strong declined from 75% to 73%.

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Past due but not impaired gross financial instruments

Examples of exposures past due but not impaired include overdue loans fully secured by cash collateral; mortgages that are individually assessed for impairment and that are in arrears more than

90 days, but where the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

Past due but not impaired gross loans and advances to customers and banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2011	**2,529**	**1,071**	**2,377**	**1,319**	**18,156**	**3,600**	**29,052**
At 30 June 2010	2,717	1,230	2,019	1,372	23,483	3,928	34,749
At 31 December 2010	2,518	1,158	2,092	1,351	20,227	2,974	30,320

Past due but not impaired gross loans and advances to customers and banks by industry sector

	At 30 June 2011 US$m	At 30 June 2010 US$m	At 31 December 2010 US$m
Banks	**116**	140	108
Customers	**28,936**	34,609	30,212
Personal	**23,435**	28,995	24,824
Corporate and commercial	**5,187**	5,451	5,292
Financial	**314**	163	96
	29,052	34,749	30,320

Ageing analysis of past due but not impaired gross financial instruments

	Up to 29 days US$m	30-59 days US$m	60-89 days US$m	90-179 days US$m	180 days and over US$m	Total US$m
At 30 June 2011						
Loans and advances held at amortised cost	**19,254**	**6,257**	**3,169**	**235**	**137**	**29,052**
to banks	**116**					**116**
to customers	**19,138**	**6,257**	**3,169**	**235**	**137**	**28,936**
Other assets	**317**	**166**	**72**	**30**	**52**	**637**
endorsements and acceptances	**13**	**1**			**2**	**16**
other	**304**	**165**	**72**	**30**	**50**	**621**
	19,571	**6,423**	**3,241**	**265**	**189**	**29,689**
At 30 June 2010						
Loans and advances held at amortised cost	22,627	8,058	3,682	238	144	34,749
to banks	140					140
to customers	22,487	8,058	3,682	238	144	34,609
Other assets	348	164	85	24	39	660
endorsements and acceptances	8	3	1	1	1	14
other	340	161	84	23	38	646
	22,975	8,222	3,767	262	183	35,409

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	Up to 29 days	30-59 days	60-89 days	90-179 days	180 days and over	Total
	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2010						
Loans and advances held at amortised cost	19,481	6,915	3,281	482	161	30,320
to banks	108					108
to customers	19,373	6,915	3,281	482	161	30,212
Financial investments						
debt securities	16					16
Other assets	262	123	57	26	45	513
endorsements and acceptances	7			1	1	9
other	255	123	57	25	44	504
	19,759	7,038	3,338	508	206	30,849

Impairment of loans and advances

Impaired loans and advances to customers and banks by industry sector

	Impaired loans and advances at 30 June 2011			Impaired loans and advances at 30 June 2010			Impaired loans and advances at 31 December 2010		
	Individually assessed	**Collectively assessed**	**Total**	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
	US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m	US$m	US$m
Banks	**197**		**197**	228		228	193		193
Customers	**14,806**	**11,176**	**25,982**	14,462	13,425	27,887	15,201	12,890	28,091

personal	**2,145**	**10,861**	**13,006**	1,877	13,119	14,996	2,121	12,592	14,713
corporate and commercial	**11,462**	**315**	**11,777**	11,663	305	11,968	11,964	298	12,262
financial	**1,199**		**1,199**	922	1	923	1,116		1,116
	15,003	**11,176**	**26,179**	14,690	13,425	28,115	15,394	12,890	28,284

Impairment allowances

The tables below analyse by geographical region the impairment allowances recognised for impaired

loans and advances that are either individually assessed or collectively assessed, and collective impairment allowances on loans and advances classified as not impaired.

Impairment allowances on loans and advances to customers by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2011							
Gross loans and advances							
Individually assessed impaired loans[28]	**8,923**	**489**	**1,081**	**1,896**	**1,553**	**864**	**14,806**
Collectively assessed[29]	**482,740**	**159,454**	**121,176**	**25,367**	**185,991**	**67,086**	**1,041,814**
impaired loans[28]	**1,279**	**21**	**127**	**299**	**7,793**	**1,657**	**11,176**
non-impaired loans[30]	**481,461**	**159,433**	**121,049**	**25,068**	**178,198**	**65,429**	**1,030,638**
TGLAC	**491,663**	**159,943**	**122,257**	**27,263**	**187,544**	**67,950**	**1,056,620**
Total impairment allowances	**5,332**	**573**	**828**	**1,569**	**8,282**	**2,148**	**18,732**
individually assessed	**3,607**	**297**	**518**	**1,098**	**384**	**339**	**6,243**
collectively assessed	**1,725**	**276**	**310**	**471**	**7,898**	**1,809**	**12,489**
Net loans and advances	**486,331**	**159,370**	**121,429**	**25,694**	**179,262**	**65,802**	**1,037,888**

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Interim Management Report (continued)

	Europe	Hong Kong	Rest of Asia-Pacific	MENA	North America	Latin America	Total
	%	%	%	%	%	%	%
Individually assessed allowances as a percentage of individually assessed impaired loans	**40.4**	**60.7**	**47.9**	**57.9**	**24.7**	**39.2**	**42.2**
Collectively assessed allowances as a percentage of collectively assessed loans and advances	**0.4**	**0.2**	**0.3**	**1.9**	**4.2**	**2.7**	**1.2**
Total allowances as a percentage of TGLAC	**1.1**	**0.4**	**0.7**	**5.8**	**4.4**	**3.2**	**1.8**
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2010							
Gross loans and advances							
Individually assessed impaired loans[28]	8,420	782	989	1,718	1,699	854	14,462
Collectively assessed[29]	404,641	114,024	91,539	23,263	217,349	50,092	900,908
impaired loans[28]	1,837	32	157	260	9,420	1,719	13,425
non-impaired loans[30]	402,804	113,992	91,382	23,003	207,929	48,373	887,483
TGLAC	413,061	114,806	92,528	24,981	219,048	50,946	915,370
Total impairment allowances	5,835	731	856	1,587	10,907	2,117	22,033
individually assessed	3,647	444	474	1,032	434	371	6,402
collectively assessed	2,188	287	382	555	10,473	1,746	15,631
Net loans and advances	407,226	114,075	91,672	23,394	208,141	48,829	893,337
	%	%	%	%	%	%	%
Individually assessed allowances as a percentage of individually assessed impaired loans	43.3	56.8	47.9	60.1	25.5	43.4	44.3
Collectively assessed allowances as a percentage of collectively assessed loans and advances	0.5	0.3	0.4	2.4	4.8	3.5	1.7
Total allowances as a percentage of TGLAC	1.4	0.6	0.9	6.4	5.0	4.2	2.4

	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2010							
Gross loans and advances							
Individually assessed impaired loans[28]	8,831	637	1,185	2,137	1,632	779	15,201
Collectively assessed[29]	432,631	140,683	108,505	24,141	198,070	59,218	963,248
impaired loans[28]	1,726	23	139	296	9,095	1,611	12,890
non-impaired loans[30]	430,905	140,660	108,366	23,845	188,975	57,607	950,358
TGLAC	441,462	141,320	109,690	26,278	199,702	59,997	978,449
Total impairment allowances	5,663	629	959	1,652	9,170	2,010	20,083
individually assessed	3,563	345	629	1,163	390	367	6,457
collectively assessed	2,100	284	330	489	8,780	1,643	13,626
Net loans and advances	435,799	140,691	108,731	24,626	190,532	57,987	958,366
	%	%	%	%	%	%	%
Individually assessed allowances as a percentage of individually assessed impaired loans	40.3	54.2	53.1	54.4	23.9	47.1	42.5
Collectively assessed allowances as a percentage of collectively assessed loans and advances	0.5	0.2	0.3	2.0	4.4	2.8	1.4
Total allowances as a percentage of TGLAC	1.3	0.4	0.9	6.3	4.6	3.4	2.1

For footnotes, see page 146.

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

	Banks individually assessed[7]	Customers Individually assessed	Customers Collectively assessed	Total
	US$m	**US$m**	**US$m**	**US$m**
At 1 January 2011	**158**	**6,457**	**13,626**	**20,241**
Amounts written off		**(986)**	**(5,975)**	**(6,961)**
Recoveries of loans and advances previously written off		**107**	**623**	**730**
Charge to income statement	**1**	**637**	**4,335**	**4,973**
Exchange and other movements	**3**	**28**	**(120)**	**(89)**
At 30 June 2011	**162**	**6,243**	**12,489**	**18,894**
Impairment allowances:				
on loans and advances to customers		**6,243**	**12,489**	**18,732**
personal		**679**	**10,550**	**11,229**
corporate and commercial		**4,966**	**1,853**	**6,819**
financial		**598**	**86**	**684**
as a percentage of loans and advances[31,32]	**0.10%**	**0.64%**	**1.27%**	**1.66%**
	US$m	US$m	US$m	US$m
At 1 January 2010	107	6,494	19,048	25,649
Amounts written off	(8)	(675)	(9,678)	(10,361)
Recoveries of loans and advances previously written off	2	58	393	453
Charge to income statement	12	1,057	6,165	7,234
Exchange and other movements	52	(532)	(297)	(777)
At 30 June 2010	165	6,402	15,631	22,198

Impairment allowances:				
on loans and advances to customers		6,402	15,631	22,033
personal		544	13,465	14,009
corporate and commercial		5,471	2,050	7,521
financial		387	116	503
as a percentage of loans and advances[31,32]	0.13%	0.76%	1.86%	2.29%
	US$m	US$m	US$m	US$m
At 1 July 2010	165	6,402	15,631	22,198
Amounts written off	(1)	(1,766)	(7,172)	(8,939)
Recoveries of loans and advances previously written off		85	482	567
Charge to income statement		1,556	4,758	6,314
Exchange and other movements	(6)	180	(73)	101
At 31 December 2010	158	6,457	13,626	20,241
Impairment allowances:				
on loans and advances to customers		6,457	13,626	20,083
personal		615	11,678	12,293
corporate and commercial		5,274	1,863	7,137
financial		568	85	653
as a percentage of loans and advances[31,32]	0.11%	0.70%	1.49%	1.91%

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Impairment charge

Net loan impairment charge by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Half-year to 30 June 2011							
Individually assessed impairment allowances							
New allowances	744	20	78	96	182	89	1,209
Release of allowances no longer required	(269)	(23)	(61)	(37)	(41)	(35)	(466)
Recoveries of amounts previously written off	(21)	(13)	(11)	(11)	(15)	(34)	(105)
	454	(16)	6	48	126	20	638
Collectively assessed impairment allowances							
New allowances net of allowance releases	684	52	188	81	3,004	951	4,960
Recoveries of amounts previously written off	(288)	(13)	(90)	(30)	(55)	(149)	(625)
	396	39	98	51	2,949	802	4,335
Total charge for impairment losses	850	23	104	99	3,075	822	4,973
Banks						1	1
Customers	850	23	104	99	3,075	821	4,972
	%	%	%	%	%	%	%
Charge for impairment losses as a percentage of closing gross loans and advances (annualised)	0.30	0.02	0.12	0.57	2.99	1.73	0.78
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2011							

Impaired loans	**10,309**	**514**	**1,210**	**2,215**	**9,408**	**2,523**	**26,179**
Impairment allowances	**5,412**	**573**	**828**	**1,586**	**8,346**	**2,149**	**18,894**
Half-year to 30 June 2010							
Individually assessed impairment allowances							
New allowances	782	60	72	388	240	64	1,606
Release of allowances no longer required	(230)	(29)	(52)	(33)	(107)	(26)	(477)
Recoveries of amounts previously written off	(11)	(7)	(8)	(5)	(21)	(8)	(60)
	541	24	12	350	112	30	1,069
Collectively assessed impairment allowances							
New allowances net of allowance releases	777	52	212	111	4,537	869	6,558
Recoveries of amounts previously written off	(104)	(13)	(77)	(24)	(73)	(102)	(393)
	673	39	135	87	4,464	767	6,165
Total charge for impairment losses	1,214	63	147	437	4,576	797	7,234
Banks	2			2	8		12
Customers	1,212	63	147	435	4,568	797	7,222
	%	%	%	%	%	%	%
Charge for impairment losses as a percentage of closing gross loans and advances (annualised)	0.49	0.09	0.23	2.62	3.91	2.22	1.31
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2010							
Impaired loans	10,398	818	1,147	1,998	11,181	2,573	28,115
Impairment allowances	5,919	731	856	1,605	10,970	2,117	22,198

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	Europe	Hong Kong	Rest of Asia-Pacific	MENA	North America	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Half-year to 31 December 2010							
Individually assessed impairment allowances							
New allowances	1,092	51	239	173	340	116	2,011
Release of allowances no longer required	(164)	(25)	(32)	(22)	(89)	(38)	(370)
Recoveries of amounts previously written off	(24)	(5)	(21)	1	(15)	(21)	(85)
	904	21	186	152	236	57	1,556
Collectively assessed impairment allowances							
New allowances net of allowance releases	562	67	177	63	3,565	806	5,240
Recoveries of amounts previously written off	(148)	(14)	(82)	(29)	(73)	(136)	(482)
	414	53	95	34	3,492	670	4,758
Total charge for impairment losses	1,318	74	281	186	3,728	727	6,314
Customers	1,318	74	281	186	3,728	727	6,314
	%	%	%	%	%	%	%
Charge for impairment losses as a percentage of closing gross loans and advances (annualised)	0.51	0.09	0.38	1.05	3.43	1.68	1.07
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2010							
Impaired loans	10,663	665	1,324	2,453	10,789	2,390	28,284
Impairment allowances	5,741	629	959	1,669	9,234	2,010	20,241

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

	Europe %	Hong Kong %	Rest of Asia-Pacific %	MENA %	North America %	Latin America %	Total %
Half-year to 30 June 2011							
New allowances net of allowance releases	**0.57**	**0.07**	**0.36**	**1.04**	**3.27**	**3.20**	**1.20**
Recoveries	**(0.15)**	**(0.03)**	**(0.18)**	**(0.31)**	**(0.07)**	**(0.58)**	**(0.15)**
Total charge for impairment losses	**0.42**	**0.04**	**0.18**	**0.73**	**3.20**	**2.62**	**1.05**
Amount written off net of recoveries	**0.68**	**0.10**	**0.38**	**0.45**	**3.89**	**2.39**	**1.31**
Half-year to 30 June 2010							
New allowances net of allowance releases	0.71	0.17	0.51	3.85	4.34	3.64	1.81
Recoveries	(0.06)	(0.04)	(0.19)	(0.24)	(0.09)	(0.44)	(0.11)
Total charge for impairment losses	0.65	0.13	0.32	3.61	4.25	3.20	1.70
Amount written off net of recoveries	0.49	0.26	0.59	1.84	6.69	4.72	2.32
Half-year to 31 December 2010							
New allowances net of allowance releases	0.77	0.13	0.80	1.65	3.71	3.24	1.53
Recoveries	(0.09)	(0.03)	(0.21)	(0.23)	(0.09)	(0.58)	(0.13)
Total charge for impairment losses	0.68	0.10	0.59	1.42	3.62	2.66	1.40
Amount written off net of recoveries	0.92	0.14	0.48	0.83	5.08	3.38	1.86

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Impaired loans by geographical region

	31 Dec 10 as reported US$m	Constant currency effect US$m	31 Dec 10 at 30 Jun 11 exchange rates US$m	Movement on a constant currency basis US$m	30 Jun 11 as reported US$m	Reported change %	Movement on a constant currency basis %
Europe	10,663	421	11,084	(775)	10,309	(3)	(7)
Hong Kong	665		665	(151)	514	(23)	(23)
Rest of Asia-Pacific	1,324	33	1,357	(147)	1,210	(9)	(11)
Middle East and North Africa	2,453	(4)	2,449	(234)	2,215	(10)	(10)
North America	10,789	26	10,815	(1,407)	9,408	(13)	(13)
Latin America	2,390	116	2,506	17	2,523	6	1
Total	28,284	592	28,876	(2,697)	26,179	(7)	(9)

Impaired loans and net loan impairment allowances

On a reported basis, loan impairment charges to the income statement of US$5.0bn in the first half of 2011 declined by 31% compared with the first half of 2010 and by 21% compared with the second half of 2010. Reported impaired loans were US$26.2bn, 7% lower than at 31 December 2010.

The following commentary is on a constant currency basis.

New loan impairment allowances were US$6.2bn, a decline of 26% compared with the first half of 2010, reflecting an overall improvement in the credit environment and lower lending balances in our US run-off portfolios. Releases and recoveries of US$1.2bn were 24% higher, mainly in the UK reflecting economic recovery.

Impaired loans were 2% of total gross loans and advances at 30 June 2011, in line with 31 December 2010.

In **Europe**, new loan impairment allowances were US$1.4bn, 13% lower than in the first half of 2010, reflecting an improved credit environment across the region. Individually assessed new loan impairment allowances decreased, mainly in the UK, as a result of lower loan impairment charges against specific exposures. Collectively assessed new loan impairment allowances also declined, mainly in the UK personal lending book, as a result of improved delinquency rates in both the secured and unsecured portfolios, strengthened risk management practices and improved collections. In addition, lower new loan impairment allowances reflected lower levels of unsecured lending. Impaired loans of US$10.3bn were 7% lower than at 31 December 2010.

Releases and recoveries in Europe were US$580m, an increase of 61% compared with the first half of 2010 due to higher recoveries in the UK.

In **Hong Kong**, new loan impairment allowances fell by 37% compared with the first half of 2010. New individually assessed loan impairment allowances declined, reflecting fewer loan impairment charges against specific exposures, while collectively assessed allowances remained broadly flat. Impaired loans declined by 23% from 31 December 2010, reflecting debt restructuring, repayments and write-offs.

Releases and recoveries in Hong Kong were US$49m, in line with the first half of 2010.

New loan impairment allowances in **Rest of Asia-Pacific** decreased by 11% to US$266m. The decline reflected lower collectively assessed new loan impairment allowances, mainly in India, where lending balances fell as certain higher risk unsecured portfolios were managed down. This was partly offset by increases in collectively assessed new loan impairment allowances in other parts of the region. Individually assessed new loan impairment allowances increased, mainly in Australia, due to loan impairment charges raised against a small number of CMB exposures. Impaired loans in the region decreased by 11% from the end of 2010 to US$1.2bn at 30 June 2011, mainly in India due to the write-off of a previously impaired loan.

Releases and recoveries in the region decreased by 12%, mainly due to lower releases for cards and unsecured products.

In the **Middle East and North Africa**, new loan impairment allowances declined by 65% to US$177m in the first half of 2011. Individually assessed new loan impairment charges fell, as charges in 2011 were restricted to a small number of corporate exposures and due to the non-recurrence of a significant charge related to a single corporate exposure in the UAE. Collectively assessed new loan impairment allowances also declined, primarily in the UAE due to lower delinquencies as a result of an improvement in the credit environment. Impaired

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loans decreased by 10% from 31 December 2010 to US$2.2bn due to the derecognition of a previously impaired loan in the UAE following debt restructuring.

Releases and recoveries in the region decreased by 26% to US$78m from the first half of 2010.

In **North America**, new loan impairment allowances declined markedly, reducing by 33% to US$3.2bn. In our Consumer Finance portfolios, the fall in new loan impairment allowances reflected a reduction in lending balances and an improvement in credit quality resulting in lower delinquency rates and higher recovery rates. This was partly offset by additional impairment charges as a result of changes in assumptions on the pace of recovery in house prices and delays in the timing of expected cash flows as a result of the temporary foreclosure suspension.

In our corporate and commercial portfolios, new loan impairment allowances also declined in the commercial real estate and middle market sectors, and lower write-offs in business banking reflected improved credit quality and lower delinquency levels. This was partially offset by a specific loan impairment charge associated with the downgrade of an individual commercial real estate loan. Releases and recoveries in North America declined by 45% to US$111m due to lower levels of payments on loans resulting in lower releases.

Impaired loans decreased by 13% from the end of 2010 to US$9.4bn, driven by the continued run-off of the Consumer Lending and Mortgage Services portfolios.

In **Latin America**, new loan impairment allowances increased by 3% to US$1.0bn. The increase in new loan impairment allowances was primarily in Brazil, driven by lending growth and higher delinquency partly offset by lower collective new loan impairment allowances reflecting the reduction in the size of the credit card portfolio in Mexico. Impaired loans were broadly in line with 31 December 2010 as an increase in Brazil reflecting increased delinquency and higher lending balances was broadly offset by a decline in Mexico following settlement of a previously impaired loan, and lower impaired loans in Argentina.

Releases and recoveries in Latin America increased by 51% from the first half of 2010 to US$218m, primarily in Brazil due to improved collections initiatives.

Securitisation exposures and other structured products

This section contains information about our exposure to the following:

- asset-backed securities (ABS s), including mortgage-backed securities (MBS s) and related collateralised debt obligations (CDO s);
- direct lending at fair value through profit or loss;
- monolines;
- credit derivative product companies (CDPC s);

- leveraged finance transactions; and

- representations and warranties related to mortgage sales and securitisation activities.

Business model

MBSs and other ABSs are held in Balance Sheet Management and as part of our investment portfolios in order to earn net interest income and management fees. Some are also held in the trading portfolio and hedged through credit derivative protection with the intention of earning the spread differential over the life of the instruments.

Our investment portfolios include securities investment conduits (SIC s) and money market funds, as described in Note 21 on the Financial Statements. We also originate leveraged finance loans for the purpose of syndicating or selling them down to generate trading profit or holding them to earn interest margin over their lives.

These activities are not a significant part of GB&M s ongoing activities. The purchase and securitisation of US mortgage loans and the secondary trading of US MBSs, which was conducted in our US MBS business, was discontinued in 2007.

Exposure in the first half of 2011

The first half of 2011 and, in particular, the second quarter saw renewed uncertainty and concerns over sovereign credit risk, and a more pessimistic outlook for the US housing market. However, despite these developments, the levels of write-downs and losses on our holdings of structured assets remained modest with net write-downs to the income statement of US$0.2bn in the first half of 2011 (first half of 2010: US$0.1bn net write-backs; second half of 2010: US$0.1bn net write-downs). Unrealised losses in our available-for-sale reserve continued to reduce due to increases in fair value and the principal amortisation of ABSs as repayments were received at par with the available-for-sale ABS reserve deficit down US$1.6bn to US$4.8bn.

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Overall exposure of HSBC

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	Carrying amount US$bn	**Including sub-prime and Alt-A US$bn**	Carrying amount US$bn	Including sub-prime and Alt-A US$bn	Carrying amount US$bn	Including sub-prime and Alt-A US$bn
ABSs	**72.9**	**8.1**	72.6	9.4	73.9	8.5
fair value through profit or loss	**10.1**	**0.3**	10.8	0.5	10.8	0.3
available for sale[33]	**54.7**	**6.8**	53.2	7.5	54.7	7.1
held to maturity[33]	**2.1**	**0.2**	2.4	0.2	2.2	0.2
loans and receivables	**6.0**	**0.8**	6.2	1.2	6.2	0.9
Loans at fair value through profit or loss	**1.1**	**0.9**	1.9	1.5	1.6	1.2
Total ABS and direct lending at fair value through profit or loss	**74.0**	**9.0**	74.5	10.9	75.5	9.7
Less securities mitigated by credit derivatives with monolines and other financial institutions	**(8.4)**	**(0.3)**	(8.6)	(0.6)	(8.3)	(0.4)
	65.6	**8.7**	65.9	10.3	67.2	9.3
Leveraged finance loans	**3.7**		5.2		4.9	
fair value through profit or loss	**0.1**		0.2		0.3	
loans and receivables	**3.6**		5.0		4.6	
	69.3	**8.7**	71.1	10.3	72.1	9.3
Exposure including securities mitigated by credit derivatives with monolines and other financial institutions	**77.7**	**9.0**	79.7	10.9	80.4	9.7

For footnote, see page 146.

ABSs classified as available for sale

Our principal holdings of available-for-sale ABSs are in GB&M through special purpose entities (SPE s) which were established from the outset with the benefit of external investor first loss

protection support, together with positions held directly and by Solitaire Funding Limited (Solitaire), where we have first loss risk.

The following table summarises our exposure to ABSs classified as available for sale.

Available-for-sale asset-backed securities exposure

	At 30 June 2011			At 30 June 2010			At 31 December 2010		
	Directly held/ Solitaire[34]	**SPEs**	**Total**	Directly held/ Solitaire[34]	SPEs	Total	Directly held/ Solitaire[34]	SPEs	Total
	US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m	US$m	US$m
Total carrying amount of net principal exposure	**41,685**	**12,992**	**54,677**	39,391	13,774	53,165	41,106	13,586	54,692
Notional principal value of securities impaired	**3,426**	**2,371**	**5,797**	2,710	2,372	5,082	3,015	2,399	5,414
Carrying value of capital notes liability		**(333)**	**(333)**		(320)	(320)		(254)	(254)

For footnote, see page 146.

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Movement in the available-for-sale (AFS) reserve

	Half-year to 30 June 2011			Half-year to 30 June 2010			Half-year to 31 December 2010		
	Directly held/ Solitaire[34] US$m	**SPEs US$m**	**Total US$m**	Directly held/ Solitaire[34] US$m	SPEs US$m	Total US$m	Directly held/ Solitaire[34] US$m	SPEs US$m	Total US$m
AFS reserve at beginning of period	**(4,102)**	**(2,306)**	**(6,408)**	(7,349)	(4,864)	(12,213)	(4,914)	(3,168)	(8,082)
Increase in fair value of securities	**618**	**355**	**973**	1,678	1,051	2,729	497	492	989
Impairment charge:									
borne by HSBC	**238**		**238**	277		277	167		167
allocated to capital note holders[35]		**137**	**137**		488	488		43	43
Repayment of capital	**142**	**94**	**236**	301	88	389	239	99	338
Other movements	**5**	**(24)**	**(19)**	179	69	248	(91)	228	137
AFS reserve at end of period	**(3,099)**	**(1,744)**	**(4,843)**	(4,914)	(3,168)	(8,082)	(4,102)	(2,306)	(6,408)

For footnotes, see page 146.

Securities investment conduits

The total carrying amount of ABSs held through SPEs in the above table represents holdings in which significant first loss protection is provided through capital notes issued by SICs, excluding Solitaire.

At each reporting date, we assess whether there is any objective evidence of impairment in the value of the ABSs held by SPEs. Impairment charges incurred on these assets are offset by a credit to the impairment line for the amount of the loss allocated to capital note holders.

The economic first loss protection remaining at 30 June 2011 amounted to US$2.2bn (30 June 2010: US$2.2bn; 31 December 2010: US$2.2bn). On an IFRSs accounting basis, the carrying value of the liability for the capital notes at 30 June 2011 amounted to US$0.3bn (30 June 2010: US$0.3bn; 31 December 2010: US$0.3bn). The impairment charge recognised during the first half of 2011 amounted to US$137m (first half of 2010: US$488m; second half of 2010: US$43m).

At 30 June 2011, the available-for-sale reserve in respect of securities held by the SICs was a deficit of US$2.0bn (30 June 2010: US$3.4bn; 31 December 2010: US$2.7bn). Of this, US$1.7bn related to ABSs (30 June 2010: US$3.2bn; 31 December 2010: US$2.3bn).

Impairments recognised during the first half of 2011 from assets held directly or within Solitaire, in recognition of the first loss protection of US$1.2bn we provide through credit enhancement and from drawings against the liquidity facility we

provide, were US$238m (30 June 2010: US$277m; 31 December 2010: US$167m). The reduction in impairment charges compared with the first half of 2010 was due to the falling default rates in the underlying collateral pools. The level of impairment recognised in comparison with the deficit in the available-for-sale reserve was a reflection of the credit quality and seniority of the assets held.

Sub-prime and Alt-A residential mortgage-backed securities

The assets which are most sensitive to possible future impairment are sub-prime and Alt-A residential MBSs. Available-for-sale holdings in these higher risk categories where HSBC does not benefit from significant first loss protection amounted to US$3.5bn at 30 June 2011 (30 June 2010: US$4.2bn; 31 December 2010: US$3.8bn). For these securities the cumulative fair value losses not recognised in the income statement at 30 June 2011 was US$1.2bn (30 June 2010: losses of US$3.3bn; 31 December 2010: losses of US$1.6bn). Other holdings in these higher risk categories classified as available-for-sale are held in vehicles where third party first loss protection exists, as described in the section on SICs, above.

Impairment methodologies

The accounting policy for impairment and indicators of impairment is set out on page 259 and for available-for-sale ABSs on page 131 of the *Annual Report and Accounts 2010*.

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Impairment and cash loss projections

At 31 December 2010, management undertook a stress analysis to estimate further potential impairments and expected cash losses on the available-for-sale ABS portfolio. This exercise comprised a shift of projections of future loss severities, default rates and prepayment rates. The results of the analysis indicated that further impairment charges of some US$950m and expected cash losses of some US$250m could arise over the next two to three years.

At 30 June 2011, management re-performed the stress test. Management now estimates that accounting impairments of US$900m and cash losses of US$400m may arise over the remaining duration. The result reflects the deterioration in the outlook for the US economy at large and the US housing market in particular compared with previous stress projections. For example, housing prices are now projected to continue to fall further and for a longer period of time, and recover more slowly.

For the purposes of identifying impairment at the reporting date, the future projected cash flows reflect the effect of loss events that have occurred at or prior to the reporting date. For the purposes of

performing stress tests to estimate potential future impairment charges, the projected future cash flows reflect additional assumptions about future loss events after the balance sheet date.

This analysis makes assumptions in respect of the future behaviour of loss severities, default rates and prepayment rates. Movements in the parameters are not independent of each other. For example, increased default rates and increased loss severities, which would imply greater impairments, generally arise under economic conditions that give rise to reduced levels of prepayment, reducing the potential for impairment charges. Conversely, economic conditions which increase the rates of prepayment are generally associated with reduced default rates and decreased loss severities.

At 30 June 2011, the incurred and projected impairment charges, measured in accordance with accounting requirements, significantly exceeded the expected cash losses on the securities. Over the lives of the available-for-sale ABSs the cumulative impairment charges will converge towards the level of cash losses. In respect of the SICs, in particular, the capital notes held by third parties are expected to absorb the cash losses arising in the vehicles.

Carrying amount of HSBC s consolidated holdings of ABSs, and direct lending held at fair value through profit or loss

	Trading US$m	Available for sale US$m	Held to maturity US$m	Designated at fair value through profit US$m	Loans and receivables US$m	Total US$m	Of which held through consolidated SPEs US$m
At 30 June 2011							

Mortgage-related assets							
Sub-prime residential	**1,022**	**2,556**			**598**	**4,176**	**2,696**
direct lending	**830**					**830**	**560**
MBSs and MBS CDOs[36]	**192**	**2,556**			**598**	**3,346**	**2,136**
US Alt-A residential	**163**	**4,231**	**177**		**255**	**4,826**	**3,417**
direct lending	**80**					**80**	
MBSs[36]	**83**	**4,231**	**177**		**255**	**4,746**	**3,417**
US Government agency and sponsored enterprises							
MBSs[36]	**217**	**22,570**	**1,933**			**24,720**	**17**
Other residential	**800**	**3,801**			**990**	**5,591**	**2,332**
direct lending	**188**					**188**	
MBSs[36]	**612**	**3,801**			**990**	**5,403**	**2,332**
Commercial property							
MBSs and MBS CDOs[36]	**552**	**8,119**		**111**	**1,935**	**10,717**	**6,439**
	2,754	**41,277**	**2,110**	**111**	**3,778**	**50,030**	**14,901**
Leveraged finance-related assets							
ABSs and ABS CDOs[36]	**379**	**5,695**			**399**	**6,473**	**4,450**
Student loan-related assets							
ABSs and ABS CDOs[36]	**137**	**5,110**			**151**	**5,398**	**4,411**
Other assets							
ABSs and ABS CDOs[36]	**1,791**	**2,595**		**6,053**	**1,637**	**12,076**	**1,783**
	5,061	**54,677**	**2,110**	**6,164**	**5,965**	**73,977**	**25,545**

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	Trading US$m	Available for sale US$m	Held to maturity US$m	Designated at fair value through profit US$m	Loans and receivables US$m	Total US$m	Of which held through consolidated SPEs US$m
At 30 June 2010							
Mortgage-related assets							
Sub-prime residential	1,891	2,626			658	5,175	3,077
direct lending	1,438					1,438	883
MBSs and MBS CDOs[36]	453	2,626			658	3,737	2,194
US Alt-A residential	115	4,907	193		536	5,751	3,720
direct lending	102					102	
MBSs[36]	13	4,907	193		536	5,649	3,720
US Government agency and sponsored enterprises							
MBSs[36]	472	19,341	2,254			22,067	347
Other residential	1,243	4,063		59	1,303	6,668	2,771
direct lending	348					348	36
MBSs[36]	895	4,063		59	1,303	6,320	2,735
Commercial property							
MBSs and MBS CDOs[36]	751	8,111		75	1,905	10,842	6,470
	4,472	39,048	2,447	134	4,402	50,503	16,385
Leveraged finance-related assets							
ABSs and ABS CDOs[36]	413	6,310			516	7,239	4,173
Student loan-related assets							
ABSs and ABS CDOs[36]	141	5,241			144	5,526	4,192
Other assets							
ABSs and ABS CDOs[36]	1,715	2,566		5,852	1,116	11,249	2,439
	6,741	53,165	2,447	5,986	6,178	74,517	27,189
At 31 December 2010							
Mortgage-related assets							
Sub-prime residential	1,297	2,565			652	4,514	2,763
direct lending	1,078					1,078	632
MBSs and MBS CDOs[36]	219	2,565			652	3,436	2,131
US Alt-A residential	180	4,545	191		270	5,186	3,651
direct lending	96					96	
MBSs[36]	84	4,545	191		270	5,090	3,651
US Government agency and sponsored enterprises							
MBSs[36]	657	21,699	2,032			24,388	6
Other residential	1,075	4,024			1,111	6,210	2,669

direct lending	417					417	
MBSs[36]	658	4,024			1,111	5,793	2,669
Commercial property							
MBSs and MBS CDOs[36]	546	8,160		111	1,942	10,759	6,441
	3,755	40,993	2,223	111	3,975	51,057	15,530
Leveraged finance-related assets							
ABSs and ABS CDOs[36]	392	5,418			414	6,224	3,886
Student loan-related assets							
ABSs and ABS CDOs[36]	163	5,178			150	5,491	4,251
Other assets							
ABSs and ABS CDOs[36]	1,936	3,103		6,017	1,710	12,766	2,526
	6,246	54,692	2,223	6,128	6,249	75,538	26,193