HSBC HOLDINGS PLC
Form 6-K
August 08, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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, 2008

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 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

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, 2008, other than pages 149, 237 and 238 thereof, 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 and 333-145859.

HSBC HOLDINGS PLC

Interim Report 2008

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 11,000 properties in 85 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and 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 about 200,000 shareholders in over 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Shares.

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

Certain defined terms

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC or the Group means HSBC Holdings together with its subsidiaries. Within this document, the Hong Kong Special Administrative Region of the People s Republic of China is referred to as Hong Kong . When used in the terms shareholders equity and total shareholders equity , shareholders means holders of HSBC Holdings ordin shares and those preference shares classified as equity.

The Interim Report 2008 *of HSBC Holdings has been prepared in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to HSBC Holdings. HSBC s interim Financial Statements and Notes thereon, as set out on pages 207 to 236, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2007 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 published by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 30 June 2008, there were no unendorsed standards effective for the period ended 30 June 2008 affecting these 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 its business. Unless otherwise stated, the information presented in this document has been prepared in accordance with IFRSs.

When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 4) and adjusted for the effects of acquisitions and disposals.

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

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H S B C H O L D I N G S P L C

Financial Highlights

For the half-year

- Net operating income before loan impairment charges up by US$982 million, 3 per cent, to US$39,475 million (US$38,493 million in the first half of 2007).
- Loan impairment charges and other credit risk provisions up by US$3,712 million (58 per cent) to US$10,058 million (US$6,346 million in the first half of 2007).
- Group pre-tax profit down by US$3,912 million (28 per cent) to US$10,247 million (US$14,159 million in the first half of 2007).
- Profit attributable to shareholders of the parent company down by US$3,173 million, 29 per cent, to US$7,722 million (US$10,895 million in the first half of 2007).
- Return on average shareholders equity of 12.1 per cent (19.1 per cent in the first half of 2007).
- Earnings per share down 32 per cent to US$0.65 (US$0.95 in the first half of 2007).

Dividends and capital position

- Second interim dividend for 2008 of US$0.18 per share which, together with the first interim dividend for 2008 of US$0.18 per share already paid, represents an increase of 6 per cent over the first and second interim dividends for 2007.
- Tier 1 capital ratio of 8.8 per cent and total capital ratio of 11.9 per cent.

Cautionary statement regarding forward-looking statements

This *Interim Report 2008* 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 uncertainty that could cause actual results, performance or events to differ 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, such as those that include the words potential , value at risk , estimated , expects , anticipates , objective , intends , plans , believes , estim 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 (SEC) on Form 20-F, Form 6-K, 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 should be 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 reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect HSBC s results of operations are described in the Business Review , the Financial Review , and The Management of Risk . A more detailed cautionary statement is given on pages 4 and 5 of the *Annual Report and Accounts 2007*.

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Profitability and balance sheet data

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
For the period			
Total operating income	**42,912**	42,092	45,509
Profit before tax	**10,247**	14,159	10,053
Profit attributable to shareholders of the parent company	**7,722**	10,895	8,238
Dividends	**6,823**	6,192	4,049
At the period-end			
Total equity	**134,011**	126,491	135,416
Total shareholders equity	**126,785**	119,780	128,160
Capital resources[1,2]	**146,950**	137,042	152,640
Customer accounts	**1,161,923**	980,832	1,096,140
Total assets	**2,546,678**	2,150,441	2,354,266
Risk-weighted assets[2]	**1,231,481**	1,041,540	1,123,782
	US$	US$	US$
Per ordinary share			
Basic earnings	**0.65**	0.95	0.70
Diluted earnings	**0.65**	0.94	0.69
Dividends	**0.57**	0.53	0.34
Net asset value at period end	**10.27**	10.10	10.72

Capital and performance ratios (annualised)

	%	%	%
Capital ratios[2]			
Tier 1 capital	**8.8**	9.3	9.3
Total capital	**11.9**	13.2	13.6
Performance ratios			
Return on average invested capital[3]	**11.9**	18.4	12.4
Return on average total shareholders equity[4]	**12.1**	19.1	13.0
Post-tax return on average total assets	**0.68**	1.19	0.78
Post-tax return on average risk-weighted assets	**1.39**	2.30	1.63
Credit coverage ratios			
Loan impairment charges as a percentage of total operating income	**23.2**	15.0	23.8
Loan impairment charges as a percentage of average gross customer advances	**2.04**	1.53	2.48
Total impairment allowances outstanding as a percentage of impaired loans at period end	**108.1**	98.4	104.9
Efficiency and revenue mix ratios			
Cost efficiency ratio[5]	**51.0**	48.3	50.4
As a percentage of total operating income:			
net interest income	**49.4**	43.3	43.0
net fee income	**25.6**	24.9	25.3
net trading income	**8.9**	13.1	9.5
Financial ratio			
Average total shareholders equity to average total assets	**5.2**	5.9	5.5

1 *Capital resources are total regulatory capital, the calculation of which is set out on page 201.*
2 *The calculation of capital resources, capital ratios and risk-weighted assets for 30 June 2008 is on a Basel II basis. Comparatives are based on Basel I.*
3 *The definition of return on average invested capital and a reconciliation to the equivalent Generally Accepted Accounting Principles (GAAP) measures are set out on page 111.*
4 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*
5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

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Financial Highlights (continued)

Share information

	At 30 June 2008	At 30 June 2007	At 31 December 2007
US$0.50 ordinary shares in issue (million)	**12,005**	11,713	11,829
Market capitalisation (billion)	**US$185**	US$215	US$198
Closing market price per ordinary share:			
London	**£7.76**	£9.15	£8.42
Hong Kong	**HK$120.90**	HK$142.50	HK$131.70
Closing market price per American Depositary Share (ADS[1])	**US$76.70**	US$91.77	US$83.71

	Over 1 year	Over 3 years	Over 5 years
HSBC total shareholder return to 30 June 2008[2]	**90.1**	**102.3**	**141.0**
Benchmarks:			
FTSE 100[3]	88.4	122.2	166.0
MSCI World[4]	89.8	131.1	180.6

1 *Each ADS represents five ordinary shares.*

2 *Total shareholder return is defined on page 12 of the* Annual Report and Accounts 2007.

3 *The Financial Times Stock Exchange 100 Index.*

4 *The Morgan Stanley Capital International World Index.*

Constant currency

Constant currency comparatives for the half-years to 30 June 2007 and 31 December 2007, used in the 2008 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2007 and 31 December 2007 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2008; and
- the balance sheets at 30 June 2007 and 31 December 2007 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2008.

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 or constant exchange rates 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.

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Group Chairman s Statement

The first half of 2008 saw the most difficult financial markets for several decades, marked by significant declines in profitability throughout much of our industry, with consequent recapitalisation and restructuring. HSBC was not immune from the turmoil. Our pre-tax profit of US$10.2 billion was 28 per cent lower than in the first half of 2007. In the prevailing market conditions this is a resilient performance which enables us to maintain our capital strength, continue with our dividend policy and balance the need to conserve capital with our commitment to make it available for investment in our fast-growing businesses.

The Directors have approved a second interim dividend of US$0.18 per share, an increase of 6 per cent, which is payable on 8 October with a scrip alternative.

Resilient operating performance in the first half of 2008

In the first half of 2008 we remained profitable in all our customer groups. We also remained profitable in all of our geographical regions with the continuing exception of North America. Revenue rose by 3 per cent compared with the first half of 2007; loan impairments were up by 58 per cent but were 8 per cent lower than in the second half. Costs on an underlying basis were well contained, growing by only 4 per cent compared with the first half of 2007 and down by 2 per cent on the second half.

Compared with the second half of 2007, we improved profitability in all our customer groups and for the Group as a whole by 2 per cent. In particular, it is notable that profitability in Global Banking and Markets where extremely difficult market conditions led to writedowns of US$3.9 billion was 37 per cent higher than in the second half of 2007. Meanwhile, our US consumer finance business continued to face difficulties, but performed within our expectations, with loan impairments of US$6.6 billion, lower than in the second half of 2007 by 17 per cent. The Group Chief Executive s Review covers our operational performance in more detail.

Financial strength maintained

HSBC s commitment to maintaining its financial strength is unwavering. HSBC remains both strongly capitalised and liquid. The tier 1 capital ratio was 8.8 per cent and tier 1 capital grew by US$6.2 billion during the period. We have maintained our key credit ratings, generated good profitability in adverse market conditions and continued to focus investment on our strategic priorities.

Our principal concerns in this environment have been risk management, strict cost control, supporting our customers and continued investment to support our long-term strategic ambitions. Our broad-based and resilient revenue streams continue to provide a stable platform from which to achieve strong, long-term performance.

Strategic changes to HSBC s shape

The sale of the regional bank network in France to Banque Populaire announced in February was completed on 2 July and a gain of US$2.1 billion will be recorded in our second half results. The HSBC business in France is now concentrated in France s major urban areas, particularly Paris; the business is focused primarily on Global Banking and Markets, Premier, private banking and commercial banking, specifically for businesses involved in international markets.

We acquired the assets, liabilities and operations of The Chinese Bank in Taiwan in March, adding 36 branches and over one million customers to our operations in Asia s fourth-largest banking market. In May, we announced an agreement to acquire 73.21 per cent of IL&FS Investsmart Ltd, a leading retail brokerage in India, for a total consideration of around US$260 million, giving us a securities presence alongside our banking and insurance businesses in Asia s third largest economy.

Turbulent environment

The economic and financial environment deteriorated progressively through the first half of the year . In the major developed economies where we operate, economic growth slowed as asset prices, particularly of residential property, declined; this in turn affected consumer confidence and hence spending. In credit markets, illiquidity remained a major issue, with trading volumes low and no sign of resumption of normal activity levels in the securitisation markets. As a consequence, the banking system continued to deleverage, putting further pressure on asset prices and raising credit default risk.

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Group Chairman s Statement (continued)

In the emerging markets, where HSBC is the leading international bank, growth remained strong in the period as real asset prices continued to rise and infrastructure development continued to boost economic growth, which supported consumer confidence and spending. However, a number of these economies are now facing increasing inflationary pressures as their consumption of commodities, energy and foodstuffs grows.

Slowing global economy

The outlook for the near term remains highly challenging with significant uncertainty. Globally, consumer confidence is declining and despite the short-term success of the recent fiscal stimulus, the US economy continues to be weak, driven by continuing housing market difficulties. The UK and other economies in Europe which had enjoyed housing market booms, have also weakened. The decline in credit availability is accelerating this process.

We expect growth in emerging markets will hold up reasonably well, albeit with less momentum than in the recent past. In Asia, compared with the buoyant conditions of last year, it is apparent that corporate activity in some sectors is slowing and demand for equity-related and wealth products has reduced as equity markets have declined.

Positioning HSBC for long-term growth

It is clear that growth models in our industry based on high and increasing leverage will no longer be sustainable. It is also clear that complexity in financial services and the recent consequences of failed risk management need to be addressed. Along with its supervisors, our industry including lenders, underwriters and investors needs to reflect on the lessons for risk management, capital adequacy and funding. Ultimately, the real economy will recover from this crisis, although it may get worse before it gets better. Financial markets will not, and should not, return to the *status quo ante*.

Through this period of major uncertainty and beyond, we will continue to position HSBC for long-term growth. The major global long-term trends the key drivers of change which underline our strategic thinking remain intact. Emerging markets will grow faster than mature ones; world trade and investment will grow faster than world GDP; and the ageing of the world s population continues. All of these trends have significant implications for financial services.

We will continue to build HSBC s platform to serve our customers as these trends shape their societies, their businesses and their own needs. We will focus investment primarily on the faster growing markets and on servicing developed market customers with international connectivity. Our capital and balance sheet strength, and a commitment to strict cost control, will continue to underpin our performance.

While the near term poses real uncertainties and difficulties, it may also create opportunities for HSBC to accelerate the execution of our strategy. In a stressed environment, HSBC has the advantages of a powerful brand, a strong capital and funding position, and the ability to service our international customers around the world. We continue to have the capacity to deploy capital at a time when others may be constrained. The strength of our funding base means that, in many markets, we have an opportunity to attract new customers and deliver more for existing ones. We take a long-term view of our business and our customer relationships; we believe that this is the basis for sustainable long-term performance for our shareholders. We will never depart from this. With 335,000 colleagues, we will continue to serve our over 100 million customers around the world, working to fulfil their financial needs.

Stephen Green, *Group Chairman*
4 August 2008

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H S B C H O L D I N G S P L C

Group Chief Executive s Review

Resilient performance in a challenging environment

HSBC is the world s local bank . And we are the world s leading international bank in emerging markets. This gives us the opportunity to create value by focusing on faster growing markets, moving towards 60 per cent of our pre-tax profit coming from these economies over time. In developed markets, we are focusing both on businesses with international customers where emerging markets connectivity is critical and on businesses with local customers where our global scale means we can create efficiencies for them and us. Finally we have a suite of global products where we have a competitive advantage from scale, expertise and brand.

Our geographic balance and broad customer base is a protection which allowed us, in difficult markets, to achieve a pre-tax profit of US$10.2 billion, albeit 28 per cent lower than in the first half of 2007.

We measure our progress against key performance indicators. Our cost efficiency ratio of 51 per cent was within our range of 48-52 per cent, as we managed the balance between controlling costs and investing in the business.

Our total shareholder return was also on target for the period; top five in our peer group of 27 international banks.

On capital ratios, which reflect HSBC s fundamental commitment to financial strength, our tier 1 ratio remained strong at 8.8 per cent, within the target range of 7.5-9 per cent.

Our return on average total shareholders equity at 12.1 per cent was below our target range of 15 to 19 per cent over the full cycle, but we would expect that in these difficult times.

Expanding Commercial Banking

Commercial Banking is a core business for us and it again performed strongly with pre-tax profit up by

35 per cent to US$4.6 billion. This included a gain of US$425 million from the sale of the UK card-acquiring business to a joint venture with Global Payments Inc. Excluding this, the growth was 22 per cent.

In keeping with our strategy, around 70 per cent of the business growth excluding the card-acquiring gain came from emerging economies, which now account for 54 per cent of Commercial Banking s global profit before tax. Growth was strong in Asia-Pacific, Brazil and the Middle East, reflecting our established positions in these markets, particularly in mainland China, where we are substantially raising our Commercial Banking presence. In addition, profit before tax grew strongly in Brazil as transaction, lending and foreign exchange volumes grew, while loan impairment charges fell.

In the UK, profit before tax grew by 23 per cent, excluding the card acquiring gain, as Commercial Banking continued to expand with strong deposit growth, and increased fee income from card-issuing and foreign-exchange initiatives. Despite a 13 per cent growth in lending, we kept loan impairment charges in the UK broadly unchanged. In North America, profitability was affected by the slowing economy and by market interest rates. Loan impairment charges increased in both the US and Canada, while in the US and Bermuda, net interest income on liabilities was adversely affected by lower US dollar interest rates.

Commercial Banking grew its small business customer base by 8 per cent to 2.9 million, with particular growth in Turkey, Taiwan, India and mainland China. We are committed to the small business sector as a profit-growth opportunity, a strong source of deposits and fee income.

More and more of our commercial customers are now using our Business Direct service to do their banking online and by telephone. Since its launch in the UK two years ago, and in Brazil last year, over 150,000 businesses have signed up. We will launch in India and Northern Ireland in the second half.

We recognise that our particular advantage in the commercial markets sector is our ability to grow our cross-border income by being where our customers are, participating at both ends of international transactions. Our Commercial Banking revenues are growing at over four times the rate of world trade.

We are further developing our Global Links customer referral system, and cross-border referrals increased by 126 per cent to over 2,700. The

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aggregate value of these transactions increased by 83 per cent to US$5.6 billion. We continue to join up across functions, with revenues of Global Markets foreign exchange increasing by 44 per cent, and Commercial Banking referrals to Private Banking increasing net new money by 80 per cent.

Personal Financial Services: continued difficulties in the US, strength elsewhere

Profit before tax in Personal Financial Services fell by 51 per cent to US$2.3 billion. This was largely due to the higher loan impairment charges in the US consumer finance business. Elsewhere, the business performed strongly, with pre-tax profits excluding US consumer finance up by 23 per cent.

In emerging markets, we had a very strong six months. We maintained revenue momentum in Rest of Asia-Pacific as well as building out our branch network, with 63 new branches, notably in Greater China. We grew our business in the Middle East profitably on the back of balance sheet growth, and in Latin America with an increased share of credit cards in Mexico and strong deposit growth in Brazil.

We strengthened our position in the UK mortgage market with our successful RateMatcher campaign. Market share of new mortgage lending rose from 3 per cent in the first half of 2007 to 6 per cent in 2008, peaking at 12 per cent in May. We also grew our international customer base in France, through our Investor Services unit.

As part of our Joining up the company strategy, we are focusing on attracting the affluent, high end, internationally mobile personal customers who we believe HSBC suits best. HSBC Premier was designed with these customers in mind. We attracted 208,000 new customers in the first half and now have close to 2.4 million in total. We are on track to achieve 2.6 million Premier customers by the end of the year.

We originally estimated that half of these customers would be new to HSBC but, in the period, over 80 per cent were new to the bank. Each customer generates an average annualised revenue of over US$2,000. This is further evidence that Joining up the company is creating new revenue streams.

HSBC Direct, our online banking system, is also ahead of our expectations. In the face of the industry's desire to raise core deposits, we experienced stiff competition, particularly in the US, and it is testimony to our brand's strength that despite this, we increased our customer base by 15 per cent to 1.2 million customers and grew total deposits by 19 per cent to US$16.1 billion. The

intrinsic value of HSBC Direct will increase further as we begin to achieve cross-sales of other products to these customers.

We continued to expand One HSBC Cards, our global cards platform. In emerging markets, card growth was 5 per cent.

Personal Financial Services US update

In the US, our Personal Financial Services business made a loss of US$2.2 billion. Loan impairment charges and other credit risk provisions rose by 85 per cent on the first half of 2007 to US$6.8 billion, but declined by 15 per cent compared with the second half. The US remains a difficult market, with rising unemployment and falling house prices, and we have recognised this with an impairment charge of US$527 million on the goodwill of our North American Personal Financial Services businesses at Group level.

We continued to take decisive action to mitigate our position. In the first half of 2008, excluding goodwill impairment, we reduced costs by 12 per cent compared with the first half of 2007. We continued to shrink the consumer lending branch network, from 1,000 to 900 branches.

Today, we have announced the run-off of our vehicle finance business. Our vehicle finance portfolio actually improved credit quality over the period but the business does not have sufficient critical mass or the pricing power to provide an acceptable return to the Group, and so we will not be originating further loans. We expect an orderly runoff of about 80 per cent of the portfolio of US$13 billion to be achieved in 3 years, with the remaining balance trailing off after that time.

Our US-based consumer finance business will now be focused mainly on cards and consumer lending.

In mortgage services, we reduced the portfolio outstandings by 13 per cent during the period, down from US$36 billion to US$31 billion, of which around 60 per cent was from repayments.

Emerging markets strength in Global Banking and Markets

Global Banking and Markets made a pre-tax profit of US$2.7 billion, down 35 per cent over the first half of 2007 but 37 per cent higher than in the second half. In emerging markets, profit before tax was up by 51 per cent.

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We wrote down US$3.9 billion on credit trading, monoline exposures and leveraged acquisition financing loans. This reflected the effect of market illiquidity across all asset-backed and structured-product sectors. HSBC s exposure to illiquid markets and the consequent uncertainty over mark-to-market values remains modest with only 3 per cent of our assets having to be valued with reference to significant unobservable price inputs. We have no material exposure to collateralised debt obligations backed by US sub-prime mortgages.

In the half, we created a stable funding basis for our Structured Investment Vehicles (SIVs) by establishing new securities investment conduits. Since the end of 2007, assets held by the SIVs and the new conduits and consolidated on HSBC s balance sheet have declined by US$11 billion to US$29 billion, primarily as assets have been sold or run off.

Our foreign exchange business reported record revenues. The gains reflected greater market volatility and higher customer volumes. Strong results were seen in Rates where increased customer activity and growth in deal volumes increased income.

Global Transaction Banking operates across Commercial Banking and Global Banking and Markets. It generated US$4.6 billion of revenue in the first half of 2008, up by US$0.7 billion. Payments and cash management revenues were 10 per cent ahead of the first half of 2007, the strong liability growth offsetting the effect of declining spreads following rate cuts. Trade and supply chain performed strongly, increasing by 27 per cent despite retail weakness in the US and the UK.

We continued to concentrate on Global Banking and Markets emerging markets-led and financing-focused strategy. The relevance of that cross-border strategy and the strength of HSBC s corporate and institutional franchise was illustrated by the number of transactions in which we acted on behalf of our clients. In the first half of 2008, HSBC acted for more than 700 clients in 29 sectors in some 60 countries. The notional value of these transactions amounted to more than a trillion US dollars.

Recognition for what has been achieved included being awarded Best Emerging Market Bank by *Euromoney.* We closed a number of landmark cross-border deals, including Vale's US$12.2 billion global equity offering, the largest ever follow-on offering by a Latin American company. We advised Ford on the US$2.3 billion sale of its Jaguar and Land Rover businesses to Tata Motors and we were

sole book runner of PetroRabigh s US$1.2 billion IPO, the first IPO by a Saudi Aramco affiliate.

Expanding Private Banking in emerging markets

Private Banking pre-tax profits increased by 5 per cent to US$822 million, primarily due to strong performances in Switzerland and Monaco. In difficult times, we increased total client assets by 1 per cent in the first half of 2008 to US$499 billion. Private Banking generates 59 per cent of its business from clients in emerging markets. We have recently opened three new Private Banking offices in mainland China.

Overall, referrals to Private Banking from other customer groups have increased by 28 per cent. Net new money from referrals is up over 70 per cent, to US$3.4 billion.

Building our insurance proposition

We continue to develop our insurance business worldwide, which now represents 16 per cent of the Group s pre-tax profit. Premium growth was up by 30 per cent, driven mainly by Latin America, Hong Kong and Europe.

Insurance extended its reach with the start of operations in India and the launch of our joint venture in South Korea. Our Preferred Strategic Providers now operate in 23 countries with 82 product launches under way, emphasising the power of HSBC s distribution capabilities.

We won several industry awards, including Best Life Insurance Provider in Brazil and *Labels d Excellence* award in France.

Transforming our customers experience by Joining up the company

Joining up the company is about increasing revenues, particularly those which are new to the bank, and slowing cost growth. In previous paragraphs, I have outlined growth coming from Premier, Global Links and Private Banking and we expect this to continue. However, we are also working to develop the synergies that can be achieved by commonality of technology and process through One HSBC , particularly as it relates to reducing our cost base in developed markets. A slowing of the Group's cost growth is evident in our results for this half year.

One HSBC is our programme to re-engineer the company so that wherever possible we use global systems which provide leading customer experience and also drive down the cost of production. For example, One HSBC Call Centre is reducing call

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Group Chief Executive s Review (continued)

times for our customers most frequent transactions. One HSBC Collections improves our service and contact capabilities through holistic customer level views versus individual account views. About three-quarters of the Group s global credit card base is now on the One HSBC Cards platform, and in 2008 we will be undertaking conversions in India and Indonesia. Standardising our service proposition under the One HSBC programme has cut our service interruptions in half.

We can now deploy One HSBC systems in a country as a fully integrated package. This is particularly beneficial in our emerging markets as the suite reduces bespoke software costs as well as producing operating benefits. In the first half of 2008, we deployed the One HSBC suite in seven countries (Poland, Brunei, Australia, Russia, Chile, Indonesia and Slovakia). We aim to deploy it in another seven countries in the second half of the year. Migration to our standard One HSBC will play a major part in creating value for customers and shareholders in the coming years. I will update you on our further progress at the year-end.

Continued focus on financial strength

We live in uncertain times, but we have a clear strategy that we are implementing in a focused and effective way. In April, HSBC was named the number one company in the *Forbes* 2000 list of the world s largest companies the first time a non-US company has topped the list. We were also named

the number one bank of *The Banker* s Top 1000 World Banks 2008, for total tier 1 capital.

Our current customers, and our new customers, know we are here to serve and support them, wherever they wish to do business under the HSBC brand in the 85 countries and territories in which we operate.

We know that to extract HSBC s full value for shareholders, we must continue to join up the company for the benefit of all. We have a long way to go, but value can and will be created by staying focused on this objective.

I would like to thank all our 335,000 staff for serving our over 100 million customers and protecting the interests of our 200,000 shareholders by remaining true to the fundamental principles of HSBC.

Michael Geoghegan, *Group Chief Executive*
4 August 2008

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Interim Management Report: Business Review

Principal activities

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$185 billion at 30 June 2008.

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 11,000 properties in 85 countries and territories in five geographical regions: Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; 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 or regional banks, typically with large retail deposit bases, and by consumer finance operations.

Strategic direction

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

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

HSBC is progressively reshaping its business by investing primarily in faster growing markets and, in the more developed markets, by focusing on businesses which have international connectivity. Central to these reshaping activities is a policy of maintaining HSBC s capital strength and strong liquidity position.

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

- businesses with international customers for whom developing markets connectivity is crucial Global Banking and Markets, Private Banking, the large business segment of Commercial Banking and the mass affluent segment of Personal Financial Services;
- businesses with local customers where efficiency can be enhanced through global scale the small business segment of Commercial Banking and the mass market segment of Personal Financial Services; and
- products where global scale is possible through building efficiency, expertise and brand global product platforms such as cards and direct banking.

The means of executing the strategy, and further utilising the linkages within the Group, are clear:

- the HSBC brand and global networks will be leveraged to reach new customers and offer further services to existing clients;
- efficiency will be enhanced by taking full advantage of local, regional and global economies of scale, in particular by adopting a common systems architecture wherever possible; and

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

Reconciliation of reported and underlying profit before tax

HSBC measures its performance internally on a like-for-like basis, eliminating the effects of Group currency translation gains and losses, acquisitions and disposals of subsidiaries and businesses and gains from the dilution of the Group s interests in associates, which distort the period-on-period comparison. HSBC refers to this as its underlying performance.

The tables below show the underlying performance of HSBC for the half-year to 30 June 2008 compared with the half-years to 30 June 2007 and 31 December 2007. Equivalent tables are provided for each of HSBC s customer groups and geographical segments in their respective sections below.

The main differences between HSBC s reported and underlying financial performance were:

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- Foreign currency translation differences were most significant in Europe due to the size of HSBC s operations in the UK. The Group s profit before tax for the first half of 2008 decreased by 28 per cent compared with the first half of 2007. The effect of the change in foreign currency translation rates accounted for an increase of 4 percentage points. The equivalents for the first half of 2008 compared with the second half of 2007 were increases of 2 per cent and 1 per cent, respectively.

- There were a number of acquisitions and disposals that affected both comparisons. The most significant were the acquisitions of

HSBC s partner s share in life insurer, Erisa S. A., and property and casualty insurer, Erisa I. A.R.D. (together now renamed HSBC Assurances) in France in March 2007, and the assets and liabilities of The Chinese Bank in Taiwan in March 2008; and the deemed disposals of the stakes in Ping An Insurance (Group) Company of China, Limited (Ping An Insurance), Bank of Communications Limited (Bank of Communications) and Industrial Bank Co. Limited (Industrial Bank), as a consequence of their making share offerings on the domestic A share market in mainland China in the first half of 2007.

Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)

HSBC	1H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	1H07 at 1 H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	18,230	(7)	587	18,810	158	2,210	21,178	16	12
Net fee income	10,495	70	351	10,916	(45)	120	10,991	5	1
Other income[3]	9,768	(1,177)	393	8,984	(45)	(1,633)	7,306	(25)	(18)
Net operating income[4]	38,493	(1,114)	1,331	38,710	68	697	39,475	3	2
Loan impairment charges and other credit risk provisions	(6,346)		(124)	(6,470)		(3,588)	(10,058)	(58)	(55)
Net operating income	32,147	(1,114)	1,207	32,240	68	(2,891)	29,417	(8)	(9)
Operating expenses	(18,611)	55	(738)	(19,294)	(28)	(818)	(20,140)	(8)	(4)
Operating profit	13,536	(1,059)	469	12,946	40	(3,709)	9,277	(31)	(29)
Income from associates	623		48	671	(12)	311	970	56	46
Profit before tax	14,159	(1,059)	517	13,617	28	(3,398)	10,247	(28)	(25)

Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)

Disposals 2H07

HSBC	2 H07 as reported US$m	and dilution gains[1] US$m	Currency translation[2] US$m	at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %
Net interest income	19,565	(5)	213	19,773	8	1,397	21,178	8	7
Net fee income	11,507	(52)	98	11,553	1	(563)	10,991	(4)	(5)
Other income[3]	9,428	(15)	16	9,429	4	(2,127)	7,306	(23)	(23)
Net operating income[4]	40,500	(72)	327	40,755	13	(1,293)	39,475	(3)	(3)
Loan impairment charges and other credit risk provisions	(10,896)		(22)	(10,918)		860	(10,058)	8	8
Net operating income	29,604	(72)	305	29,837	13	(433)	29,417	(1)	(1)
Operating expenses	(20,431)	50	(227)	(20,608)	(11)	479	(20,140)	1	2
Operating profit	9,173	(22)	78	9,229	2	46	9,277	1	
Income from associates	880		37	917		53	970	10	6
Profit before tax	10,053	(22)	115	10,146	2	99	10,247	2	1

For footnotes, see page 89.

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Customer groups and global businesses

Summary

HSBC manages its business through two customer groups, Personal Financial Services and Commercial

Banking, and two global businesses, Global Banking and Markets, and Private Banking. Personal Financial Services incorporates the Group s consumer finance businesses.

Profit before tax

	Half-year to					
	30 June 2008		30 June 2007		31 December 2007	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**2,313**	**22.6**	4,729	33.4	1,171	11.7
Commercial Banking	**4,611**	**45.0**	3,422	24.2	3,723	37.0
Global Banking and Markets	**2,690**	**26.2**	4,158	29.4	1,963	19.5
Private Banking	**822**	**8.0**	780	5.5	731	7.3
Other[5]	**(189)**	**(1.8)**	1,070	7.5	2,465	24.5
	10,247	**100.0**	14,159	100.0	10,053	100.0

Total assets6

	At 30 June 2008		At 30 June 2007		At 31 December 2007	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**603,016**	**23.7**	577,402	26.9	588,473	25.0
Commercial Banking	**286,533**	**11.2**	225,763	10.5	261,893	11.1
Global Banking and Markets	**1,509,390**	**59.3**	1,220,316	56.7	1,375,240	58.4
Private Banking	**98,039**	**3.8**	81,916	3.8	88,510	3.8
Other	**49,700**	**2.0**	45,044	2.1	40,150	1.7
	2,546,678	**100.0**	2,150,441	100.0	2,354,266	100.0

For footnotes, see page 89.

Basis of preparation

Customer group results are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. HSBC s operations are closely integrated and, accordingly, the presentation of customer group data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and head office 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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Personal Financial Services

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**15,217**	13,998	15,071
Net fee income	**5,626**	5,523	6,219
Trading income excluding net interest income	**142**	1	37
Net interest income on trading activities	**42**	92	48
Net trading income[7]	**184**	93	85
Net income/(expense) from financial instruments designated at fair value	**(1,135)**	796	537
Gains less losses from financial investments	**585**	60	291
Dividend income	**15**	41	14
Net earned insurance premiums	**4,746**	3,735	4,536
Other operating income	**390**	255	132
Total operating income	**25,628**	24,501	26,885
Net insurance claims[8]	**(3,206)**	(3,605)	(4,542)
Net operating income[4]	**22,422**	20,896	22,343
Loan impairment charges and other credit risk provisions	**(9,384)**	(5,928)	(10,244)
Net operating income	**13,038**	14,968	12,099
Total operating expenses	**(11,099)**	(10,452)	(11,305)
Operating profit	**1,939**	4,516	794
Share of profit in associates and joint ventures	**374**	213	377
Profit before tax	**2,313**	4,729	1,171
By geographical region			
Europe	**1,324**	604	977
Hong Kong	**2,036**	1,898	2,314
Rest of Asia-Pacific	**535**	351	409
North America	**(2,050)**	1,488	(3,034)

Latin America	**468**	388	505
Profit before tax	**2,313**	4,729	1,171
	%	%	%
Share of HSBC s profit before tax	**22.6**	33.4	11.7
Cost efficiency ratio	**49.5**	50.0	50.6

Balance sheet data6

	US$m	US$m	US$m
Loans and advances to customers (net)	**458,302**	460,196	464,726
Total assets	**603,016**	577,402	588,473
Customer accounts	**474,263**	416,525	450,071

For footnotes, see page 89.

Business highlights

- Profit before tax in Personal Financial Services was US$2.4 billion lower than that reported in the first half of 2007 and was 53 per cent lower on an underlying basis, primarily because of higher loan impairment charges in the US consumer finance business. Excluding this business, pre-tax profits rose by 23 per cent, 18 per cent on an underlying basis. Compared with the second half of 2007, on an underlying basis, profit before tax in Personal Financial Services was 89 per cent higher as both loan impairment charges and operating expenses fell.

- Market turmoil in the first half of 2008 led retail customers to move their assets from investment products into bank deposits and concentrate their savings in the largest and best regarded financial institutions. HSBC benefited from both these trends with customer accounts growing by US$24.2 billion or 5 per cent in the period.

- HSBC Premier (Premier), the Group s global banking service which offers affluent customers a seamless international service, continued to build on the success of its relaunch in 2007. In the first half of 2008, the service was extended to a further four countries, with a fifth added in July, taking the total to forty. 208,000 net new customers joined Premier, of whom more than 80 per cent were new to the Group. At 30 June 2008, HSBC had 2.4 million Premier customers who, on average, each generated more than US$2,000 of annualised revenues.

- HSBC Direct, the Group s online banking product suite, continued to expand in the four markets in which the product has been launched to date. In aggregate, HSBC Direct balances reached US$16.1 billion and customer numbers 1.2 million, increases of 19 per cent and 15 per cent, respectively, from 31 December 2007.

- HSBC s focus on emerging markets was reflected in growth in cards in force of 5 per cent in these countries compared with 31 December 2007.

- In the UK, HSBC successfully launched a RateMatcher promotion to attract higher quality customers facing an interest rate reset in the near term. In the three months of the offer, HSBC attracted a strong flow of new business, both for the RateMatcher product and other mortgages. Overall, HSBC attracted US$11 billion of balances during the campaign.

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- Notwithstanding weaker equity markets in Asia, HSBC s Personal Financial Services businesses in both Hong Kong and Rest of Asia-Pacific maintained revenue momentum, with notable success in deposit generation, particularly from Premier customers.

- Consistent with HSBC s strategy to increase the sale of insurance products to existing customers, underlying net premium income and insurance fee income grew by 7 per cent and 18 per cent, respectively.

- In the US, declining house prices, together with a continuing reduction in the availability of mortgage finance, fuelled growing customer delinquencies as house price depreciation became more pronounced and the economy weakened. HSBC continued to take measures to help customers manage their mortgage repayments and avoid foreclosure. In the first half of 2008, HSBC Finance extended its mortgage loan modification programme, with longer term modifications. Some 90 per cent of US mortgage customers remained current, or only one payment overdue, across the consumer lending business. Normal repayments and continued write-offs lowered the mortgage services portfolio by US$4.8 billion to US$31.4 billion at 30 June 2008.

Reconciliation of reported and underlying profit before tax

Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)

Personal Financial Services	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1H07 at 1H08 exchange rates US$m**	**Acqui-sitions[1] US$m**	**Under-lying change US$m**	**1H08 as reported US$m**	**Re-ported change %**	**Under-lying change %**
Net interest income	**13,998**	**(7)**	**397**	**14,388**	**156**	**673**	**15,217**	**9**	**5**
Net fee income	**5,523**	**122**	**136**	**5,781**	**(45)**	**(110)**	**5,626**	**2**	**(2)**
Other income[3]	**1,375**	**(101)**	**48**	**1,322**	**(47)**	**304**	**1,579**	**15**	**23**
Net operating income[4]	**20,896**	**14**	**581**	**21,491**	**64**	**867**	**22,422**	**7**	**4**
Loan impairment charges and other credit risk provisions	**(5,928)**		**(104)**	**(6,032)**		**(3,352)**	**(9,384)**	**(58)**	**(56)**
Net operating income	**14,968**	**14**	**477**	**15,459**	**64**	**(2,485)**	**13,038**	**(13)**	**(16)**
Operating expenses	**(10,452)**	**5**	**(395)**	**(10,842)**	**(25)**	**(232)**	**(11,099)**	**(6)**	**(2)**
Operating profit	**4,516**	**19**	**82**	**4,617**	**39**	**(2,717)**	**1,939**	**(57)**	**(59)**
Income from associates	**213**		**18**	**231**		**143**	**374**	**76**	**62**
Profit before tax	**4,729**	**19**	**100**	**4,848**	**39**	**(2,574)**	**2,313**	**(51)**	**(53)**

Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)

Personal Financial Services	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation [2] US$m	2H07 at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %

Net interest income	15,071	(5)	133	15,199	6	12	15,217	1	
Net fee income	6,219		25	6,244	1	(619)	5,626	(10)	(10)
Other income[3]	1,053	19	16	1,088	2	489	1,579	50	45
Net operating income[4]	22,343	14	174	22,531	9	(118)	22,422		(1)
Loan impairment charges and other credit risk provisions	(10,244)		(25)	(10,269)		885	(9,384)	8	9
Net operating income	12,099	14	149	12,262	9	767	13,038	8	6
Operating expenses	(11,305)	2	(131)	(11,434)	(9)	344	(11,099)	2	3
Operating profit	794	16	18	828		1,111	1,939	144	134
Income from associates	377		19	396		(22)	374	(1)	(6)
Profit before tax	1,171	16	37	1,224		1,089	2,313	98	89

For footnotes, see page 89.

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Commercial Banking

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**4,747**	4,286	4,769
Net fee income	**2,165**	1,904	2,068
Trading income excluding net interest income	**197**	121	144
Net interest income on trading activities	**24**	13	18
Net trading income[7]	**221**	134	162
Net income/(expense) from financial instruments designated at fair value	**(59)**	(24)	46
Gains less losses from financial investments	**191**	25	65
Dividend income	**3**	4	4
Net earned insurance premiums	**360**	205	528
Other operating income	**718**	2	163
Total operating income	**8,346**	6,536	7,805
Net insurance claims[8]	**(190)**	44	(435)
Net operating income[4]	**8,156**	6,580	7,370
Loan impairment charges and other credit risk provisions	**(563)**	(431)	(576)
Net operating income	**7,593**	6,149	6,794
Total operating expenses	**(3,280)**	(2,907)	(3,345)
Operating profit	**4,313**	3,242	3,449
Share of profit in associates and joint ventures	**298**	180	274
Profit before tax	**4,611**	3,422	3,723
By geographical region			
Europe	**1,940**	1,236	1,280
Hong Kong	**869**	760	859
Rest of Asia-Pacific	**961**	597	753
North America	**430**	477	443

Latin America	**411**	352	388
Profit before tax	**4,611**	3,422	3,723
	%	%	%
Share of HSBC s profit before tax	**45.0**	24.2	37.0
Cost efficiency ratio	**40.2**	44.2	45.4

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**238,116**	185,923	220,068
Total assets	**286,533**	225,763	261,893
Customer accounts	**247,705**	205,002	237,987

For footnotes, see page 89.

Business highlights

- Pre-tax profits increased by 35 per cent to US$4.6 billion. This included a gain of US$425 million from selling the Group s merchant acquiring business in the UK to a new card processing joint venture with Global Payments Inc. Operating performance was driven by robust growth in economic activity in developing markets, where much of the Group s incremental credit appetite was directed. This led to strong revenue generation with costs rising at approximately half the rate of income as productivity improved. Loan impairment charges rose as economic conditions weakened during the first half of 2008.

- Pre-tax profits in Europe, including the gain from the new card processing joint venture, were 57 per cent higher. Growth in profit was strongest in the Middle East and Asia-Pacific, reflecting the Group s established position in these fast- growing economies. Growth was also strong in Brazil. Underlying income and profit fell in North America, largely as a result of increased loan impairment charges.

- Excluding the gain on the sale of the merchant acquiring business, the share of Commercial Banking s profit from developing markets rose from 52 per cent in 2007 to 54 per cent in the first half of 2008.

- Strong revenue growth of 29 per cent from trade and supply chain and 44 per cent from foreign exchange reflected Commercial Banking s leading international business strategy. HSBC has benefited from growth in intra-regional trade flows and from facilitating investment flows from developed to developing economies, in part utilising its network of International Business Centres. Cross-border referrals through the Global Links system in the first half of 2008 rose by over 126 per cent in number and by over 83 per cent in aggregate transaction value compared with the first half of 2007.

- The best bank for small business strategy also contributed strongly to income growth, with an increase in deposits gathered from small business customers. Total customer numbers grew by 8 per cent to 2.9 million, largely among small and micro-business customers. Dedicated small- business centres in Turkey and the success of BusinessDirect in the UK contributed to this growth.

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- Both physical and online distribution capabilities were expanded. In Turkey, the number of Small Business Centres was increased to over 100 and in the UK local business managers were redeployed to key branches. In Taiwan, the acquisition of the assets, liabilities and operations of The Chinese Bank extended HSBC s reach, the additional branches bringing the total number to 44. At 8,300, the total number of relationship managers was 20 per cent higher than at 30 June 2007, with particularly strong growth in India following implementation of a new small business strategy.
- The number of small and micro business customers using business internet banking increased by 22 per cent to nearly 900,000; the number of mid-market and corporate customers rose by 28 per cent to over 35,000.
- Referrals to other customer groups and global businesses increased, specifically mortgages and Premier referrals to Personal Financial Services, debt and advisory services, to Global Banking and Markets, and ongoing referrals to Private Banking.

Reconciliation of reported and underlying profit before tax

Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)

Commercial Banking	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1H07 at 1H08 exchange rates US$m**	**Acqui-sitions[1] US$m**	**Under-lying change US$m**	**1H08 as reported US$m**	**Re-ported change %**	**Under-lying change %**
Net interest income	**4,286**		**195**	**4,481**	**3**	**263**	**4,747**	**11**	**6**
Net fee income	**1,904**		**75**	**1,979**		**186**	**2,165**	**14**	**9**
Other income[3]	**390**		**14**	**404**	**2**	**838**	**1,244**	**219**	**207**
Net operating income[4]	**6,580**		**284**	**6,864**	**5**	**1,287**	**8,156**	**24**	**19**
Loan impairment charges and other credit risk provisions	**(431)**		**(17)**	**(448)**		**(115)**	**(563)**	**(31)**	**(26)**
Net operating income	**6,149**		**267**	**6,416**	**5**	**1,172**	**7,593**	**23**	**18**
Operating expenses	**(2,907)**		**(157)**	**(3,064)**	**(2)**	**(214)**	**(3,280)**	**(13)**	**(7)**
Operating profit	**3,242**		**110**	**3,352**	**3**	**958**	**4,313**	**33**	**29**
Income from associates	**180**		**11**	**191**		**107**	**298**	**66**	**56**
Profit before tax	**3,422**		**121**	**3,543**	**3**	**1,065**	**4,611**	**35**	**30**

Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)

Commercial Banking	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %
Net interest income	4,769		50	4,819	3	(75)	4,747		(2)

Net fee income	2,068		13	2,081		84	2,165	5	4
Other income[3]	533		(4)	529	2	713	1,244	133	135
Net operating income[4]	7,370		59	7,429	5	722	8,156	11	10
Loan impairment charges and other credit risk provisions	(576)		2	(574)		11	(563)	2	2
Net operating income	6,794		61	6,855	5	733	7,593	12	11
Operating expenses	(3,345)		(50)	(3,395)	(2)	117	(3,280)	2	3
Operating profit	3,449		11	3,460	3	850	4,313	25	25
Income from associates	274		9	283		15	298	9	5
Profit before tax	3,723		20	3,743	3	865	4,611	24	23

For footnotes, see page 89.

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Global Banking and Markets

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**3,737**	1,847	2,583
Net fee income	**2,354**	2,264	2,637
Trading income excluding net interest income	**360**	3,048	455
Net interest income/(expense) on trading activities	**273**	(151)	(85)
Net trading income[7]	**633**	2,897	370
Net income/(expense) from financial instruments designated at fair value	**(211)**	11	(175)
Gains less losses from financial investments	**244**	768	545
Dividend income	**49**	175	47
Net earned insurance premiums	**62**	46	47
Other operating income	**551**	529	689
Total operating income	**7,419**	8,537	6,743
Net insurance claims[8]	**(40)**	(38)	(32)
Net operating income[4]	**7,379**	8,499	6,711
Net loan impairment (charges)/recoveries and other credit risk provisions	**(115)**	24	(62)
Net operating income	**7,264**	8,523	6,649
Total operating expenses	**(4,827)**	(4,479)	(4,879)
Operating profit	**2,437**	4,044	1,770
Share of profit in associates and joint ventures	**253**	114	193
Profit before tax	**2,690**	4,158	1,963
By geographical region			
Europe	**1,190**	1,674	853
Hong Kong	**770**	697	881
Rest of Asia-Pacific	**1,972**	1,098	1,366
North America	**(1,625)**	436	(1,401)
Latin America	**383**	253	264

Profit before tax	**2,690**	4,158	1,963
	%	%	%
Share of HSBC s profit before tax	**26.2**	29.4	19.5
Cost efficiency ratio	**65.4**	52.7	72.7

For footnotes, see page 89.

Business highlights

- In the most difficult financial market conditions seen for many decades, Global Banking and Markets delivered pre-tax profits of US$2.7 billion, an improvement of US$727 million or 37 per cent on the six months ended 31 December 2007 but some US$1.5 billion lower than in the first half of 2007.

- The result reflected a total of US$3.9 billion of write-downs on credit trading, leveraged and acquisition financing positions and monoline credit exposures resulting from the continued deterioration in the credit markets. This compared with US$2.1 billion for the second half of 2007 and nil for the first half of 2007. Partly offsetting this was a US$262 million fair value gain on the widening of credit spreads on structured liabilities.

- Notwithstanding the challenging market conditions in credit trading and Principal Investments, where the opportunities to realise assets diminished in 2008, other businesses performed very well. The emerging markets-led and financing-focused strategy continued to ensure that HSBC was well positioned to support clients as they undertook cross-border transactions into and out of emerging markets.

- In Global Markets, the foreign exchange business reported record revenues. This reflected greater market volatility and higher customer volumes.

- Strong results were seen in Rates, where increased customer activity and growth in deal volumes resulted in income rising by 120 per cent. In equities, excluding the effect of the gain on sale of HSBC s investment in Euronext N.Vand the Montreal Exchange in 2007, revenues rose by 37 per cent.

- The securities services business continued to grow despite the backdrop of lower interest rates and lower equity markets, as stronger transaction volumes and new mandates resulted in higher revenues. This was particularly evident in Asia, as clients continued to rebalance their investment portfolios.

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Management view of total operating income

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Global Markets	**1,688**	3,825	1,895
Credit	**(3,124)**	658	(1,977)
Rates	**1,303**	592	699
Foreign exchange	**1,546**	909	1,269
Equities[10]	**746**	652	525
Securities services	**1,112**	855	1,071
Asset and structured finance	**105**	159	308
Global Banking	**2,432**	1,974	2,216
Financing and equity capital markets	**1,371**	1,042	1,144
Payments and cash management	**839**	751	881
Other transaction services	**222**	181	191
Balance Sheet Management	**1,630**	521	705
Global Asset Management	**669**	636	700
Principal Investments	**167**	755	498
Other[11]	**833**	826	729
Total operating income	**7,419**	8,537	6,743

Balance sheet data[6]

Trading assets (including derivatives)	**721,366**	567,340	625,132
Trading liabilities (including derivatives)	**577,048**	443,634	483,881
Financial investments	**211,486**	174,095	224,057
Financial assets designated at fair value	**7,469**	5,269	7,936
Loans and advances to:			
customers (net)	**303,826**	241,602	250,464
banks (net)	**214,693**	183,708	199,506
Total assets	**1,509,390**	1,220,316	1,375,240
Customer accounts	**328,952**	265,739	299,879
Deposits by banks	**144,043**	121,744	126,395

Comparative information has been restated to reflect the current management view.

In the first half of 2008, Global Markets included a US$262 million fair value gain on the widening of credit spreads on structured liabilities.

For footnotes, see page 89.

- Balance Sheet Management recorded significantly higher income from positions taken in expectation of interest rate reductions by a number of central banks. As a result of these positions there was an associated increase in the total value at risk.

- In Global Banking, the write-downs on leveraged and acquisition finance positions were more than offset by gains on credit default swap transactions in other parts of the portfolio. Increased transaction volumes drove robust growth in fees, particularly in emerging markets. Total operating income in payments and cash management was 12 per cent higher, led by a strong rise in deposit balances.

- HSBC s extensive distribution network enabled the delivery of products to emerging markets as recognised by a number of industry awards including Best Investment Bank and Best Risk Management in the Middle East, and Best Debt House in Asia and in Western Europe by *Euromoney*.

- The strength of the Group s corporate and institutional franchise was again illustrated by the number and variety of transactions in which Global Banking acted on behalf of clients. In the first half of 2008, HSBC acted for over 700 clients in 29 sectors and some 60 countries. The total notional transaction value was more than US$1,000 billion.

- Global Asset Management benefited from a significant increase in liquidity fund inflows with total funds under management growing to US$389 billion, as clients sought certainty in a volatile market. The Group maintained its position as one of the leading emerging markets asset managers, with assets increasing to US$86 billion, a rise of 18 per cent on the first half of 2007. The business continued to leverage the Group s distribution capabilities with new funds including HSBC s New Frontiers Fund, launched in February for the Group s Private Banking clients, which raised US$300 million within three months.

- Within the Group s available-for-sale portfolio, continuing illiquidity in asset-backed securities markets led to further write-downs of securities. However, as a consequence of the underlying credit quality and seniority of the tranches held by HSBC, the first half of 2008 included a relatively modest impairment charge through the income statement of US$55 million; a further US$134 million was absorbed by income note holders who take the first loss on positions within the securities investment conduits (SICs) now consolidated in HSBC s accounts. Further details on these SICs are provided on pages 137 to 141.

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Interim Management Report: Business Review (continued)

Reconciliation of reported and underlying profit before tax

Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)

Global Banking and Markets	1H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	1H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	1,847		72	1,919		1,818	3,737	102	95
Net fee income	2,264		104	2,368		(14)	2,354	4	(1)
Other income[3]	4,388		183	4,571		(3,283)	1,288	(71)	(72)
Net operating income[4]	8,499		359	8,858		(1,479)	7,379	(13)	(17)
Loan impairment (charges)/recoveries and other credit risk provisions	24		(2)	22		(137)	(115)	(579)	(623)
Net operating income	8,523		357	8,880		(1,616)	7,264	(15)	(18)
Operating expenses	(4,479)		(151)	(4,630)		(197)	(4,827)	(8)	(4)
Operating profit	4,044		206	4,250		(1,813)	2,437	(40)	(43)
Income from associates	114		5	119		134	253	122	113
Profit before tax	4,158		211	4,369		(1,679)	2,690	(35)	(38)

Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)

Global Banking and Markets	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	2,583		37	2,620		1,117	3,737	45	43
Net fee income	2,637		32	2,669		(315)	2,354	(11)	(12)

Other income[3]	1,491		12	1,503		(215)	1,288	(14)	(14)
Net operating income[4]	6,711		81	6,792		587	7,379	10	9
Loan impairment charges and other credit risk provisions	(62)		2	(60)		(55)	(115)	(85)	(92)
Net operating income	6,649		83	6,732		532	7,264	9	8
Operating expenses	(4,879)		(32)	(4,911)		84	(4,827)	1	2
Operating profit	1,770		51	1,821		616	2,437	38	34
Income from associates	193		8	201		52	253	31	26
Profit before tax	1,963		59	2,022		668	2,690	37	33

For footnotes, see page 89.

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Private Banking

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**783**	567	649
Net fee income	**814**	811	804
Trading income excluding net interest income	**211**	255	270
Net interest income on trading activities	**7**	4	5
Net trading income[7]	**218**	259	275
Net income/(expense) from financial instruments designated at fair value	**1**		(1)
Gains less losses from financial investments	**80**	45	74
Dividend income	**4**	5	2
Other operating income	**16**	31	27
Total operating income	**1,916**	1,718	1,830
Net insurance claims[8]			
Net operating income[4]	**1,916**	1,718	1,830
Loan impairment (charges)/recoveries and other credit risk provisions	**4**	(9)	(5)
Net operating income	**1,920**	1,709	1,825
Total operating expenses	**(1,098)**	(929)	(1,096)
Operating profit	**822**	780	729
Share of profit in associates and joint ventures			2
Profit before tax	**822**	780	731
By geographical region			
Europe	**579**	493	422
Hong Kong	**123**	161	144
Rest of Asia-Pacific	**54**	56	36
North America	**58**	60	114
Latin America	**8**	10	15
Profit before tax	**822**	780	731
	%	%	%
Share of HSBC s profit before tax	**8.0**	5.5	7.3
Cost efficiency ratio	**57.3**	54.1	59.9

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**45,895**	37,863	43,612
Total assets	**98,039**	81,916	88,510
Customer accounts	**109,776**	91,228	106,197

For footnotes, see page 89.

Business highlights

- Pre-tax profits increased by 5 per cent or 4 per cent on an underlying basis to US$822 million, primarily due to strong performances in Switzerland and Monaco, offsetting lower revenues in Asia due to reduced client trading.
- Inward referrals from other customer groups in HSBC in the first half of 2008 resulted in US$3.4 billion of net new money, compared with US$2.0 billion in the first half of 2007.
- Despite a decline in market values, client assets at US$421.3 billion remained well ahead of 30 June 2007 and unchanged from 31 December 2007, assisted by net new money of US$14.5 billion in the first half of 2008. This was achieved with an improvement in net interest income in an environment of competitors offering above-market deposit rates to attract and retain clients. Within client assets, funds and mandates generating annuity income rose by 4 per cent to US$70.3 billion.

Client Assets

	Half-year to		
	30 June 2008 US$bn	30 June 2007 US$bn	31 December 2007 US$bn
At beginning of period	**421**	333	370
Net new money	**15**	17	19
Value change	**(20)**	12	7
Exchange/other	**5**	8	25
At end of period	**421**	370	421

- Total client assets, a measure equivalent to many industry definitions of assets under management, which includes some non-financial assets held in client trusts, amounted to US$499.3 billion at 30 June 2008, an increase of US$5.2 billion on 31 December 2007, including US$18.6 billion of net new money.
- Private Banking clients continued to be attracted to alternative products, with total hedge funds under custody for clients growing to US$57.9 billion, and new product offerings in emerging markets. The HSBC New Frontiers Fund, which concentrates on the next generation emerging markets, and the HSBC Asia Private Equity fund, were notably successful in the first half of 2008.
- Offices in Guangzhou, Shanghai and Beijing were formally opened in early 2008 as part of the launch of Private Banking in mainland China.

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Interim Management Report: Business Review (continued)

Reconciliation of reported and underlying profit before tax

Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)

Private Banking	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1H07 at 1H08 exchange rates US$m**	**Acquisitions[1] US$m**	**Underlying change US$m**	**1H08 as reported US$m**	**Reported change %**	**Underlying change %**
Net interest income	**567**		**9**	**576**		**207**	**783**	**38**	**36**
Net fee income	**811**	**(52)**	**30**	**789**		**25**	**814**		**3**
Other income[3]	**340**		**5**	**345**		**(26)**	**319**	**(6)**	**(8)**
Net operating income[4]	**1,718**	**(52)**	**44**	**1,710**		**206**	**1,916**	**12**	**12**
Loan impairment (charges)/recoveries and other credit risk provisions	**(9)**			**(9)**		**13**	**4**	**144**	**144**
Net operating income	**1,709**	**(52)**	**44**	**1,701**		**219**	**1,920**	**12**	**13**
Operating expenses	**(929)**	**50**	**(33)**	**(912)**		**(186)**	**(1,098)**	**(18)**	**(20)**
Operating profit	**780**	**(2)**	**11**	**789**		**33**	**822**	**5**	**4**
Income from associates									
Profit before tax	**780**	**(2)**	**11**	**789**		**33**	**822**	**5**	**4**

Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)

Private Banking	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	649		2	651		132	783	21	20
Net fee income	804	(52)	18	770		44	814	1	6
Other income[3]	377	(18)	6	365		(46)	319	(15)	(13)
Net operating income[4]	1,830	(70)	26	1,786		130	1,916	5	7
Loan impairment (charges)/recoveries and other credit risk provisions	(5)		(1)	(6)		10	4	180	167

Net operating income	1,825	(70)	25	1,780		140	1,920	5	8
Operating expenses	(1,096)	48	(14)	(1,062)		(36)	(1,098)		(3)
Operating profit	729	(22)	11	718		104	822	13	14
Income from associates	2		(1)	1		(1)		(100)	(100)
Profit before tax	731	(22)	10	719		103	822	12	14

For footnotes, see page 89.

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Other

Profit/(loss) before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest expense	**(375)**	(291)	(251)
Net fee income/(expense)	**32**	(7)	(221)
Trading income/(expense) excluding net interest income	**(271)**	(74)	201
Net interest income/(expense) on trading activities	**(82)**	25	(26)
Net trading income/(expense)[7]	**(353)**	(49)	175
Net income from financial instruments designated at fair value	**820**	91	2,802
Gains less losses from financial investments	**(283)**	101	(18)
Gains arising from dilution of interests in associates		1,076	16
Dividend income	**17**	27	5
Net earned insurance premiums	**(15)**	(9)	(12)
Other operating income	**1,943**	1,667	1,856
Total operating income	**1,786**	2,606	4,352
Net insurance claims[8]	**(1)**		
Net operating income[4]	**1,785**	2,606	4,352
Loan impairment charges and other credit risk provisions		(2)	(9)
Net operating income	**1,785**	2,604	4,343
Total operating expenses	**(2,019)**	(1,650)	(1,912)
Operating profit/(loss)	**(234)**	954	2,431
Share of profit in associates and joint ventures	**45**	116	34
Profit/(loss) before tax	**(189)**	1,070	2,465
By geographical region			
Europe	**144**	43	1,013
Hong Kong	**(725)**	(186)	(189)
Rest of Asia-Pacific	**102**	1,242	101
North America	**294**	(26)	1,534
Latin America	**(4)**	(3)	6
Profit/(loss) before tax	**(189)**	1,070	2,465
	%	%	%
Share of HSBC s profit before tax	**(1.8)**	7.5	24.5
Cost efficiency ratio	**113.1**	63.3	43.9

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**3,061**	2,517	2,678
Total assets	**49,700**	45,044	40,150
Customer accounts	**1,227**	2,338	2,006

For footnotes, see page 89.

Notes

- The loss before tax recorded in Other, US$189 million, was US$1,259 million less than the profit of US$1,070 million in the first half of 2007. For a description of the main items reported under Other , please see footnote 5 on page 89.

- Net income from financial instruments designated at fair value of US$820 million was recorded in the first half of 2008. This represented nearly a nine-fold increase on the first half of 2007 and arose principally from mark-to-market gains driven by wider credit spreads from fair valuing own debt issued by HSBC Holdings and its European and North American subsidiaries. These fair value gains will reverse through the income statement over the remaining life of the debt.

- Activities undertaken within the Group Service Centres (GSCs) continued to grow in the first half of 2008. Employee numbers increased by 14 per cent, bringing the total number of people employed by GSCs to over 32,000. In North America, IT Service Centres reported a 3 per cent decrease in costs. Substantially all costs of both GSCs and IT Service Centres are recharged to HSBC s customer groups and global businesses with revenue reported under Other operating income .

- Gains less losses from financial investments included impairment charges of US$296 million recognised on non-trading equity positions classified as available for sale. These investments were made as part of the strategic positioning of HSBC s businesses in Asia, and the write-downs were required as a consequence of significant falls in equity market prices. In the opinion of HSBC management, these stakes continue to deliver the market access envisaged when they were acquired.

- Dilution gains of US$1.1 billion recorded in the first half of 2007 did not recur. These gains were recognised following share offerings made by HSBC s associates: Ping An Insurance, Bank of Communications and Industrial Bank.

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Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)								
Other	**1H07 as reported US$m**	**Disposals and dilution gains1 US$m**	**Currency translation2 US$m**	**1 H07 at 1 H08 exchange rates US$m**	**Acqui- sitions1 US$m**	**Under lying change US$m**	**1 H08 as reported US$m**	**Re- ported change %**	**Under- lying change %**
Net interest expense	**(291)**		**(20)**	**(311)**	**(1)**	**(63)**	**(375)**	**(29)**	**(20)**
Net fee income/(expense)	**(7)**		**6**	**(1)**		**33**	**32**	**557**	**3,300**
Other income[3]	**2,904**	**(1,076)**	**104**	**1,932**		**196**	**2,128**	**(27)**	**10**
Net operating income[4]	**2,606**	**(1,076)**	**90**	**1,620**	**(1)**	**166**	**1,785**	**(32)**	**10**
Loan impairment charges and other credit risk provisions	**(2)**		**(1)**	**(3)**		**3**		**100**	**100**
Net operating income	**2,604**	**(1,076)**	**89**	**1,617**	**(1)**	**169**	**1,785**	**(31)**	**10**
Operating expenses	**(1,650)**		**(29)**	**(1,679)**	**(1)**	**(339)**	**(2,019)**	**(22)**	**(20)**
Operating profit/(loss)	**954**	**(1,076)**	**60**	**(62)**	**(2)**	**(170)**	**(234)**	**(125)**	**(274)**
Income from associates	**116**		**14**	**130**	**(12)**	**(73)**	**45**	**(61)**	**(56)**
Profit/(loss) before tax	**1,070**	**(1,076)**	**74**	**68**	**(14)**	**(243)**	**(189)**	**(118)**	**(357)**

	Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)								
Other	2 H07 as reported US$m	Disposals and dilution gains1 US$m	Currency translation2 US$m	2 H07 at 1 H08 exchange rates US$m	Acqui- sitions 1 US$m	Under- lying change US$m	1 H08 as reported US$m	Re- ported change %	Under- lying change %
Net interest expense	(251)		(14)	(265)	(1)	(109)	(375)	(49)	(41)
Net fee income/(expense)	(221)		10	(211)		243	32	114	115
Other income[3]	4,824	(16)	2	4,810		(2,682)	2,128	(56)	(56)

Net operating income[4]	4,352	(16)	(2)	4,334	(1)	(2,548)	1,785	(59)	(59)
Loan impairment charges and other credit risk provisions	(9)			(9)		9		100	100
Net operating income	4,343	(16)	(2)	4,325	(1)	(2,539)	1,785	(59)	(59)
Operating expenses	(1,912)		(11)	(1,923)		(96)	(2,019)	(6)	(5)
Operating profit/(loss)	2,431	(16)	(13)	2,402	(1)	(2,635)	(234)	(110)	(110)
Income from associates	34		2	36		9	45	32	25
Profit/(loss) before tax	2,465	(16)	(11)	2,438	(1)	(2,626)	(189)	(108)	(108)

For footnotes, see page 89.

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Analysis by customer group and global business

Profit/(loss) before tax

	Half-year to 30 June 2008						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other[5] US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	15,217	4,747	3,737	783	(375)	(2,931)	21,178
Net fee income	5,626	2,165	2,354	814	32		10,991
Trading income/(expense) excluding net interest income	142	197	360	211	(271)		639
Net interest income/(expense) on trading activities	42	24	273	7	(82)	2,931	3,195
Net trading income/(expense)[7]	184	221	633	218	(353)	2,931	3,834
Net income/(expense) from financial instruments designated at fair value	(1,135)	(59)	(211)	1	820		(584)
Gains less losses from financial investments	585	191	244	80	(283)		817
Dividend income	15	3	49	4	17		88
Net earned insurance premiums	4,746	360	62		(15)		5,153
Other operating income	390	718	551	16	1,943	(2,183)	1,435
Total operating income	25,628	8,346	7,419	1,916	1,786	(2,183)	42,912
Net insurance claims[8]	(3,206)	(190)	(40)		(1)		(3,437)
Net operating income[4]	22,422	8,156	7,379	1,916	1,785	(2,183)	39,475
Loan impairment (charges)/recoveries and other credit risk provisions	(9,384)	(563)	(115)	4			(10,058)
Net operating income	13,038	7,593	7,264	1,920	1,785	(2,183)	29,417
Total operating expenses	(11,099)	(3,280)	(4,827)	(1,098)	(2,019)	2,183	(20,140)
Operating profit/(loss)	1,939	4,313	2,437	822	(234)		9,277
Share of profit in associates and joint ventures	374	298	253		45		970
Profit/(loss) before tax	2,313	4,611	2,690	822	(189)		10,247
	%	%	%	%	%		%
Share of HSBC s profibefore tax	22.6	45.0	26.2	8.0	(1.8)		100.0
Cost efficiency ratio	49.5	40.2	65.4	57.3	113.1		51.0

Balance sheet data[6]

	U$Sm	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	458,302	238,116	303,826	45,895	3,061		1,049,200

Total assets	**603,016**	**286,533**	**1,509,390**	**98,039**	**49,700**	**2,546,678**
Customer accounts	**474,263**	**247,705**	**328,952**	**109,776**	**1,227**	**1,161,923**
Loans and advances to banks (net)[12]			**214,693**			
Trading assets[12,13]			**721,366**			
Financial assets designated at fair value[12]			**7,469**			
Financial investments[12]			**211,486**			
Deposits by banks[12]			**144,043**			
Trading liabilities[12,13]			**577,048**			

For footnotes, see page 89.

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Interim Management Report: Business Review (continued)

Analysis by customer group and global business *(continued)*

Profit before tax

	Half-year to 30 June 2007						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other[5] US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	13,998	4,286	1,847	567	(291)	(2,177)	18,230
Net fee income/(expense)	5,523	1,904	2,264	811	(7)		10,495
Trading income/(expense) excluding net interest income	1	121	3,048	255	(74)		3,351
Net interest income/(expense) on trading activities	92	13	(151)	4	25	2,177	2,160
Net trading income/(expense)[7]	93	134	2,897	259	(49)	2,177	5,511
Net income/(expense) from financial instruments designated at fair value	796	(24)	11		91		874
Gains less losses from financial investments	60	25	768	45	101		999
Gains arising from dilution of interests in associates					1,076		1,076
Dividend income	41	4	175	5	27		252
Net earned insurance premiums	3,735	205	46		(9)		3,977
Other operating income	255	2	529	31	1,667	(1,806)	678
Total operating income	24,501	6,536	8,537	1,718	2,606	(1,806)	42,092
Net insurance claims[8]	(3,605)	44	(38)				(3,599)
Net operating income[4]	20,896	6,580	8,499	1,718	2,606	(1,806)	38,493
Loan impairment (charges)/recoveries and other credit risk provisions	(5,928)	(431)	24	(9)	(2)		(6,346)
Net operating income	14,968	6,149	8,523	1,709	2,604	(1,806)	32,147
Total operating expenses	(10,452)	(2,907)	(4,479)	(929)	(1,650)	1,806	(18,611)
Operating profit	4,516	3,242	4,044	780	954		13,536
Share of profit in associates and joint ventures	213	180	114		116		623
Profit before tax	4,729	3,422	4,158	780	1,070		14,159

	%	%	%	%	%	%
Share of HSBC s profibefore tax	33.4	24.2	29.4	5.5	7.5	100.0
Cost efficiency ratio	50.0	44.2	52.7	54.1	63.3	48.3

Balance sheet data[6]

	U$Sm	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	460,196	185,923	241,602	37,863	2,517	928,101
Total assets	577,402	225,763	1,220,316	81,916	45,044	2,150,441
Customer accounts	416,525	205,002	265,739	91,228	2,338	980,832
Loans and advances to banks (net)[12]			183,708			
Trading assets[12,13]			567,340			
Financial assets designated at fair value[12]			5,269			
Financial investments[12]			174,095			
Deposits by banks[12]			121,744			
Trading liabilities[12,13]			443,634			

For footnotes, see page 89.

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Profit before tax

	Half-year to 31 December 2007						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other[5] US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	15,071	4,769	2,583	649	(251)	(3,256)	19,565
Net fee income/(expense)	6,219	2,068	2,637	804	(221)		11,507
Trading income excluding net interest income	37	144	455	270	201		1,107
Net interest income/(expense) on trading activities	48	18	(85)	5	(26)	3,256	3,216
Net trading income[7]	85	162	370	275	175	3,256	4,323
Net income/(expense) from financial instruments designated at fair value	537	46	(175)	(1)	2,802		3,209
Gains less losses from financial investments	291	65	545	74	(18)		957
Gains arising from dilution of interests in associates					16		16
Dividend income	14	4	47	2	5		72
Net earned insurance premiums	4,536	528	47		(12)		5,099
Other operating income	132	163	689	27	1,856	(2,106)	761
Total operating income	26,885	7,805	6,743	1,830	4,352	(2,106)	45,509
Net insurance claims[8]	(4,542)	(435)	(32)				(5,009)
Net operating income[4]	22,343	7,370	6,711	1,830	4,352	(2,106)	40,500
Loan impairment charges and other credit risk provisions	(10,244)	(576)	(62)	(5)	(9)		(10,896)
Net operating income	12,099	6,794	6,649	1,825	4,343	(2,106)	29,604
Total operating expenses	(11,305)	(3,345)	(4,879)	(1,096)	(1,912)	2,106	(20,431)
Operating profit	794	3,449	1,770	729	2,431		9,173
Share of profit in associates and joint ventures	377	274	193	2	34		880
Profit before tax	1,171	3,723	1,963	731	2,465		10,053
	%	%	%	%	%		%
Share of HSBC s profit before tax	11.7	37.0	19.5	7.3	24.5		100.0
Cost efficiency ratio	50.6	45.3	72.7	59.9	43.9		50.4

Balance sheet data[6]

	U$Sm	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	464,726	220,068	250,464	43,612	2,678	981,548
Total assets	588,473	261,893	1,375,240	88,510	40,150	2,354,266
Customer accounts	450,071	237,987	299,879	106,197	2,006	1,096,140
Loans and advances to banks (net)[12]			199,506			
Trading assets[12,13]			625,132			
Financial assets designated at fair value[12]			7,936			
Financial investments[12]			224,057			
Deposits by banks[12]			126,395			
Trading liabilities[12,13]			483,881			

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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$1,169 million (first half of 2007: US$852 million; second half of 2007: US$1,133 million).

Profit/(loss) before tax

	Half-year to					
	30 June 2008		30 June 2007		31 December 2007	
	US$m	**%**	US$m	%	US$m	%
Europe	**5,177**	**50.5**	4,050	28.6	4,545	45.2
Hong Kong	**3,073**	**30.0**	3,330	23.5	4,009	39.9
Rest of Asia-Pacific	**3,624**	**35.4**	3,344	23.6	2,665	26.5
North America	**(2,893)**	**(28.2)**	2,435	17.2	(2,344)	(23.3)
Latin America	**1,266**	**12.3**	1,000	7.1	1,178	11.7
	10,247	**100.0**	14,159	100.0	10,053	100.0

Total assets6

	At 30 June 2008		At 30 June 2007		At 31 December 2007	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,313,319**	**51.5**	1,040,019	48.3	1,184,315	50.3
Hong Kong	**325,692**	**12.8**	300,681	14.0	332,691	14.1
Rest of Asia-Pacific	**259,041**	**10.2**	201,123	9.4	228,112	9.7
North America	**531,607**	**20.9**	519,693	24.2	510,092	21.7
Latin America	**117,019**	**4.6**	88,925	4.1	99,056	4.2
	2,546,678	**100.0**	2,150,441	100.0	2,354,266	100.0

Europe

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

	Personal Financial Services US$m	**Commercial Banking US$m**	**Global Banking and Markets[14] US$m**	**Private Banking US$m**	**Other US$m**	**Total US$m**
Half-year to 30 June 2008						
UK	**1,164**	**1,656**	**329**	**162**	**168**	**3,479**
France[15]	**122**	**151**	**492**	**14**	**(70)**	**709**
Germany		**21**	**122**	**20**	**(8)**	**155**
Malta	**26**	**33**	**12**			**71**
Switzerland				**335**		**335**
Turkey	**19**	**51**	**56**			**126**
Other	**(7)**	**28**	**179**	**48**	**54**	**302**
	1,324	**1,940**	**1,190**	**579**	**144**	**5,177**
Half-year to 30 June 2007						
UK	384	1,001	902	198	(79)	2,406
France[15]	97	119	461	9	26	712
Germany		19	125	25		169
Malta	26	35	18			79
Switzerland				260		260
Turkey	71	34	56			161
Other	26	28	112	1	96	263
	604	1,236	1,674	493	43	4,050

For footnotes, see page 89.

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	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets[14] US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 31 December 2007						
UK	837	1,063	312	119	1,055	3,386
France[15]	76	73	231	16	(75)	321
Germany		17	70	20	19	126
Malta	19	32	27			78
Switzerland				215		215
Turkey	73	41	62	(1)		175
Other	(28)	54	151	53	14	244
	977	1,280	853	422	1,013	4,545

Loans and advances to customers (net) by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
UK	**380,051**	325,199	326,927
France[15]	**78,376**	67,670	81,473
Germany	**7,638**	5,763	6,411
Malta	**4,684**	3,700	4,157
Switzerland	**14,829**	11,164	13,789
Turkey	**8,127**	6,148	7,974
Other	**15,255**	8,464	11,544
	508,960	428,108	452,275

Customer accounts by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
UK	**413,593**	346,547	367,363
France[15]	**60,281**	48,961	64,905
Germany	**11,054**	9,671	10,282
Malta	**6,292**	4,779	5,947
Switzerland	**42,125**	35,266	41,015
Turkey	**7,090**	5,074	6,473
Other	**9,205**	8,210	8,969

	549,640	458,508	504,954

For footnotes, see page 89.

Economic briefing

The **UK** economy slowed in the first half of 2008. Gross Domestic Product (GDP) increased by 2.0 per cent during the first half of the year against the comparable period of 2007, below the average of the past decade. The housing market deteriorated markedly as the number of mortgage approvals for house purchases fell sharply and nominal house prices recorded small but persistent monthly declines. Employment growth was subdued, with some measures of unemployment increasing slightly during the second quarter of 2008. The Bank of England cut interest rates by 50 basis points during the first half of 2008, although a sharp rise in

inflation to an annual rate of 3.8 per cent in June complicated the outlook for monetary policy during the second half of the year.

Having expanded by 2.6 per cent in 2007, GDP in the **eurozone** rose by 2.1 per cent year-on-year in the first quarter of 2008 driven, in part, by a strong increase in business investment and a further rise in exports. Labour markets remained relatively robust, with the unemployment rate for the region remaining at about 7 per cent. However, consumer spending growth was subdued and most indicators of activity deteriorated as the second quarter progressed. Inflation continued to pick up during the first half of

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Interim Management Report: Business Review (continued)

Profit before tax

	Half-year to		
Europe	**30 June 2008 US$m**	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**4,475**	3,920	3,826
Net fee income	**4,223**	4,144	4,287
Net trading income	**3,649**	3,338	3,605
Net income/(expense) from financial instruments designated at fair value	**(659)**	348	878
Gains less losses from financial investments	**608**	790	536
Dividend income	**20**	161	10
Net earned insurance premiums	**2,286**	1,480	2,530
Other operating income	**1,427**	262	931
Total operating income	**16,029**	14,443	16,603
Net insurance claims incurred and movement in liabilities to policyholders	**(1,388)**	(1,146)	(2,333)
Net operating income before loan impairment charges and other credit risk provisions	**14,641**	13,297	14,270
Loan impairment charges and other credit risk provisions	**(1,272)**	(1,363)	(1,179)
Net operating income	**13,369**	11,934	13,091
Total operating expenses	**(8,193)**	(7,972)	(8,553)
Operating profit	**5,176**	3,962	4,538
Share of profit in associates and joint ventures	**1**	88	7
Profit before tax	**5,177**	4,050	4,545
	%	%	%
Share of HSBC s profit before tax	**50.5**	28.6	45.2
Cost efficiency ratio	**56.0**	60.0	59.9
Period-end staff numbers (full-time equivalent)	**84,457**	80,912	82,166

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**508,960**	428,108	452,275
Loans and advances to banks (net)	**94,795**	79,817	104,527
Trading assets, financial instruments designated at fair value and financial investments[16]	**481,015**	370,193	445,258
Total assets	**1,313,319**	1,040,019	1,184,315
Deposits by banks	**112,081**	86,912	87,491
Customer accounts	**549,640**	458,508	504,954

For footnotes, see page 89.

the year, rising from an annual rate of 3.1 per cent in December 2007 to 4.0 per cent by June 2008. The European Central Bank responded by raising interest rates by 25 basis points in July, taking the repo rate to 4.25 per cent.

In **Turkey**, economic activity accelerated slightly during the early months of 2008, with first quarter GDP growth rising by 6.6 per cent on the comparable period in 2007. Growth is, however, expected to moderate during the remainder of 2008 in response to weakening business and consumer confidence, political uncertainty and rising interest rates. Headline inflation remained under pressure from increases in energy and food prices, rising from 8.4 per cent in December 2007 to 10.6 per cent in June 2008. The Central Bank of the Republic of Turkey revised its medium-term inflation forecasts and, after initially reducing interest rates, tightened policy, raising rates by 50 basis points in both May and June 2008. The current account deficit widened to above 6 per cent of GDP, although HSBC expects continued capital inflows and the high level of interest rates to provide support to the domestic currency.

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Reconciliation of reported and underlying profit before tax

Europe	1H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	1H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
	Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)								
Net interest income	**3,920**	**(7)**	**129**	**4,042**	**150**	**283**	**4,475**	**14**	**7**
Net fee income	**4,144**	**122**	**169**	**4,435**	**(46)**	**(166)**	**4,223**	**2**	**(4)**
Other income[3]	**5,233**	**(101)**	**213**	**5,345**	**(49)**	**647**	**5,943**	**14**	**12**
Net operating income[4]	**13,297**	**14**	**511**	**13,822**	**55**	**764**	**14,641**	**10**	**6**
Loan impairment charges and other credit risk provisions	**(1,363)**		**(11)**	**(1,374)**		**102**	**(1,272)**	**7**	**7**
Net operating income	**11,934**	**14**	**500**	**12,448**	**55**	**866**	**13,369**	**12**	**7**
Operating expenses	**(7,972)**	**5**	**(299)**	**(8,266)**	**(17)**	**90**	**(8,193)**	**(3)**	**1**
Operating profit	**3,962**	**19**	**201**	**4,182**	**38**	**956**	**5,176**	**31**	**23**
Income from associates	**88**		**16**	**104**	**(12)**	**(91)**	**1**	**(99)**	**(88)**
Profit before tax	**4,050**	**19**	**217**	**4,286**	**26**	**865**	**5,177**	**28**	**20**

For footnotes, see page 89.

Review of business performance

European operations reported a pre-tax profit of US$5.2 billion compared with US$4.1 billion in the first half of 2007, an increase of 28 per cent. On an underlying basis, pre-tax profits increased by 20 per cent. In March 2007, HSBC acquired the remaining 50 per cent interest in HSBC Assurances in France. In October 2007, HSBC disposed of the Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited in the UK. Underlying net operating income grew by 6 per cent, in contrast with operating expenses, which fell by 1 per cent.

Personal Financial Services delivered the strongest increase in pre-tax profits due to a solid performance in the UK and continued expansion in Turkey. In the UK, growth was driven by lower operating expenses, in part reflecting the absence of the overdraft fee refund charges recognised in the first half of 2007, lower credit impairment charges and a one-off gain on the disposal of MasterCard Inc. (MasterCard) shares. Commercial Banking was strongly ahead of the first half of 2007, as the strength of established businesses in the UK and France was complemented by strong growth in Turkey and other emerging markets. Commercial Banking also benefited from one-off gains on the disposal of the UK merchant acquiring business to a joint venture with Global Payments Inc., together with its share of the disposal gain on the sale of MasterCard shares. Private Banking performed well, as a result of significant inflows of client assets combined with increased foreign exchange trading profits due to volatile markets. Pre-tax profits

declined in Global Banking and Markets, driven by write-downs in credit-related trading exposures, which outweighed improvements in Balance Sheet Management and Rates.

In France, HSBC s disposal of seven regional banks was completed on 2 July 2008 and a profit on disposal of US$2.1 billion will be recognised in the second half of 2008.

The following commentary is on an underlying basis.

Personal Financial Services reported a pre-tax profit of US$1.3 billion, an increase of 97 per cent compared with the first half of 2007. In the UK, pre-tax profit growth was driven by a reduction in loan impairment charges, following the enhanced credit controls introduced since 2006, together with lower operating expenses and a one-off gain on the disposal of MasterCard shares. In France, a US$38 million gain on the disposal of four mutual funds was offset by a fall in net interest income, as a contraction of spreads counteracted the benefit of higher balances. In Turkey, revenue growth, driven by increasing volumes on credit cards, deposit accounts and personal loans, outweighed the significant increase in costs incurred to support business growth and higher loan impairment charges as loan balances grew and seasoned.

In the UK, marketing campaigns primarily focused on higher value customers. The highly successful RateMatcher campaign, launched in April 2008, delivered a significant increase in new mortgage business, with balances transferred

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amounting to US$1.3 billion. Additional non-Rate Matcher mortgage business was also written as a result of the campaign. On current accounts, the acquisition of customers to fee-based packaged accounts continued with the One Great Rate campaign launched in February 2008. The Group also continued its focus on Premier, which was re-launched during 2007 in order to provide seamless cross-border banking for affluent customers.

In France, HSBC s disposal of seven regional banks was completed on 2 July 2008. These subsidiaries had been classified as held for sale and, accordingly, their net profits since February 2008 were reported within other operating income rather than in the individual income statement lines. In its core business in France, HSBC increased market share, building on its growing brand awareness. HSBC s Personal Financial Services business in France, going forward, is focused on its core strategic segment of customers with a strong international connectivity. Premier was relaunched in France in the first half of 2008, supported by an extensive media campaign along with customer acquisition initiatives based on direct marketing. As a result, new Premier account openings have increased by more than 70 per cent since the first half of 2007.

In Turkey, HSBC s organic growth strategy concentrated on delivery through branch expansion and new customer acquisition, predominantly led by credit card products. Investment in network expansion continued throughout the first half of 2008, with the opening of 78 new branches, supported by the addition of more than 1,500 staff since June 2007.

Net interest income was in line with the first half of 2007. In the UK, growth in savings balances and increased spreads on current accounts and credit cards were offset by the effect of a planned reduction in personal lending and credit card balances and a reduction in spreads on savings accounts.

HSBC s increased focus on attracting and retaining deposit customers drove a 19 per cent increase in UK savings account balances for both new and existing customers. A number of new savings products launched in the past year, including a cash e-ISA and Online Bonus Saver, contributed to this growth. The resulting increase in net interest income from volume growth was partly offset by tightening spreads, due to competitive pricing and consecutive base rate cuts.

Average current account balances declined by 5 per cent, due to a reduction in the size of individual customer account balances, driven by recent

increases in food and utility costs. Despite this, the focus on high value customer account acquisition continued, with new Premier account openings 18 per cent above the first half of 2007. Current account spreads increased, driven by funding benefits, resulting in a 1 per cent growth in net interest income on current accounts.

Average unsecured lending balances in the UK declined by 10 per cent, reflecting a shift in risk preference and a greater focus on attracting deposit customers. HSBC maintained a cautious approach to unsecured lending, tightening its credit criteria and employing segmentation and risk-based pricing strategies in order to improve the profitability of new business. Spreads increased on unsecured loans as price rises implemented in the second half of 2007 flowed through the portfolio, while the cost of funds was largely fixed.

Credit card balances were 9 per cent lower than in the first half of 2007, falling to US$14.2 billion. This was predominantly due to the sale of certain non-core credit card portfolios between October 2007 and May 2008 and the more conservative approach to lending noted above. The resulting reduction in net interest income was partly offset by the benefit of a re-pricing exercise undertaken during 2007, which resulted in improved yields.

Average mortgage balances were 2 per cent lower than in the first half of 2007, driven by an industry-wide decline in mortgage volumes. Buy-to-let mortgages continue to represent less than 3 per cent of the UK mortgage portfolio, the result of a decision not to write brokered or self-certified mortgages. Despite turbulence in the UK mortgage industry, the market for remortgages remained relatively healthy and, with many lenders unable to compete, HSBC was able to expand its business, launching its mortgage RateMatcher campaign in April 2008. The campaign proved to be a success, generating significant press coverage and inbound call activity and a 38 per cent increase in mortgage applications compared with the first half of 2007. The RateMatcher campaign boosted HSBC s market share of new mortgage business by value from 3 per cent in the first half of 2007 to 6 per cent in the first half of 2008, with a high of 12 per cent achieved in the month of May. The income benefits of the new business generated by the RateMatcher campaign will be seen in the second half of 2008 due to the time lag between loan approval and draw down.

Excluding the regional banks, net interest income in France fell. Growth in deposit and lending volumes from new customers attracted by direct marketing campaigns was more than offset by

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narrower spreads, higher liquidity costs and a lower benefit from net free funds.

In Turkey, net interest income rose by 22 per cent, largely from increased card balances, where HSBC s customer acquisition strategy led to a 37 per cent increase in credit cards in circulation, supported by a larger branch network and several new products, including co-branded and partnership cards. This volume-related growth was partially offset by a narrowing in spreads due to a sharp reduction in the interest rate cap set by the Central Bank of the Republic of Turkey. Competitive pricing designed to gain market share also led to an increase in volumes on deposit accounts and overdrafts, which more than compensated for the resulting decline in margins.

Net fee income was 5 per cent lower as an increase in Turkey offset a decline in France and a fall in the UK, partly due to a reduction in credit card fee income as a result of the partial disposal of the non-core credit card portfolios referred to above. In Turkey, credit card fees increased, driven by a 37 per cent increase in the number of cards in force, as a result of cards being deployed as the principal product to deliver customer acquisition. Excluding the regional banks, fee income in France was lower than in the first half of 2007. Increased sales of fee-based packaged accounts partly compensated for lower stock exchange and mutual fund fees, as poor market conditions deterred private investors.

Net trading income declined by 27 per cent. The movement in trading income largely reflected the fair value measurement of embedded options linked to government regulated home savings products in France.

Net income from financial instruments designated at fair value fell significantly to a loss of US$761 million. This was driven by falling investment markets affecting assets held within the life insurance businesses in France, the UK and Malta. A corresponding movement within net insurance claims and movement in liabilities to policyholders partially offset this decline.

Gains less losses from financial investments increased significantly to US$182 million, driven by a US$38 million gain on the disposal of four mutual funds in France during January 2008 and a US$160 million gain on disposal of MasterCard shares in the UK in June 2008.

Net earned insurance premiums increased by 4 per cent to US$2.1 billion, mainly in the UK due to continued sales of the new Guaranteed Income Bond which was launched in July 2007 and due to

the reclassification of certain pension contracts as insurance rather than investment products following the addition of enhanced life insurance features. In France, net insurance premiums reduced following the ceding of premiums under a significant reinsurance transaction in the first half of 2008. Excluding this, premium income was higher due to the success of promotional offers. The additional premiums led to additional policyholder liabilities being established and therefore to an increase in net insurance claims.

Other operating income increased to US$252 million, compared with an expense of US$110 million in the first half of 2007. This was mainly due to the non-recurrence of the Financial Services Authority (FSA) rule changes implemented in May 2007, which affected the present value of in-force insurance (PVIF) policies in the UK. In France, the reclassification of the regional banks as held for sale resulted in their net profits of US$15.3 million since February 2008 being reported in other operating income.

Loan impairment charges fell by 15 per cent; in the UK, they were 22 per cent below the same period in 2007 due to stable delinquency levels in the core unsecured portfolios and the disposal of selected non-core credit card portfolios referred to above. Mortgage impairment charges in the UK have gradually increased from their historically low levels in line with HSBC s expectations and market conditions. In France, loan impairment charges increased slightly, mainly as a result of a reduction in limits applied to unauthorised overdrafts at the end of 2007 in accordance with new guidelines issued by the Commission Bancaire. Overall, credit quality in France remained good. In Turkey, loan impairment charges rose by 287 per cent, due to increased volumes of credit cards and personal loans, combined with rising delinquency rates. In recognition of this, HSBC tightened its new account underwriting criteria at the start of 2008, with increased cut-off scores, lower credit lines and revised account management policies.

Operating expenses improved by 9 per cent, mainly driven by the non-recurrence of overdraft fee refunds in the UK. There was a reduction in defined benefit pension costs, as a result of an actuarial assessment, and this partly offset an increase in rental charges following the sale and leaseback of UK branch properties. Excluding the regional banks, costs in France decreased, mainly due to a reduction in staff pension and post-retirement healthcare costs following the transfer of certain obligations to a third party. There was an increase in Premier marketing costs as the product was relaunched. Organic

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business expansion in Turkey was supported by a 34 per cent increase in operating expenses as 78 new branches were opened and staff numbers increased by more than 1,500 since June 2007.

Commercial Banking reported pre-tax profits of US$1.9 billion, an increase of 53 per cent compared with the first half of 2007. Revenues were boosted by gains of US$425 million and US$103 million on the sale of the UK merchant acquiring business to a joint venture with Global Payments Inc., as well as a share of the profits on the sale of MasterCard shares, respectively. Excluding these items, profit before tax rose by 11 per cent and revenues by 6 per cent, driven by the continued strength of established businesses in the UK and France augmented by new and growing operations in the developing markets in Turkey and in central and eastern Europe.

Following the roll-out of International Banking Centres and other infrastructure investment in previous years, the volume of cross-border business increased significantly. Successful outward referrals through the Group s Global Links system increased by 122 per cent, including a 138 per cent rise in outward referrals from the UK. The attraction of HSBC s international franchise was illustrated by the Group s capture of a leading share of UK start-ups and business banking customers with an international focus.

In the UK, HSBC continued to focus on enhancing customer experience through the recruitment of sales staff and investment in direct channels in support of a strategic ambition to be recognised as the best bank for small business . In the first half of 2008, more than 100 branch-based business tills were opened and HSBC re-deployed 83 local business managers into key branch sites to provide additional local specialist support for customers located outside major conurbations.

HSBC continued to concentrate investment in the developing markets of central and eastern Europe and in Turkey. New receivables finance businesses were launched in Poland and the Czech Republic and, in Turkey, a further 18 branches were opened providing services to micro, small and mid-market customers. Across central and Eastern Europe, HSBC increased income by 49 per cent.

In France, following HSBC s disposal of seven regional banks which was completed on 2 July 2008, HSBC remains well positioned to benefit from the Group s international presence and is supporting this opportunity by investing in a new development programme, including 10 new Corporate Banking Centres and an expanded product range.

Net interest income rose by 2 per cent, to US$1.7 billion, largely driven by an increase of 43 per cent in Turkey and a more modest rise in the UK.

In the UK, average lending balances increased by 13 per cent. This was broadly based as strong volumes of new business were generated from HSBC s client base, particularly in the mid-market segment. The income benefit from lending volume growth was partly offset by lower spreads as yields fell in the competitive market. However, new lending spreads in the corporate, mid and small business segments increased by 14 basis points and 21 basis points compared with the first and the second halves of 2007, respectively, as market liquidity for new credit reduced, driving prices higher. Net interest income on sterling overdrafts declined as the benefit of a modest increase in average balances was more than offset by tighter spreads. As part of its market positioning to its preferred customer base, HSBC reduced the rate charged to customers for unauthorised overdrafts, further constraining net interest income.

Average current account balances and spreads were broadly in line with the first half of 2007. Average foreign currency denominated current accounts grew, driven by customer acquisition, although the benefit of volume growth was more than offset by lower spreads in the declining US dollar interest rate environment.

HSBC s strong capital position during a period of industry uncertainty helped to attract customer deposits and average deposits increased as a result. The benefit was offset by lower spreads as a reduction in interest rates paid to customers lagged base rate cuts in the first half of 2008.

In Turkey, higher net interest income was driven by growth in both loans and deposits as HSBC expanded across the country. Average loan and trade services balances increased by 15 per cent, following very strong customer acquisition. Micro, small and mid-sized customer numbers rose by 21 per cent in the period driven by branch expansion. The number of branches servicing Commercial Banking customers rose from 89 at 31 December 2007 to 107 at 30 June 2008. Customer acquisition was also boosted by the success of bundled products, including overdrafts, commercial car loans and small and micro business product bundles. The opening of three new Corporate Banking Centres in Istanbul also contributed. The benefits from loan growth were augmented by wider spreads as the proportion of higher yielding small and mid-market lending increased. Average deposit balances also rose, due to

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customer acquisition and competitive pricing, offset by slightly lower spreads from a shift in product mix to higher yielding deposits.

Excluding HSBC s French regional banks, net interest income in France was broadly in line with the first half of 2007 as growth in deposit and lending volumes were offset by narrower spreads, higher liquidity costs and a lower benefit from net free funds. Both average current account balances and deposits increased, driven by customer acquisition and initiatives taken to increase market share in small business banking. Average loan balances rose by 15 per cent as HSBC gained market share. This was partly offset by tighter spreads.

Net fee income increased by 3 per cent to US$1.1 billion. This was largely driven by higher fees in Turkey and the UK, where the rise in volumes in the mid-market segment, noted above, had a corresponding effect on related fee income. Payments and cash management, factoring, trade and insurance products also contributed to the growth in fees in Turkey.

Net fee income in the UK rose by 5 per cent. Higher card issuing fees were driven by an increase in transaction volumes, primarily due to the success of the revolving commercial credit card following its launch in 2006. Currency volatility in the first half of 2008 helped to drive higher transaction volumes and commissions from foreign exchange activity. A decline in lending fees offset these following a reduction in early repayment fees.

In France, excluding the regional banks, net fee income was 8 per cent higher than in the first half of 2007. Volumes rose as a consequence of the client acquisition noted above and increased marketing to existing customers, triggering a strong increase in banking transaction fees. This was offset by lower brokerage and mutual fund fees, as uncertain market conditions subdued investment sentiment and led customers to switch from investment fund products to deposit accounts.

A *net loss from financial instruments designated at fair value* of US$75 million compared with income of US$9 million in the first half of 2007. This fall was largely a result of a decline in value of equity investments held to support liabilities under insurance contracts, mainly offset by the change in net insurance claims and movement in liabilities to policyholders.

The sale of certain mutual funds in France and MasterCard shares in the UK led to an increase in *gains less losses from financial investments*.

As part of the Group s strategy to grow the insurance business, HSBC introduced a new guaranteed investment bond and enhanced the benefits of some existing customer policies, which resulted in higher *net insurance premiums* and a PVIF gain in *other operating income*, respectively. The increase in other operating income was also driven by the gain on sale of the UK merchant acquiring business. Increased net insurance premiums were partly offset by a rise in net insurance claims.

Loan impairment charges of US$285 million were 10 per cent higher than in the first half of 2007, largely due to higher charges in France and Turkey following balance sheet growth. Loan impairment charges in the UK were broadly flat, notwithstanding a 13 per cent growth in lending and a weakening economic environment.

Operating expenses were unchanged from the first half of 2007. In the UK, a focus on efficient delivery of customer service through direct channels allowed investment in additional customer-facing staff in the commercial centres and the commercial wealth business. Additional investment in relationship managers and local business managers helped to improve customer retention and broaden the range of services delivered.

Increased utilisation of direct channels was evidenced by a 28 per cent rise in the number of active business internet banking customers. HSBC continued to develop its straight-through processing capability to enable more customers to buy products online. Business Direct, HSBC s commercial direct banking service, attracted over 33,000 new accounts, of which approximately 75 per cent were opened by new HSBC customers.

Excluding the regional banks, costs in France were moderately lower than in the first half of 2007. This was due to reductions in staff pension and post-retirement healthcare costs following the transfer of certain obligations to external parties, and the beneficial effect of efficiency initiatives, partly offset by the non-recurrence of a litigation provision release.

In Turkey, costs rose by 32 per cent, driven by investment in a larger branch network together with increased marketing costs to support business expansion in the small and micro segments through the enlarged branch network. Staff costs increased by 15 per cent and customer facing staff numbers by 39 per cent as HSBC focused on customer service and product delivery in the expanded network.

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Global Banking and Markets profit before tax declined by 34 per cent to US$1.2 billion, primarily due to US$1.4 billion of write-downs in credit-related trading exposures and leveraged and acquisition finance loans, coupled with a reduction in Principal Investments revenues. These more than offset strong profit growth in Balance Sheet Management and Global Banking, and strong performances in the foreign exchange and Rates businesses.

Total operating income fell by 14 per cent to US$3.8 billion. The tighter credit and liquidity conditions in the UK which contributed to the write-downs referred to above were also reflected in a reduction in Principal Investments income after the excellent result in the first half of 2007. Higher revenues in other areas, most notably Rates in the UK and France and Balance Sheet Management in the UK, were driven by greater market volatility. Balance Sheet Management revenues increased by US$384 million in Europe. Global Banking revenues increased by 27 per cent as write-downs on leveraged and acquisition finance loans were more than offset by gains on credit default swap transactions in other parts of the portfolio.

Net interest income rose by 166 per cent, led by strong growth in Balance Sheet Management revenues in the UK due to increased margins driven by steepening sterling and US dollar yield curves. There was also growth in the UK from a focused enlargement of secured lending (repo) business. The UK also benefited from growth in payments and cash management activity, which was driven by a 33 per cent rise in deposits as customers responded to the volatile markets by increasing their cash holdings.

Net fee income declined in the UK and France in Global Markets. Higher cross-selling fees paid to Commercial Banking for generating foreign exchange business reduced net fee income but were more than compensated for by higher trading income on foreign exchange. A decline in equity markets also reduced funds under management in Global Asset Management, further contributing to lower fees.

Trading income fell by 29 per cent, chiefly from the write-downs noted above. As the market turmoil continued, the fair value of asset-backed securities and structured credit instruments further deteriorated as the credit and liquidity disruption that began in the US sub-prime market spread into other mortgage and mortgage-related products. HSBC had mitigated its risk from such events by purchasing protection from monoline insurers against losses from defaults,

primarily on asset-backed credit products. The market turmoil initially caused the fair value of this protection to increase significantly, reflecting the market view that it was more likely that defaults would occur on the underlying asset-backed paper. This sudden increase in the potential liabilities of the monoline insurers resulted in their credit ratings being downgraded as the scale of the liabilities incurred cast significant doubt on the ability of many monoline insurers to pay. Accordingly, a credit risk write-down was taken against the fair value of the exposure to monoline insurers. The market turmoil also caused the market value of some leveraged and acquisition finance loans to fall due to general credit and liquidity disruption. More information on these write-downs and the underlying assets is provided on page 113.

Partially offsetting these trading losses, Rates trading grew by 115 per cent due to high customer demand for inflation protection products in the UK and France. Foreign exchange trading revenues also rose, by 38 per cent, as market volatility continued, and equities grew by 79 per cent, excluding the effect of the gain on the sale of HSBC s investment in Euronext N.V. in 2007. Further income arose from the fair value gains in Global Banking.

A loss of US$218 million was recognised in *net income from financial instruments designated at fair value*. This was due to a loss on euro-denominated debt which is offset in trading income.

Gains less losses from financial investments and *dividend income* both declined in comparison with the very strong performance in the first half of 2007 from the Principal Investments business. In 2008, the number of investments realised fell and the exit multiples achieved were reduced.

The *loan impairment charge* was small and represented only one basis point of customer loans and advances. This compared with a release in the first half of 2007. The UK credit environment for large corporate lending undoubtedly weakened in the first half of 2008, as evidenced by weak retail sales, falling commercial property prices and the restructuring of much of the UK house building sector.

Operating expenses fell by 2 per cent, reflecting lower bonus costs in the UK which were in line with financial performance. This was partly offset by higher administrative expenses in both the UK and France, where IT costs rose due to growth in headcount to support the increased volume and scope of business in Global Markets, including cross-sales and product control.

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Private Banking reported a pre-tax profit of US$579 million, an increase of 15 per cent, compared with the first half of 2007. Good performances were recorded in both Switzerland and Monaco as a result of strong deposit growth, gains on the disposal of the Hermitage Fund and an increase in client foreign exchange trading. However, the cost efficiency ratio worsened by 1.8 percentage points to 54.9 per cent due to higher staff costs caused primarily by the non-recurrence of a pension saving in 2007. Despite this, the cost efficiency ratio remained one of the lowest in the industry.

Net interest income grew by 38 per cent to US$515 million, primarily due to strong deposit growth augmented by widening interest rate spreads in the first half of 2008. In Switzerland and the UK, average customer deposits grew by 35 per cent and 12 per cent to US$42.1 billion and US$15.0 billion, respectively. The growth in deposits was driven by net new money and customers switching from investment securities to cash deposits during the recent market turbulence.

Net fee income increased by 2 per cent to US$559 million, with a 3 per cent increase in funds under management in Switzerland and higher performance fees on UK hedge fund products. This was partially offset by a decline in UK real estate fee income, as expectations of falling house prices drove lower transaction volumes and the non-recurrence of a large tax advisory fee in the first half of 2007. Management fees decreased in France as the private bank exited some business with institutional clients following a decision not to market to this segment and, in Germany, as the market value of funds declined.

Market volatility led to increased foreign exchange trading by clients in Switzerland, contributing to a 28 per cent rise in trading income.

Gains less losses from financial investments were 81 per cent higher at US$78 million. The increase related to the disposal of HSBC s residual holding in the Hermitage Fund, following earlier disposals in 2006 and 2007.

Client assets, which include deposits and funds under management, increased by 2 per cent to US$262.7 billion compared with 31 December 2007. The growth in client assets was driven by US$10.0 billion of net new money, mainly due to client acquisition in Switzerland and Monaco and foreign exchange gains. However, this was partly offset by a decline in the market value of investment securities, particularly equities. The growth in cross-referrals continued, with inward referrals from other customer groups contributing US$1.9 billion to total client assets, an increase of 68 per cent, compared with the first half of 2007.

Operating expenses rose by 23 per cent to US$699 million due to a US$65 million non-recurring pension benefit which occurred in the first half of 2007 and hiring for business growth, which increased property and compensation costs.

Within **Other**, profit before tax rose by 126 per cent to US$144 million, largely due to fair value movements on HSBC s own debt and related derivatives. Widening credit spreads resulted in gains of US$395 million in the first half of 2008 compared to gains of US$6 million in the first half of 2007 and a gain of US$1,254 million in the second half of 2007. These movements will reverse over the remaining life of the debt.

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Interim Management Report: Business Review (continued)

Reconciliation of reported and underlying profit before tax

Europe	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
	Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)								
Net interest income	3,826	(5)	(11)	3,810		665	4,475	17	17
Net fee income	4,287		6	4,293		(70)	4,223	(1)	(2)
Other income[3]	6,157	19	(34)	6,142		(199)	5,943	(3)	(3)
Net operating income[4]	14,270	14	(39)	14,245		396	14,641	3	3
Loan impairment charges and other credit risk provisions	(1,179)		26	(1,153)		(119)	(1,272)	(8)	(10)
Net operating income	13,091	14	(13)	13,092		277	13,369	2	2
Operating expenses	(8,553)	2	(12)	(8,563)		370	(8,193)	4	4
Operating profit	4,538	16	(25)	4,529		647	5,176	14	14
Income from associates	7		1	8		(7)	1	(86)	(88)
Profit before tax	4,545	16	(24)	4,537		640	5,177	14	14

For footnotes, see page 89.

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Analysis by customer group and global business

Profit before tax

Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
	Half-year to 30 June 2008						
Net interest income/(expense)	3,373	1,739	1,351	515	(156)	(2,347)	4,475
Net fee income	1,479	1,134	999	559	52		4,223
Trading income excluding net interest income	34	18	1,362	106	33		1,553
Net interest income/(expense) on trading activities	(1)	20	(285)	7	8	2,347	2,096
Net trading income[7]	33	38	1,077	113	41	2,347	3,649
Net income/(expense) from financial instruments designated at fair value	(761)	(75)	(218)		395		(659)
Gains less losses from financial investments	182	140	190	78	18		608
Dividend income	1	2	11	4	2		20
Net earned insurance premiums	2,084	213			(11)		2,286
Other operating income	252	581	362	4	251	(23)	1,427
Total operating income	6,643	3,772	3,772	1,273	592	(23)	16,029
Net insurance claims[8]	(1,290)	(98)					(1,388)
Net operating income[4]	5,353	3,674	3,772	1,273	592	(23)	14,641
Loan impairment (charges)/recoveries and other credit risk provisions	(963)	(285)	(29)	5			(1,272)
Net operating income	4,390	3,389	3,743	1,278	592	(23)	13,369
Total operating expenses	(3,065)	(1,449)	(2,554)	(699)	(449)	23	(8,193)
Operating profit	1,325	1,940	1,189	579	143		5,176
Share of profit/(loss) in associates and joint ventures	(1)		1		1		1
Profit before tax	1,324	1,940	1,190	579	144		5,177
	%	%	%	%	%		%
Share of HSBC s profit before tax	12.9	18.9	11.6	5.7	1.4		50.5
Cost efficiency ratio	57.3	39.4	67.7	54.9	75.8		56.0
Balance sheet data[6]							
	US$m	US$m	US$m	US$m	US$m		US$m
	153,460	111,791	210,727	31,933	1,049		508,960

Loans and advances to customers (net)							
Total assets	**207,810**	**133,372**	**897,664**	**67,408**	**7,065**		**1,313,319**
Customer accounts	**183,608**	**105,135**	**196,432**	**64,242**	**223**		**549,640**
Loans and advances to banks (net)[12]			**78,488**				
Trading assets[12,13]			**482,034**				
Financial instruments designated at fair value[12]			**6,914**				
Financial investments[12]			**88,717**				
Deposits by banks[12]			**105,792**				
Trading liabilities[12,13]			**365,523**				

For footnotes, see page 89.

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H S B C H O L D I N G S P L C

Interim Management Report: Business Review (continued)

Analysis by customer group and global business *(continued)*

Profit before tax

	Half-year to 30 June 2007						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income	3,130	1,647	495	365	32	(1,749)	3,920
Net fee income	1,428	1,066	1,108	523	19		4,144
Trading income/(expense) excluding net interest income	45	11	1,705	83	(2)		1,842
Net interest income/(expense) on trading activities	(2)	12	(268)	4	1	1,749	1,496
Net trading income/(expense)[7]	43	23	1,437	87	(1)	1,749	3,338
Net income/(expense) from financial instruments designated at fair value	315	9	(2)		26		348
Gains less losses from financial investments	19	8	651	42	70		790
Dividend income	1	2	144	5	9		161
Net earned insurance premiums	1,380	109			(9)		1,480
Other operating income/(expense)	(110)	(89)	337	9	147	(32)	262
Total operating income	6,206	2,775	4,170	1,031	293	(32)	14,443
Net insurance claims[8]	(1,245)	99					(1,146)
Net operating income[4]	4,961	2,874	4,170	1,031	293	(32)	13,297
Loan impairment (charges)/recoveries and other credit risk provisions	(1,127)	(256)	17	3			(1,363)
Net operating income	3,834	2,618	4,187	1,034	293	(32)	11,934
Total operating expenses	(3,244)	(1,382)	(2,513)	(541)	(324)	32	(7,972)
Operating profit/(loss)	590	1,236	1,674	493	(31)		3,962
Share of profit in associates and joint ventures	14				74		88
Profit before tax	604	1,236	1,674	493	43		4,050
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.3	8.7	11.8	3.5	0.3		28.6
Cost efficiency ratio	65.4	48.1	60.3	52.5	110.6		60.0

Balance sheet data[6]						
	US$m	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	149,789	87,247	165,028	25,544	500	428,108
Total assets	198,518	104,420	677,459	56,090	3,532	1,040,019
Customer accounts	166,282	83,421	153,196	54,893	716	458,508
Loans and advances to banks (net)[12]			66,281			
Trading assets[12,13]			354,488			
Financial instruments designated at fair value[12]			3,400			
Financial investments[12]			53,774			
Deposits by banks[12]			85,104			
Trading liabilities[12,13]			265,059			

For footnotes, see page 89.

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	Half-year to 31 December 2007						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income	3,474	1,772	866	428	54	(2,768)	3,826
Net fee income/(expense)	1,632	1,128	1,208	509	(190)		4,287
Trading income excluding net interest income	15	25	952	78	91		1,161
Net interest income/(expense) on trading activities	(5)	18	(342)	5		2,768	2,444
Net trading income[7]	10	43	610	83	91	2,768	3,605
Net income/(expense) from financial instruments designated at fair value	(189)	22	(183)		1,228		878
Gains less losses from financial investments	31	28	449	73	(45)		536
Dividend income		2	11	2	(5)		10
Net earned insurance premiums	2,131	412			(13)		2,530
Other operating income/(expense)	164	54	516	(1)	154	44	931
Total operating income	7,253	3,461	3,477	1,094	1,274	44	16,603
Net insurance claims[8]	(1,969)	(364)					(2,333)
Net operating income[4]	5,284	3,097	3,477	1,094	1,274	44	14,270
Loan impairment (charges)/ recoveries and other credit risk provisions	(917)	(259)	9	(7)	(5)		(1,179)
Net operating income	4,367	2,838	3,486	1,087	1,269	44	13,091
Total operating expenses	(3,391)	(1,559)	(2,637)	(667)	(255)	(44)	(8,553)
Operating profit	976	1,279	849	420	1,014		4,538
Share of profit/(loss) in associates and joint ventures	1	1	4	2	(1)		7
Profit before tax	977	1,280	853	422	1,013		4,545
	%	%	%	%	%		%
Share of HSBC s profit before tax	9.7	12.7	8.5	4.2	10.1		45.2
Cost efficiency ratio	64.2	50.3	75.8	61.0	20.0		59.9
Balance sheet data[6]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	151,687	106,846	163,066	30,195	481		452,275
Total assets	200,432	124,464	794,673	60,010	4,736		1,184,315
Customer accounts	178,757	99,704	163,713	62,055	725		504,954
Loans and advances to banks (net)[12]			89,651				

Trading assets[12,13]	396,487
Financial instruments designated at fair value[12]	7,122
Financial investments[12]	94,416
Deposits by banks[12]	85,315
Trading liabilities[12,13]	305,697

For footnotes, see page 89.

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Interim Management Report: Business Review (continued)

Hong Kong

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

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Personal Financial Services	**2,036**	1,898	2,314
Commercial Banking	**869**	760	859
Global Banking and Markets	**770**	697	881
Private Banking	**123**	161	144
Other	**(725)**	(186)	(189)
Profit before tax	**3,073**	3,330	4,009

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**2,835**	2,568	2,915
Net fee income	**1,469**	1,439	1,923
Net trading income	**314**	469	773
Net income/(expense) from financial instruments designated at fair value	**(361)**	210	466
Gains less losses from financial investments	**(98)**	32	62
Dividend income	**20**	17	14
Net earned insurance premiums	**1,650**	1,426	1,371
Other operating income	**448**	413	432
Total operating income	**6,277**	6,574	7,956
Net insurance claims incurred and movement in liabilities to policyholders	**(1,169)**	(1,512)	(1,696)
Net operating income before loan impairment charges and other credit risk provisions	**5,108**	5,062	6,260
Loan impairment charges and other credit risk provisions	**(81)**	(80)	(151)
Net operating income	**5,027**	4,982	6,109
Total operating expenses	**(1,975)**	(1,665)	(2,115)
Operating profit	**3,052**	3,317	3,994
Share of profit in associates and joint ventures	**21**	13	15
Profit before tax	**3,073**	3,330	4,009

	%	%	%
Share of HSBC s profit before tax	**30.0**	23.5	39.9
Cost efficiency ratio	**38.7**	32.9	33.8
Period-end staff numbers (full-time equivalent)	**29,467**	27,066	27,655

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**99,741**	89,918	89,638
Loans and advances to banks (net)	**73,461**	68,162	63,737
Trading assets, financial instruments designated at fair value, and financial investments	**78,735**	98,998	102,180
Total assets	**325,692**	300,681	332,691
Deposits by banks	**5,063**	10,383	6,420
Customer accounts	**231,709**	205,219	234,488

For footnote, see page 89.

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Economic briefing

Hong Kong s economy proved robust during the first months of 2008, with year-on-year GDP growth accelerating to 7.1 per cent in the first quarter from 6.9 per cent in the final quarter of 2007. Domestic demand was the major driver of this growth, with both private consumption and fixed asset investment rising sharply. Exports also rose during the first half of 2008, adding further impetus to the economy. Labour markets remained very tight and the unemployment

rate maintained a 10-year low of 3.3 per cent in the second quarter, supporting consumer spending. Investment demand was also strong in the first quarter in the falling interest environment. However, inflation accelerated during the first half of 2008 and while this largely reflected rising food and energy prices, increased rental and wage costs also contributed. The Government s budget measures also supported domestic demand. Interest rates fell in line with US rates.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)								
Hong Kong	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1H07 at 1H08 exchange rates US$m**	**Acqui-sitions[1] US$m**	**Under-lying change US$m**	**1H08 as reported US$m**	**Re-ported change %**	**Under-lying change %**
Net interest income	**2,568**		**7**	**2,575**		**260**	**2,835**	**10**	**10**
Net fee income	**1,439**		**4**	**1,443**		**26**	**1,469**	**2**	**2**
Other income[3]	**1,055**		**(1)**	**1,054**		**(250)**	**804**	**(24)**	**(24)**
Net operating income[4]	**5,062**		**10**	**5,072**		**36**	**5,108**	**1**	**1**
Loan impairment charges and other credit risk provisions	**(80)**		**(1)**	**(81)**			**(81)**	**(1)**	
Net operating income	**4,982**		**9**	**4,991**		**36**	**5,027**	**1**	**1**
Operating expenses	**(1,665)**		**(4)**	**(1,669)**		**(306)**	**(1,975)**	**(19)**	**(18)**
Operating profit	**3,317**		**5**	**3,322**		**(270)**	**3,052**	**(8)**	**(8)**
Income from associates	**13**			**13**		**8**	**21**	**62**	**62**
Profit before tax	**3,330**		**5**	**3,335**		**(262)**	**3,073**	**(8)**	**(8)**

For footnotes, see page 89.

Review of business performance

HSBC s operations in Hong Kong reported a pre-tax profit of US$3.1 billion, compared with US$3.3 billion in the first half of 2007, a decrease of 8 per cent on both a reported and an underlying basis. The decrease was due to the impairment of certain HSBC strategic investments, which were necessary as a consequence of significant falls in equity market prices. These impairments more than offset profit growth in Personal Financial Services, Commercial Banking and Global Banking and Markets. Underlying net operating income was largely in line with the first half of 2007, while operating expenses grew by 18 per cent, causing a worsening in the cost efficiency ratio to 38.7 per cent.

Pre-tax profits grew in Commercial Banking and Personal Financial Services despite the adverse effects of lower interest rates, driven by strong balance sheet growth through customer acquisition and new product offerings. Strong performance in Global Banking and Markets was driven by

increased income from Balance Sheet Management, as falling interest rates led to a lower cost of funds and a steeper yield curve partially offset by a write-down on an exposure to a monoline insurer. In Private Banking, pre-tax profits fell, largely due to a decline in the value of equities on the Hong Kong stock market, compared with the first half of 2007.

The following commentary is on an underlying basis.

Personal Financial Services reported pre-tax profits of US$2.0 billion, 7 per cent higher than in the first half of 2007. Revenues rose by 7 per cent due to growth in both net interest income and fee income. Higher cost incurred in generating increased business volumes led the cost efficiency ratio to worsen by 1.6 percentage points compared with the first half of 2007 to 29.1 per cent.

Net interest income rose by 6 per cent to US$1.7 billion, driven by deposit volume growth from higher savings balances and by wider margins on most products apart from mortgages, following interest rate cuts.

Average customer deposits were 10 per cent higher than in the first half of 2007. Continued emphasis on Premier helped to increase balances, the number of Premier customers increasing by 7 per cent in the first half of 2008 to over 311,000. Clients raised deposits in response to weaker investment sentiment following falls in local stock markets while, following the launch of campaigns offering preferential time deposit rates and the enhancement of HSBC s Smart Picks platform, HSBC also attracted new deposits. Deposit spreads widened, benefiting from pricing changes made to increase yields.

The property market in Hong Kong remained resilient, buoyed by the low interest rate environment and strong economic fundamentals, though the rate of property transactions and price growth slowed during the period. HSBC selectively reintroduced fixed-rate mortgages, boosting the volume of new mortgages, which rose by 82 per cent. Mortgage offerings to Premier customers continued to be well received, and the proportion of new HSBC home mortgage loans drawn down by Premier customers reached 43 per cent at 30 June 2008. Although yields on new lending increased, strong competition in the residential mortgage market resulted in narrower spreads on the portfolio.

HSBC s leadership in credit cards continued with the launch of the Green Credit Card. A percentage of cardholder spending on this card is directed by the Group to environmental initiatives. This campaign, and a separate acquisition campaign, contributed to the 630,000 new cards issued during the period to bring the total number of cards in circulation to 5.2 million at 30 June 2008. Strong momentum in cardholder spending continued in the first half of the year with an 11 per cent increase. The cards portfolio continued to perform well in the highly competitive environment and is ranked first for market share by multiple measures. Spreads increased due to lower funding costs following declines in market interest rates. This drove a 21 per cent increase in interest income from cards.

Fee income was 8 per cent higher than in the first half of 2007, due to increased sales of investment products and higher income from current account sales, particularly Premier and PowerVantage, a wealth management account package designed for the mid-market customer. Although the volume of transactions on the Hong Kong stock exchange peaked in October 2007, volumes in the first half of

2008 remained above the levels recorded in the same period in 2007.

Income from retail securities and investment products grew by 4 per cent, as customers increasingly utilised online channels to complete transactions. HSBC protected its market share in investment products through programmes and incentives, including preferential brokerage and margin interest offers, and campaigns to sustain awareness of the range of HSBC funds, as well as the promotion of a series of unit trusts that have no subscription fee.

Notwithstanding the launch of new funds in 2007 and the introduction of WealthMaster (a portfolio wealth management sales tool also launched in 2007), funds under management were adversely affected by stock market performance, declining by 9 per cent to US$52 billion, compared with 31 December 2007.

Due to an increased number of cards in circulation and a rise in cardholder balances, credit card fee income rose by 16 per cent.

Though partially offset by lower net claims, income from securities held by the insurance business was adversely affected by the decline in global equity markets. However, *net earned insurance premiums* of US$1.6 billion were 14 per cent higher than in the first half of 2007, driven by increased sales of endowment products in Hang Seng Bank. Of the non-life policies, 81 per cent are now sold through low-cost channels, including the Refundable Protection Plan launched in March through the telesales distribution channel.

Other operating income included a gain of US$159 million from the redemption of shares in the Visa Inc. (Visa) initial public offering (IPO) and the disposal of MasterCard shares.

Credit quality in Hong Kong remained benign, and *loan impairment charges* decreased by 55 per cent, partly as a result of better performance in the cards portfolio. The ratio of non-performing loans to gross advances fell by 7 basis points. Loan impairment charges in the credit card portfolio were lower due to improved delinquency, reflecting bankruptcy trends that were largely in line with the first half of 2007.

Inflation continued to affect wage and premises costs, with *operating expenses* 13 per cent higher. Additional staff were added to frontline roles in the branch network and a programme of branch and self-service banking upgrades was initiated to maintain customer service levels. Marketing costs were largely in line with the first half of 2007,

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notwithstanding new campaigns including the Green Credit Card launch and further emphasis of Premier. IT costs rose in support of business growth and the expansion of self-service banking coverage. Notwithstanding these investments, the cost efficiency ratio remained low, in part due to the use of direct channels. For example, 83 per cent of retail securities transactions were completed online, a 2.9 percentage point improvement.

Commercial Banking recorded a pre-tax profit of US$869 million, 14 per cent higher than in the first half of 2007. Increased revenues were driven by asset and liability growth, along with a rise in fee income from trade and investment products. The credit environment showed mild deterioration; loan impairment charges rose by US$27 million compared with US$1 million in the first half of 2007. The growth in revenue exceeded the growth in costs resulting in a 0.7 percentage point improvement to the cost efficiency ratio.

Customer numbers grew by 8 per cent as HSBC continued to expand its product offerings. 16,000 new Business Vantage accounts were opened during the period, bringing the total to 139,000. HSBC continued successfully to serve the borrowing needs of small businesses through the launch of new products and pre-approved lending offers to existing customers.

Strategic ties with the Hong Kong Trade Development and Productivity Councils were forged to reinforce the small business segment brand and to aid in the acquisition of new lending customers. In addition, HSBC continued to benefit from trade flows between Hong Kong and mainland China, and took various steps to capture cross-border business, leveraging HSBC s customer base and strong presence in the Greater China region. This included the opening of a new centre for small businesses in Sheung Shui in Hong Kong.

Although *net interest income* rose by 6 per cent, strong growth in liability volumes was significantly offset by the effect of narrowing spreads due to lower interest rates.

Net interest income from deposits rose, due to higher deposit balances. Balance growth was due to a series of savings and time deposit campaigns and strong market liquidity. Spreads were lower, as base rates were reduced and market competition remained intense.

Total lending balances rose by 23 per cent, buoyed by customer business activity related to mainland China. Asset spreads contracted during the period, due to significantly lower lending yields than

in 2007 across all customer segments due to lower interest rates and market competition. To encourage further growth in trade finance and factoring, a series of trade promotion programmes was held and a product was launched by Hang Seng Bank to provide customers with a means of benefiting from renminbi appreciation. This contributed to the rise in receivables finance net interest income of 33 per cent compared with the first half of 2007.

HSBC continued to serve a significant number of clients, particularly manufacturers, who received financing to expand their operations in mainland China. Lending to small businesses rose as a result of strong economic growth in Hong Kong. In addition, trade-related lending increased, spurred partly by system enhancements to better capture cross-border business referrals. Trade and supply chain offerings were successful in attracting customers from different segments.

Credit card balances rose by US$22 million, while higher yields caused spreads to increase. The total number of new credit cards in the period reached over 9,400 and there was a 15 per cent increase in income from merchant acquiring compared with the first half of 2007.

Fee income rose by 11 per cent to US$278 million. Trade and supply chain products had strong growth in income and average transaction size. In addition, volumes of remittance transactions and remittance income both rose by 18 per cent. A decline in the sale of interest and foreign exchange linked products, which was partly offset by an increase in demand for equity-linked products, resulted in a fall in overall sales of structured products. The sale of wealth management products to mid-market customers rose, however, and HSBC launched 63 new funds.

Trading income increased by 19 per cent compared with the first half of 2007. Exchange rate volatility continued into the first half of 2008 and the level of trading between US and Hong Kong dollars rose.

Net earned insurance premiums rose by 53 per cent, driven by life products. The composite sales teams introduced in 2007 and the launch in June 2008 of a corporate wealth management branding campaign were used to enhance customer awareness of investment, key person and group medical insurance products.

Loan impairment charges of US$28 million were recorded, an increase from previously low levels. The credit environment proved more volatile than in the first half of 2007, particularly for small

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and medium businesses with operations in mainland China. Impaired customer loans were 0.52 per cent of total loans and advances at 30 June 2008, a further 17 basis point improvement on its previously low level.

Operating expenses rose by 13 per cent, due to a combination of higher staff numbers, wage inflation and increased premises costs. Nearly 200 frontline staff were added since 30 June 2007, to provide additional capacity for business growth. IT costs rose as the number of IT-related projects, including the upgrade of internet systems, increased. The number of transactions through direct channels rose to 42 per cent of the total volume. 200,000 customers were registered as internet users at 30 June 2008, compared with 176,000 at the end of 2007. Call centres were also increasingly utilised to generate lower cost sales.

Global Banking and Markets reported a pre-tax profit of US$770 million, an increase of 10 per cent over the first half of 2007. This growth was mainly due to an increase in net interest income in Balance Sheet Management, partly offset by a decline in trading income, driven by a write-down on an exposure to a monoline insurer.

Total operating income rose by 13 per cent to US$1.3 billion. The fall in short-term US and Hong Kong dollar interest rates supported the strong results of Balance Sheet Management and Rates trading. Income from foreign exchange trading benefited from exchange rate volatility. The securities services business earned increased fees, principally in funds services. Partly offsetting this was a monoline exposure write-down in structured credit of US$0.2 billion.

Net interest income grew by 91 per cent to US$801 million, driven mainly by Balance Sheet Management, which increased by US$389 million due to a steepening of the US dollar and Hong Kong dollar yield curves. Net interest income from Global Banking increased by 13 per cent due to an improvement in lending spreads in a more conservative lending environment.

Net fee income decreased, mainly due to higher customer referral fees paid in respect of increased sales of equity-linked investments to retail banking customers; these sales drove a corresponding rise in trading income. Net fee income also decreased due to a decline in initial public offering (IPO) success fees. This was partly offset by a rise in securities services revenues, particularly in funds services. Increased activity by fund managers and greater than expected cash balances contributed to this revenue growth. Higher fees in Global Asset Management

were driven by a number of successful product launches which contributed to US$4.2 billion net new money.

Trading income declined by 43 per cent to US$217 million, due to a write-down in a monoline exposure. For a description of the background to monoline write-downs, see page 36. Performance in Credit also weakened as spreads widened. These declines were mitigated in part by a 72 per cent growth in foreign exchange trading revenues, which were driven by volatile currency markets, increased investment flows and a greater focus on cross-sales to other customer groups. Equities increased by 39 per cent as a result of higher issuance of equity- linked products, in response to market demand from retail customers. Rates income grew by 28 per cent as market conditions drove clients to hedge interest rate risk exposure.

Operating expenses rose by 13 per cent, mainly due to an increase in performance costs resulting from improved revenues in certain businesses, and a rise in staff numbers to support the growth of product areas such as structured equities, securities services and corporate lending. IT costs increased, mainly due to systems development associated with the growth of the Global Markets.

Private Banking reported a pre-tax profit of US$123 million, a decrease of 24 per cent on the first half of 2007. With the decline in the value of equities on the Hong Kong stock market in the first half of 2008, demand for equity-linked structured products diminished, resulting in lower revenue than the strong results in 2007. The cost efficiency ratio worsened by 10.4 percentage points to 50.8 per cent.

Net interest income grew by 96 per cent to US$96 million, with a 33 per cent increase in customer deposits. The growth in customer deposits was driven by customers switching from investment securities to cash deposits, due to market turbulence and poor equity market performance.

Fee income rose by 19 per cent to US$95 million, owing largely to performance fees related to Asian discretionary portfolios and growth of the trust business. Partially offsetting this were lower fees from mutual funds, as funds under management decreased.

Trading income fell by 56 per cent to US$57 million, attributable to the downturn in the Hong Kong stock market. In particular, there was a decline in demand for equity-linked structured products, which were the primary driver of trading income in 2007.

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Client assets decreased by 9 per cent to US$66.4 billion, compared with 31 December 2007 because of the lower market values of funds. Despite this, the growth in cross-referrals continued, with inward referrals from other customer groups contributing US$613 million to total client assets compared with US$190 million the first half of 2007.

Operating expenses increased by 17 per cent to US$127 million, primarily due to a rise in staff costs, which were driven by increased salaries in a competitive labour market and higher numbers of staff recruited in response to a greater number of clients.

Within **Other**, a loss of US$725 million was reported, compared with a loss of US$186 million in the first half of 2007. The decrease was driven by equity market declines, which resulted in total impairments of US$296 million in the value of several of HSBC s strategic investments in the region.

The fall in net interest income was partly due to lower yields on core liquidity partly as a result of a switch to shorter maturities for these investments. Hong Kong head office and central IT costs rose by 22 per cent, reflecting increased activity in supporting business expansion. These costs were substantially offset by recoveries from Group entities.

Reconciliation of reported and underlying profit before tax

Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)

Hong Kong	2 H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2 H07 at 1 H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1 H08 as reported US$m	Reported change %	Underlying change %
Net interest income	2,915		(2)	2,913		(78)	2,835	(3)	(3)
Net fee income	1,923		(1)	1,922		(453)	1,469	(24)	(24)
Other income[3]	1,422		(2)	1,420		(616)	804	(43)	(43)
Net operating income[4]	6,260		(5)	6,255		(1,147)	5,108	(18)	(18)
Loan impairment charges and other credit risk provisions	(151)			(151)		70	(81)	46	46
Net operating income	6,109		(5)	6,104		(1,077)	5,027	(18)	(18)
Operating expenses	(2,115)		3	(2,112)		137	(1,975)	7	6
Operating profit	3,994		(2)	3,992		(940)	3,052	(24)	(24)
Income from associates	15			15		6	21	40	40
Profit before tax	4,009		(2)	4,007		(934)	3,073	(23)	(23)

For footnotes, see page 89.

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Interim Management Report: Business Review (continued)

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

Hong Kong	Half-year to 30 June 2008 Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	1,693	770	801	96	(514)	(11)	2,835
Net fee income	856	278	238	95	2		1,469
Trading income/(expense) excluding net interest income	90	37	40	57	(121)		103
Net interest income on trading activities	6	1	177		16	11	211
Net trading income/(expense)[7]	96	38	217	57	(105)	11	314
Net income/(expense) from financial instruments designated at fair value	(455)	15	8		71		(361)
Gains less losses from financial investments	159	34	12		(303)		(98)
Dividend income	2	1	3		14		20
Net earned insurance premiums	1,559	84	6		1		1,650
Other operating income	110	17	47	2	448	(176)	448
Total operating income/(expense)	4,020	1,237	1,332	250	(386)	(176)	6,277
Net insurance claims[8]	(1,104)	(61)	(4)				(1,169)
Net operating income/(expense)[4]	2,916	1,176	1,328	250	(386)	(176)	5,108
Loan impairment (charges)/recoveries and other credit risk provisions	(34)	(28)	(20)		1		(81)
Net operating income/(expense)	2,882	1,148	1,308	250	(385)	(176)	5,027
Total operating expenses	(848)	(279)	(538)	(127)	(359)	176	(1,975)
Operating profit/(loss)	2,034	869	770	123	(744)		3,052
Share of profit in associates and joint ventures	2				19		21
Profit/(loss) before tax	2,036	869	770	123	(725)		3,073

	%	%	%	%	%	%
Share of HSBC s profit before tax	**19.9**	**8.5**	**7.5**	**1.2**	**(7.1)**	**30.0**
Cost efficiency ratio	**29.1**	**23.7**	**40.5**	**50.8**	**(93.0)**	**38.7**

Balance sheet data[6]

	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Loans and advances to customers (net)	**40,608**	**32,112**	**20,257**	**4,912**	**1,852**	**99,741**
Total assets	**74,967**	**41,800**	**162,571**	**15,072**	**31,282**	**325,692**
Customer accounts	**133,454**	**49,700**	**31,577**	**16,602**	**376**	**231,709**
Loans and advances to banks (net)[12]			**64,186**			
Trading assets[12,13]			**28,334**			
Financial instruments designated at fair value[12]			**422**			
Financial investments[12]			**34,455**			
Deposits by banks[12]			**4,417**			
Trading liabilities[12,13]			**25,895**			

For footnotes, see page 89.

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Profit/(loss) before tax

	Half-year to 30 June 2007						
Hong Kong	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	1,588	726	418	49	(372)	159	2,568
Net fee income	791	250	318	80			1,439
Trading income/(expense) excluding net interest income	74	32	302	130	(13)		525
Net interest income on trading activities	2		80		21	(159)	(56)
Net trading income[7]	76	32	382	130	8	(159)	469
Net income/(expense) from financial instruments designated at fair value	273	(36)	1		(28)		210
Gains less losses from financial investments			1	1	30		32
Dividend income	1		1		15		17
Net earned insurance premiums	1,366	55	5				1,426
Other operating income	97	13	55	10	390	(152)	413
Total operating income	4,192	1,040	1,181	270	43	(152)	6,574
Net insurance claims[8]	(1,473)	(34)	(5)				(1,512)
Net operating income[4]	2,719	1,006	1,176	270	43	(152)	5,062
Loan impairment charges and other credit risk provisions	(74)	(1)	(5)				(80)
Net operating income	2,645	1,005	1,171	270	43	(152)	4,982
Total operating expenses	(750)	(246)	(474)	(109)	(238)	152	(1,665)
Operating profit/(loss)	1,895	759	697	161	(195)		3,317
Share of profit in associates and joint ventures	3	1			9		13
Profit/(loss) before tax	1,898	760	697	161	(186)		3,330
	%	%	%	%	%		%
Share of HSBC s profit before tax	13.4	5.4	4.9	1.1	(1.3)		23.5
Cost efficiency ratio	27.6	24.5	40.3	40.4	553.5		32.9

Balance sheet data[6]

	US$m	US$m	US$m	US$m	US$m		US$m
	39,375	25,105	19,231	4,309	1,898		89,918

Loans and advances to customers (net)							
Total assets	62,199	31,043	163,766	12,553	31,120		300,681
Customer accounts	120,638	44,719	26,978	12,340	544		205,219
Loans and advances to banks (net)[12]			61,850				
Trading assets[12,13]			29,224				
Financial instruments designated at fair value[12]			691				
Financial investments[12]			50,099				
Deposits by banks[12]			9,991				
Trading liabilities[12,13]			24,045				

For footnotes, see page 89.

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H S B C H O L D I N G S P L C

Interim Management Report: Business Review (continued)

Analysis by customer group and global business *(continued)*

Profit/(loss) before tax

	Half-year to 31 December 2007						
Hong Kong	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	1,754	814	568	21	(395)	153	2,915
Net fee income	1,182	276	364	99	2		1,923
Trading income excluding net interest income	114	31	251	150	199		745
Net interest income on trading activities	3		161		17	(153)	28
Net trading income[7]	117	31	412	150	216	(153)	773
Net income/(expense) from financial instruments designated at fair value	547	23	6		(110)		466
Gains less losses from financial investments			37		25		62
Dividend income	1	1	5		7		14
Net earned insurance premiums	1,288	75	8				1,371
Other operating income/(expense)	56	15	59	(4)	491	(185)	432
Total operating income	4,945	1,235	1,459	266	236	(185)	7,956
Net insurance claims[8]	(1,643)	(48)	(5)				(1,696)
Net operating income[4]	3,302	1,187	1,454	266	236	(185)	6,260
Loan impairment charges and other credit risk provisions	(101)	(27)	(23)				(151)
Net operating income	3,201	1,160	1,431	266	236	(185)	6,109
Total operating expenses	(889)	(301)	(551)	(122)	(437)	185	(2,115)
Operating profit/(loss)	2,312	859	880	144	(201)		3,994
Share of profit in associates and joint ventures	2		1		12		15
Profit/(loss) before tax	2,314	859	881	144	(189)		4,009

	%	%	%	%	%	%
Share of HSBC s profit before tax	23.0	8.5	8.8	1.4	(1.9)	39.9
Cost efficiency ratio	26.9	25.4	37.9	45.9	185.2	33.8

Balance sheet data[6]

	US$m	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	38,197	25,890	19,171	4,329	2,051	89,638
Total assets	72,386	35,366	185,933	14,138	24,868	332,691
Customer accounts	129,159	51,562	37,364	15,649	754	234,488
Loans and advances to banks (net)[12]			53,725			
Trading assets[12,13]			38,369			
Financial instruments designated at fair value[12]			546			
Financial investments[12]			46,765			
Deposits by banks[12]			6,251			
Trading liabilities[12,13]			26,804			

For footnotes, see page 89.

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Rest of Asia-Pacific (including the Middle East)

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

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2008						
Australia	**15**	**34**	**47**		**4**	**100**
India	**(53)**	**75**	**301**	**2**	**46**	**371**
Indonesia	**(1)**	**19**	**52**		**(4)**	**66**
Japan	**(39)**		**42**	**1**		**4**
Mainland China	**277**	**306**	**357**	**(2)**	**(31)**	**907**
Associates	**321**	**268**	**159**			**748**
Other mainland China	**(44)**	**38**	**198**	**(2)**	**(31)**	**159**
Malaysia	**61**	**51**	**94**		**3**	**209**
Middle East	**209**	**308**	**426**	**2**	**45**	**990**
Egypt	**11**	**37**	**45**		**22**	**115**
United Arab Emirates	**106**	**184**	**229**	**2**	**1**	**522**
Other Middle East	**44**	**69**	**65**			**178**
Middle East (excluding Saudi Arabia)	**161**	**290**	**339**	**2**	**23**	**815**
Saudi Arabia	**48**	**18**	**87**		**22**	**175**
Singapore	**63**	**45**	**185**	**51**	**(4)**	**340**
South Korea	**(10)**	**(2)**	**168**		**21**	**177**
Taiwan	**(5)**	**12**	**106**		**2**	**115**
Other	**18**	**113**	**194**		**20**	**345**
	535	**961**	**1,972**	**54**	**102**	**3,624**
Half-year to 30 June 2007						
Australia	19	16	16			51
India	(13)	49	211		52	299
Indonesia	2	15	46		(5)	58
Japan	(8)	(1)	26	1		18
Mainland China	168	171	126		1,084	1,549
Associates	171	147	67		1,078	1,463
Other mainland China	(3)	24	59		6	86
Malaysia	40	28	70	1	6	145
Middle East	125	220	216	1	44	606
Egypt	7	22	24		19	72
United Arab Emirates	62	139	93	1		295
Other Middle East	37	41	53		(3)	128
Middle East (excluding Saudi Arabia)	106	202	170	1	16	495
Saudi Arabia	19	18	46		28	111
Singapore	50	60	105	51	1	267
South Korea	(15)	(8)	66		15	58

Taiwan	(35)	13	64		1	43
Other	18	34	152	2	44	250
	351	597	1,098	56	1,242	3,344

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H S B C H O L D I N G S P L C

Interim Management Report: Business Review (continued)

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

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 31 December 2007						
Australia	22	21	26		4	73
India	(57)	39	218	(1)	31	230
Indonesia	(9)	14	40		1	46
Japan	(26)	(2)	49	(1)	5	25
Mainland China	326	226	243		17	812
Associates	345	204	153		15	717
Other mainland China	(19)	22	90		2	95
Malaysia	41	62	76	(1)	7	185
Middle East	120	262	279	2	38	701
Egypt	3	24	41		13	81
United Arab Emirates	46	123	149	2	2	322
Other Middle East	46	60	63		3	172
Middle East (excluding Saudi Arabia)	95	207	253	2	18	575
Saudi Arabia	25	55	26		20	126
Singapore	51	52	135	39	6	283
South Korea	(29)	(12)	93		13	65
Taiwan	(17)	14	80		3	80
Other	(13)	77	127	(2)	(24)	165
	409	753	1,366	36	101	2,665

Loans and advances to customers (net) by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
Australia	**12,664**	9,845	11,339
India	**7,585**	6,216	7,220
Indonesia	**1,924**	1,296	1,642
Japan	**4,710**	3,580	4,258
Mainland China	**12,653**	6,787	11,647
Malaysia	**9,295**	8,003	8,856
Middle East (excluding Saudi Arabia)	**25,004**	17,047	21,607
Egypt	**2,265**	1,196	1,853
United Arab Emirates	**16,416**	10,928	14,103
Other Middle East	**6,323**	4,923	5,651
Singapore	**13,724**	10,768	11,505
South Korea	**6,581**	6,458	7,124

Taiwan	**5,330**	3,834	3,658
Other	**14,287**	14,340	12,996
	113,757	88,174	101,852

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Customer accounts by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
Australia	**13,864**	10,345	11,418
India	**11,365**	8,827	12,021
Indonesia	**2,557**	2,082	2,574
Japan	**4,728**	3,944	4,657
Mainland China	**18,205**	9,229	14,537
Malaysia	**12,836**	10,629	11,701
Middle East (excluding Saudi Arabia)	**36,256**	26,277	30,937
Egypt	**5,359**	3,358	4,056
United Arab Emirates	**20,658**	15,362	18,455
Other Middle East	**10,239**	7,557	8,426
Singapore	**32,784**	25,885	28,962
South Korea	**4,509**	4,705	5,760
Taiwan	**12,227**	9,208	9,426
Other	**17,464**	16,328	18,240
	166,795	127,459	150,233

Economic briefing

Mainland China maintained a robust level of growth during the first half of 2008, although some mild deceleration was evident as the year-on-year rate of GDP growth slowed from 11.3 per cent in the final quarter of 2007 to 10.1 per cent in the second quarter of 2008. This reflected both a slowing of overseas demand for Chinese exports and the effect of unusual weather patterns and natural disaster. Consumer spending continued to advance at a rapid pace with retail spending increasing by 23 per cent over the year to June 2008, reflecting strong income growth and, in part, rising inflationary pressures. The annual rate of consumer price inflation rose to 7.1 per cent in June 2008, mainly due to higher food prices. Intense price pressures led to a further tightening of economic policy during the first half of 2008. The renminbi continued its gradual appreciation against the US dollar, rising at a slightly higher rate than that of recent years.

Japan s economy, the largest in the region, proved unexpectedly strong during the first quarter of 2008 with GDP rising by 1.3 per cent year-on-year, driven in large part by a rebound in household expenditure and strong external demand. However, most indicators of growth deteriorated during the second quarter of the year. The annual rate of industrial production growth slowed to just 0.2 per cent in June 2008, household expenditure remained subdued and business confidence deteriorated during the second quarter. Inflationary pressures increased during 2008 and the headline rate of consumer price inflation hit a ten-year high of 2.0 per cent in June 2008.

The economies of the **Middle East** continued to perform strongly during the first half of 2008, although inflationary pressures grew as the year progressed. Sharply higher oil prices once again proved the catalyst for expansion, facilitating continued growth in public and private investment. Consumption rose as employment levels increased and low interest rates supported an ongoing expansion in credit. High oil revenues continued to boost fiscal and current account surpluses throughout the Middle East, supporting in turn increases in the holdings of foreign assets.

Elsewhere in Asia, most economies continued to perform reasonably strongly in the first half of 2008, although growing concerns arising from the inflationary outlook prompted a number of central banks across the region to tighten their policies. The Indian economy proved resilient, helped by the strength of activity within the service sector and a sharp rise in government investment expenditure. A sustained rise in inflation during the first half of 2008 prompted the Reserve Bank of India to tighten policy. Economic activity in Singapore was uneven during the first half of the year, with volatility in certain specific industrial sectors. Overall, high levels of loan demand boosted strong growth during the first quarter before activity slowed. The annual rate of inflation continued to advance, hitting a 26-year high of 7.5 per cent in June 2008. Inflation was also the predominant concern in Vietnam as the annual rate of consumer price inflation doubled to 27 per cent during the first half of 2008, prompting the State Bank of Vietnam to sanction substantial interest rate increases. The external trade position

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Interim Management Report: Business Review (continued)

Profit before tax

	Half-year to		
Rest of Asia-Pacific (including the Middle East)	**30 June 2008 US$m**	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**2,633**	1,901	2,242
Net fee income	**1,338**	1,010	1,236
Net trading income	**1,329**	797	846
Net income/(expense) from financial instruments designated at fair value	**(88)**	78	33
Gains less losses from financial investments	**33**	26	12
Gains arising from dilution of interests in associates		1,076	5
Dividend income	**2**	4	4
Net earned insurance premiums	**114**	109	117
Other operating income	**484**	360	438
Total operating income	**5,845**	5,361	4,933
Net insurance claims incurred and movement in liabilities to policyholders	**(4)**	(141)	(112)
Net operating income before loan impairment charges and other credit risk provisions	**5,841**	5,220	4,821
Loan impairment charges and other credit risk provisions	**(369)**	(308)	(308)
Net operating income	**5,472**	4,912	4,513
Total operating expenses	**(2,784)**	(2,075)	(2,689)
Operating profit	**2,688**	2,837	1,824
Share of profit in associates and joint ventures	**936**	507	841
Profit before tax	**3,624**	3,344	2,665
	%	%	%
Share of HSBC s profit before tax	**35.4**	23.6	26.5
Cost efficiency ratio	**47.7**	39.8	55.8
Period-end staff numbers (full-time equivalent)	**93,747**	81,031	88,573

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**113,757**	88,174	101,852
Loans and advances to banks (net)	**51,739**	34,678	39,861
Trading assets, financial instruments designated at fair value, and financial investments	**68,132**	52,189	64,381
Total assets	**259,041**	201,123	228,112
Deposits by banks	**20,539**	13,709	17,560
Customer accounts	**166,795**	127,459	150,233

For footnotes, see page 89.

deteriorated considerably, raising concerns over the sustainability of the currency. First quarter growth in year-on-year terms remained at about 7 per cent in Malaysia, driven by rising food and energy exports. In Indonesia, further strong growth in the first quarter of the year was driven by robust business investment expenditure. However, rising inflationary pressures eventually led Bank Indonesia into a modest tightening of policy. South Korea s economy suffered from its position as one of the most energy intensive economies of the region, with both the

outlook for growth and inflation deteriorating during the first half of 2008. Rising food prices proved particularly problematic for the Philippines economy, with inflation moving well above the central bank s targeted range. Export growth in Taiwan was generally resilient in the face of deteriorating conditions overseas, while robust economic performance in Thailand and Pakistan in the first half of 2008 was overshadowed to varying degrees by lingering domestic uncertainty.

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Reconciliation of reported and underlying profit before tax

Rest of Asia-Pacific (including the Middle East)	1H07 as reported	Disposals and dilution gains1	Currency translation2	1H07 at 1H08 exchange rates	Acquisitions1	Underlying change	1H08 as reported	Reported change	Underlying change
	Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)								
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Net interest income	1,901		95	1,996	8	629	2,633	39	32
Net fee income	1,010		50	1,060	1	277	1,338	32	26
Other income[3]	2,309	(1,076)	108	1,341	4	525	1,870	(19)	39
Net operating income[4]	5,220	(1,076)	253	4,397	13	1,431	5,841	12	33
Loan impairment charges and other credit risk provisions	(308)		(12)	(320)		(49)	(369)	(20)	(15)
Net operating income	4,912	(1,076)	241	4,077	13	1,382	5,472	11	34
Operating expenses	(2,075)		(116)	(2,191)	(11)	(582)	(2,784)	(34)	(27)
Operating profit	2,837	(1,076)	125	1,886	2	800	2,688	(5)	42
Income from associates	507		32	539		397	936	85	74
Profit before tax	3,344	(1,076)	157	2,425	2	1,197	3,624	8	49

For footnotes, see page 89.

Review of business performance

Operations in the Rest of Asia-Pacific region reported a pre-tax profit of US$3.6 billion compared with US$3.3 billion in the first half of 2007, an increase of 8 per cent. In the first half of 2007, HSBC recognised non-recurring gains of US$1.1 billion following share offerings made by HSBC s associates Ping An Insurance, Bank of Communications and Industrial Bank. Excluding these dilution gains, profit before tax increased by 49 per cent on an underlying basis.

In the first half of 2008, HSBC acquired the assets, liabilities and operations of The Chinese Bank in Taiwan, increasing the branch network there from eight to 44 and providing a presence in all major cities in Asia s fourth biggest banking market.

Global Banking and Markets performed well, notably in the Middle East, mainland China and South Korea, driven by strong revenue growth from Balance Sheet Management, foreign exchange trading and securities services. Increased profit before tax in Commercial Banking was largely volume driven following customer acquisition, particularly in the mid-market and small business segments. In Personal Financial Services, higher contributions from HSBC associates and increased revenues from personal lending were largely offset by larger loan impairment charges, particularly in India following portfolio growth and increased delinquencies, and investment in business expansion. Pre-tax profits were broadly in line with the first half of 2007 in Private Banking as strong revenue only

partially funded costs associated with expansion in Japan and mainland China.

The following commentary is on an underlying basis and excludes dilution gains.

Pre-tax profits in **Personal Financial Services** were US$535 million, 42 per cent higher than in the first half of 2007. Operating income and the contribution from HSBC s associates increased by 23 per cent and 79 per cent, respectively. Revenue growth across the region was driven by increased fee income and net interest income, with the latter predominantly attributable to the growth of personal lending. Loan impairment charges increased, partly as a result of the deteriorating credit environment and the effects of higher food and energy prices on consumers in India. Notwithstanding significant investment in the key markets of mainland China, the Middle East, India and Japan, the cost efficiency ratio remained in line with the first half of 2007.

Key initiatives in the region included an increased emphasis on offerings to Premier customers and growth of the wealth management business. The number of Premier customers increased by 23 per cent compared with 31 December 2007. Growth was particularly strong in the United Arab Emirates (UAE), India, Singapore, Australia and mainland China, assisted by the expansion of renminbi-denominated services following local incorporation in 2007. In the Middle East, several HSBC One World products for nonresidents were introduced to increase cross-border business.

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Interim Management Report: Business Review (continued)

Branches were added during the last 12 months in mainland China, Indonesia, Pakistan, Japan, Sri Lanka and Jordan. Including 32 Hang Seng Bank outlets in Mainland China, the total number of branches in the region was 462, a 24 per cent rise from 30 June 2007. In mainland China, HSBC added 8 new outlets in the period, maintaining its leading position among foreign banks for own-branded branches. Operating expenses rose to support expansion, including more than 1,100 additional staff. HSBC now has over 10,000 frontline staff across the region.

Pre-tax profits rose by 52 per cent in mainland China, with a significant rise in revenues from the locally incorporated bank along with profits from associates which nearly doubled. Net interest income grew strongly, benefiting from substantial volume growth of mortgages and renminbi deposits following branch expansion into the important economic zones of the Pearl River Delta, the Yangtze River Delta and the Bohai Rim. Business expansion was curtailed slightly due to regulatory restrictions on lending growth for banks operating in mainland China, which took effect from the second half of 2007. Fees related to products offered through the Qualified Domestic Institutional Investors (QDII) scheme contributed to a doubling of net fee income.

The Middle East reported profit before tax of US$209 million, an increase of 65 per cent. Revenues rose by 52 per cent, driven by higher net interest income from balance sheet growth and wider spreads in a falling interest rate environment, particularly for personal loans, cards and mortgages. Mortgage balances more than doubled in the UAE, with growth driven by customer demand. Fee income also rose as a result of strong sales of investment and insurance products and higher fees from cards, as both cards in force and cardholder spending increased. New structured products and mutual funds were introduced to match client appetite in the volatile stock market conditions. Trading income rose due to stronger than anticipated foreign exchange income, in part due to higher volatility fuelled by expectations that currencies in the region may be unpegged from the US dollar or revalued.

In Singapore, pre-tax profits grew by 17 per cent, largely attributable to higher net interest income from an increase in deposit balances. Fees rose strongly due to higher sales of investment products and the growth of the credit card business.

In India, a pre-tax loss of US$53 million was recorded, compared with a loss of US$13 million in

the first half of 2007. Investment in the business continued and drove higher asset balances and income growth. Loan impairment charges increased by 181 per cent, driven by volume growth in an adverse credit and collections environment as a result of high interest rates and inflation which inhibited customer repayment capabilities. Operating expenses increased due to higher business volumes and a rise in staff costs combined with a rise in fees paid to collection agencies.

A pre-tax loss in Taiwan was significantly lower than in the first half of 2007, due to reduced loan impairment charges.

Profit before tax in Malaysia rose by 42 per cent following strong revenue growth as a result of higher deposit balances and a rise in card and mortgage balances. In addition, there were gains from the redemption of Visa shares and sale of MasterCard shares. Growth was moderated by reduced consumer interest in investment products and competition in the mortgage sector which resulted in lower spreads.

Net interest income increased by 20 per cent to US$1.2 billion, driven mainly by wider spreads on credit cards and personal lending. Income was substantially higher in the Middle East, India, Indonesia and mainland China. Higher pricing resulted in a widening of asset spreads.

A 14 per cent increase in average deposit balances was largely driven by mainland China and Singapore. The success of Premier was also instrumental in deposit growth in mainland China and India. HSBC Direct balances rose by 58 per cent. Spreads contracted during the period due to falling interest rates.

The mortgage portfolio grew by 9 per cent, excluding New Zealand, where there had been the sale of a mortgage portfolio in the second half of 2007. Growth was recorded in the UAE, Singapore, Australia and mainland China. Mortgage spreads improved, due to lower base rates.

Average card balances increased by 29 per cent, and interest income related to credit cards rose significantly in the Middle East, India and Australia. In the Middle East, credit card balances rose following the success of efforts to increase cardholder spending and the number of cards in circulation. The latter rose by 12 per cent in the first half of 2008 to over 1.3 million. Total cards in issue in the Rest of Asia-Pacific region exceeded 9.3 million. Spreads on credit card lending widened, driven by the Middle East and India, where base rate cuts led to lower funding costs while asset pricing was maintained.

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In Indonesia and India, lending growth, including personal instalment loans and cards, continued following the expansion of the consumer finance business begun in 2007 which continued in Indonesia with the addition of 24 branches. Spreads in each of these countries improved due to higher lending rates combined with stable base rates.

Net fee income increased by 23 per cent to US$434 million, with growth in cards and the sale of investment products. Credit card fee income increased by 33 per cent, driven by higher balances, cardholder spending and new cards in the Middle East and India. Funds under management continued to grow, reaching US$13.1 billion. Sales of investment products increased despite stock market volatility, as customers increasingly chose structured products over market-led unit trusts. HSBC increased fees from the sale of insurance products by 41 per cent as a result of new product launches, including credit enhancement insurance.

Declines in global equity markets resulted in lower net claims, however this was offset by a corresponding net loss on investments held by the insurance business.

Loan impairment charges rose by 43 per cent, driven by higher charges in India, the Middle East and, to a lesser extent, Australia. The main contributing factors in India were volume growth, seasoning of the personal lending portfolio, higher delinquency on credit cards and personal loans and a challenging collections environment. In the Middle East, volume growth of the credit card portfolio led to a rise in delinquency, notably in the UAE. Loan impairment charges increased by 83 per cent in Australia due to increased delinquencies on cards.

In Taiwan, loan impairment charges decreased by 67 per cent, due to an improvement in asset quality and increased collection efforts in the high risk segments.

HSBC continued to invest substantially in the region, particularly in India and mainland China. The number of staff increased in key markets including mainland China and the Middle East. Further branches in mainland China led to the hiring of over 800 additional staff. Deteriorating credit performance and increased loan delinquencies in the consumer finance business drove a rise in fees paid to collection agencies in India and Indonesia. In Japan, *operating expenses* increased, primarily due to the launch of Premier and branch expansion. Cost increases were controlled in part by customer use of low-cost channels. In the UAE, the number of e-Saver accounts increased by 204 per cent, along with a 96 per cent rise in internet transactions.

Income from associates rose substantially and was 79 per cent higher than in the first half of 2007. HSBC s associate, Ping An Insurance, continued to be successful in increasing life insurance premiums, which, combined with an increase to long-term yield assumptions led to increased embedded value. In addition, contributions from Bank of Communications and The Saudi British Bank rose by 95 per cent and 146 per cent, respectively. The increase in the latter was primarily attributable to strong asset growth and limited loan impairment charges. The Saudi British Bank also launched three Premier centres.

Commercial Banking reported a pre-tax profit of US$961 million, 52 per cent higher than in the first half of 2007. Growth was largely attributable to mid-market and small business customer acquisition, and increased associates income from the Bank of Communications and Industrial Bank in mainland China. Revenue growth across the region was largely volume driven and the credit environment remained relatively benign. Asian intra-regional trade and investment flows continued to strengthen, mitigating the effects of the global economic slowdown. Notwithstanding the expansion of the network to second tier cities in India, Taiwan and mainland China and an increase in staff numbers, the cost efficiency ratio remained broadly in line with the first half of 2007.

In the Middle East, profit before tax rose by 41 per cent, as buoyant economic conditions across the region contributed to notable customer and revenue growth. Additional staff were recruited to increase sales of trade services and actively manage relationships with customers of trade and supply-chain products.

In mainland China, operating profit grew by 46 per cent as HSBC continued to strengthen the local distribution network, adding a further branch in the first half of 2008 to supplement volume growth in deposits. The Greater China regional model continued to show strong results, demonstrated by a 163 per cent growth in the number of referrals from mainland China through Global Links, the cross-border referral system. Though hindered by restrictions on local currency lending imposed by the People s Bank of China, HSBC continued to grow revenues by repricing assets and fee-based business.

Profit before tax in Singapore declined by 32 per cent, largely due to reduced net interest income as lower interest rates resulted in compressed margins on current accounts. This was partially offset by an increased focus on income generation

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from fund and ancillary services, augmented by net recoveries of loan impairment charges.

In India, profit before tax rose by 47 per cent to US$75 million. Strong revenue growth in the country was driven by increased customer acquisition, particularly in second tier cities. This growth was supplemented by stronger bilateral business flows with Mauritius and higher deposit balances.

In Malaysia, profit before tax increased by 68 per cent, as loan impairment charges improved in comparison with the first half of 2007. Revenues increased by 12 per cent, due to growth in deposit and asset balances which more than offset the effect of narrower spreads for foreign currency deposits.

Profit before tax in Australia increased by 86 per cent. Revenue growth was broad-based with interest income growth of 36 per cent attributable to increased deposit balances.

HSBC further enhanced its cross-border business capabilities with the opening of a new International Banking Centre in Japan, taking coverage to 27 countries and territories in the region. Successful referral volumes originating within the Asia-Pacific region from Global Links, the cross-border referral system, more than doubled compared with the first half of 2007.

Net interest income increased by 25 per cent, due largely to growth in deposit volumes from enhanced focus on generating both local and foreign currency balances. Lower interest rates contributed to the contraction of liability and asset spreads, and to lower earnings from free funds.

Lending volumes rose by 22 per cent, particularly in India and the Middle East. In India, growth was spurred by an increase in customer numbers across all segments and product groups, along with higher spreads on customer advances. Receivables finance also reported increased income in India. Favourable economic conditions in the Middle East contributed to increased lending volumes, and spreads increased on corporate lending products, as pricing resulted in higher yields. Branch expansion in mainland China succeeded in increasing customer numbers by 29 per cent and driving lending growth.

Average deposit balances increased by 16 per cent, notwithstanding lower margins. In India, deposit volumes benefited from increased customer numbers. Customer numbers also rose in the Middle East and, with HSBC s focus on payments and cash management, contributed to a 37 per cent rise in deposit balances. Lower interest rates caused spreads

on deposits to reduce in India, the Middle East and mainland China.

Net fee income rose by 37 per cent to US$290 million, predominantly driven by growth in fees from trade services products, notably in the Middle East and mainland China.

Trade-related lending fees rose by 36 per cent, largely in the Middle East as international and trading activity in the region remained strong, but also in India, Malaysia, South Korea and Australia. In the Middle East, volume growth was enhanced by inflation-induced increases in commodity prices, notably on materials vital to the booming construction industry. HSBC s distribution capabilities in the region also contributed to growth. HSBC s positioning in Dubai, a key trading market and international hub, resulted in over 65 per cent growth in import and export trading volumes in the UAE, along with similar growth in fees from trade and supply chain activities. In mainland China, growth in forfaiting led to a 32 per cent increase in trade-related fees. Customer acquisition in India drove significant volume increases in fees from trade services and payments and cash management.

Trading income grew by 70 per cent, mainly due to growth in volumes of transactions in the Middle East and in India, attributable to increased volatility in the foreign exchange markets. Within the Middle East, higher trading income also reflected growth in the total value of transactions due to the effects of inflation and increased remittances.

Loan impairment recoveries of US$16 million were largely due to the non-recurrence of downgrades to certain customers in Thailand and Malaysia. In addition benign credit conditions continued in the Middle East with net releases more than doubling.

Total *operating expenses* rose by 33 per cent, driven by rising staff costs across the majority of the region. Investment was undertaken to expand HSBC s presence, notably in mainland China. Customer facing staff numbers increased across the region by 30 per cent to support business expansion. In the Middle East, increased staff numbers, wage inflation driven by competitive labour market conditions and higher performance related pay as a consequence of improved profits caused a 30 per cent rise in staff costs. Cost growth in India was principally due to geographical expansion into second tier cities and growth in the number of relationship managers.

The percentage of total transactions completed using lower-cost channels increased compared with

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the first half of 2007. Over 3.5 million transactions were completed using these channels and the number of customers registered for business internet banking rose by 43 per cent.

HSBC s associate, Bank of Communications, increased its contribution by 67 per cent, driving a 63 per cent increase in *income from associates*. Bank of Communications continued to expand its operations in mainland China. The contribution from Industrial Bank also increased compared with the first half of 2007 due to growth and rising margins.

Global Banking and Markets profit before tax rose by 71 per cent to US$2.0 billion, with growth in all major countries, with notable improvements in the Middle East, South Korea, mainland China and India.

In the Middle East, pre-tax profit doubled due to a combination of strong growth in foreign exchange trading and a robust contribution from Global Banking and Balance Sheet Management. Securities services profit also grew, reflecting the importance of the region for the securities services strategy. Global Banking increased lending, taking advantage of strong economic growth in the region and wider spreads. Balance Sheet Management profit was higher due to a lower cost of funds as local central banks reduced interest rates in line with the US.

In India, higher pre-tax profit was attributable to foreign exchange trading and securities services. Foreign exchange profits were driven by high customer demand and market volatility. The increased securities services profit was due to growth in deposit account balances and in the derivatives clearing business.

Pre-tax profit in mainland China rose substantially, driven by Balance Sheet Management, which earned higher revenues due to an increase in surplus funds as the People s Bank of China restricted lending, combined with a steepening yield curve. Rates and foreign exchange trading also performed strongly, as did income from associates as Ping An Insurance and Bank of Communications expanded. Ping An Insurance continued to grow its asset management business, while Bank of Communications earned increased fees for asset custody and advisory work.

Balance Sheet Management was the main reason for increased profits in Singapore, benefiting from the reduction in short-term US and Singapore dollar interest rates.

In South Korea, pre-tax profits grew as Rates performed strongly, driven by increased client

demand for hedging products linked to financing activity.

In Malaysia, Rates and foreign exchange were the main contributors to profit growth. Significant client activity was driven by market volatility as inflationary expectations triggered a sharp upward move in interest rates, leading clients to demand products which protected them from interest and exchange rate risks.

The region s total operating income grew by 55 per cent to US$2.4 billion. Foreign exchange trading delivered strong revenues throughout the region. During the first half of 2008 there was significant volatility in the foreign exchange markets contributing to increased trading and strong customer demand for foreign exchange products, while HSBC s broad distribution network helped to attract clients. Balance Sheet Management benefited in most countries from the steepening of the yield curve as central banks responded to the credit market turmoil.

Net interest income increased by 58 per cent due to the strong performance of Balance Sheet Management, described above, and also growth in the Middle East as average customer lending rose by more than 40 per cent due to overall investment in infrastructure and business expansion in the region, and widening spreads.

Net fee income grew by 29 per cent, driven by the ongoing strength of the securities services and payments and cash management businesses. Transaction volumes and growing client balances drove the increase in payments and cash management. In securities services, higher client trading volumes increased the level of transactions which led to higher fees in the custody and clearing business. Global Asset Management also reported an increase in fees, as funds under management benefited from inflows of new funds and new product launches, despite declining local stock markets.

Trading income rose significantly, driven by foreign exchange products, as noted above. Foreign exchange trading income increased by 68 per cent, continuing its strong upward momentum. Rates trading in South Korea also contributed, in response to increased client activity in local rates markets and hedging relating to financing activity.

Gains less losses from financial investments were lower due to the non-recurrence of significant disposals in 2007 in the Philippines.

The corporate credit environment remained benign, with a very low *loan impairment charge*.

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Nonetheless, this compared unfavourably with the first half of 2007 due to releases in Singapore and South Korea.

Operating expenses rose as the business invested to support growth across the region, driving an increase in staff numbers, with rises in most countries. Salary levels also rose, in line with inflation. Higher profits across the region also led to increased performance-related costs.

Private Banking reported a pre-tax profit of US$54 million, a decrease of 4 per cent when compared with the first half of 2007. Strong revenue growth continued in Singapore with a large rise in deposits. Higher profits were also recorded in India, notwithstanding further investment. Overall, the cost efficiency ratio worsened by 8.4 percentage points to 57.5 per cent, as a result of investment in domestic operations in a number of countries.

A 33 per cent rise in customer deposits in Singapore to US$9.4 billion was the main reason for a 68 per cent increase in *net interest income*. This trend was due to customers switching from investment securities to cash deposits in response to the turbulence in the equity markets.

Other revenues decreased by 2 per cent to US$80 million, as the demand for equity-linked structured products declined as the Hong Kong equity market underperformed in the first half of

the year. However, this was partly offset by a US$6 million growth in *trading income* in Japan from clients active in foreign exchange trading.

Client assets increased by 3 per cent to US$20.9 billion, with net new money of US$1.6 billion partly offset by a lower market valuation compared with 31 December 2007. The growth in cross-referrals continued, with inward referrals from other customer groups contributing US$168 million to total client assets, compared with US$66 million in the first half of 2007.

Operating expenses rose by 35 per cent to US$73 million, driven by market related pressures in Singapore. Business expansion, particularly in Japan and the new Private Banking offices in mainland China, also contributed to the rise in staff, property and IT costs.

Profit before tax reported within the **Other** segment was US$102 million. The costs and related recharges of HSBC s 15 GSCs, located primarily in mainland China and India, are reported in Other. Costs at GSCs increased by 9 per cent to US$286 million, due to increased volumes of activities undertaken and the opening of 4 new centres in the second half of 2007. This growth was supported by a 14 per cent rise in staff numbers. Costs are recovered from Group entities and recorded as other operating income.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)								
Rest of Asia-Pacific (including the Middle East)	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %
Net interest income	2,242		53	2,295	8	330	2,633	17	14
Net fee income	1,236		32	1,268	1	69	1,338	8	5
Other income[3]	1,343	(5)	14	1,352	4	514	1,870	39	38

Net operating income[4]	4,821	(5)	99	4,915	13	913	5,841	21	19
Loan impairment charges and other credit risk provisions	(308)		(1)	(309)		(60)	(369)	(20)	(19)
Net operating income	4,513	(5)	98	4,606	13	853	5,472	21	19
Operating expenses	(2,689)		(57)	(2,746)	(11)	(27)	(2,784)	(4)	(1)
Operating profit	1,824	(5)	41	1,860	2	826	2,688	47	44
Income from associates	841		37	878		58	936	11	7
Profit before tax	2,665	(5)	78	2,738	2	884	3,624	36	32

For footnotes, see page 89.

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Analysis by customer group and global business

Profit before tax

Rest of Asia-Pacific (including the Middle East)	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
	Half-year to 30 June 2008						
Net interest income	**1,166**	**680**	**918**	**47**	**88**	**(266)**	**2,633**
Net fee income	**434**	**290**	**560**	**43**	**11**		**1,338**
Trading income/(expense) excluding net interest income	**53**	**104**	**829**	**36**	**(30)**		**992**
Net interest income/(expense) on trading activities	**(2)**		**82**		**(9)**	**266**	**337**
Net trading income/(expense)[7]	**51**	**104**	**911**	**36**	**(39)**	**266**	**1,329**
Net expense from financial instruments designated at fair value	**(85)**	**(1)**	**(2)**				**(88**
Gains less losses from financial investments	**28**	**3**	**1**		**1**		**33**
Gains arising from dilution of interests in associates							
Dividend income			**2**				**2**
Net earned insurance premiums	**98**	**16**					**114**
Other operating income	**30**	**12**	**42**	**1**	**522**	**(123)**	**484**
Total operating income	**1,722**	**1,104**	**2,432**	**127**	**583**	**(123)**	**5,845**
Net insurance claims[8]	**6**	**(9)**			**(1)**		**(4**
Net operating income[4]	**1,728**	**1,095**	**2,432**	**127**	**582**	**(123)**	**5,841**
Loan impairment (charges)/recoveries and other credit risk provisions	**(375)**	**16**	**(11)**		**1**		**(369**
Net operating income	**1,353**	**1,111**	**2,421**	**127**	**583**	**(123)**	**5,472**
Total operating expenses	**(1,187)**	**(441)**	**(701)**	**(73)**	**(505)**	**123**	**(2,784**
Operating profit	**166**	**670**	**1,720**	**54**	**78**		**2,688**
Share of profit in associates and joint ventures	**369**	**291**	**252**		**24**		**936**
Profit before tax	**535**	**961**	**1,972**	**54**	**102**		**3,624**
	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**5.2**	**9.4**	**19.2**	**0.5**	**1.1**		**35.4**
Cost efficiency ratio	**68.7**	**40.3**	**28.8**	**57.5**	**86.8**		**47.7**

Balance sheet data[6]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	**37,861**	**37,384**	**35,001**	**3,350**	**161**		**113,757**

Total assets	**43,684**	**42,833**	**153,733**	**8,413**	**10,378**		**259,041**
Customer accounts	**56,552**	**38,968**	**58,162**	**12,594**	**519**		**166,795**
Loans and advances to banks (net)[12]			**39,583**				
Trading assets[12,13]			**40,477**				
Financial instruments designated at fair value[12]			**27**				
Financial investments[12]			**40,631**				
Deposits by banks[12]			**20,113**				
Trading liabilities[12,13]			**25,659**				

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H S B C H O L D I N G S P L C

Interim Management Report: Business Review (continued)

Analysis by customer group and global business *(continued)*

Profit before tax

	Half-year to 30 June 2007						
Rest of Asia-Pacific (including the Middle East)	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income	914	517	551	28	66	(175)	1,901
Net fee income	336	202	409	52	11		1,010
Trading income excluding net interest income	34	58	475	35	4		606
Net interest income/(expense) on trading activities	(1)		14		3	175	191
Net trading income[7]	33	58	489	35	7	175	797
Net income from financial instruments designated at fair value	55	3	5		15		78
Gains less losses from financial investments	2	4	19		1		26
Gains arising from dilution of interests in associates					1,076		1,076
Dividend income			1		3		4
Net earned insurance premiums	100	9					109
Other operating income/(expense)	20	8	20	(6)	387	(69)	360
Total operating income	1,460	801	1,494	109	1,566	(69)	5,361
Net insurance claims[8]	(137)	(4)					(141)
Net operating income[4]	1,323	797	1,494	109	1,566	(69)	5,220
Loan impairment charges and other credit risk provisions	(252)	(54)	(2)				(308)
Net operating income	1,071	743	1,492	109	1,566	(69)	4,912
Total operating expenses	(911)	(313)	(510)	(53)	(357)	69	(2,075)
Operating profit	160	430	982	56	1,209		2,837
Share of profit in associates and joint ventures	191	167	116		33		507
Profit before tax	351	597	1,098	56	1,242		3,344

	%	%	%	%	%		%
Share of HSBC s profit before tax	2.5	4.2	7.8	0.4	8.8		23.6
Cost efficiency ratio	68.9	39.3	34.1	48.6	22.8		39.8

Balance sheet data[6]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	31,768	25,996	27,575	2,716	119		88,174
Total assets	38,544	31,553	116,396	6,791	7,839		201,123
Customer accounts	44,686	28,803	44,126	9,092	752		127,459
Loans and advances to banks (net)[12]			28,663				
Trading assets[12,13]			27,699				
Financial instruments designated at fair value[12]			979				
Financial investments[12]			27,269				
Deposits by banks[12]			12,860				
Trading liabilities[12,13]			16,810				

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Profit before tax

Rest of Asia-Pacific (including the Middle East)	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
	Half-year to 31 December 2007						
Net interest income	1,051	614	744	32	87	(286)	2,242
Net fee income	430	227	543	33	3		1,236
Trading income/(expense) excluding net interest income	38	71	525	36	(74)		596
Net interest income/(expense)on trading activities	(1)		(36)		1	286	250
Net trading income/(expense)[7]	37	71	489	36	(73)	286	846
Net income/(expense) from financial instruments designated at fair value	18	1	(8)	(1)	23		33
Gains less losses from financial investments	3		9				12
Gains arising from dilution of interests in associates					5		5
Dividend income			1		3		4
Net earned insurance premiums	109	7			1		117
Other operating income	20	7	33	8	462	(92)	438
Total operating income	1,668	927	1,811	108	511	(92)	4,933
Net insurance claims[8]	(109)	(3)					(112)
Net operating income[4]	1,559	924	1,811	108	511	(92)	4,821
Loan impairment charges and other credit risk provisions	(300)	(7)	(1)				(308)
Net operating income	1,259	917	1,810	108	511	(92)	4,513
Total operating expenses	(1,220)	(426)	(630)	(72)	(433)	92	(2,689)
Operating profit	39	491	1,180	36	78		1,824
Share of profit in associatesand joint ventures	370	262	186		23		841
Profit before tax	409	753	1,366	36	101		2,665
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.1	7.5	13.6	0.4	1.0		26.5
Cost efficiency ratio	78.3	46.1	34.8	66.7	84.7		55.8

Balance sheet data[6]

	US$m	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	34,486	32,159	32,106	2,955	146	101,852
Total assets	40,092	37,215	133,814	7,561	9,430	228,112
Customer accounts	49,703	34,891	54,120	11,116	403	150,233
Loans and advances to banks (net)[12]			30,853			
Trading assets[12,13]			29,966			
Financial instruments designated at fair value[12]			43			
Financial investments[12]			39,448			
Deposits by banks[12]			17,174			
Trading liabilities[12,13]			18,257			

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Interim Management Report: Business Review (continued)

North America

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

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2008						
US	**(2,194)**	**167**	**(1,779)**	**48**	**277**	**(3,481)**
Canada	**127**	**237**	**119**	**4**	**7**	**494**
Bermuda	**17**	**26**	**35**	**6**	**10**	**94**
	(2,050)	**430**	**(1,625)**	**58**	**294**	**(2,893)**
Half-year to 30 June 2007						
US	1,336	215	292	50	(44)	1,849
Canada	145	222	120	4	2	493
Bermuda	7	40	24	6	16	93
	1,488	477	436	60	(26)	2,435
Half-year to 31 December 2007						
US	(3,160)	162	(1,535)	106	1,512	(2,915)
Canada	120	244	119	4	3	490
Bermuda	6	37	15	4	18	80
Other					1	1
	(3,034)	443	(1,401)	114	1,534	(2,344)

Loans and advances to customers (net) by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
US	**215,909**	233,592	233,706
Canada	**54,346**	45,510	53,891
Bermuda	**2,235**	2,193	2,263
	272,490	281,295	289,860

Customer accounts by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
US	**95,763**	93,325	100,034
Canada	**38,367**	32,744	37,061
Bermuda	**7,870**	8,328	8,078
	142,000	134,397	145,173

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Profit/(loss) before tax

North America	Half-year to 30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**7,873**	7,307	7,540
Net fee income	**2,822**	2,904	2,906
Net trading income/(expense)	**(1,816)**	622	(1,164)
Net income from financial instruments designated at fair value	**368**	81	1,669
Gains less losses from financial investments	**106**	53	192
Dividend income	**40**	64	41
Net earned insurance premiums	**203**	231	218
Other operating income	**115**	342	18
Total operating income	**9,711**	11,604	11,420
Net insurance claims incurred and movement in liabilities to policyholders	**(112)**	(124)	(117)