HSBC HOLDINGS PLC
Form 6-K
July 30, 2012
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of July 2012

Commission File Number: 001-14930

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F x Form 40-F ¨

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

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

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

Yes ¨ No x

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2012 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158054, 333-158065, 333-162565, 333-17025, 333-176732 and 333-180288.

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SIGNATURE

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

HSBC Holdings plc

By: /s/ Iain J Mackay
Name: Iain J Mackay
Title: Group Finance Director
Date: 30 July 2012

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HSBC HOLDINGS PLC

Interim Report 2012

Certain defined terms

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

Interim financial statements and notes

HSBC s Interim Consolidated Financial Statements and Notes thereon, as set out on pages 211 to 263, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority and International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2011 were prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB, and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the year ended 31 December 2011 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC s financial statements for the year ended 31 December 2011 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2012, there were no unendorsed standards effective for the period ended 30 June 2012 significantly affecting these interim consolidated financial statements, and there was no significant difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

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

Except where stated otherwise, commentaries are on a constant currency basis as reconciled on page 14. When reference is made to underlying or underlying basis in commentaries, comparative information has been expressed at constant currency, eliminating the impact of fair value movements in respect of credit spread changes on HSBC s own debt and adjusted for the effects of acquisitions and disposals as reconciled on page 16.

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

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Who we are and what we do

HSBC is one of the world s largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world s leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 221,000 shareholders in 134 countries and territories.

Highlights

Profit before tax up 11% to US$12.7bn on a reported basis.

Underlying pre-tax profit down 3% to US$10.6bn.

Strong performance in faster-growing regions, higher revenue in Hong Kong, Rest of Asia-Pacific and Latin America.

Achieved additional sustainable cost savings of US$0.8bn.

Core tier 1 capital ratio increased during the period from 10.1% at the end of 2011 to 11.3%.

Cover image

A Chinese ship in Brazil s largest port, Santos, illustrates the growing trade links between the two countries. China is today Brazil s largest trading partner, with HSBC financing an increasing share of that trade.

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HSBC HOLDINGS PLC

Overview

Financial highlights

Earnings per share

US$0.45 *down 12%*

30 June 2011: US$0.51
31 December 2011: US$0.41

Dividends per share[1]

US$0.23

30 June 2011: US$0.21
31 December 2011: US$0.18

Net assets per share

US$8.73

30 June 2011: US$8.59
31 December 2011: US$8.48

For the period

Profit before taxation

US$12,737m *up 11%*

30 June 2011: US$11,474m
31 December 2011: US$10,398m

Underlying profit before taxation

US$10,608m *down 3%*

30 June 2011: US$10,968m
31 December 2011: US$5,806m

Total operating income

US$43,672m *up 3%*

30 June 2011: US$42,311m
31 December 2011: US$41,150m

Net operating income before loan impairment charges and other credit risk provisions

US$36,897m *up 3%*

30 June 2011: US$35,694m
31 December 2011: US$36,586m

Profit attributable to ordinary shareholders of the parent company

US$8,152m *down 9%*

30 June 2011: US$8,929m
31 December 2011: US$7,295m

At the period-end

Loans and advances to customers

US$975bn *up 4%*

30 June 2011: US$1,038bn
31 December 2011: US$940bn

Customer accounts

US$1,278bn *up 2%*

30 June 2011: US$1,319bn
31 December 2011: US$1,254bn

Ratio of customer advances to customer accounts

76.3%

30 June 2011: 78.7%
31 December 2011: 75.0%

Total equity

US$174bn *up 5%*

Average total shareholders equity to average total assets

5.9%

Risk-weighted assets

US$1,160bn *down 4%*

30 June 2011: US$168bn	30 June 2011: 5.7%	30 June 2011: US$1,169bn
31 December 2011: US$166bn	31 December 2011: 5.6%	31 December 2011: US$1,210bn

Capital ratios

Core tier 1 ratio	**Tier 1 ratio**	**Total capital ratio**
11.3%	12.7%	15.1%
30 June 2011: 10.8%	30 June 2011: 12.2%	30 June 2011: 14.9%
31 December 2011: 10.1%	31 December 2011: 11.5%	31 December 2011: 14.1%

Percentage growth rates compare with figures at 30 June 2011 for income statement items and 31 December 2011 for balance sheet items.

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Overview (continued)

Performance ratios (annualised)

Credit coverage ratios

Loan impairment charges to total operating income	Loan impairment charges to average gross customer advances	Total impairment allowances to impaired loans at period-end
10.4%	1.0%	42.3%
30 June 2011: 11.8% 31 December 2011: 15.9%	30 June 2011: 1.0% 31 December 2011: 1.3%	30 June 2011: 42.5%[2] 31 December 2011: 42.3%

Return ratios

Return on average ordinary shareholders equity[3]	Return on average invested capital[4]	Post-tax return on average total assets	Pre-tax return on average risk-weighted assets
10.5%	9.9%	0.7%	2.1%
30 June 2011: 12.3% 31 December 2011: 9.5%	30 June 2011: 11.4% 31 December 2011: 8.9%	30 June 2011: 0.7% 31 December 2011: 0.6%	30 June 2011: 2.0% 31 December 2011: 1.7%

Efficiency and revenue mix ratios

Cost efficiency ratio[5]	Net interest income to total operating income	Net fee income to total operating income	Net trading income to total operating income
57.5%	44.4%	19.0%	10.3%
30 June 2011: 57.5% 31 December 2011: 57.5%	30 June 2011: 47.8% 31 December 2011: 49.6%	30 June 2011: 20.8% 31 December 2011: 20.3%	30 June 2011: 11.4% 31 December 2011: 4.1%

Share information at the period-end

			Closing market price	
US$0.50 ordinary	**Market**	London	Hong Kong	American

shares in issue	**capitalisation**			Depositary Share[6]
18,164m	US$160bn	£5.61	HK$68.55	US$44.13
30 Jun 2011: 17,818m	30 Jun 2011: US$177bn	30 Jun 2011: £6.18	30 Jun 2011: HK$77.05	30 Jun 2011: US$49.62
31 Dec 2011: 17,868m	31 Dec 2011: US$136bn	31 Dec 2011: £4.91	31 Dec 2011: HK$59.00	31 Dec 2011: US$38.10

	Total shareholder return[7]		
	Over 1 year	Over 3 years	Over 5 years
To 30 June 2012	96	127	90
Benchmarks:			
FTSE 100[8]	97	146	102
MSCI World[9]	96	139	89
MSCI Banks[9]	87	111	51

For footnotes, see page 100.

HSBC HOLDINGS PLC

Cautionary Statement Regarding Forward-looking Statements

This *Interim Report 2012* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC s expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ, in some instances materially, from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements that are not historical facts, such as those that include the words potential , value at risk , expects , anticipates , objective , intends , seeks , plans , believes , estimates , and similar expressions or variations on such expressions may be considered forward-looking statements .

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

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Past performance cannot be relied on as a guide to future performance. Trends and factors that are expected to affect HSBC s results of operations are described in the Interim Management Report . A more detailed cautionary statement is given on page 422 of the *Annual Report and Accounts 2011.*

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Overview (continued)

Group Chairman s Statement

Against a backdrop of deteriorating economic conditions, HSBC delivered a successful financial performance in the first half of 2012 with underlying revenue growth driven by Global Banking and Markets and Commercial Banking. This was particularly notable in the faster-growing regions of Hong Kong, Rest of Asia-Pacific and Latin America. In addition, we continued to make good progress in delivering the strategic agenda set out by management and the Group Chief Executive s Business Review highlights the key elements of performance in the period. We also benefited from sizeable disposal gains, as already announced transactions within the strategic repositioning of the Group, notably in the United States, completed. Profit before tax for the six months amounted to US$12.7 billion, some US$1.3 billion ahead of the same period last year.

Capital strength was bolstered and the core tier 1 ratio improved to 11.3% versus 10.1% at the beginning of the year and 10.8% a year ago.

A second interim dividend of US$0.09 per ordinary share was declared by the Board on 30 July taking the total dividends declared in respect of the first half of 2012 to US$0.18 per ordinary share, as foreshadowed in last year s *Annual Report and Accounts* and in line with the previous year.

However, regulatory and compliance events in the first six months of the year overshadowed financial performance. And that has added further to public concern and distrust of the banking industry.

HSBC has made mistakes in the past, and for them I am very sorry. Candidly, in particular areas we fell short of the standards that I, my colleagues, our regulators, customers and investors expect.

We cannot undo the mistakes but I can assure you that Stuart Gulliver and I are determined, and have made it our most important priority, to strengthen HSBC and reinforce our values. Our business practices and actions must stand up to scrutiny wherever we operate.

Over a year ago we set out a strategy designed to make HSBC the world s leading international bank. In order to make the firm more cohesive and better connected we reshaped our global business.

We created global functions with the necessary authority to manage the firm on a global basis with consistent policies, standards and processes.

We articulated a set of HSBC Values to underpin and guide our behaviour. HSBC employs 271,500 people around the world and I believe the vast majority of my colleagues demonstrate the highest standards of integrity in their daily decisions and actions.

And since we know too well that the bad practice of a few can stain our reputation we were, and are, determined to take the appropriate measures to protect and enhance our reputation.

Whether we succeed in gaining the recognition we strive for depends ultimately on the actions we take and the judgement of others. They will judge our financial performance and capital strength but they will judge us too on our reputation for reliability, trustworthiness and integrity.

It is, therefore, extremely frustrating and infuriating when we discover areas where the behaviour of HSBC has fallen short of the standards we expect.

That is why we are embedding a new structure to help us reduce complexity and run the firm more effectively. But structure is not enough. And that is why we are formulating and implementing global standards to ensure our conduct matches our values. We are committed to doing this.

In practice, this means we must adopt and enforce the highest standards throughout our global business.

It means enhancing risk management controls to prioritise behaviour and values, in particular around ethical sales practices.

It means that where we conclude that any customer or potential customer poses an unacceptable reputational risk (or otherwise does not meet our standards) we should exit or avoid the relationship.

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Overview (continued)

We are committed to making the necessary investment in controls and training required to fulfil society s expectations of our industry.

This Group is made up of many legal entities around the world, all with their own traditions and heritage, but we have only one reputation. Each generation of leadership is entrusted, above all else, to guard it jealously. We take that responsibility very seriously.

You will have seen the reports of HSBC s appearance two weeks ago before the US Senate s Permanent Subcommittee on Investigations (PSI). The hearing related to an investigation by the PSI into risks to the US financial system from inadequate compliance with US regulations around money laundering and financial sanctions. HSBC was a case study.

We had previously disclosed the existence of these proceedings in our *Annual Report and Accounts,* but the PSI hearing was the first time that details have been disclosed. During the hearing we acknowledged and apologised for past mistakes.

Our compliance and operational controls should have been stronger and more effective, most particularly in Mexico as we integrated and expanded the bank we acquired in 2002. As a consequence, we failed to identify or deal adequately with unacceptable behaviour.

The PSI report acknowledges we fully co-operated with the inquiry. That is only as it should be and rightly we were held accountable for our failings.

As the PSI is purely an investigatory body we expect related enforcement actions from other US authorities over the coming months. We shall, of course, continue to co-operate with all the authorities.

We learn lessons continually. As those who seek to exploit the financial system constantly adapt their approach we need to be tireless and more innovative in our own efforts to stop them. And we must demonstrate that we have learned from earlier mistakes.

The banking industry is operating in a hostile climate so we must double our efforts to convince our regulators, customers and investors that we are striving for the highest possible standards. Only that way can we allay public fears and regain trust in our industry.

Last year Stuart and I set out our hopes and aspirations for HSBC. This year they remain the

same: to make HSBC the world s leading international bank.

All this is taking place during a period of unprecedented transformation, transition and economic and political uncertainty. Never has the strain on management, our business and our customers been more evident.

The transformation required by the continuing regulatory reform agenda around capital, liquidity, central counterparty infrastructure, the ring-fencing of certain activities in the UK, preparation of recovery and resolution plans in multiple countries, addressing the extraterritorial reach of national legislation, understanding the impact of national discretions and exemptions, and addressing possible remuneration policy changes, to name but some of the areas of endeavour, is simply enormous.

The transition to a new regulatory architecture in the UK where the FSA is to be replaced with a Prudential Regulatory Authority and a Financial Conduct Authority, supplemented by a new Financial Policy Committee still defining its role and its macro-prudential tools within a Bank of England, itself about to transition to a new leadership and potentially a new governance model, adds further to the uncertain backdrop. The future influence and role of the European Banking Authority, to say nothing of what may come from a European Banking Union still in early stage design adds yet more complexity to planning for the future.

Alongside this industry introspection, we are seeking both for ourselves and with our clients to understand and address the economic and financial risks of a slowing global economy with a financial system increasingly domestically focused and with monetary and fiscal tools to stimulate growth all but exhausted in the developed world.

And finally, the political challenges in addressing society s expectations around social benefits, healthcare and pensions as well as the unsustainable fiscal positions in many countries, not least within Europe, command our attention, as market sentiment regarding the likelihood of successful outcomes will hugely influence and shape the consumer and business confidence necessary to rebuild economic growth.

There is clearly much to do and our industry, and HSBC within it, has a critical role in supporting economic growth with well targeted, risk justified and properly priced credit, investment and related financial services.

We are eager to fulfil this role and, on the positive side, within the first half of 2012 our

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Overview (continued)

lending to business, including small businesses, grew. Importantly, given many weak domestic economies, trade finance and related services expanded as businesses reached out to new markets with our support. This is both consistent and clearly aligned with the efforts being made around the world by governments to facilitate economic growth.

However, on the other side of the equation, we closed the half year with close to US$150 billion deposited with central banks. While enormously supportive of HSBC s own balance sheet strength and liquidity, it is also symptomatic of a financial system that is failing to intermediate the funds it attracts to productive investment. The extent to which this reflects an underlying lack of demand for credit, an unjustified risk aversion, an inability to assess confidently risk/return dynamics or regulatory pressures to prioritise the build-up of capital and liquidity is subject to fierce debate; in reality all are factors.

Economic activity over the next six months and beyond will be planned against a backdrop of unusually difficult conditions in which to assess risks and uncertainties. Most critical will be the market s assessment of the feasibility of initiatives being designed to address the current eurozone banking and sovereign debt crises and the consequential effects on the financial system and the global economy should these fail. On top of this, the multiple investigations around LIBOR and equivalent rate settings magnify uncertainty as the scale and depth of the issue is unknown at this stage. HSBC will also need to take concrete steps to resolve its own issues, particularly in the US.

While resolving these problems as expeditiously as possible will be critically important, we must also continue to seek ways to support our customers in their pursuit of personal and corporate ambitions and objectives. We have the resources, both human and financial, to help our customers in these challenging times and we are committed to deploying them. And we have a clear strategy to which we are committed, which is being pursued actively by an energised management team and which we believe will build sustainable value for all our stakeholders.

This period has required ever greater efforts from our staff to deal simultaneously with the ongoing business needs of our customers as well as the regulatory reform and transition agenda, all in challenging economic conditions. I would like on behalf of the Board to express sincere appreciation for all their endeavour.

D J Flint, *Group Chairman*

30 July 2012

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HSBC HOLDINGS PLC

Overview (continued)

Group Chief Executive s

Business Review

During the first six months of 2012, HSBC has recorded underlying revenue growth and continued to make substantial progress in certain key areas:

- strong revenue growth in Hong Kong, Rest of Asia-Pacific and Latin America, the same regions currently driving world economic growth;
- Global Banking and Markets has had a strong six months, during a period of uncertainty in the financial markets and macroeconomic environment; and
- we have continued to make headway in delivering our strategy, helping us to control our costs and to achieve additional revenues from the closer integration of our four different global businesses.

Our performance, however, has been affected by provisions for UK customer redress programmes and certain US law enforcement and regulatory matters, and our conduct has come under close scrutiny. We recognise that in the past we have on occasions failed to live up to the expectations of regulators, customers, and the communities in which we operate.

It is right that we be held accountable and I apologise for our past shortcomings. We are profoundly sorry for our mistakes, and are committed to putting them right. With a new strategy and senior leadership team in place since the start of 2011, we are introducing new processes and structures to help us manage risk and ensure compliance more effectively in the future.

Under the new strategy, HSBC is now run and managed as a genuinely global firm, making it easier to set, monitor and enforce standards. We are implementing high global standards across the Group. This includes working to ensure that the highest standards required in any part of the business will apply to every part of the business. We are also requiring all HSBC affiliates to independently complete due diligence on other HSBC affiliates with which they have a correspondent banking relationship; and developing a sixth filter a global risk filter to sit alongside the five outlined in our strategy, which will standardise our approach to doing business. Our central compliance team, whose role in the past consisted primarily of giving advice, can now control and enforce these standards. And we are driving a change in culture so that our conduct matches our values. For example, we now judge senior leaders both on what they achieve and how they achieve it.

Alongside this we continue to invest in people, processes and technology. We increased our spending on compliance to over US$400m last year.

Our customers and the communities in which we work expect us to carry out our business responsibly and to the highest ethical standards. Our shareholders, too, want us to match a strong economic performance with integrity, because both affect the value of their investment. With these steps, we believe we are heading in the right direction. This is a fundamental part of achieving our strategy and remains a top priority for the Board and senior management team.

Group performance headlines

Reported profit before tax was US$12.7bn, US$1.3bn higher than in the first half of 2011. This included US$4.3bn of gains from the disposals of businesses, notably from the sale of the Card and Retail Services business and from the sale of 138 non-strategic branches in the US. These results also included US$2.2bn of adverse movements in the fair value of our own debt attributable to credit spreads, compared with an adverse movement of US$143m in the first half of 2011.

Underlying profit before tax was US$10.6bn, down US$0.4bn, due to higher operating expenses, reflecting an increase in notable items, particularly provisions for customer redress and certain US law enforcement and regulatory matters. This was partly offset by higher revenue.

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On an underlying basis, total revenues were 4% higher than in the first half of 2011, led by Global Banking and Markets with increased income across a number of businesses. Commercial Banking also experienced strong revenue growth, across most products and particularly in the faster-growing regions of Hong Kong, Rest of Asia-Pacific and Latin America targeted as priorities in our strategy. This was somewhat offset by lower income in Retail Banking and Wealth Management due to the continued run-down of our consumer finance portfolios in the US.

We saw strong revenue growth from faster-growing regions. Underlying revenues grew in Hong Kong by 13%, in Rest of Asia-Pacific by 13% and in Latin America by 8%. Furthermore, we experienced double digit revenue growth in the priority markets of mainland China, India, Brazil and Argentina.

Underlying costs were US$1.9bn higher than in the first half of 2011 reflecting a number of notable items, including UK customer redress provisions of US$1.3bn, provisions for certain US law enforcement and regulatory matters of US$0.7bn and restructuring costs of US$0.6bn. Excluding these items operating expenses were marginally lower, reflecting the impact of sustainable cost saving initiatives which were partly offset by wage inflation, investment in compliance infrastructure and business expansion projects.

The reported cost efficiency ratio remained at 57.5%. On an underlying basis the cost efficiency ratio increased as a result of higher notable cost items.

Our ratio of customer advances to customer accounts remained strong at 76.3%.

Return on average ordinary shareholders equity was 10.5%, down from 12.3% as a result of a higher tax charge.

The core tier 1 ratio increased during the period from 10.1% at the end of 2011 to 11.3%, driven by profit generation and a reduction in risk-weighted assets (RWA s) following the business disposals.

Progress on strategy

We continue to execute our strategy, which is based on two key trends: the continuing growth of international trade and capital flows; and wealth creation, particularly in faster-growing markets. In May 2012, we updated investors on the significant progress made to date.

We have announced 36 disposals and closures since the beginning of 2011, exiting non-strategic markets and selling businesses and non-core investments, making HSBC easier to manage and control, and releasing around US$55bn in risk-weighted assets. Several of these transactions have now completed, including the sale of the Card and Retail Services business and 138 non-strategic branches in the US, the Private Client Services business in Canada, retail banking operations in Thailand and the general insurance manufacturing business in Argentina.

We have begun to simplify HSBC, removing layers of management, clarifying reporting lines and making the organisation easier to manage. The number of full-time equivalent employees is now 271,500 down from a peak of 299,000 at Q1 11. Our organisational effectiveness programme led to a decrease of more than 17,500, while business disposals accounted for the majority of the remaining reduction. Since May 2011, we have achieved US$1.7bn of sustainable cost savings, including US$0.8bn in the first half of 2012. This is equivalent to US$2.7bn on an annualised basis, and we are confident that we will deliver towards the upper end of our target range of US$2.5-3.5bn of sustainable savings by the end of 2013.

We have maintained our focus on the closer integration of our global businesses. This was illustrated by the collaboration between Global Banking and Markets and Commercial Banking, where we have increased revenues by 16% in the first half of 2012. Further opportunities for collaboration have been identified and initiatives are in progress in order to achieve our medium-term revenue targets.

Wealth Management revenue, however, fell in the first half of the year, primarily due to the non-recurrence of a 2011 gain arising from a refinement to asset valuation methodology. In addition, revenue from investment products decreased, primarily from lower volumes of securities trading by customers. This was partly offset by increased revenue from the sale of life insurance products and foreign exchange due to a rise in customer activity. We have a strong client base with around 4.3 million Premier customers and remain committed to our medium-term targets. We have taken a number of actions in order to achieve them, including developing our infrastructure and capabilities.

The challenging macroeconomic context only serves to underline the importance of continuing to manage HSBC with proper discipline. In order to achieve this, we announced three immediate priorities at our strategy day in May. These are

Overview (continued)

to simplify the business further, to continue to restructure and to grow the business. Focusing on these priorities will be essential in positioning HSBC for future growth.

Outlook

Economic conditions in Europe and other Western economies will continue to be subdued. Our assumption is that European leaders will take the necessary measures to preserve the euro but, even so, we expect the eurozone s economy to contract this year. In the US, we anticipate sub-par growth this year and next.

We continue to believe that emerging markets will grow at a reasonable pace. China will play an important role in this phenomenon as the world s second-largest economy and the main trading partner to other faster-growing economies. We remain confident of a soft landing in China, where its leaders readiness to use levers such as rate cuts

to stimulate the economy means that growth is likely to hit or exceed 8% over the full year.

HSBC s expertise and geographic footprint across both developed and faster-growing economies mean that the Group is well-positioned to help our customers and shareholders benefit from the continued redrawing of the world s economic map. By delivering on our strategy, we are determined to help our customers make the most of the opportunities on offer.

S T Gulliver, *Group Chief Executive*

30 July 2012

Overview (continued)

Principal activities

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$160bn at 30 June 2012.

Through our subsidiaries and associates, we provide a comprehensive range of banking and related financial services. Headquartered in London, we operate through long-established businesses and have an international network of around 6,900 offices in 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa (MENA), North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases.

Business and operating models

Business model

We accept deposits and channel these deposits into lending activities, either directly or through the capital markets. We also offer a range of products and financial services including broking, underwriting and credit facilities, trade finance, credit cards, sales of insurance and investment products and fund management. These banking and financial services are provided to a wide range of clients including governments, large and mid-market corporates, small and medium-sized enterprises (SME s), high net worth individuals, and mass affluent and retail customers.

Our operating income is primarily derived from:

- net interest income interest income on customer loans and advances, less interest expense on interest-bearing customer accounts and debt securities in issue;
- net fee income fee income earned from the provision of financial services and products to customers of our global businesses; and
- net trading income income from trading activities primarily conducted in Global Markets, including Foreign Exchange, Credit, Rates and Equities trading.

Operating model

HSBC has a matrix management structure which includes global businesses, geographical regions and global functions.

Holding company

HSBC Holdings plc, the holding company of the Group, is listed in London, Hong Kong, New York, Paris and Bermuda. HSBC Holdings is the primary provider of equity capital to its subsidiaries and provides non-equity capital to them where necessary.

Under authority delegated by the Board of HSBC Holdings, the Group Management Board (GMB) is responsible for management and day-to-day running of the Group. The Board, together with GMB, ensures that there are sufficient cash resources to pay dividends to shareholders, interest to bondholders, expenses and taxes.

HSBC Holdings does not provide core funding to any subsidiary, is not a lender of last resort and does not carry out any banking business in its own right. HSBC has a legal entity-based Group structure, sometimes referred to as subsidiarisation, which underpins our strong balance sheet and helps generate a resilient stream of earnings.

Global businesses

Our four global businesses are responsible for developing, implementing and managing their business propositions consistently across the Group, focusing on profitability and efficiency. They set their strategies within the confines of the Group strategy in liaison with the geographical regions, are responsible for issuing planning guidance regarding their businesses, are accountable for their profit and loss performance and manage their headcount.

Geographical regions

The geographical regions share responsibility for executing the strategies set by the global businesses. They represent the Group to clients, regulators, employee groups and other stakeholders, allocate capital, manage risk appetite, liquidity and funding by legal entity and are accountable for profit and loss performance in line with the global business plans.

Within the geographical regions, the Group is structured as a network of regional banks and locally incorporated regulated banking entities. Each bank is separately capitalised in accordance with applicable prudential reporting requirements and maintains a capital buffer consistent with the Group s appetite for risk in its country or region. Each bank manages its own funding and liquidity within parameters set centrally, and is required to consider its risk appetite, consistent with the Group s risk appetite for the relevant country or region.

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HSBC HOLDINGS PLC

Overview (continued)

Global functions

Our global functions are Communications, Company Secretary, Corporate Sustainability, Finance, Human Resources, Internal Audit, Legal, Marketing, Risk (including Compliance) and Strategy and Planning. The global functions, along with HSBC Technology and Services, our global service delivery organisation, establish and manage all policies, processes and delivery platforms relevant to their activities, are fully accountable for their costs globally and are responsible for managing their headcount.

Strategic direction

Our strategy is aligned to two long-term trends:

- *Financial flows* the world economy is becoming ever-more connected. Growth in world trade and cross-border capital flows continues to outstrip growth of gross domestic product. Financial flows between countries and regions are highly concentrated. Over the next decade we expect 35 markets to represent 90% of world trade growth and a similar degree of concentration in cross-border capital flows.

- *Economic development* by 2050, we expect economies currently deemed emerging to have increased five-fold in size, benefiting from demographics and urbanisation, and they will be larger than the developed world. By then, we expect 19 of the 30 largest economies will be markets that are currently described as emerging.

HSBC is one of the few truly international banks and our advantages lie in our network of markets relevant for international financial flows, our access and exposure to high growth markets and businesses, and our strong balance sheet generating a resilient stream of earnings.

Based on these long-term trends and our competitive position, our strategy has two parts:

- *Network of businesses connecting the world* HSBC is ideally positioned to capture the growing international financial flows. Our franchise puts us in a privileged position to serve corporate clients as they grow from small enterprises into large and international corporates, and personal clients as they become more affluent. Access to local retail funding and our international product capabilities allows us to offer distinctive solutions to these clients in a profitable manner.

- *Wealth management and retail with local scale* we will leverage our position in faster-growing markets to capture social mobility and wealth creation through our Wealth Management and Global Private Banking businesses. We will only invest in retail businesses in markets where we can achieve profitable scale.

To implement this strategy we have defined priorities across three areas:

Simplify we will continue to make HSBC easier to manage and control. This includes, (i) running off legacy assets in the US and in Global Banking and Markets (GB&M), (ii) addressing fragmentation in our business portfolio through five filters and the disposal of non-strategic businesses, and (iii) improving organisational efficiency.

Restructure we will restructure certain businesses to adapt to the new environment, including GB&M, our US franchise and Global Private Banking (GPB).

Grow we continue to position HSBC for growth. We will deploy our capital more actively into priority growth markets. Also, we will continue to benefit from the coordination within our global businesses to capture significant revenue opportunities.

If we are successful in executing this strategy, we will be regarded as The world s leading international bank . We have defined financial targets to achieve a return on equity of between 12% and 15% with a core tier 1 ratio of between 9.5% and 10.5%, and achieve a cost efficiency ratio of between 48% and 52%. We have also defined Key Performance Indicators to monitor the outcomes of actions across the three areas of capital deployment, cost efficiency and growth.

Risk

As a provider of banking and financial services, risk is at the core of our day-to-day activities.

We have identified a comprehensive suite of risk factors which informs our assessment of our top and emerging risks. This assessment may result in our risk appetite being revised.

Risk factors

Our businesses are exposed to a variety of risk factors that could potentially affect our results of operations or financial condition. These are summarised on page 12 of the *Annual Report and Accounts 2011*.

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HSBC HOLDINGS PLC

Overview (continued)

Top and emerging risks

We classify certain risks as top or emerging . We define a top risk as being a current, emerged risk which has arisen across any of our risk categories, regions or global businesses and has the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may form and crystallise within a one-year horizon. We consider an emerging risk to be one which has large uncertain outcomes which may form and crystallise beyond a one-year horizon and, if it were to crystallise, could have a material effect on our long-term strategy.

Our approach to identifying and monitoring top and emerging risks is informed by the risk factors.

All of our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks which we assess on a Group-wide basis. Top and emerging risks fall under the following three broad categories:

- macroeconomic and geopolitical risk;
- macro-prudential, regulatory and legal risks to our business model;
- risks related to our business operations, governance and internal control systems.

During the first half of 2012 our senior management paid particular attention to a number of top and emerging risks which are summarised below:

Macroeconomic and geopolitical risk

- Severe economic slowdown in mature economies impacting global growth
- Eurozone member departing from the currency union
- Increased geopolitical risk in certain regions

Macro-prudential, regulatory and legal risks to our business model

Regulatory developments affecting our business model and Group profitability

Regulatory investigations, fines, sanctions and requirements relating to conduct of business and financial crime negatively affecting our results and brand

Dispute risk

Risks related to our business operations, governance and internal control systems

Challenges to achieving our strategy in a downturn

Internet crime and fraud

Social media risk

Level of change creating operational complexity and heightened operational risk

Information security risk

Model risk

All of the above risks are regarded as top risks with the exception of social media risk which is an emerging risk.

A detailed account of these risks is provided on page 104. Further comments on expected risks and uncertainties are made throughout the *Annual Report and Accounts 2011*, particularly in the section on Risk, pages 98 to 210.

Risk appetite

Risk appetite is a key component of our management of risk and describes the types and level of risk we are prepared to accept in delivering our strategy. It is discussed further on page 234 of the *Annual Report and Accounts 2011*.

Our risk appetite may be revised in response to the top and emerging risks we have identified.

HSBC Values

The role of HSBC Values in daily operating practice is significant in the context of the financial services sector and the wider economy, particularly in the light of developments and changes in regulatory policy, investor confidence and society s view of the role of banks. We expect our executives and employees to act with courageous integrity in the execution of their duties by being:

dependable and doing the right thing;

open to different ideas and cultures; and connected with our customers, communities, regulators and each other.

We continue to enhance our values-led culture by embedding HSBC Values into how we conduct our business and through the personal sponsorship of the Group Chief Executive and senior executives. These initiatives will continue in 2012 and beyond.

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Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 211. When we measure our performance internally we use financial measures such as constant currency and underlying performance in order to eliminate factors which distort period-on-period comparisons so we can view our results on a more like-for-like basis.

Constant currency

Constant currency eliminates the period-on-period effects of foreign currency translation differences on performance by comparing reported results for the half-year to 30 June 2012 with reported results for the half-years to 30 June 2011 and 31 December 2011 retranslated at average exchange rates for the half-year to 30 June 2012. Except where stated otherwise, commentaries are on a constant currency basis, as reconciled in the table below.

The foreign currency translation differences reflect the movements of the US dollar against most major currencies during the first half of 2012.

We exclude the translation differences when monitoring progress against operating plans and past results because management believes the like-for-like basis of constant currency financial measures more appropriately reflects changes due to operating performance.

Constant currency

Constant currency comparatives for the half-year to 30 June 2011 and 31 December 2011 referred to in the commentaries are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-year to 30 June 2011 and 31 December 2011 at the average rates of exchange for the half-year to 30 June 2012; and

- the balance sheets at 30 June 2011 and 31 December 2011 at the prevailing rates of exchange ruling at 30 June 2012.

No adjustment has been made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates.

When reference is made to constant currency in tables or commentaries, comparative data reported in the functional currencies of HSBC s operations have been translated at the appropriate exchange rates applied in the current period on the basis described above.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and constant currency profit before tax

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
HSBC	**1H11 as reported US$m**	**Currency translation[10] US$m**	**1H11 at 1H12 exchange rates US$m**	**1H12 as reported US$m**	**Reported change[11] %**	**Constant currency change[11] %**
Net interest income	20,235	(669)	19,566	19,376	(4)	(1)
Net fee income	8,807	(265)	8,542	8,307	(6)	(3)
Changes in fair value[12]	(143)		(143)	(2,170)	(1,417)	(1,417)
Gains on disposal of US branch network and cards business				3,809		
Other income[13]	6,795	(268)	6,527	7,575	11	16
Net operating income[14]	35,694	(1,202)	34,492	36,897	3	7
Loan impairment charges and other credit risk provisions	(5,266)	138	(5,128)	(4,799)	9	6
Net operating income	30,428	(1,064)	29,364	32,098	5	9
Operating expenses	(20,510)	746	(19,764)	(21,204)	(3)	(7)
Operating profit	9,918	(318)	9,600	10,894	10	13
Share of profit in associates and joint ventures	1,556	40	1,596	1,843	18	15
Profit before tax	11,474	(278)	11,196	12,737	11	14
By global business						
Retail Banking and Wealth Management	3,126	(55)	3,071	6,410	105	109
Commercial Banking	4,189	(105)	4,084	4,429	6	8
Global Banking and Markets	4,811	(131)	4,680	5,047	5	8
Global Private Banking	552	(5)	547	527	(5)	(4)
Other	(1,204)	18	(1,186)	(3,676)	(205)	(210)
Profit before tax	11,474	(278)	11,196	12,737	11	14
By geographical region						
Europe	2,147	(111)	2,036	(667)		
Hong Kong	3,081	9	3,090	3,761	22	22
Rest of Asia-Pacific	3,742	(38)	3,704	4,372	17	18
Middle East and North Africa	747	(3)	744	772	3	4
North America	606	(16)	590	3,354	453	468
Latin America	1,151	(119)	1,032	1,145	(1)	11
Profit before tax	11,474	(278)	11,196	12,737	11	14

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Interim Management Report (continued)

HSBC	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
Net interest income	20,427	(334)	20,093	19,376	(5)	(4)
Net fee income	8,353	(134)	8,219	8,307	(1)	1
Changes in fair value[12]	4,076	(38)	4,038	(2,170)		
Gains on disposal of US branch network and cards business				3,809		
Other income[13]	3,730	(91)	3,639	7,575	103	108
Net operating income[14]	36,586	(597)	35,989	36,897	1	3
Loan impairment charges and other credit risk provisions	(6,861)	95	(6,766)	(4,799)	30	29
Net operating income	29,725	(502)	29,223	32,098	8	10
Operating expenses	(21,035)	372	(20,663)	(21,204)	(1)	(3)
Operating profit	8,690	(130)	8,560	10,894	25	27
Share of profit in associates and joint ventures	1,708	17	1,725	1,843	8	7
Profit before tax	10,398	(113)	10,285	12,737	22	24
By global business						
Retail Banking and Wealth Management	1,144	(17)	1,127	6,410	460	469
Commercial Banking	3,758	(47)	3,711	4,429	18	19
Global Banking and Markets	2,238	(29)	2,209	5,047	126	128
Global Private Banking	392	(3)	389	527	34	35
Other	2,866	(17)	2,849	(3,676)		
Profit before tax	10,398	(113)	10,285	12,737	22	24
By geographical region						
Europe	2,524	(23)	2,501	(667)		
Hong Kong	2,742	9	2,751	3,761	37	37
Rest of Asia-Pacific	3,729	(26)	3,703	4,372	17	18
Middle East and North Africa	745	(2)	743	772	4	4
North America	(506)	(3)	(509)	3,354		
Latin America	1,164	(68)	1,096	1,145	(2)	4
Profit before tax	10,398	(113)	10,285	12,737	22	24

For footnotes, see page 100.

Additional information is available on the HSBC website www.hsbc.com.

Underlying performance

Underlying performance:

- eliminates the period-on-period effects of foreign currency translation;
- eliminates the fair value movements on own debt attributable to credit spread (own credit spread) where the net result of such movements will be zero upon maturity of the debt (see footnote 12 on page 100); and
- adjusts for acquisitions, disposals and changes of ownership levels of subsidiaries, associates and businesses (see footnote 15 on page 100).

We use underlying performance when monitoring progress against operating plans and past results because we believe that this basis more appropriately reflects operating performance. We use underlying performance in our commentaries to explain period-on-year changes when the effect of fair value movements on own debt, acquisitions, disposals or dilution is significant.

The following tables reconcile our reported revenue, loan impairment charges, operating expenses and profit before tax for the half-years to

Interim Management Report (continued)

30 June 2012, 30 June 2011 and 31 December 2011 to an underlying basis. Throughout this *Interim Report*, we may reconcile other reported results to underlying results when management believes that doing so results in a more useful discussion of operating performance. Equivalent tables are provided for each of our global businesses and geographical segments on pages 52a and 98a, which is available on www.hsbc.com.

The following deductions were made from reported results in respect of disposals and dilutions which affected the underlying comparison:

- the dilution gain of US$181m which arose on our holding in Ping An Insurance (Group) Company of China, Limited (Ping An) following the issue of share capital to a third party in June 2011;

- a loss of US$48m, being our share of the loss recorded by Ping An on re-measurement of its previously held equity interest in Shenzen Development Bank (SDB) when Ping An took control and fully consolidated SDB in July 2011;

- the gain of US$83m on the sale of HSBC Afore S.A. de C.V. (HSBC Afore) in August 2011 and the operating results for each of the comparative periods;

- the dilution gain of US$27m in December 2011 as a result of the merger between HSBC Saudi Arabia Limited and SABB Securities Limited;

- the gain of US$83m on disposal of HSBC Securities (Canada) Inc s private client services business in January 2012 and the operating results for each of the comparative periods;

- the gain of US$108m on the sale of our Retail Banking and Wealth Management (RBWM) operations in Thailand in March 2012;

- the gain of US$3.1bn on the sale of the US Card and Retail Services business in May 2012 and the operating results for the last two months of each of the comparative periods;

- the gain of US$661m on the disposal of 138 non-strategic branches in the US in May 2012 and the operating results for the last 43 days of each of the comparative periods;

- the gain of US$102m on the sale of HSBC Argentina Holdings S.A. s general insurance manufacturing subsidiary in Argentina in May 2012;

- the gain of US$67m on the sale of our private banking business in Japan in June 2012 and the operating results for the last month of each of the comparative periods; and the gain of US$130m on the sale of our shareholding in a property company in the Philippines in June 2012.

Reconciliation of reported and underlying revenue[14]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**36,897**	35,694	3	**36,897**	36,586	1
Constant currency		(1,202)			(559)	
Own credit spread	**2,170**	143		**2,170**	(4,076)	
Acquisitions, disposals and dilutions	**(4,299)**	(1,220)		**(4,299)**	(1,095)	
Underlying revenue	**34,768**	33,415	4	**34,768**	30,856	13

For footnote, see page 100.

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(4,799)**	(5,266)	9	**(4,799)**	(6,861)	30
Constant currency		138			95	
Acquisitions, disposals and dilutions		369			304	
Underlying LICs	**(4,799)**	(4,759)	(1)	**(4,799)**	(6,462)	26

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Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(21,204)**	(20,510)	(3)	**(21,204)**	(21,035)	(1)
Constant currency		746			372	
Acquisitions, disposals and dilutions		480			302	
Underlying operating expenses	**(21,204)**	(19,284)	(10)	**(21,204)**	(20,361)	(4)
Underlying cost efficiency ratio	**61.0%**	57.7%		**61.0%**	66.0%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**12,737**	11,474	11	**12,737**	10,398	22
Constant currency		(278)			(75)	
Own credit spread	**2,170**	143		**2,170**	(4,076)	
Acquisitions, disposals and dilutions	**(4,299)**	(371)		**(4,299)**	(441)	
Underlying profit before tax	**10,608**	10,968	(3)	**10,608**	5,806	83
By global business[16]						
Retail Banking and Wealth Management	**2,573**	2,886	(11)	**2,573**	657	292
Commercial Banking	**4,182**	4,080	3	**4,182**	3,708	13
Global Banking and Markets	**5,029**	4,680	7	**5,029**	2,209	128
Global Private Banking	**460**	546	(16)	**460**	400	15
Other	**(1,636)**	(1,224)	(34)	**(1,636)**	(1,168)	(40)
Underlying profit before tax	**10,608**	10,968	(3)	**10,608**	5,806	83
By geographical region[17]						
Europe	**938**	2,107	(55)	**938**	(480)	
Hong Kong	**3,761**	3,090	22	**3,761**	2,751	37
Rest of Asia-Pacific	**4,069**	3,524	15	**4,069**	3,758	8
Middle East and North Africa	**776**	748	4	**776**	698	11
North America	**21**	483	(96)	**21**	(1,930)	
Latin America	**1,043**	1,016	3	**1,043**	1,009	3
Underlying profit before tax	**10,608**	10,968	(3)	**10,608**	5,806	83

For footnotes, see page 100.

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Consolidated income statement

Summary income statement

	Half-year to		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Net interest income	**19,376**	20,235	20,427
Net fee income	**8,307**	8,807	8,353
Net trading income	**4,519**	4,812	1,694
Net income/(expense) from financial instruments designated at fair value	**(1,183)**	(100)	3,539
Gains less losses from financial investments	**1,023**	485	422
Dividend income	**103**	87	62
Net earned insurance premiums	**6,696**	6,700	6,172
Gains on disposal of US branch network and cards business	**3,809**		
Other operating income	**1,022**	1,285	481
Gains arising from dilution of interests in associates and joint ventures		181	27
Other	**1,022**	1,104	454
Total operating income	**43,672**	42,311	41,150
Net insurance claims incurred and movement in liabilities to policyholders	**(6,775)**	(6,617)	(4,564)
Net operating income before loan impairment charges and other credit risk provisions	**36,897**	35,694	36,586
Loan impairment charges and other credit risk provisions	**(4,799)**	(5,266)	(6,861)
Net operating income	**32,098**	30,428	29,725
Total operating expenses	**(21,204)**	(20,510)	(21,035)
Operating profit	**10,894**	9,918	8,690
Share of profit in associates and joint ventures	**1,843**	1,556	1,708
Profit before tax	**12,737**	11,474	10,398
Tax expense	**(3,629)**	(1,712)	(2,216)
Profit for the period	**9,108**	9,762	8,182
Profit attributable to shareholders of the parent company	**8,438**	9,215	7,582
Profit attributable to non-controlling interests	**670**	547	600
Average foreign exchange translation rates to US$:			
US$1: £	**0.634**	0.619	0.629
US$1:	**0.771**	0.714	0.725

Reported profit before tax of US$12.7bn in the first half of 2012 was US$1.3bn, or 11%, higher than in the first half of 2011. This was primarily due to a US$3.1bn gain on the sale of the US Card and Retail Services business and a US$661m gain from the sale of 138 branches in the US (a further 57 branches are expected to be sold in the third quarter). These gains were partially offset by adverse fair value movements on own debt attributable to credit spreads of US$2.2bn, compared with adverse movements of US$143m in the first half of 2011. On an underlying basis, profit before tax was 3% lower, primarily due to higher operating expenses reflecting an increase in notable cost items, particularly provisions for customer redress in the UK of US$1.3bn (compared with US$611m in the first half of 2011) and US anti-money laundering,

Bank Secrecy Act (BSA) and Office of Foreign Asset Control (OFAC) investigations of US$0.7bn.

We expect the sale of US Card and Retail Services to have a significant impact on both revenue and profitability in North America for the foreseeable future.

The following commentary is on an underlying basis, except where otherwise stated. The difference between reported and underlying results is explained and reconciled on page 16.

Net operating income before loan impairment charges and other credit risk provisions (revenue) was US$1.4bn, or 4% higher than the first half of 2011. This was mainly due to higher revenue in GB&M and Commercial Banking (CMB). The increase in GB&M revenue included higher disposal

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Interim Management Report (continued)

gains on available-for-sale securities in Balance Sheet Management and continued growth in Foreign Exchange earnings. GB&M also recorded higher Rates income as market sentiment improved considerably during the first quarter of 2012. In CMB, revenue growth reflected increased net interest income derived from strong lending growth, notably during the first half of 2011, higher deposit spreads following interest rate rises in certain Asian markets during 2011, and growth in average customer account balances. In RBWM, we continued to manage down our Consumer and Mortgage Lending (CML) run-off portfolio in North America and, as a consequence, revenue fell. This was partly offset by revenue growth in Hong Kong and Latin America.

Loan impairment charges and other credit risk provisions were in line with the first half of 2011. This reflected a decrease, primarily in North America and, to a lesser extent, in Europe, which was broadly offset by an increase in Latin America and Rest of Asia-Pacific. In North America, the reduction was mainly due to the continued decline in lending balances in the CML portfolio and the effect of the delays in foreclosure processing was less pronounced. In Europe, credit quality improved in our RBWM business, mainly in the UK, as we continued to focus on higher quality assets. This resulted in lower delinquency rates across both the secured and unsecured lending portfolios. This was broadly offset by increased loan impairment charges and other credit risk provisions in Latin America, notably in Brazil, due to higher delinquency rates following strong growth in lending balances in previous periods, and in Rest of Asia-Pacific due to higher individually assessed loan impairments and a charge on available-for-sale debt securities.

Operating expenses were higher than in the first half of 2011. This increase resulted from a number of notable items, which included a provision of US$700m in respect of US anti-money laundering, BSA and OFAC investigations, as well as restructuring costs of US$563m and provisions relating to customer redress programmes in the UK of US$1.3bn, compared with US$477m and US$611m, respectively, in the first half of 2011. Notable items in the first half of 2011 also included a credit of US$587m relating to pension obligations in the UK.

The provisions for customer redress programmes include estimates in respect of possible mis-selling of PPI policies and interest rate protection products in previous years. The additional provision in the first half of 2012 relating to PPI

sales reflects the refinement of our assumptions in the light of our recent claims experience. The provision in relation to certain US law enforcement and regulatory matters represents an estimate of the amount of penalties and/or fines that are likely to be imposed in connection with the anti-money laundering, OFAC and BSA investigations currently underway. See page 105 for further information about the possible adverse consequences which could arise from these regulatory investigations. There are many factors which affect the estimates on which these provisions are based and there remains a high degree of uncertainty as to the costs that will be eventually incurred.

Excluding the items above, operating expenses were marginally lower, reflecting our sustainable cost saving initiatives, partly offset by wage inflation, investment in compliance infrastructure and business expansion projects. During the first half of 2012, full-time equivalent staff numbers (FTE s) reduced by more than 16,700. Our organisational effectiveness programmes led to a decrease of around 9,500, while business disposals accounted for the majority of the remaining reduction. Our operational effectiveness programmes led to sustainable savings of US$0.8bn.

On a constant currency basis, income from associates increased, mainly driven by strong results in our mainland China associates. The contribution from Bank of Communications Co., Limited (BoCom) rose due to wider spreads. Our share of profits from Industrial Bank Co. Limited (Industrial Bank) increased due to continued strong lending growth.

The reported profit after tax was US$0.7bn or 7% lower than in the first half of 2011, reflecting a higher tax charge in the first half of 2012. This arose from higher taxed profits on the disposal of the US branches and Card and Retail Services Business combined with a non-deductible provision in respect of the US law enforcement and regulatory matters. The lower tax charge in the first half of 2011 included the benefit of deferred tax recognised in respect of foreign tax credits. As a result of these factors, the effective tax rate for the first half of 2012 was 28.5% compared with 14.9% in 2011.

The following commentaries are on a constant currency basis, unless stated otherwise.

Interim Management Report (continued)

Group performance by income and expense item

Net interest income

	Half-year to		
	30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Interest income	**29,549**	31,046	31,959
Interest expense	**(10,173)**	(10,811)	(11,532)
Net interest income[18]	**19,376**	20,235	20,427
Average interest-earning assets	**1,645,410**	1,607,626	1,637,446
Gross interest yield[19]	**3.61%**	3.89%	3.87%
Cost of funds	**(1.45%)**	(1.52%)	(1.59%)
Net interest spread[20]	**2.16%**	2.37%	2.28%
Net interest margin[21]	**2.37%**	2.54%	2.47%

For footnotes, see page 100.

Reported net interest income decreased by 4%. On a constant currency basis, it declined by 1%.

On an underlying basis, in which the comparable period of 2011 has been adjusted by US$669m relating to constant currency and US$709m to reflect the completion of the sales of the Card and Retail Services business and 138 non-strategic branches, net interest income rose by 3%.

On a constant currency basis, interest income earned on interest-earning assets fell. This was driven mainly by a significant decline in Balance Sheet Management in Europe as yield curves continued to flatten and interest rates remained low, together with a reduction in the available-for-sale debt security portfolio as a result of disposals, notably in the first quarter of 2012. During the second half of 2011 and the first half of 2012, we placed a greater portion of our excess liquidity with central banks in line with our conservative risk profile; the lower yield on these placements relative to other financial investments also contributed to the decline in interest income. This was partly offset by higher Balance Sheet Management revenues in Hong Kong and Rest of Asia-Pacific, notably mainland China, resulting from growth in the size of the investment portfolio and higher interest rates.

Average customer lending balances, including those classified within Assets held for sale , rose significantly compared with the first half of 2011. This reflected the targeted lending growth throughout 2011 and in the first half of 2012 in CMB and GB&M, as well as strong residential mortgage lending growth in RBWM in the UK, Hong Kong and Rest of Asia-Pacific. However, the benefit to interest income of the growth in average balances was offset in income terms by a decline in the overall

yield on customer lending as a result of a change in the composition of our lending book. This was driven by significant growth in relatively lower yielding term lending in CMB and GB&M and higher quality secured lending, particularly residential mortgages, as we continued to reduce higher yielding unsecured lending in RBWM.

The decline in interest income was partly offset by lower interest expense, notably in relation to debt issued by the Group. This reflected a net reduction in average balances outstanding, largely in the US, as funding requirements fell following the business disposals and in Europe, where short-term funding was not replaced in line with the rise in deposit funding.

Interest expense on customer accounts, including those reported within Other liabilities held for sale , was broadly in line with the first half of 2011. There was a significant rise in average balances in Hong Kong, Rest of Asia-Pacific and Europe as a result of targeted campaigns; however, the effect of this growth was largely offset by a reduction in the cost of funds, driven by downward movement in interest rates in Latin America and re-pricing activities in the US.

The decrease in the net interest spread compared with the first half of 2011 was attributable to lower yields on our excess liquidity and customer lending partly offset by a reduction in the cost of funds on customer accounts. Our net interest margin also fell, but by a lesser amount, due to the benefit from net free funds, which rose as a result of customers holding more funds in liquid non-interest bearing current accounts and higher third-party funding of our trading book.

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Interim Management Report (continued)

Net fee income

	Half-year to 30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Account services	**1,755**	1,846	1,824
Cards	**1,716**	1,977	1,978
Funds under management	**1,242**	1,414	1,339
Credit facilities	**867**	849	900
Broking income	**707**	933	778
Imports/exports	**606**	552	551
Insurance	**425**	545	507
Remittances	**399**	371	399
Underwriting	**377**	332	246
Global custody	**375**	391	360
Unit trusts	**344**	374	283
Corporate finance	**230**	235	206
Trust income	**141**	148	146
Investment contracts	**71**	65	71
Mortgage servicing	**47**	56	53
Other	**979**	856	912
Fee income	**10,281**	10,944	10,553
Less: fee expense	**(1,974)**	(2,137)	(2,200)
Net fee income	**8,307**	8,807	8,353

Net fee income decreased by US$500m on a reported basis, and by US$235m on a constant currency basis.

US$184m of the decrease on a constant currency basis was driven by the sale of the Card and Retail Services business which, in particular, led to a reduction in income relating to cards and insurance as well as fee expenses. As part of the transaction, we also entered into a transition service agreement with the purchaser to support certain account servicing operations until such time as these are integrated into the purchaser s infrastructure. We will receive fees for providing these services and the associated costs will be reported in Operating expenses .

Broking income was lower, notably in Hong Kong and Europe, reflecting reduced transaction volumes as a result of weaker investor sentiment amidst uncertain market conditions.

Income from funds under management (FuM) was also lower, mainly in Europe and Rest of Asia-Pacific, reflecting adverse movements in equity markets and muted investor sentiment, particularly in the second half of 2011. Europe was also affected by net new money outflows and a fall in client numbers within GPB. In addition, income from FuM was lower in North America due to the sale of the private client services business in Canada.

Partly offsetting these reductions was an increase in trade-related income, notably in Europe, Hong Kong and Rest of Asia-Pacific, which benefited from export-led lending growth as we continued to capitalise on our position as the world s leading trade finance bank, as reported in the Oliver Wyman Global Transaction Banking Survey 2011.

Underwriting fees also increased in GB&M, mainly in North America and Hong Kong, reflecting our participation in a higher number of debt capital markets transactions in the first half of 2012.

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Interim Management Report (continued)

Net trading income

	Half-year to		
	30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Trading activities	**3,622**	3,615	1,258
Net interest income on trading activities	**1,385**	1,581	1,642
Gain/(loss) on termination of hedges	**3**	5	(5)
Other trading income hedge ineffectiveness:			
on cash flow hedges	**3**	2	24
on fair value hedges	**(32)**	(77)	(147)
Non-qualifying hedges	**(462)**	(314)	(1,078)
Net trading income[22,23]	**4,519**	4,812	1,694

For footnotes, see page 100.

Reported net trading income of US$4.5bn was 6% lower than in the first half of 2011. On a constant currency basis, it was 3% lower as a decline in net interest income from trading activities and higher adverse fair value movements on economic and non-qualifying hedges were only partly offset by a rise in income from trading activities.

Net interest income from trading activities declined due to lower average holdings of, and yields on, debt securities held for trading, partly offset by a reduction in funding costs.

There were adverse fair value movements on non-qualifying hedges. These hedges are derivatives entered into as part of a documented interest rate management strategy for which hedge accounting was not, or could not be, applied. They are principally cross-currency and interest rate swaps used to economically hedge fixed rate debt issued by HSBC Holdings and floating rate debt issued by HSBC Finance Corporation (HSBC Finance). The size and direction of the changes in fair value of non-qualifying hedges that are recognised in the income statement can be volatile from year to year, but do not alter the cash flows expected as part of the documented interest rate management strategy for both the instruments and the underlying economically hedged assets and liabilities. In North America, the effects of falling US long-term interest rates was more pronounced than in the first half of 2011, resulting in higher adverse fair value movements. In Europe, there were adverse movements on non-qualifying hedges in European operating entities driven in part by a decline in interest rates. This was partly offset by lower adverse movements in HSBC Holdings, also in Europe, which was driven by a less pronounced decline in long-term US interest rates relative to sterling and euro interest rates than in the first half of 2011.

Income from trading activities increased. Our Foreign Exchange business benefited from increased client revenues, driven in part by GB&M s ongoing collaboration with CMB, coupled with a favourable trading environment for foreign exchange, particularly in Europe. Rates revenues increased in Europe with higher revenues attributable to the tightening of spreads on eurozone bonds, notably in the first quarter of 2012 following the announcement of the long-term refinancing operation (LTRO). Rates revenues in Hong Kong and Rest of Asia-Pacific also benefited from tightening spreads.

These strong performances in Foreign Exchange and Rates were also partly offset by a reduction in Equities trading revenues, which reflected a less favourable trading environment. Net trading income from our legacy credit portfolio (see page 284) also declined as a result of write-downs compared with net releases of write-downs in the first half of 2011. There were also adverse fair value movements on structured liabilities of US$330m, mainly in Rates, as credit spreads tightened at the beginning of 2012 compared with a reported favourable fair value movement of US$60m in the first half of the previous year.

In addition, there were adverse foreign exchange movements on trading assets held as economic hedges of foreign currency debt held at fair value compared with favourable fair value movements reported in the first half of 2011. These offset favourable foreign exchange movements on the foreign currency debt which are reported in Net expense from financial instruments designated at fair value .

Interim Management Report (continued)

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

	Half-year to		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**811**	547	(1,480)
liabilities to customers under investment contracts	**(260)**	(186)	417
HSBC s long-term debt issued and related derivatives	**(1,810)**	(494)	4,655
Change in own credit spread on long-term debt[24]	**(2,170)**	(143)	4,076
Other changes in fair value[25]	**360**	(351)	579
other instruments designated at fair value and related derivatives	**76**	33	(53)
Net income/(expense) from financial instruments designated at fair value	**(1,183)**	(100)	3,539

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

	At		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Financial assets designated at fair value at period-end	**32,310**	39,565	30,856
Financial liabilities designated at fair value at period-end	**87,593**	98,280	85,724
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DPF[26]	**7,884**	8,109	7,221
unit-linked insurance and other insurance and investment contracts	**20,968**	21,584	20,033
Long-term debt issues designated at fair value	**75,357**	79,574	73,808

For footnotes, see page 100.

Most of the financial liabilities designated at fair value relate to certain fixed-rate long-term debt issued and managed in conjunction with interest rate swaps as part of a documented interest rate management strategy. The movement in fair value of these long-term debt issues includes the effect of our credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. As credit spreads widen or narrow, accounting profits or losses are booked. The size and direction of the changes in the credit spread on our debt and ineffectiveness, which are recognised in the income statement, can be volatile from period to period, but do not alter the cash flows envisaged as part of the documented interest rate management strategy. As a consequence, fair value movements arising from changes in our own credit spread on long-term debt and other fair value movements on the debt and related derivatives are not regarded internally as part of managed performance and are therefore not allocated to global businesses, but are reported in Other . Credit spread movements on own debt are excluded from underlying results, and related fair value movements are not included in the calculation of regulatory capital.

We reported net expense from financial instruments designated at fair value of US$1.2bn

in the first half of 2012 compared with US$100m in the same period in 2011. This included the credit spread-related movements in the fair value of our own long-term debt, on which we reported adverse fair value movements of US$2.2bn and US$143m in the respective periods. The adverse fair value movements arose in the first half of 2012 as credit spreads tightened in Europe and North America, compared with lower adverse fair value movements in the first half of 2011.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts reflected higher net investment gains in 2012 as market conditions improved, compared with the first half of 2011. This predominantly affected the value of assets held to support unit-linked contracts in the UK and Hong Kong, insurance contracts with discretionary participation features (DPF) in Hong Kong, and investment contracts with DPF in France.

The investment gains arising from equity markets resulted in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back investment contracts, the corresponding movement in

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Interim Management Report (continued)

liabilities to customers is also recorded under Net income from financial instruments designated at fair value . This is in contrast to gains or losses related to assets held to back insurance contracts or investment contracts with DPF, where the corresponding movement in liabilities to customers is recorded under Net insurance claims incurred and movement in liabilities to policyholders .

Within net income from financial instruments designated at fair value were favourable foreign exchange movements in the first half of the year, compared with adverse movements in the same period in 2011 on foreign currency debt designated at fair value issued as part of our overall funding strategy. An offset from trading assets held as economic hedges was reported in Net trading income .

Gains less losses from financial investments

	Half-year to		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Net gains/(losses) from disposal of:			
debt securities	**672**	306	406
equity securities	**456**	213	147
other financial investments	**5**	(3)	15
	1,133	516	568
Impairment of available-for-sale equity securities	**(110)**	(31)	(146)
Gains less losses from financial investments	**1,023**	485	422

In the first half of 2012, gains less losses from financial investments rose by US$538m and US$555m on a reported and a constant currency basis, respectively.

This was principally driven by higher gains generated from the disposal of available-for-sale government debt securities in Europe, notably in the first quarter of 2012 and, to a lesser extent, in North and Latin America, as part of Balance Sheet Management s structural interest rate risk management activities. These gains were offset in part by the non-recurrence of gains in Hong Kong in the first half of 2011.

Net gains on the disposal of equity securities rose significantly in Hong Kong as a result of the sale of our shares in two non-strategic investments in India, Axis Bank Limited and Yes Bank Limited. They were offset in part by lower net gains on the disposal of equity securities in Europe and the non-recurrence of a gain in GB&M on the sale of shares in a Mexican listed company in the first half of 2011.

Higher impairments in equity investments were driven by the financial restructuring of an equity investment in the renewable energy sector.

Net earned insurance premiums

	Half-year to		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Gross insurance premium income	**6,929**	6,928	6,410
Reinsurance premiums	**(233)**	(228)	(238)
Net earned insurance premiums	**6,696**	6,700	6,172

Net earned insurance premiums remained broadly unchanged on a reported basis, but increased by 4% on a constant currency basis. This rise was primarily driven by strong sales of life insurance products in Hong Kong and Rest of Asia-Pacific, and unit-linked, term life and credit protection products in Latin America.

In Hong Kong, sales of insurance contracts with DPF increased, supported by product launches and

marketing campaigns. Renewal premiums from unit-linked contracts also increased as a result of strong sales in previous periods.

In Latin America, net earned premiums grew due to a rise in sales volumes of unit-linked, term life and credit protection products in Brazil. This was partly offset in Argentina, as premiums decreased as a result of the sale of the general insurance business in May 2012.

Interim Management Report (continued)

In Europe, net earned premiums decreased in France on investment contracts with DPF as a result of the adverse economic environment and increased product competition. In addition, there was a

reduction in premiums due to the non-renewal and transfer to third parties of certain contracts in our Irish business.

Other operating income

	Half-year to		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Rent received	**100**	75	142
Gains/(losses) recognised on assets held for sale	**202**	(4)	59
Valuation gains/(losses) on investment properties	**43**	38	80
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**146**	27	30
Gains arising from dilution of interests in associates		181	27
Change in present value of in-force long-term insurance business	**401**	658	68
Other	**130**	310	75
Other operating income	**1,022**	1,285	481

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

	Half-year to		
	30 June 2012 US$m	30 June 2011 US$m	31 December 2011 US$m
Value of new business	**530**	515	428
Expected return	**(216)**	(175)	(253)
Assumption changes and experience variances	**87**	40	(70)
Other adjustments		278	(37)
Change in present value of in-force long-term insurance business[27]	**401**	658	68

For footnote, see page 100.

Reported other operating income of US$1.0bn decreased by 20% in the first half of 2012 and by 17% on a constant currency basis.

Reported other operating income in the first half of 2012 included gains on selling businesses as we rationalised our portfolio in non-strategic markets. These included gains of US$83m on the sale of the Private Client Services business in Canada, US$108m on the sale of our RBWM operations in Thailand, US$67m on the sale of our Global Private Banking (GPB) business in Japan, US$130m on the sale of our shareholding in a property company in the Philippines, and US$102m following the completion of the sale of our general insurance manufacturing business in Argentina.

In the first half of 2011, reported other operating income included a gain of US$181m arising from a further dilution of our holding in Ping An following its issue of share capital to a third party.

On an underlying basis, excluding the items listed above, other operating income decreased largely due to the non-recurrence of a gain of US$237m (US$243m as reported) recognised upon refinement of the calculation of the present value of in-force (PVIF) long-term insurance business in the first half of 2011. The increase in the PVIF asset attributable to the value of new business, in line with the rise in premiums, was largely offset by the net movement in expected return and experience and assumption updates.

Losses were also recognised on the sale of syndicated loans in Europe and on the reclassification of certain businesses to held-for-sale in Latin America. The non-recurrence of the gain on sale and leaseback of branches in Mexico in the first half of 2011 also contributed to the decrease in other operating income.

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Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**6,869**	6,761	4,870
reinsurers share	**(94)**	(144)	(306)
net[28]	**6,775**	6,617	4,564

For footnote, see page 100.

Net insurance claims incurred and movement in liabilities to policyholders increased by 2% on a reported basis, and by 7% on a constant currency basis. The increase was driven by the continued growth of the business, notably in Hong Kong and Latin America, and from higher investment returns allocated to policyholders compared with the same period in 2011.

The increase in liabilities to policyholders was primarily driven by additional liabilities established for new business written, notably in Hong Kong and Brazil, which was consistent with increases in net earned premiums. In addition, the strong renewal premium in Hong Kong also contributed to additional reserves.

Further increases in the movement in liabilities to policyholders resulted from gains on the fair value of the assets held to support policyholder contracts where the policyholder bears investment risk. This particularly related to unit-linked insurance contracts and investment and insurance contracts with DPF. The higher investment returns were the result of favourable equity market movements compared with the same period in 2011. The gains or losses experienced on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June 2012	30 June 2011	31 December 2011

	US$m	US$m	US$m
Loan impairment charges			
New allowances net of allowance releases	**5,093**	5,703	7,228
Recoveries of amounts previously written off	**(568)**	(730)	(696)
	4,525	4,973	6,532
Individually assessed allowances	**1,103**	638	1,277
Collectively assessed allowances	**3,422**	4,335	5,255
Impairment of available-for-sale debt securities	**243**	308	323
Other credit risk provisions/(recoveries)	**31**	(15)	6
Loan impairment charges and other credit risk provisions	**4,799**	5,266	6,861
	%	%	%
as a percentage of underlying revenue	**13.8**	15.8	22.2
Impairment charges on loans and advances to customers as a percentage of gross average loans and advances to customers (annualised)	**1.0**	1.0	1.3

On a reported basis, loan impairment charges and other credit risk provisions decreased from US$5.3bn to US$4.8bn, a decline of 9% compared with the first half of 2011 and 6% on a constant currency basis. Within this, collectively assessed allowances fell by 19% and individually assessed impairment allowances increased by 78% on a constant currency basis.

An improvement in loan impairment charges and other credit risk provisions was recorded, primarily in our CML portfolio in North America and, to a lesser extent, in Europe. This was partly offset by increased loan impairment charges and other credit risk provisions in Latin America, mainly in Brazil, as well as in Rest of Asia-Pacific and the Middle East and North Africa.

Interim Management Report (continued)

Impairments on available-for-sale debt securities were US$56m lower than in the first half of 2011, primarily in Europe due to lower charges on available-for-sale ABSs on legacy credit and lower impairment charges on available-for-sale Greek sovereign debt in GB&M.

Loan impairment charges and other credit risk provisions in North America fell by 29% compared with the first half of 2011 to US$2.2bn, reflecting a reduction in CML, as well as the sale of the Card and Retail Services business in May 2012.

Loan impairment charges in our CML business in the US fell by 28% to US$1.6bn, driven by lower lending balances, an improvement in two-months-and-over contractual delinquency on balances less than 180 days past due as the portfolios continued to run off. Loan impairment charges were adversely affected by delays in expected cash flows from mortgage loans as a result of delays in foreclosure processing, though the effect was less pronounced than in the first half of 2011. Additionally, in the first half of 2012 we increased our loan impairment allowances having updated our assumptions regarding the timing of expected cash flows received from customers with modified loans.

In Europe, loan impairment charges and other credit risk provisions decreased by 9% to US$1.0bn, primarily in the UK. This reduction was mainly in RBWM, due to improved delinquency trends across both the secured and unsecured portfolios where we continued to focus our lending growth on higher quality assets. In GB&M, loan impairment charges increased because of a small number of individually assessed provisions in the UK and a rise in charges in our legacy credit business. This was partly offset by lower credit risk provisions, primarily driven by reduced impairments on available-for-sale ABSs in legacy credit as the losses arising in the underlying collateral pools generated lower charges, coupled with a lower impairment charge on Greek sovereign debt. Further information on our exposures to countries in the eurozone is provided in Areas of special interest Eurozone exposures on page 121. In CMB, loan impairment charges and other credit risk provisions increased by US$58m, driven by a rise in individually assessed loan impairment allowances, reflecting the challenging economic conditions.

Loan impairment charges and other credit risk provisions in Latin America increased by 57% to US$1.1bn, primarily in RBWM and CMB. In RBWM, this was mainly due to increased delinquency rates in Brazil, following strong balance sheet growth in previous periods which was driven by increased marketing, a focus on acquiring customers and strong customer demand in buoyant economic conditions which subsequently weakened. In CMB, loan impairment charges and other credit risk provisions almost doubled to US$315m, mainly in Brazil following strong balance sheet growth, primarily in Business Banking, which resulted in increased delinquencies as well as a rise in individually assessed loan impairment charges. We took a number of steps to address the increase in delinquencies in RBWM and CMB, including improving our collections capabilities reducing third-party originations and lowering credit limits where appropriate.

In Rest of Asia-Pacific, loan impairment charges and other credit risk provisions increased by US$197m, due to higher individually assessed impairment charges relating to a small number of corporate exposures in the region and a charge on available-for-sale debt securities.

In the Middle East and North Africa, loan impairment charges and other credit risk provisions increased by 38% to US$135m, primarily in GB&M, as we incurred a small number of significant individually assessed loan impairment charges in the first half of 2012. Loan impairment charges were 36% lower in RBWM due to an improvement in credit quality which reflected the repositioning of the book towards higher quality lending. Loan impairment charges were also lower in CMB due to the non-recurrence of loan impairment charges in the first half of 2011, relating to a small number of corporate names as we worked closely with our customers through the credit cycle.

In Hong Kong, loan impairment charges and other credit risk provisions remained broadly unchanged as the credit environment remained stable and we maintained our focus on high levels of asset quality.

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Interim Management Report (continued)

Operating expenses

	Half-year to 30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Employee compensation and benefits	**10,905**	10,521	10,645
Premises and equipment (excluding depreciation and impairment)	**2,086**	2,196	2,307
General and administrative expenses	**7,039**	6,223	6,733
Administrative expenses	**20,030**	18,940	19,685
Depreciation and impairment of property, plant and equipment	**706**	805	765
Amortisation and impairment of intangible assets	**468**	765	585
Operating expenses	**21,204**	20,510	21,035
Included in the above are the following notable cost items:			
Restructuring costs (including impairment of assets)	**563**	477	645
UK customer redress programmes	**1,345**	611	287
UK bank levy	**(34)**		570
US mortgage foreclosure and servicing costs			257
UK pension credit		(587)	
Deferred variable compensation awards accelerated amortisation		138	25
US anti-money laundering, BSA and OFAC investigations	**700**		

Staff numbers (full-time equivalent)

	At 30 June 2012	30 June 2011	31 December 2011
Europe	**73,143**	76,879	74,892
Hong Kong	**27,976**	30,214	28,984
Rest of Asia-Pacific	**86,207**	91,924	91,051
Middle East and North Africa	**9,195**	8,755	8,373
North America	**23,341**	32,605	30,981
Latin America	**51,667**	55,618	54,035
Staff numbers	**271,529**	295,995	288,316

Operating expenses of US$21.2bn increased by 3% on a reported basis and by US$1.4bn or 7% on a constant currency basis compared with the first half of 2011. On an underlying basis, costs increased by 10%.

The rise in operating expenses on a constant currency basis resulted from a number of notable items.

In the first half of 2012, additional provisions of US$1.7bn were raised in respect of customer redress provisions in the UK, taking the balance sheet provision at 30 June 2012 to US$1.1bn (see Note 17 on the Financial Statements). These provisions include the estimated redress for the possible mis-selling in previous years of PPI policies (US$1.0bn) and interest rate protection products (US$237m). With regard to the latter, we are working with customers and the Financial Services Authority (FSA) to assess the need for redress for smaller companies. The additional provision relating to PPI sales reflects the refinement of our assumptions in the light of our recent claims

experience. There are many factors which affect the estimated liability and there remains a high degree of uncertainty as to the eventual cost of redress for these matters.

Operating expenses included a provision of US$700m which represents management s best estimate of the amount of penalties and fines related to US anti-money laundering, BSA and OFAC investigations as described in Note 25 on the Financial Statements. There is a high degree of uncertainty in making this estimate and it is possible that the amounts when finally determined could be higher, possibly significantly higher. A change to this estimate could adversely affect operating expenses in the future. On page 107, we discuss the possible adverse consequences which could arise from regulatory investigations.

Costs also rose due to the non-recurrence of a credit in 2011 of US$570m (US$587m as reported) following a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions.

Interim Management Report (continued)

In the first half of 2012, we continued in our efforts to simplify the Group through our organisational effectiveness programmes. This resulted in an increase in restructuring costs of US$112m compared with the first half of 2011.

During the period we achieved a further US$0.8bn of sustainable cost savings through our organisational effectiveness programmes. The savings achieved by delivering on these programmes enabled the funding of investment in strategic initiatives including business expansion projects, primarily in Rest of Asia-Pacific, and the strengthening of our regulatory control and compliance infrastructure.

During the first half of the year our average staff numbers (expressed in FTEs) fell by 5%, compared with the first half of 2011. We recorded a net reduction of more than 16,700 FTEs compared with the end of 2011 through our organisational

effectiveness programmes and the sale of the Card and Retail Services portfolio and the non-strategic branches in the US. The resulting savings in staff costs, however, were more than offset by restructuring costs, the non-recurrence of the UK pension credit and wage inflation in Latin America, Hong Kong and Rest of Asia-Pacific.

General and administrative expenses increased due to the notable items referred to above. Excluding notable items, costs fell, primarily in North America reflecting reduced marketing programmes in Card and Retail Services during the first half of 2012 and the lower cost of holding foreclosed properties, as inventory diminished following the slowing of foreclosure processing activities. Offsetting this decline were higher compliance costs in the US, along with business growth and general inflationary pressures particularly in Latin America and Rest of Asia-Pacific.

Cost efficiency ratios

	Half-year to 30 June		
	30 June 2012	2011	31 December 2011
	%	%	%
HSBC	**57.5**	57.5	57.5
Geographical regions			
Europe	**96.1**	70.7	70.2
Hong Kong	**39.1**	43.2	45.9
Rest of Asia-Pacific	**48.2**	53.0	55.4
Middle East and North Africa	**43.4**	46.4	42.7
North America	**44.7**	55.8	55.6
Latin America	**59.0**	65.3	61.4
Global businesses			
Retail Banking and Wealth Management	**52.9**	61.2	65.5
Commercial Banking	**45.3**	45.1	47.4
Global Banking and Markets	**49.1**	50.2	66.0

Global Private Banking	**67.8**	66.1	71.7

Share of profit in associates and joint ventures

		Half-year to	
	30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Associates			
Bank of Communications Co., Limited	**829**	642	728
Ping An Insurance (Group) Company of China, Ltd.	**447**	469	477
Industrial Bank Co., Limited	**305**	199	272
The Saudi British Bank	**189**	171	137
Other	**41**	56	70
Share of profit in associates	**1,811**	1,537	1,684
Share of profit in joint ventures	**32**	19	24
Share of profit in associates and joint ventures	**1,843**	1,556	1,708

The reported share of profit in associates and joint ventures was US$1.8bn, an increase of 18%

compared with the first half of 2011. On a constant currency basis, this increased by 15%, driven primarily by higher contributions from our mainland China associates.

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Interim Management Report (continued)

Our share of profits from BoCom rose, driven by loan growth and wider spreads. Fee income also increased from settlements and credit cards. Profits from Industrial Bank increased due to continued strong lending growth and a rise in fee based revenue, partly offset by a rise in operating expenses.

Profits from The Saudi British Bank rose, driven by higher revenues, lower loan impairment charges and good cost control.

Profits from Ping An were lower, as increased income from the banking business following the consolidation of Shenzhen Development Bank and stable insurance income were more than offset by lower securities broking and underwriting income.

On 6 March 2012, Industrial Bank announced a proposal for the private placement of additional share capital. The proposal is subject to regulatory approvals and, if it proceeds, will dilute our interest in Industrial Bank and lead to a reassessment of the current accounting treatment of the investment.

Tax expense

		Half-year to	
	30 June	30 June	31 December
	2012	2011	2011
	US$m	US$m	US$m
Profit before tax	**12,737**	11,474	10,398
Tax expense	**(3,629)**	(1,712)	(2,216)
Profit after tax	**9,108**	9,762	8,182
Effective tax rate	**28.5%**	14.9%	21.3%

The tax charge in the first half of 2012 was US$1.9bn higher than in the first half of 2011 on a reported basis.

The higher tax charge in the first half of 2012 reflected the effect of higher taxed profits arising on the disposal of the Card and Retail Services business and the US branches, as well as the non-deductible provision in respect of US anti-money laundering,

BSA and OFAC investigations. The lower tax charge in the first half of 2011 included the benefit of US deferred tax recognised in 2011 in respect of foreign tax credits.

As a result of these factors, the reported effective tax rate for the first half of 2012 was 28.5% compared with 14.9% for the first half of 2011.

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Interim Management Report (continued)

Consolidated balance sheet

Summary consolidated balance sheet

	At 30 June 2012 US$m	At 30 June 2011 US$m	At 31 December 2011 US$m
ASSETS			
Cash and balances at central banks	**147,911**	68,218	129,902
Trading assets	**391,371**	474,950	330,451
Financial assets designated at fair value	**32,310**	39,565	30,856
Derivatives	**355,934**	260,672	346,379
Loans and advances to banks	**182,191**	226,043	180,987
Loans and advances to customers[29]	**974,985**	1,037,888	940,429
Financial investments	**393,736**	416,857	400,044
Assets held for sale	**12,383**	1,599	39,558
Other assets	**161,513**	165,195	156,973
Total assets	**2,652,334**	2,690,987	2,555,579
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**123,553**	125,479	112,822
Customer accounts	**1,278,489**	1,318,987	1,253,925
Trading liabilities	**308,564**	385,824	265,192
Financial liabilities designated at fair value	**87,593**	98,280	85,724
Derivatives	**355,952**	257,025	345,380
Debt securities in issue	**125,543**	149,803	131,013
Liabilities under insurance contracts	**62,861**	64,451	61,259
Liabilities of disposal groups held for sale	**12,599**	41	22,200
Other liabilities	**123,414**	123,560	111,971
Total liabilities	**2,478,568**	2,523,450	2,389,486
Equity			
Total shareholders equity	**165,845**	160,250	158,725
Non-controlling interests	**7,921**	7,287	7,368
Total equity	**173,766**	167,537	166,093
Total equity and liabilities	**2,652,334**	2,690,987	2,555,579
Selected financial information			
Called up share capital	**9,081**	8,909	8,934
Capital resources[30,31]	**175,724**	173,784	170,334
Undated subordinated loan capital	**2,778**	2,782	2,779

Preferred securities and dated subordinated loan capital[32]	**48,815**	53,659	49,438
Risk-weighted assets and capital ratios[30]			
Risk-weighted assets	**1,159,896**	1,168,529	1,209,514
	%	%	%
Core tier 1 ratio	**11.3**	10.8	10.1
Tier 1 ratio	**12.7**	12.2	11.5
Financial statistics			
Loans and advances to customers as a percentage of customer accounts	**76.3**	78.7	75.0
Average total shareholders equity to average total assets	**5.9**	5.7	5.6
Net asset value per ordinary share at period-end[33] (US$)	**8.73**	8.59	8.48
Number of US$0.50 ordinary shares in issue (millions)	**18,164**	17,818	17,868
Closing foreign exchange translation rates to US$:			
US$1: £	**0.638**	0.625	0.646
US$1:	**0.790**	0.690	0.773

For footnotes, see page 100.

A more detailed consolidated balance sheet is contained in the Financial Statements on page 213.

Interim Management Report (continued)

Movement from 31 December 2011 to 30 June 2012

Total reported assets were US$2.7 trillion, 4% higher than at 31 December 2011 on both a reported and constant currency basis.

Our conservative approach to managing the Group balance sheet and strong excess liquidity position, partly due to the growth in deposits in the first half of 2012, enabled us to continue to support our customers borrowing requirements, resulting in growth in term and trade-related lending and residential mortgages. Trading assets grew due to increased client activity in the first half of 2012, and the fair value of derivative contracts rose due to downward movements of yield curves in major currencies. A number of the business disposals announced previously were completed, including the sale of the Card and Retail Services business and 138 non-strategic branches in the US, as we continued to reshape our balance sheet and improve our capital deployment.

The following commentary is based on a comparison with the balance sheet at 31 December 2011.

Assets

Cash and balances at central banks increased by 14%. Financial markets continued to be dominated by concerns about eurozone sovereign debt levels and their possible contagion effects in the first half of 2012. As a result, we maintained our conservative risk profile by placing a greater portion of our excess liquidity with central banks, particularly in Europe. In North America, balances at central banks declined as liquidity was redeployed into government debt securities and reverse repos and to repay debt.

Trading assets rose by 18%, as client activity increased from the subdued levels seen in the second half of 2011. This resulted in higher reverse repo and equity securities balances, as well as a rise in settlement account balances which vary significantly in proportion to the level of trading activity. In addition, the increase in cash collateral posted with external counterparties reflected the increase in the fair value of derivative liabilities.

Financial assets designated at fair value increased by 6%. This was driven by the consolidation of a fund in our insurance business in France, which invests primarily in debt securities, following an increase in our holding in the first half of the year.

Derivative assets increased by 3%. This was driven by a significant rise in the fair value of

interest rate contracts, notably in Europe, due to downward movements of yield curves in major currencies reflecting the ongoing monetary response to the economic weakness and turmoil in the eurozone. This was offset in part by higher netting, which rose in line with the increase in fair values.

Loans and advances to banks remained in line with December 2011 levels.

Loans and advances to customers increased by 4%. Lending grew in the second quarter of 2012, notably in CMB in Hong Kong, Rest of Asia-Pacific and the UK and in GB&M in Rest of Asia-Pacific as we captured international trade and capital flows and demand for credit rose. Overdraft balances in the UK which did not meet netting criteria under current accounting rules also increased, with a corresponding rise in customer accounts. Reverse repo balances rose, largely due to the deployment of the proceeds from the US disposals. In addition, residential mortgage balances continued to grow strongly, notably in the UK reflecting the success of our competitive offerings and marketing campaigns and, to a lesser extent, in Hong Kong where housing market activity remained relatively subdued compared with the previous year. The rise was also attributable to the completion of the merger of our operations in Oman (HSBC Oman) with Oman International Bank S.A.O.G. (OIB). This was partly offset by a reduction in residential mortgage balances in the US due to repayments on the run-off portfolio closed to new business.

During the first half of 2012, loans and advances to customers relating to the planned disposals of non-strategic RBWM banking operations in Rest of Asia-Pacific and businesses in Latin America were reclassified from Loans and advances to customers to Assets held-for-sale as we continued to reshape the Group using our five filters framework. A combined view of customer lending, which includes loans and advances to customers classified as held for sale is shown on page 36. The combined view of lending remained in line with December 2011 levels as growth in mortgage balances and term lending was broadly offset by the completion of the sale of the US Card and Retail Services business and the disposal of 138 non-strategic branches in the US in the first half of 2012.

Financial investments were broadly in line with December 2011 levels as Balance Sheet Management continued to hold large portfolios of highly liquid assets while managing selectively our exposure to sovereign debt. In Europe, financial investments declined as we redeployed the liquidity from the disposal of available-for-sale securities to

Interim Management Report (continued)

central banks as part of portfolio management activities. This was largely offset by a rise in North America where excess liquidity was redeployed into government debt securities.

Assets held for sale declined by 69% as a result of the completion of the US disposals. This was partly offset by reclassification of assets of disposal groups to Assets held for sale , notably the loans and advances to customers associated with the non-strategic operations in Latin America and Rest of Asia-Pacific.

Other assets remained in line with December 2011 levels.

Liabilities

Deposits by banks increased by 10%. The continued turmoil in sovereign debt markets led to a rise in placements by other financial institutions with HSBC, notably in Europe.

Customer accounts grew by 2%, driven by growth in Europe across all global businesses, and in Hong Kong across RBWM and CMB, reflecting the success of deposit gathering initiatives. The rise was also attributable to the completion of the merger of HSBC Oman with OIB. This was partly offset by lower repo balances and declines in Latin America due to a managed reduction in term deposits in Brazil, together with a fall in North America as short-term institutional placements at the end of 2011 returned to more normal levels in a competitive market.

In the first half of 2012, we reclassified deposit balances of non-strategic businesses in Rest of Asia-Pacific and Latin America from Customer accounts to Liabilities held for sale . A combined view of customer deposits with customer accounts classified as held for sale is shown on page 36. The rise in the combined view of deposits reflected the growth in customer accounts, offset in part by the completion of the sale of the non-strategic branches in the US.

Trading liabilities increased by 16% as a result of higher repo activity to fund the rise in trading assets resulting from the increase in client activity. Cash collateral posted by third parties also rose in line with the fair value of derivative assets, notably in Europe. Settlement account balances, which vary significantly in proportion to the level of trading activity, also increased.

Financial liabilities designated at fair value remained in line with December 2011 levels. A net

increase in Europe as a result of new issuances was broadly offset by a net reduction in North America, where maturities were not replaced as funding requirements fell, driven by the business disposals and the continued reduction of the consumer finance portfolios in run-off in the US.

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

Debt securities in issue decreased by 4%. As noted above, funding requirements declined in North America and therefore maturing debt issuances were not replaced.

Liabilities under insurance contracts increased by 4%. This reflected reserves established for new business written, notably in Hong Kong and Europe, together with higher investment returns which resulted in a rise in the fair value of assets held to support unit-linked and investment and insurance contracts with DPF and the related liabilities to policyholders. This was partly offset by a reduction in insurance liabilities following the completion of the sale of the general insurance business in Argentina and reclassification of insurance liabilities in the US to liabilities of disposal groups held for sale.

Liabilities of disposal groups held for sale decreased by 43% following the completion of the disposal of 138 branches in the US. This was partly offset by the reclassification of liabilities relating to the non-strategic businesses in Latin America and Rest of Asia-Pacific together with insurance liabilities in the US to Liabilities of disposal groups held for sale following the five filters review.

Other liabilities rose by 11%, reflecting the rise in provisions relating to certain US law enforcement and regulatory matters and customer redress provisions, a rise in current tax liabilities and higher balances owed to bondholders and investors in consolidated funds.

Equity

Total shareholders equity rose by 5%, driven by profits generated in the period and a reduction in the negative balance on the available-for-sale reserve from US$3.4bn at 31 December 2011 to US$1.8bn at 30 June 2012 reflecting an improvement in the fair value of these assets.

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Interim Management Report (continued)

Reconciliation of constant currency changes in assets and liabilities

	30 June 2012 compared with 31 December 2011					
HSBC	31 Dec 11 as reported US$m	Currency translation[34] US$m	31 Dec 11 at 30 Jun 12 exchange rates US$m	30 Jun 12 as reported US$m	Reported change %	Constant currency change %
Cash and balances at central banks	129,902	(625)	129,277	147,911	14	14
Trading assets	330,451	353	330,804	391,371	18	18
Financial assets designated at fair value	30,856	(429)	30,427	32,310	5	6
Derivative assets	346,379	(411)	345,968	355,934	3	3
Loans and advances to banks	180,987	(1,436)	179,551	182,191	1	1
Loans and advances to customers	940,429	1,209	941,638	974,985	4	4
Financial investments	400,044	(146)	399,898	393,736	(2)	(2)
Assets held for sale	39,558	(17)	39,541	12,383	(69)	(69)
Other assets	156,973	779	157,752	161,513	3	2
Total assets	2,555,579	(723)	2,554,856	2,652,334	4	4
Deposits by banks	112,822	(464)	112,358	123,553	10	10
Customer accounts	1,253,925	1,552	1,255,477	1,278,489	2	2
Trading liabilities	265,192	168	265,360	308,564	16	16
Financial liabilities designated at fair value	85,724	248	85,972	87,593	2	2
Derivative liabilities	345,380	(343)	345,037	355,952	3	3
Debt securities in issue	131,013	(247)	130,766	125,543	(4)	(4)
Liabilities under insurance contracts	61,259	(800)	60,459	62,861	3	4
Liabilities of disposal groups held for sale	22,200	(113)	22,087	12,599	(43)	(43)
Other liabilities	111,971	(339)	111,632	123,414	10	11
Total liabilities	2,389,486	(338)	2,389,148	2,478,568	4	4
Total shareholders equity	158,725	(391)	158,334	165,845	4	5
Non-controlling interests	7,368	7	7,375	7,921	8	7
Total equity	166,093	(384)	165,709	173,766	5	5
Total equity and liabilities	2,555,579	(722)	2,554,857	2,652,334	4	4

For footnote, see page 100.

In implementing our strategy, we have agreed to sell a number of businesses across the Group. Assets and liabilities of businesses, the sale of which is highly probable, are reported in held-for-sale categories on the balance sheet until the sale is closed. We include loans and advances to customers

and customer account balances reported in held-for-sale categories in our combined view of customer lending and customer accounts. We consider the combined view more accurately reflects the size of our lending and deposit books and growth thereof.

Interim Management Report (continued)

Customer accounts by country

	At 30 June 2012 US$m	At 30 June 2011 US$m	At 31 December 2011 US$m
Europe	**529,529**	548,811	493,404
UK	**382,945**	366,134	361,181
France[36]	**62,891**	101,032	55,278
Germany	**14,935**	9,046	8,738
Malta	**5,899**	6,200	5,695
Switzerland	**44,252**	46,790	45,283
Turkey	**7,171**	7,583	6,809
Other	**11,436**	12,026	10,420
Hong Kong	**318,820**	305,726	315,345
Rest of Asia-Pacific	**173,157**	168,589	174,012
Australia	**19,560**	18,780	18,802
India	**10,315**	11,732	10,227
Indonesia	**6,382**	5,982	6,490
Mainland China	**32,183**	28,481	31,570
Malaysia	**16,523**	16,962	16,970
Singapore	**46,560**	40,906	44,447
Taiwan	**11,822**	11,968	11,659
Vietnam	**1,870**	1,543	1,834
Other	**27,942**	32,235	32,013
Middle East and North Africa (excluding Saudi Arabia)	**39,029**	37,119	36,422
Egypt	**7,444**	7,103	7,047
Qatar	**3,031**	3,319	2,796
United Arab Emirates	**17,727**	18,558	18,172
Other	**10,827**	8,139	8,407
North America	**148,360**	162,633	155,982
US	**91,525**	104,749	97,542
Canada	**46,113**	47,049	45,510
Bermuda	**10,722**	10,835	12,930
Latin America	**69,594**	96,109	78,760
Argentina	**4,862**	4,403	4,878
Brazil	**34,022**	52,285	42,410
Mexico	**22,491**	25,326	21,772
Panama	**5,696**	7,535	5,463
Other	**2,523**	6,560	4,237
	1,278,489	1,318,987	1,253,925

For footnote, see page 100.

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Interim Management Report (continued)

Combined view of customer lending and customer deposits

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	30 June 2012 US$m	31 December 2011 US$m	Change %
Loans and advances to customers	**974,985**	1,037,888	(6.1)	**974,985**	940,429	3.7
Loans and advances to customers reported in held for sale[35]	**5,496**	1		**5,496**	35,105	(84.3)
Card and Retail Services					29,137	(100.0)
US branches	**528**			**528**	2,441	(78.4)
Other	**4,968**	1		**4,968**	3,527	40.9
Combined customer lending	**980,481**	1,037,889	(5.5)	**980,481**	975,534	0.5
Customer accounts	**1,278,489**	1,318,987	(3.1)	**1,278,489**	1,253,925	2.0
Customer accounts reported in held for sale[35]	**9,668**			**9,668**	20,138	(52.0)
US branches	**3,633**			**3,633**	15,144	(76.0)
Other	**6,035**			**6,035**	4,994	20.8
Combined customer deposits	**1,288,157**	1,318,987	(2.3)	**1,288,157**	1,274,063	1.1

For footnote, see page 100.

Economic profit/(loss)

Our internal performance measures include economic profit/(loss), a calculation which compares the return on financial capital invested in HSBC by our shareholders with the cost of that capital. We price our cost of capital internally and the difference between that cost and the post-tax profit attributable to ordinary shareholders represents the amount of economic profit/(loss) generated. In order to concentrate on performance rather than measurement bases, we emphasise the trend in economic profit/(loss) ahead of absolute amounts.

Our long-term cost of capital is reviewed annually and is 11% for 2012; this remains unchanged from 2011. The following commentary is on a reported basis.

The return on invested capital fell by 1.5 percentage points to 9.9%, which was 1.1 percentage points lower than our benchmark cost of capital. Our economic loss was US$0.9bn, a decrease of US$1.2bn compared with the gain at 30 June 2011. This reflected higher average invested capital and a decrease in profits attributable to ordinary shareholders, primarily due to a higher tax charge in the first half of 2012.

Economic profit/(loss)

	Half-year to					
	30 June 2012		30 June 2011		31 December 2011	
	US$m	**%[37]**	US$m	%[37]	US$m	%[37]
Average total shareholders equity	**163,030**		153,312		158,946	
Adjusted by:						
Goodwill previously amortised or written off	**8,123**		8,123		8,123	
Property revaluation reserves	**(901)**		(916)		(912)	
Reserves representing unrealised losses on effective cash flow hedges	**85**		384		190	
Reserves representing unrealised losses on available-for-sale securities	**2,441**		3,699		3,059	
Preference shares and other equity instruments	**(7,256)**		(7,256)		(7,256)	
Average invested capital[4]	**165,522**		157,346		162,150	
Return on invested capital[38]	**8,152**	**9.9**	8,929	11.4	7,295	8.9
Benchmark cost of capital	**(9,054)**	**(11.0)**	(8,583)	(11.0)	(8,989)	(11.0)
Economic profit/(loss) and spread	**(902)**	**(1.1)**	346	0.4	(1,694)	(2.1)

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of RoRWA measures

Performance Management

We target a return on average ordinary shareholders equity of 12% 15%. For internal management purposes we monitor global businesses and geographical regions by pre-tax return on RWAs, a metric which combines return on equity and regulatory capital efficiency objectives.

In addition to measuring return on average risk- weighted assets (RoRWA) we measure our performance internally using underlying RoRWA, which is underlying profit before tax as a percentage of average risk-weighted assets adjusted for the

effects of foreign currency translation differences. Underlying RoRWA adjusts performance for certain items which distort year-on-year performance as explained on page 15.

We also present underlying RoRWA adjusted for the effect of operations which are not regarded as contributing to the longer-term performance of the Group. These include the run-off portfolios and the Card and Retail Services business which was sold in May 2012.

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

	Half-year to 30 June 2012		
	Pre-tax return US$m	Average RWAs[39] US$bn	RoRWA[40,41] %
Reported[41]	**12,737**	**1,194**	**2.1**
Underlying[40]	**10,608**	**1,194**	**1.8**
Run-off portfolios	**(1,393)**	**175**	
Legacy credit in GB&M	**(378)**	**48**	
US CML and other[42]	**(1,015)**	**127**	
Card and Retail Services	**768**	**34**	
Underlying (excluding run-off portfolios and Card and Retail Services)	**11,233**	**986**	**2.3**

	Half-year to 30 June 2011			Half-year to 31 December 2011		
		Average			Average	
	Pre-tax return US$m	RWAs[39] US$bn	RoRWA[40,41] %	Pre-tax return US$m	RWAs[40] US$bn	RoRWA[40,41] %
Reported[41]	11,474	1,134	2.0	10,398	1,179	1.7
Underlying[40]	10,968	1,101	2.0	5,806	1,156	1.0
Run-off portfolios	(1,451)	164		(3,448)	175	
Legacy credit in GB&M	(88)	27		(339)	37	
US CML and other[42]	(1,363)	137		(3,109)	138	
Card and Retail Services	828	35		694	35	
Underlying (excluding run-off portfolios and Card and Retail Services)	11,591	902	2.6	8,560	946	1.8

For footnotes, see page 100.

Disposals, held for sale and run-off portfolios

In implementing our strategy, we have sold or agreed to sell a number of businesses across the Group. The sale of these businesses, especially the US Card and Retail Services portfolio, will have a significant adverse effect on both our revenue and profitability in the future. In addition, we have two

significant portfolios which are being run down. We expect the losses on these portfolios to continue to adversely affect the Group in the future.

The table below presents the historical results of these businesses. We do not expect the historical results to be indicative of future results because of disposal or run-off. Fixed allocated costs, included in total operating costs, will not necessarily be removed upon disposal and have been separately identified.

Interim Management Report (continued)

Summary income statements for disposals, held for sale and run-off portfolios[43,44]

	Half-year to 30 June 2012				
				Run-off portfolios	
	Card and Retail Services	Other disposals	Held for sale	US CML and Other[42]	Legacy credit in GB&M
	US$m	US$m	US$m	US$m	US$m
Net interest income/(expense)	1,267	109	270	1,277	(4)
Net fee income/(expense)	409	(1)	8	(9)	(8)
Net trading income/(expense)		6	50	(238)	(15)
Net income/(expense) from financial instruments designated at fair value			3	(513)	5
Gains less losses from financial investments		5	10	3	(39)
Dividend income				2	
Net earned insurance premiums		134	308	19	
Other operating income/(expense)	7	5	35	(39)	(3)
Total operating income/(expense)	1,683	258	684	502	(64)
Net insurance claims incurred and movement in liabilities to policyholders		(71)	(178)	(4)	
Net operating income/(expense)[14]	1,683	187	506	498	(64)
Loan impairment (charges)/recoveries and other credit risk provisions	(322)	1	(30)	(1,577)	(268)
Net operating income/(expense)	1,361	188	476	(1,079)	(332)
Total operating expenses	(593)	(158)	(346)	(386)	(46)
Operating profit/(loss)	768	30	130	(1,465)	(378)
Share of profit in associates and joint ventures		1	1		
Profit/(loss) before tax	768	31	131	(1,465)	(378)
By geographical region					
Europe					(369)
Hong Kong			20		1
Rest of Asia-Pacific		(7)	12		(1)
Middle East and North Africa			35		
North America	768	17	17	(1,465)	(9)
Latin America		21	47		
Profit/(loss) before tax	768	31	131	(1,465)	(378)
By global business					
Retail Banking and Wealth Management	768	29	64	(961)	
Commercial Banking		2	25	9	
Global Banking and Markets		1	51		(378)
Global Private Banking		(2)			
Other		1	(9)	(513)	
Profit/(loss) before tax	768	31	131	(1,465)	(378)

Other information					
Gain on sale	**3,148**	**1,151**			
Fixed allocated costs included in total operating expenses	**188**	**45**	**46**	**126**	
Reduction in RWAs on disposal[40,45]	**39,326**	**2,301**	**7,699**		
RWAs[40,45]			**8,749**	**122,293**	**47,730**
	%	%	%	%	%
Share of HSBC s profit before tax	**6.0**	**0.2**	**1.0**	**(11.5)**	**(3.0)**
Cost efficiency ratio	**35.2**	**84.5**	**68.4**	**77.5**	**(71.9)**

For footnotes, see page 100.

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Interim Management Report (continued)

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

	Half-year to 30 June 2012	Year ended 31 December 2011	2010	2009	2008	2007
Ratios of earnings to combined fixed charges and preference share dividends:[1]						
excluding interest on deposits	**6.86**	5.95	5.89	2.64	2.97	6.96
including interest on deposits	**1.85**	1.64	1.69	1.20	1.13	1.34
Ratios of earnings to combined fixed charges:[1]						
excluding interest on deposits	**8.76**	7.34	7.10	2.99	3.17	7.52
including interest on deposits	**1.91**	1.68	1.73	1.22	1.14	1.34

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

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Interim Management Report (continued)

Global businesses

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Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business, as presented on page 57.

The commentaries below present global businesses followed by geographical regions. Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on a constant currency basis (see page 13) unless stated otherwise.

Basis of preparation

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global 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.

The expense of the 2011 UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK. For the purposes of the segmentation by global business, the cost of the levy is included in Other .

The provision of US$700m relating to US anti-money laundering, BSA and OFAC investigations is included in the North America geographical region, and in Other for the purposes of the segmentation by global business.

Profit/(loss) before tax

	Half-year to					
	30 June 2012		30 June 2011		31 December 2011	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management	**6,410**	**50.3**	3,126	27.3	1,144	11.0
Commercial Banking	**4,429**	**34.8**	4,189	36.5	3,758	36.1
Global Banking and Markets	**5,047**	**39.6**	4,811	41.9	2,238	21.5
Global Private Banking	**527**	**4.1**	552	4.8	392	3.8
Other[46]	**(3,676)**	**(28.8)**	(1,204)	(10.5)	2,866	27.6
	12,737	**100.0**	11,474	100.0	10,398	100.0

Total assets[47]

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management	**526,069**	**19.8**	557,952	20.7	540,548	21.2
Commercial Banking	**351,157**	**13.2**	336,094	12.5	334,966	13.1
Global Banking and Markets	**1,905,455**	**71.8**	1,942,835	72.2	1,877,627	73.5
Global Private Banking	**119,271**	**4.5**	122,888	4.6	119,839	4.7
Other	**179,703**	**6.8**	189,912	7.0	180,126	7.0
Intra-HSBC items	**(429,321)**	**(16.1)**	(458,694)	(17.0)	(497,527)	(19.5)
	2,652,334	**100.0**	2,690,987	100.0	2,555,579	100.0

Risk-weighted assets

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	US$m	**%**	US$m	%	US$m	%
Total	**1,159.9**		1,168.5		1,209.5	
Retail Banking and Wealth Management	**298.7**	**25.7**	365.0	31.2	351.2	29.0
Commercial Banking	**397.8**	**34.3**	363.3	31.1	382.9	31.7
Global Banking and Markets	**412.9**	**35.6**	385.4	33.0	423.0	35.0
Global Private Banking	**21.8**	**1.9**	23.9	2.1	22.5	1.9
Other	**28.7**	**2.5**	30.9	2.6	29.9	2.4

For footnotes, see page 100.

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Interim Management Report (continued)

Retail Banking and Wealth Management

RBWM provides banking and wealth management services to individual customers across our principal geographical markets.

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**10,774**	12,086	12,015
Net fee income	**3,760**	4,212	4,014
Other income/(expense)	**4,781**	1,274	(68)
Net operating income[48]	**19,315**	17,572	15,961
Impairment charges[49]	**(3,273)**	(4,270)	(5,049)
Net operating income	**16,042**	13,302	10,912
Total operating expenses	**(10,218)**	(10,746)	(10,456)
Operating profit	**5,824**	2,556	456
Income from associates[50]	**586**	570	688
Profit before tax	**6,410**	3,126	1,144
RoRWA[40]	**3.9%**	1.8%	0.6%

Revenue growth in

faster-growing regions

Announced 14 disposals or closures

and completed five as part of our strategy

to deploy capital more effectively

Best Foreign Retail Bank in China

(The Asian Banker)

Strategic direction

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

We focus on three strategic imperatives:

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

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Review of performance

RBWM reported a profit before tax of US$6.4bn, compared with US$3.1bn in the first half of 2011 on both a reported and constant currency basis. This included gains resulting from a number of strategic transactions, including US$3.1bn following completion of the disposal of the US Card and Retail Services business and US$449m on completion of the sale of 138 of the 195 non-strategic branches we agreed to sell in the US, as well as gains from the disposal of our operations in Thailand (US$108m), the Private Client Services business in Canada (US$75m) and the general insurance business in Argentina (US$57m). These gains were partly offset by the loss of operating profits from the Card and Retail Services business after 1 May 2012.

On an underlying basis, profit before tax fell by US$313m, largely driven by additional charges related to the customer redress programmes in the UK (US$532m). Further, revenue in the first half of 2011 had benefited from a gain of US$177m (US$181m as reported) following the implementation of a refinement to the calculation of the PVIF asset. These were partly offset by improved profitability in the US run-off portfolios of US$412m, with lower loan impairment charges more than offsetting lower revenues.

RBWM profit/(loss) before tax

		Half-year to	
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
US Card and Retail Services	**768**	982	1,079
US run-off portfolios	**(961)**	(1,363)	(3,109)
Gain on disposal of US branch network and cards business	**3,597**		
Rest of RBWM	**3,006**	3,507	3,174
	6,410	3,126	1,144

Excluding the results of the US Card and Retail Services, the US run-off portfolios and the gains on disposals in the US, the reported profit before tax for the Rest of RBWM declined by US$501m, with profit improvement in most countries being more than offset by a US$532m increase in customer redress charges in the UK, and the non-recurrence of PVIF gains and a pension credit.

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Interim Management Report (continued)

We continued to build revenues in faster-growing regions, with Hong Kong, Latin America, Rest of Asia-Pacific, Middle East and North Africa, all showing increases over the first half of 2011 on a constant currency basis.

Revenue increased by 7% in Latin America due to a change in the product mix of the lending book as we grew our balances of higher-yielding assets and managed down our exposure to non strategic products, including vehicle finance and payroll loans in Brazil. Revenue also increased due to higher average lending balances in personal loans and credit cards in Argentina. In addition, insurance revenues grew due to strong sales of unit-linked pension products in Brazil and, in Argentina, from the gain on sale of the general insurance business. The revenue growth was partly offset by the loss on reclassification of certain businesses to held for sale and the non-recurrence of a gain on the sale and lease-back of branches in Mexico in the first half of 2011.

Revenue grew by 6% in Hong Kong reflecting wider deposit spreads, higher mortgage and personal lending balances, and higher insurance revenues due to strong sales and renewals of life insurance products. This was partly offset by narrower asset spreads in residential mortgages.

Revenue in Rest of Asia-Pacific increased by 8%, due to the gain on the sale of our operations in Thailand and higher net interest income, as a result of increased mortgage balances mainly in Singapore and Malaysia, driven by promotional campaigns, in addition to higher deposit volumes. This was partly offset by narrower lending spreads reflecting competitive pricing pressures in residential mortgage lending in a number of markets.

In Europe, revenue decreased by 7% despite strong deposit growth in the region and healthy mortgage lending growth in the UK, with wider lending spreads. Deposit spreads in the UK narrowed in the face of strong domestic competition. Insurance revenues also fell, mainly in France, reflecting an adverse movement in PVIF due to experience and assumption updates. In addition, life insurance sales also decreased resulting from increased competition from short-term bank products and the adverse economic environment. Our income from Insurance also declined as the gain of US$74m (US$78m as reported) following the implementation of a refinement to the calculation of the PVIF asset in the first half of 2011 did not recur.
Loan impairment charges and other credit risk provisions fell by 22% compared with the first half of 2011. This was mainly in North America, where average balances declined significantly as we continued to run-off the CML portfolio. We saw an improvement in two-months-and-over contractual delinquency on balances less than 180 days past due. Loan impairment charges were adversely affected by delays in expected cash flows from mortgage loans due, in part, to delays in foreclosure processing, though the effects were less pronounced than in the first half of 2011. Additionally, in the first half of 2012 we increased our loan impairment allowances having updated our assumptions regarding the timing of expected cash flows received from customers with loan modifications. Loan impairment charges also fell due to the sale of the Card and Retail Services portfolio.

In Europe, loan impairment charges improved as a result of lower delinquency rates in both the secured and unsecured lending portfolios, primarily in the UK.

These reductions were partly offset by worsening delinquency rates in Brazil, following strong balance sheet growth in previous periods which was driven by increased marketing and acquisitions, and strong consumer demand in buoyant economic conditions which subsequently weakened.

Operating expenses decreased by 1% to US$10.2bn, as we reduced headcount and costs through both our organisation effectiveness programmes and the transactions undertaken through our portfolio management activities.

We achieved sustainable cost savings of more than US$160m, primarily in Europe, Latin America and North America, through ongoing measures taken to improve our efficiency. The completion of disposals during the period also resulted in a lower operational cost base. In North America, litigation and marketing expenses also fell.

Lower costs were achieved despite the additional provisions of US$1.1bn which were raised in the first half of 2012 in respect of customer redress provisions in the UK, compared with a charge of US$576m (US$589m as reported) in the first half of 2011, as explained on page 28. Cost pressures also came from the non-recurrence of a credit of US$256m (US$264m as reported) in the first half of 2011 relating to defined benefit pension obligations in the UK, and from wage inflation in faster-growing markets.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Strategic imperatives

Developing world class wealth management for retail customers

Wealth Management revenues fell by some US$0.1bn in the first half of 2012 compared with the same period in 2011, primarily due to a gain from the refinement to the calculation of the PVIF asset in the first half of 2011 which did not recur. We continued to grow our premium revenue from life insurance products, primarily in Hong Kong, Latin America and Rest of Asia-Pacific, and revenues from foreign exchange transactions also increased, supported by the successful deployment of our web-enabled foreign currency Get Rate system across key markets in Europe and Asia towards the end of 2011. However, investment markets remained challenging, with muted demand for investment products, and we saw lower volumes of securities trading by customers.

We saw continued growth in our World Selection and Premier Investment Management services with net inflows amounting to around US$1.2bn in the first half of the year, resulting in FuM of US$16.8bn at 30 June 2012 across both of these portfolios.

Global Asset Management FuM increased by US$9bn compared with 31 December 2011. However, average FuM in the first half of 2012 decreased by US$12.3bn, compared with the first half of 2011, due to adverse movements in equity markets and muted investor sentiment, particularly in the latter part of 2011.

In Insurance, we entered into strategic partnerships in North America with Met Life and in the Middle East and North Africa with Zurich Life International, delivering an enhanced product offering for our customers and dedicated sales and marketing support for our relationship managers.

Leveraging global expertise in retail banking

In the UK, the mortgage business continued to grow. Our market share of new mortgage lending remained at 11%. We committed to lending at least £17bn (US$26bn) to UK mortgage customers in 2012, of which we had approved £10bn (US$15bn) by the end of June 2012. In Hong Kong, average mortgage balances increased, maintaining our position as market leaders.

We enhanced our digital banking capabilities and distributed these across our geographical regions. For example, in the UAE the HSBC website was launched in Arabic making us the first international bank with a bilingual digital presence in the Emirates. In Australia we launched an online share trading platform giving our customers mobile access at a competitive price.

Our business re-engineering programmes are enabling us to drive efficiency improvements and cost reductions across the business, and to improve and standardise business models, organisation structures and control frameworks.

Portfolio management to drive superior returns

During the first half of 2012 we made further progress towards our strategic priority of maximising returns from our portfolios, with 14 newly announced disposals or closures impacting 17 businesses, and five transactions closed. The sale of our retail operations in Thailand, our US Card and Retail Services business, the Private Client Services business in Canada and the general insurance business in Argentina were completed. The closure of a retail banking business in a non-priority market was completed in Europe, and sale transactions were announced in Latin America, as was the closure of the consumer finance business in Canada.

We are exiting the general insurance manufacturing business while focusing on life insurance manufacturing, where we have scale. We announced the sale of our general insurance businesses in Hong Kong, Singapore, Argentina and Mexico. The Argentina sale was completed in the first half of 2012 and the Asia and Mexico disposals are expected to be completed in the second half of the year.

In the US, we entered into a strategic relationship to outsource the management of our mortgage origination and servicing operations. The conversion of these operations is expected to be completed in the first quarter of 2013.

During the first half of 2012, we also announced a strategic acquisition in the UAE and completed the merger of our Omani operations, offering our new customers the benefit of a wider range of banking products and services.

Interim Management Report (continued)

We remained focused on managing the run-off of balances in our CML portfolio, with period-end lending balances declining by 8% from December 2011 to US$45.7bn with 44% attributable to the write-off of balances. We engaged an adviser to assist us in exploring options to accelerate the liquidation of this portfolio and identified certain loan pools that we intend to sell as market conditions permit.

Commercial Banking

CMB offers a full range of commercial financial services and tailored propositions to 3.6m customers ranging from sole proprietors to publicly quoted companies in more than 60 countries.

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**5,144**	4,814	5,117
Net fee income	**2,224**	2,131	2,160
Other income	**885**	735	654
Net operating income[48]	**8,253**	7,680	7,931
Impairment charges[49]	**(924)**	(642)	(1,096)
Net operating income	**7,329**	7,038	6,835
Total operating expenses	**(3,736)**	(3,465)	(3,756)
Operating profit	**3,593**	3,573	3,079
Income from associates[50]	**836**	616	679
Profit before tax	**4,429**	4,189	3,758
RoRWA[40]	**2.3%**	2.4%	2.0%

Record half year profit before tax of

US$4.4bn

14%

growth in trade-related income

9%

growth in customer accounts since

June 2011, driven by Payments

and Cash Management

Strategic direction

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

We focus on four strategic imperatives:

- focus on faster-growing markets while connecting revenue and investment flows with developed markets;
- capture growth in international small and medium-sized enterprises;
- enhance collaboration across all global businesses to provide our customers with access to the full range of the Group s services; and
- drive efficiency gains through adopting a global operating model.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Interim Management Report (continued)

Review of performance

CMB reported a profit before tax of US$4.4bn, 6% higher than in the first half of 2011. On a constant currency basis, profit before tax increased by 8%.

On an underlying basis, excluding the gain of US$212m from the sale of non-strategic branches in the US and US$35m from the disposal of our general insurance business in Argentina, profit before tax rose by 3%. This reflected strong revenue growth across most products, particularly in faster-growing regions, and higher income from our associates in mainland China, partly offset by a rise in expenses reflecting the customer redress provisions in Europe, the non-recurrence of a credit relating to UK pension obligations in the first half of 2011 and a rise in loan impairment charges.

Revenue rose by 12%. Higher net interest income from lending activities reflected the strong demand for credit, particularly in 2011, in Hong Kong, Rest of Asia-Pacific, Latin America and Europe. Net interest income from deposits also rose as a result of higher spreads, coupled with growth in average customer account balances. This was partly attributable to our Payments & Cash Management business in Europe, North America and Rest of Asia-Pacific, which benefited from our focus on international customers and international connectivity.

We continued to benefit from strong revenue growth through our ongoing collaboration with GB&M, particularly from sales of GB&M financing and risk-management products to CMB customers, tailored as appropriate to meet their needs. Over half of this growth was generated from sales of foreign exchange products. Revenues from Global Trade and Receivables Finance also grew strongly, benefiting from export-led lending growth in Hong Kong and Rest of Asia-Pacific, as we continued to capitalise on our position as the world s leading trade finance bank (as reported in the Oliver Wyman Global Transaction Banking Survey 2011) supporting those businesses that trade internationally.

Loan impairment charges and other credit risk provisions increased by US$315m, driven by a rise in collective and individually assessed provisions in Latin America associated with the significant lending growth in Brazil in previous years, together with rising delinquency in business banking. Loan impairment charges also rose as a result of a small number of individually assessed provisions in Rest of Asia-Pacific and in Europe, across a range of sectors, reflecting the challenging economic conditions in the region.

Operating expenses increased by 13%, largely due to a credit of US$206m (US$212m as reported) in the first half of 2011 relating to defined benefit pension obligations in the UK, which did not recur, coupled with a customer redress provision relating to interest rate protection products in Europe (see page 28). Inflationary pressures in Rest of Asia-Pacific and Latin America, together with an increase in costs to support business expansion in key markets such as new branch openings in mainland China, also led to a rise in operating expenses.

Income from associates grew by 32% as our associates in mainland China benefited from a strong rise in lending, reflecting the continued economic growth and wider spreads following interest rate rises during 2011.

Strategic imperatives

Focus on faster-growing markets while connecting with developed markets

Our operations in the faster-growing regions of Hong Kong, Rest of Asia-Pacific, Latin America and Middle East and North Africa accounted for half of our lending balances and revenue and two-thirds of our profit before tax. However, while we are extending our strategic presence in faster-growing regions, we continue to invest in developed markets, leveraging our ability to connect revenue and investment flows between the two. We launched the first renminbi commercial savings account in Canada, enabling CMB clients to hold funds locally in the Chinese currency. In addition, as part of our China Out strategy within Global Trade and Receivables Finance, we have established dedicated desks with Mandarin speakers in key trading markets outside mainland China, to facilitate Chinese businesses expanding overseas.

Global Trade and Receivables Finance revenues increased by 14% as we continued to capitalise on our position as the world s leading trade finance bank. Global Trade and Receivables revenue growth from our faster-growing regions was 5% higher than from our developed regions. Our total Global Trade and Receivables revenues grew by more than twice the rate of global trade growth. Our Commodity and Structured Trade Finance expansion is gathering

Interim Management Report (continued)

momentum with more than 55 staff now working in six offices in Europe, Hong Kong, Rest of Asia-Pacific and Latin America. We will extend the offering to additional markets later this year and into 2013. Together with GB&M, we remain on target to deliver the Group s target of doubling trade revenues to US$5bn in the medium term.

Our Payments and Cash Management business is fundamental to our client relationships and, in the first half of 2012, grew more quickly than global payments volumes with revenue increasing by 19% on the first half of 2011. This was driven by strong growth in average liability balances, reflecting in part the implementation of our Global Liquidity Solutions platform, together with increased focus on cross-selling payments and cash management products to target customers.

Capture growth in international SMEs

Our international SME customer base generates significantly higher revenues than our domestic customers and accounted for more than a third of our Business Banking revenues in the first half of 2012. During the period, we continued to reposition Business Banking to focus on attracting the growing number of internationally aspirant SMEs and serving them better.

We have a strong Business Banking franchise with over 3.4 million customers worldwide and are therefore well positioned to support customers who begin to trade internationally. In the first half of 2012, we launched a £4bn (US$6bn) International SME fund in the UK and our third International Trade SME fund in the UAE of US$272m to support SMEs in these countries who trade, or aspire to trade, internationally. We had approved lending of more than £2.5bn (US$4bn) in the UK and US$68m in the UAE against these commitments at the end of June 2012. Our Business Banking customer base is also a significant source of funding, generating more than 50% of total CMB deposits.

To service this growing customer base, in 2011 we invested in International Commercial Managers in the UK who focus exclusively on supporting international SMEs. We deployed over 150 of these managers and, following the model s success, rolled it out to two other priority countries during the first half of 2012, with further countries to follow in the latter part of the year and into 2013.

Strong partnership with global businesses

In the first half of 2012, CMB identified additional revenue opportunities totalling US$1bn from stronger and more strategic collaboration with the other global businesses. This, together with the previously announced target of US$1bn takes the potential revenue upside from greater collaboration between CMB and the other global businesses to US$2bn in the short to medium term. To achieve this, we are focusing on increasing sales of insurance products to CMB customers, particularly trade credit and business protection insurance products. Our trade credit proposition will be rolled out to the UK in the third quarter of 2012, with Brazil and Hong Kong to follow later this year and further countries in 2013. We also launched the Global Priority Clients initiative with GPB to jointly service the Group s largest ultra-high net worth clients with corporate and personal needs. Each client will have a single dedicated point of contact accountable for overall client management activities across the Group.

Our customers also continued to benefit from our partnership with GB&M. We have now implemented consistent management structures at regional and country level as part of our enhanced collaboration initiative to ensure our clients have access to relevant GB&M products, where this helps to meet their financial needs. Dedicated resources in Global Banking have been allocated to support CMB clients in Hong

Kong and Rest of Asia-Pacific. In addition, we have developed an e-FX proposition for CMB clients. Revenues from the sale of GB&M products to CMB customers, which are shared between the two global businesses, increased by 16% on the first half of 2011, driven by sales of foreign exchange products in faster-growing regions.

Drive efficiency gains through adopting a global operating model

Our reported cost efficiency ratio was in line with the first half of 2011 as we continued to focus on operational improvements, streamlining our processes and simplifying our operations to deliver sustainable savings.

To date, we have rolled out our globally consistent operating model in 20 markets, delivering a consistent management structure

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Interim Management Report (continued)

across countries and optimising sales capacity against global benchmarks. The implementation of our standard model to increase relationship manager capacity has yielded efficiency gains. In addition, we are now tracking customer experience consistently across our priority markets to ensure we are meeting the needs of our clients.

Process re-engineering, particularly in the credit function, is key to successful implementation of our global model to increase the capacity of our relationship managers. We have made significant progress in accelerating credit renewals for higher quality customers, freeing up relationship manager time to support our customers. Pilots are underway in three countries, with plans to implement these improvements in all priority markets by the end of the year.

We have also continued to deliver efficiencies by centralising support functions, leveraging scale and expertise in our global service centres, and we have made significant progress in migrating the processing of certain trade activities to these centres. We now have over 600 staff located within the Service Delivery function processing trade-related transactions and almost all of our markets have fully migrated to this model.

Global Banking and Markets

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

		Half-year to	
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**3,625**	3,603	3,660
Net fee income	**1,598**	1,730	1,497
Net trading income[51]	**3,735**	3,827	1,377
Other income	**1,377**	529	834
Net operating income[48]	**10,335**	9,689	7,368
Impairment charges[49]	**(598)**	(334)	(650)
Net operating income	**9,737**	9,355	6,718
Total operating expenses	**(5,073)**	(4,860)	(4,862)
Operating profit	**4,664**	4,495	1,856
Income from associates[50]	**383**	316	382
Profit before tax	**5,047**	4,811	2,238
RoRWA[40]	**2.4%**	2.6%	1.1%

Record revenues in Hong Kong,

Rest of Asia-Pacific and

Latin America on a reported basis

First bank to issue offshore

renminbi bond to European investors

Best for bond origination

Best for overall products/services

(Asiamoney Offshore RMB Services Survey 2012)

Strategic direction

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

We focus on four strategic imperatives:

- reinforce client coverage and client-led solutions for major government, corporate and institutional clients;

- continue to selectively invest in the business to support the delivery of an integrated suite of products and services;

- enhance collaboration with other global businesses, particularly CMB, to deliver incremental revenues; and

- focus on business re-engineering to optimise operational efficiency and reduce costs.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Review of performance

In conditions dominated by uncertainty in the financial markets and the economic environment, GB&M reported profit before tax of US$5.0bn, 5% higher than in the first half of 2011. On a constant currency basis, profit before tax increased by 8% due to higher revenues in a number of businesses, offset in part by a rise in operating expenses and higher loan impairment charges. GB&M is well positioned for growth in faster-growing markets, with revenues rising by 15% in Hong Kong, 17% in Rest of Asia-Pacific and 17% in Latin America in the first half of 2012.

Revenues increased by 10%, driven by gains on the disposal of available-for-sale debt securities in Balance Sheet Management and higher Rates revenues following the ECB s announcement of the LTRO. Foreign Exchange also recorded strong revenues, driven by robust client flows and increased market volatility. Higher revenues in Payments and Cash Management (PCM) benefited from an increase in average customer account balances compared with the first half of 2011. These results were partly offset by a decrease in Equities revenues as market volumes declined.

Loan impairment charges and other credit risk provisions were US$598m, compared with US$320m in the first half of 2011. Loan impairment charges increased by US$290m due to a small number of individually assessed impairment charges in Europe and Middle East & North Africa together with a rise in loan impairment charges in our legacy credit business in Europe. By contrast, credit risk provisions decreased from US$255m to US$243m, reflecting lower charges on available-for-sale ABSs in legacy credit, where we reported a US$52m decline due to losses arising in underlying collateral pools generating lower impairment charges. In addition, charges on Greek sovereign debt reduced from US$65m in the first half of 2011 to US$5m in the first half of 2012. These movements were offset in part by an impairment charge on an available-for-sale debt security in Principal Investments.

Operating expenses increased by 7%. The rise in costs was mainly attributable to a credit of US$108m (US$111m as reported) in the first half of 2011 relating to defined benefit obligations in the UK which did not recur,

Management view of total operating income/(expense)

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Global Markets[52]	**5,334**	5,146	2,952
Credit	**370**	530	(195)
Rates	**1,805**	1,355	(14)
Foreign Exchange	**1,733**	1,517	1,755
Equities	**396**	612	349
Securities Services	**818**	854	819
Asset and Structured Finance	**212**	278	238
Global Banking	**2,785**	2,670	2,731

Financing and Equity Capital Markets	**1,526**	1,664	1,569
Payments and Cash Management[53]	**874**	695	839
Other transaction services[54]	**385**	311	323
Balance Sheet Management	**2,206**	1,765	1,723
Principal Investments	**147**	175	34
Other[55]	**(137)**	(67)	(72)
Total operating income	**10,335**	9,689	7,368

For footnotes, see page 100.

and a customer redress provision relating to interest rate protection products in Europe in the first half of 2012 (see page 28). Excluding these items, expenses rose as we continued to strengthen our compliance resources, principally in the US.

Global Markets delivered a strong performance, supported by robust customer flows and a stronger market sentiment, notably in the first quarter of 2012. Foreign Exchange reported strong revenue growth, particularly in Europe and Hong Kong, driven by a rise in customer activity in part due to collaboration with CMB, coupled with higher market volatility which led to an improved trading environment for foreign exchange compared with the first half of 2011, particularly in Europe. In Rates, trading revenues increased significantly compared with each half of 2011, notably in Europe, following the European Central Bank s announcement of the LTRO, which resulted in improved liquidity, tightening spreads and increased customer demand. Primary market revenues in the Rates business also increased, mainly in Hong Kong and Rest of Asia-Pacific.

Interim Management Report (continued)

However, this was partly offset by adverse fair value movements on structured liabilities of US$330m as credit spreads tightened in the first half of 2012, compared with a US$60m reported favourable movement in the first half of 2011.

In Equities, a decline in revenues reflected lower market volumes and a less favourable trading environment. Lower revenues were also reported in Credit as revenues in our legacy credit portfolio (see page 284) declined by US$280m due to write-downs compared with releases in the first half of 2011, along with net realised losses on the disposal of specific bond positions. In addition, effective yields declined as funding costs increased and the size of the portfolio was reduced. Excluding legacy credit, Credit revenues rose, driven by higher primary issuances in Europe, Hong Kong and North America.

Global Banking revenues increased by 7%, mainly in Payments and Cash Management, which benefited from higher average customer account balances in Europe and Rest of Asia-Pacific, reflecting new mandates, partly as a result of the implementation of our Global Liquidity Solutions platform. Revenues in Global Trade and Receivables Finance, reported within other transaction services, also increased, mainly in Hong Kong, Rest of Asia-Pacific and Latin America reflecting export-led lending growth. This was partly offset by lower revenues in Financing and Equity Capital Markets mainly in Credit and Lending, due to losses on disposal of certain high-yielding positions as we continued to manage risk in the portfolio. In addition, revenues in Equity Capital Markets declined as overall deal volumes were affected by the challenging economic environment.

Balance Sheet Management reported significantly higher gains on the disposal of available-for-sale debt securities, mainly in the UK, as part of structural interest rate risk management activities. Net interest income declined in Europe as yield curves continued to flatten and interest rates remained low, together with a reduction in available-for-sale debt securities as a result of disposals. This was partly offset by lower funding costs in Latin America coupled with higher spreads and portfolio growth in Rest of Asia-Pacific.

Strategic imperatives

Reinforce client coverage and client-led solutions

Global Banking s multinationals coverage proposition, which facilitates growth in cross-border business, contributed to revenues in faster-growing markets, in part due to more focused origination efforts.

To further enhance coverage efforts in Global Banking, we announced the formation of the Corporate Finance Group. The group will pro-actively engage with client coverage and solution teams to strengthen the financial advisory and financing event business by providing holistic advice to customers. We also created a Global Product Organisation structure in Payments and Cash Management to streamline product management and better service customer needs.

In Global Markets, we established the Institutional Client Group to complement the existing Corporate Treasury Solutions Group. This improved the positioning of our product offering, enabling us to provide tailored cross-product solutions to institutional clients in Europe in the changing financial and regulatory environment. In addition, cross-regional sales teams in Global Markets also executed a number of significant transactions, partnering with global product teams established in each region to strengthen expertise and coverage.

Our Client Engagement Programme , a global initiative that seeks to understand client relationships in a consistent way across regions, contributed to more focused dialogue with our key clients to better meet their banking needs.

Enhance core product strengths and selectively develop new capabilities

In April 2012, we issued the first international renminbi bond outside sovereign Chinese territory, mainly distributing to European investors. The success of this transaction reinforced HSBC s position as the leading global house for international renminbi issuance in this growing market.

The enhancement of product offerings on our e-FX platforms contributed to our performance in the 2012 *Euromoney* FX survey. Our market share ranking has improved since 2010, reflecting our investment in recent years which has resulted in a significant increase in transaction volumes.

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Interim Management Report (continued)

Despite underlying market volumes being lower in the period, we remain focused on our Equities strategy targeting selected European countries and faster-growing markets. Following recent investment in our equity execution platform, our ranking in Europe in the 2012 *Extel* survey improved from tenth in 2011 to sixth in 2012.

Our Global Liquidity Solutions proposition within Payments and Cash Management, now live in 24 countries, provides advanced liquidity management functionality for our clients with improved visibility and control of their liquidity positions.

Collaborate with other global businesses to deliver incremental revenues

Collaboration with other global businesses remains key to delivering our strategy and we continued to work closely with CMB to provide their clients access to relevant GB&M products. This resulted in a rise in revenues, which are shared between the two global businesses, of 16% in the first half of 2012, primarily from sales of foreign exchange products in faster-growing markets.

We also announced a partnership between GB&M and GPB to formalise existing links between the Institutional Private Client Group in GB&M, previously known as the Family Office, and the Global Priority Client Group within GPB. The newly formed teams will work together to service jointly the diverse corporate and personal investment needs of the Group s largest ultra-high net worth clients.

Building on GB&M s expertise in foreign exchange trading and RBWM s extensive retail customer base, we jointly launched a real-time online foreign currency margin trading product in Hong Kong, providing retail customers with access to an integrated foreign exchange trading platform.

Delivering sustainable cost savings

We made progress in implementing the organisational design announced in 2011 and we continued to optimise our resources, with efficiency gains within our trading and operational platforms. A number of established projects are expected to deliver further sustainable cost savings and all discretionary spending continues to be tightly managed.

Global Private Banking

GPB serves high net worth individuals and families with complex and international financial needs.

		Half-year to	
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**672**	729	710

Net fee income	**625**	731	651
Other income	**344**	229	242
Net operating income[48]	**1,641**	1,689	1,603
Impairment charges[49]	**(4)**	(22)	(64)
Net operating income	**1,637**	1,667	1,539
Total operating expenses	**(1,113)**	(1,117)	(1,149)
Operating profit	**524**	550	390
Income from associates[50]	**3**	2	2
Profit before tax	**527**	552	392
RoRWA[40]	**4.7%**	4.5%	3.4%

US$2.4bn

of intra-group referrals

primarily from CMB and RBWM

Completed the sale of our operations

in Japan resulting in a

gain on sale of US$67m

Best Private Bank in Asia

and the Middle East

(Euromoney s 2011 Private Banking Survey)

Strategic direction

GPB works with high net worth clients to manage and preserve their wealth while connecting them to global opportunities. We focus on three strategic imperatives:

- implementing a new operating model to manage the business globally and better service client needs, with an enhanced systems platform and improved risk and compliance standards;
- intensifying collaboration with Group, particularly CMB to access entrepreneur wealth creation; and
- capturing growth by focusing investment on the most attractive developed and faster-growing wealth markets, where GPB can access the Group s client franchise and its strong local and international product capabilities.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Interim Management Report (continued)

Review of performance

Reported profit before tax of US$527m was 5% lower than in the first half of 2011 on a reported basis and 4% lower on a constant currency basis.

On an underlying basis, which excludes the gain of US$67m on the sale of the GPB business in Japan, profit before tax fell by 16% due to lower revenues and increased operating expenses, partly offset by decreased loan impairment charges and other credit risk provisions.

Revenues declined by 2%, primarily in fee income. Brokerage fees fell in the first half of 2012, most notably in the second quarter, as the volume of client transactions decreased reflecting reduced client risk appetite. Annuity fees fell, reflecting lower average assets under management, notably in Europe, largely driven by adverse movements in financial markets in the second half of 2011. Average FuM were also affected by lower net new money inflows and a fall in client numbers, in part due to the ongoing strategic business review, as explained below. The lower revenues were partly offset by the gain on sale of the business in Japan.

Loan impairment charges and other credit risk provisions were lower than in the first half of 2011 as a result of an impairment booked in the previous year in relation to available-for-sale Greek sovereign debt securities, part of which was released in the first half of 2012.

Operating expenses increased marginally, primarily driven by higher customer redress provisions and restructuring costs incurred in the first half of 2012. This was partly offset by a decrease in performance-related pay due to the lower revenue generated as well as lower average staff numbers following a restructuring programme across the business to improve operational efficiencies.

Client assets[56]

	Half-year to		
	30 Jun 2012 US$bn	30 Jun 2011 US$bn	31 Dec 2011 US$bn
At beginning of period	**377**	390	416
Net new money	**(2)**	13	
Value change	**4**	1	(21)
Exchange/other	**(4)**	12	(18)
At end of period	**375**	416	377

GPB is undertaking a programme to change its target client base from smaller, traditional offshore private banking clients to ultra-high net worth international and domestic relationships. This programme, along with a review of certain client relationships with a view to reduce control risk, resulted in a loss of US$1.7bn of client assets in the first half of 2012.

Client assets (see footnote 56), which include FuM and cash deposits, decreased driven by the sale of our Japan business which resulted in a decline in client assets of US$3.1bn, coupled with net new money outflows, notably in Europe including a small number of large client withdrawals.

Total client assets , which include some non-financial assets held in client trusts, remained broadly unchanged at US$497bn compared with 31 December 2011.

Strategic imperatives

Integrated operating model

We started implementing a new target operating model designed to enable us to manage the business globally, better service the needs of clients through our global product offering and improve risk and compliance standards.

During the first half of 2012, we continued to restructure our business and incurred US$37m of costs. The restructuring resulted in a reduction of more than 350 staff numbers in the first half of 2012 and generated sustainable cost savings for the business.

The roll-out of front office systems and enhanced information security standards continued with a number of releases in Hong Kong, Singapore, the UK and the US.

In June, we completed the sale of our business in Japan, recognising a gain on sale of US$67m.

Integration with the Group

Intra-Group referrals contributed net new money of US$2.4bn. We aim to leverage our existing relationships by intensifying our collaboration with CMB in order to access wealth creating entrepreneurs and a joint initiative was launched to further enhance referral flows between the two global businesses.

For footnote, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

A new segmentation model has been designed to define the client proposition more clearly and ensure a seamless Group wealth proposition alongside RBWM. Entry thresholds and segmentation levels have been agreed for each market where both GPB and RBWM operate, and a systematic process for review and referral of clients is being instituted to ensure they receive the most appropriate proposition.

The Global Priority Clients initiative was launched with CMB and GB&M to jointly service the Group s largest ultra-high net worth clients with corporate and personal needs. Each client will have a single dedicated point of contact accountable for overall client management activities across the Group.

GPB and Global Research announced an agreement to grant selected ultra-high net worth clients direct access to Global Research materials.

Capturing growth

We continued to develop our faster-growing markets business, with the majority of the new money inflow to funds under management (US$1.9bn) originating from Hong Kong, Latin America and Rest of Asia-Pacific.

Our investments product range has been further developed with the launch of additional real estate and private equity offerings, and the Emerging Market and Developed Market Fixed Income.

Other

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

		Half-year to	
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest expense	**(464)**	(481)	(430)
Net fee income	**100**	3	31
Net trading expense	**(205)**	(222)	(133)
Change in credit spread on long-term debt	**(1,810)**	(494)	4,655
Other changes in fair value	**(465)**	208	(130)
Net income/(expense) from financial instruments designated at fair value	**(2,275)**	(286)	4,525
Other income	**3,182**	3,014	3,124
Net operating income[48]	**338**	2,028	7,117
Impairment (charges)/ recoveries[49]		2	(2)
Net operating income	**338**	2,030	7,115
Total operating expenses	**(4,049)**	(3,286)	(4,206)

Operating profit/(loss)	**(3,711)**	(1,256)	2,909
Income/(expense) from associates[50]	**35**	52	(43)
Profit/(loss) before tax	**(3,676)**	(1,204)	2,866

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Interim Management Report (continued)

Notes

The reported loss before tax of US$3.7bn compared with a loss of US$1.2bn in the first half of 2011. On a constant currency basis, pre-tax loss increased by US$2.5bn.

Reported PBT in the first half of 2012 included adverse fair value movements of US$2.2bn on the fair value of our own debt attributable to a narrowing of credit spreads in the first half of 2012 compared with 2011 notably in Europe and North America, along with a gain on disposal of US$130m from the sale of our shareholding in a property company in the Philippines. In the first half of 2011, reported loss before tax included adverse fair value movements of US$143m on the fair value of our own debt and an accounting gain of US$181m arising from the dilution of our holding in Ping An following its issue of share capital to third parties. On an underlying basis, excluding the items noted above, the pre-tax loss increased by 34% driven by higher operating expenses, notably the provision for anti-money laundering, BSA and OFAC investigations in the US. For a description of the main items reported under Other , see footnote 46.

Net fee income increased by US$98m, due in part to fees received under the transition services agreement entered into following the sale of the Card and Retail Services business in North America.

Gains less losses from financial investments included gains of US$275m from the sale of our shares in two non-strategic investments in India, Axis Bank Limited and Yes Bank Limited.
Other operating income decreased by US$66m as the gain arising from the dilution of our holding in Ping An in the first half of 2011 was only partly offset by the gain from the sale of our shareholding in a property company in the Philippines in the first half of 2012.

Excluding the adverse movements in the fair value of our own debt, *Net expense from financial instruments designated at fair value* decreased due to lower adverse fair value movements from interest and exchange rate ineffectiveness in the hedging of long-term debt designated at fair value issued by HSBC Holdings and our European and North American subsidiaries.

Operating expenses increased by 26% to US$4.0bn, driven by provisions for US anti-money laundering, BSA and OFAC investigations of US$700m. In addition, there were higher restructuring costs in our global support functions, notably in North America, Europe and Rest of Asia-Pacific, as part of our organisational effectiveness programmes, along with inflationary pressures on wages across Rest of Asia-Pacific. This was partly offset by lower restructuring costs in Latin America as the equivalent period in 2011 included costs associated with the reorganisation of regional and country support functions.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of constant currency profit/(loss) before tax

Retail Banking and Wealth Management

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency Translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	12,086	(390)	11,696	10,774	(11)	(8)
Net fee income	4,212	(121)	4,091	3,760	(11)	(8)
Gains on disposal of US branch network and cards business				3,597		
Other income[13]	1,274	(62)	1,212	1,184	(7)	(2)
Net operating income[14]	17,572	(573)	16,999	19,315	10	14
Loan impairment charges and other credit risk provisions	(4,270)	92	(4,178)	(3,273)	23	22
Net operating income	13,302	(481)	12,821	16,042	21	25
Operating expenses	(10,746)	407	(10,339)	(10,218)	5	1
Operating profit	2,556	(74)	2,482	5,824	128	135
Share of profit in associates and joint ventures	570	19	589	586	3	(1)
Profit before tax	3,126	(55)	3,071	6,410	105	109

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency Translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	12,015	(204)	11,811	10,774	(10)	(9)

Net fee income	4,014	(53)	3,961	3,760	(6)	(5)
Gains on disposal of US branch network and cards business				3,597		
Other income[13]	(68)	(25)	(93)	1,184		
Net operating income[14]	15,961	(282)	15,679	19,315	21	23
Loan impairment charges and other credit risk provisions	(5,049)	50	(4,999)	(3,273)	35	35
Net operating income	10,912	(232)	10,680	16,042	47	50
Operating expenses	(10,456)	207	(10,249)	(10,218)	2	
Operating profit	456	(25)	431	5,824		
Share of profit in associates and joint ventures	688	8	696	586	(15)	(16)
Profit before tax	1,144	(17)	1,127	6,410	460	469

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**19,315**	17,572	10	**19,315**	15,961	21
Constant currency		(573)			(282)	
Acquisitions, disposals and dilutions	**(3,837)**	(1,029)		**(3,837)**	(1,060)	
Underlying revenue	**15,478**	15,970	(3)	**15,478**	14,619	6

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(3,273)**	(4,270)	23	**(3,273)**	(5,049)	35
Constant currency		92			50	
Acquisitions, disposals and dilutions		370			304	
Underlying LICs	**(3,273)**	(3,808)	14	**(3,273)**	(4,695)	30

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(10,218)**	(10,746)	5	**(10,218)**	(10,456)	2
Constant currency		407			207	
Acquisitions, disposals and dilutions		474			286	
Underlying operating expenses	**(10,218)**	(9,865)	(4)	**(10,218)**	(9,963)	(3)
Underlying cost efficiency ratio	**66.0%**	61.8%		**66.0%**	68.2%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**6,410**	3,126	105	**6,410**	1,144	460
Constant currency		(55)			(17)	
Acquisitions, disposals and dilutions	**(3,837)**	(185)		**(3,837)**	(470)	
Underlying profit before tax	**2,573**	2,886	(11)	**2,573**	657	292

Reconciliation of reported and underlying average risk-weighted assets

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Average reported RWAs	**331,865**	357,809	(7)	**331,865**	357,353	(7)
Constant currency		(3,925)			(1,340)	
Acquisitions, disposals and dilutions		(17,561)			(17,360)	
Average underlying RWAs	**331,865**	336,323	(1)	**331,865**	338,653	(2)

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Retail Banking and Wealth Management   HSBC Finance

Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported revenue	**5,936**	4,198	41	**5,936**	3,012	97
Acquisitions, disposals and dilutions	**(3,148)**	(914)		**(3,148)**	(904)	
Underlying revenue	**2,788**	3,284	(15)	**2,788**	2,108	32

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**2,991**	(353)		**2,991**	(2,028)	
Acquisitions, disposals and dilutions	**(3,148)**	(154)		**(3,148)**	(385)	
Underlying profit before tax	**(157)**	(507)	69	**(157)**	(2,413)	93

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Commercial Banking

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	**4,814**	**(212)**	**4,602**	**5,144**	**7**	**12**
Net fee income	**2,131**	**(76)**	**2,055**	**2,224**	**4**	**8**
Gains on disposal of US branch network				**212**		
Other income[13]	**735**	**(26)**	**709**	**673**	**(8)**	**(5)**
Net operating income[14]	**7,680**	**(314)**	**7,366**	**8,253**	**7**	**12**
Loan impairment charges and other credit risk provisions	**(642)**	**33**	**(609)**	**(924)**	**(44)**	**(52)**
Net operating income	**7,038**	**(281)**	**6,757**	**7,329**	**4**	**8**
Operating expenses	**(3,465)**	**160**	**(3,305)**	**(3,736)**	**(8)**	**(13)**
Operating profit	**3,573**	**(121)**	**3,452**	**3,593**	**1**	**4**
Share of profit in associates and joint ventures	**616**	**16**	**632**	**836**	**36**	**32**
Profit before tax	**4,189**	**(105)**	**4,084**	**4,429**	**6**	**8**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	5,117	(112)	5,005	5,144	1	3
Net fee income	2,160	(43)	2,117	2,224	3	5
Gains on disposal of US branch network				212		
Other income[13]	654	(19)	635	673	3	6
Net operating income[14]	7,931	(174)	7,757	8,253	4	6

Loan impairment charges and other credit risk provisions	(1,096)	34	(1,062)	(924)	16	13
Net operating income	6,835	(140)	6,695	7,329	7	9
Operating expenses	(3,756)	87	(3,669)	(3,736)	1	(2)
Operating profit	3,079	(53)	3,026	3,593	17	19
Share of profit in associates and joint ventures	679	6	685	836	23	22
Profit before tax	3,758	(47)	3,711	4,429	18	19

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**8,253**	7,680	7	**8,253**	7,931	4
Constant currency		(314)			(174)	
Acquisitions, disposals and dilutions	**(247)**	(7)		**(247)**	(6)	
Underlying revenue	**8,006**	7,359	9	**8,006**	7,751	3

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LICs)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(924)**	(642)	(44)	**(924)**	(1,096)	16
Constant currency		33			34	
Acquisitions, disposals and dilutions		(1)				
Underlying LICs	**(924)**	(610)	(51)	**(924)**	(1,062)	13

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(3,736)**	(3,465)	(8)	**(3,736)**	(3,756)	1
Constant currency		160			87	
Acquisitions, disposals and dilutions		4			3	
Underlying operating expenses	**(3,736)**	(3,301)	(13)	**(3,736)**	(3,666)	(2)
Underlying cost efficiency ratio	**46.7%**	44.9%		**46.7%**	47.3%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**4,429**	4,189	6	**4,429**	3,758	18
Constant currency		(105)			(47)	
Acquisitions, disposals and dilutions	**(247)**	(4)		**(247)**	(3)	
Underlying profit before tax	**4,182**	4,080	3	**4,182**	3,708	13

HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Banking and Markets

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	**3,603**	**(117)**	**3,486**	**3,625**	**1**	**4**
Net fee income	**1,730**	**(56)**	**1,674**	**1,598**	**(8)**	**(5)**
Other income[13]	**4,356**	**(113)**	**4,243**	**5,112**	**17**	**20**
Net operating income[14]	**9,689**	**(286)**	**9,403**	**10,335**	**7**	**10**
Loan impairment charges and other credit risk provisions	**(334)**	**14**	**(320)**	**(598)**	**(79)**	**(87)**
Net operating income	**9,355**	**(272)**	**9,083**	**9,737**	**4**	**7**
Operating expenses	**(4,860)**	**133**	**(4,727)**	**(5,073)**	**(4)**	**(7)**
Operating profit	**4,495**	**(139)**	**4,356**	**4,664**	**4**	**7**
Share of profit in associates and joint ventures	**316**	**8**	**324**	**383**	**21**	**18**
Profit before tax	**4,811**	**(131)**	**4,680**	**5,047**	**5**	**8**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	3,660	(58)	3,602	3,625	(1)	1
Net fee income	1,497	(27)	1,470	1,598	7	9
Other income[13]	2,211	(20)	2,191	5,112	131	133
Net operating income[14]	7,368	(105)	7,263	10,335	40	42
Loan impairment charges and other credit risk provisions	(650)	6	(644)	(598)	8	7

Net operating income	6,718	(99)	6,619	9,737	45	47
Operating expenses	(4,862)	68	(4,794)	(5,073)	(4)	(6)
Operating profit	1,856	(31)	1,825	4,664	151	156
Share of profit in associates and joint ventures	382	2	384	383		
Profit before tax	2,238	(29)	2,209	5,047	126	128

For footnotes, see page 100.

Interim Management Report (continued)

Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**10,335**	9,689	7	**10,335**	7,368	40
Constant currency		(286)			(105)	
Acquisitions, disposals and dilutions	**(18)**			**(18)**		
Underlying revenue	**10,317**	9,403	10	**10,317**	7,263	42

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(598)**	(334)	(79)	**(598)**	(650)	8
Constant currency		14			6	
Acquisitions, disposals and dilutions						
Underlying LICs	**(598)**	(320)	(87)	**(598)**	(644)	7

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(5,073)**	(4,860)	(4)	**(5,073)**	(4,862)	(4)
Constant currency		133			68	
Acquisitions, disposals and dilutions						
Underlying operating expenses	**(5,073)**	(4,727)	(7)	**(5,073)**	(4,794)	(6)
Underlying cost efficiency ratio	**49.2%**	50.3%		**49.2%**	66.0%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**5,047**	4,811	5	**5,047**	2,238	126
Constant currency		(131)			(29)	
Acquisitions, disposals and dilutions	**(18)**			**(18)**		
Underlying profit before tax	**5,029**	4,680	7	**5,029**	2,209	128

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Interim Management Report (continued)

Balance sheet data significant to Global Banking and Markets

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2012							
Trading assets[1]	**230,229**	**33,836**	**23,695**	**843**	**85,124**	**10,830**	**384,557**
Derivative assets[2]	**283,393**	**25,956**	**23,581**	**1,333**	**86,132**	**5,465**	**425,860**
Trading liabilities	**185,907**	**9,089**	**5,465**	**1,080**	**88,561**	**5,961**	**296,063**
Derivative liabilities[2]	**286,698**	**25,718**	**23,714**	**1,349**	**85,638**	**5,042**	**428,159**
At 30 June 2011							
Trading assets[1]	299,734	29,105	17,686	1,138	106,329	13,286	467,278
Derivative assets[2]	215,099	24,324	16,490	1,087	65,681	4,381	327,062
Trading liabilities	232,676	12,700	4,372	522	111,927	5,262	367,459
Derivative liabilities[2]	197,486	24,447	17,225	1,075	67,225	3,835	311,293
At 31 December 2011							
Trading assets[1]	180,790	38,637	19,167	938	69,568	14,370	323,470
Derivative assets[2]	272,756	25,203	23,056	1,275	86,619	4,825	413,734
Trading liabilities	157,934	8,282	3,781	757	70,288	5,014	246,056
Derivative liabilities[2]	274,803	25,186	23,877	1,245	86,697	4,469	416,277

1 *Trading assets, financial instruments designated at fair value and financial investments held in Europe, and by GB&M in North America, include financial assets which may be repledged or resold by counterparties.*
2 *Derivative assets and derivative liabilities of GB&M include derivative transactions between different regions of GB&M.*

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Interim Management Report (continued)

Global Private Banking

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	729	(7)	722	672	(8)	(7)
Net fee income	731	(11)	720	625	(15)	(13)
Other income[13]	229	(1)	228	344	50	51
Net operating income[14]	1,689	(19)	1,670	1,641	(3)	(2)
Loan impairment charges and other credit risk provisions	(22)	1	(21)	(4)	82	81
Net operating income	1,667	(18)	1,649	1,637	(2)	(1)
Operating expenses	(1,117)	13	(1,104)	(1,113)		(1)
Operating profit	550	(5)	545	524	(5)	(4)
Share of profit in associates and joint ventures	2		2	3	50	50
Profit before tax	552	(5)	547	527	(5)	(4)

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	710	(5)	705	672	(5)	(5)
Net fee income	651	(6)	645	625	(4)	(3)
Other income[13]	242	(3)	239	344	42	44
Net operating income[14]	1,603	(14)	1,589	1,641	2	3
Loan impairment charges and other credit risk provisions	(64)		(64)	(4)	94	94
Net operating income	1,539	(14)	1,525	1,637	6	7
Operating expenses	(1,149)	11	(1,138)	(1,113)	3	2

Operating profit	390	(3)	387	524	34	35
Share of profit in associates and joint ventures	2		2	3	50	50
Profit before tax	392	(3)	389	527	34	35

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**1,641**	1,689	(3)	**1,641**	1,603	2
Constant currency		(19)			(14)	
Acquisitions, disposals and dilutions	**(67)**	(3)		**(67)**	(2)	
Underlying revenue	**1,574**	1,667	(6)	**1,574**	1,587	(1)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LICs)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(4)**	(22)	82	**(4)**	(64)	94
Constant currency		1				
Acquisitions, disposals and dilutions						
Underlying LICs	**(4)**	(21)	81	**(4)**	(64)	94

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(1,113)**	(1,117)		**(1,113)**	(1,149)	3
Constant currency		13			11	
Acquisitions, disposals and dilutions		2			13	
Underlying operating expenses	**(1,113)**	(1,102)	(1)	**(1,113)**	(1,125)	1
Underlying cost efficiency ratio	**70.7%**	66.1%		**70.7%**	70.9%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**527**	552	(5)	**527**	392	34
Constant currency		(5)			(3)	
Acquisitions, disposals and dilutions	**(67)**	(1)		**(67)**	11	
Underlying profit before tax	**460**	546	(16)	**460**	400	15

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Interim Management Report (continued)

Other

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest expense	(481)	16	(465)	(464)	(4)	
Net fee income	3	(1)	2	100	3,233	4,900
Changes in fair value[12]	(143)		(143)	(2,170)		
Other income[13]	2,649	(74)	2,575	2,872	8	12
Net operating income[14]	**2,028**	**(59)**	**1,969**	**338**	**(83)**	**(83)**
Loan impairment (charges)/recoveries and other credit risk provisions	2	(2)			(100)	
Net operating income	**2,030**	**(61)**	**1,969**	**338**	**(83)**	**(83)**
Operating expenses	(3,286)	82	(3,204)	(4,049)	(23)	(26)
Operating loss	**(1,256)**	**21**	**(1,235)**	**(3,711)**	**(195)**	**(200)**
Share of profit in associates and joint ventures	52	(3)	49	35	(33)	(29)
Loss before tax	**(1,204)**	**18**	**(1,186)**	**(3,676)**	**(205)**	**(210)**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency Translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest expense	(430)	12	(418)	(464)	8	11
Net fee income	31	(5)	26	100	223	285
Changes in fair value[12]	4,076	(38)	4,038	(2,170)		
Other income[13]	3,440	(19)	3,421	2,872	(17)	(16)
Net operating income[14]	7,117	(50)	7,067	338	(95)	(95)

Loan impairment (charges)/recoveries and other credit risk provisions	(2)	5	3		100	(100)
Net operating income	7,115	(45)	7,070	338	(95)	(95)
Operating expenses	(4,206)	27	(4,179)	(4,049)	4	3
Operating profit/(loss)	2,909	(18)	2,891	(3,711)		
Share of profit/(loss) in associates and joint ventures	(43)	1	(42)	35		
Profit/(loss) before tax	2,866	(17)	2,849	(3,676)		

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**338**	2,028	(83)	**338**	7,117	(95)
Constant currency		(59)			(12)	
Own credit spread	**2,170**	143		**2,170**	(4,076)	
Acquisitions, disposals and dilutions	**(130)**	(181)		**(130)**	(27)	
Underlying revenue	**2,378**	1,931	23	**2,378**	3,002	(21)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs		2	(100)		(2)	100
Constant currency		(2)			5	
Acquisitions, disposals and dilutions						
Underlying LICs					3	(100)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(4,049)**	(3,286)	(23)	**(4,049)**	(4,206)	4
Constant currency		82			27	
Acquisitions, disposals and dilutions						
Underlying operating expenses	**(4,049)**	(3,204)	(26)	**(4,049)**	(4,179)	3
Underlying cost efficiency ratio	**170.3%**	165.9%		**170.3%**	139.2%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**(3,676)**	(1,204)	(205)	**(3,676)**	2,866	
Constant currency		18			21	
Own credit spread	**2,170**	143		**2,170**	(4,076)	
Acquisitions, disposals and dilutions	**(130)**	(181)		**(130)**	21	
Underlying profit before tax	**(1,636)**	(1,224)	(34)	**(1,636)**	(1,168)	(40)

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Analysis by global business

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other[46] US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	10,774	5,144	3,625	672	(464)	(375)	19,376
Net fee income	3,760	2,224	1,598	625	100		8,307
Trading income/(expense) excluding net interest income	20	315	2,785	254	(240)		3,134
Net interest income on trading activities	14	6	950	5	35	375	1,385
Net trading income/ (expense)[51]	34	321	3,735	259	(205)	375	4,519
Net income/(expense) from financial instruments designated at fair value	519	72	501		(2,275)		(1,183)
Gains less losses from financial investments	20	2	700	(4)	305		1,023
Dividend income	13	10	55	4	21		103
Net earned insurance premiums	5,792	882	17	9	(4)		6,696
Gains on disposal of US branch network and cards business	3,597	212					3,809
Other operating income	738	208	117	84	2,860	(2,985)	1,022
Total operating income	25,247	9,075	10,348	1,649	338	(2,985)	43,672
Net insurance claims[58]	(5,932)	(822)	(13)	(8)			(6,775)
Net operating income[48]	19,315	8,253	10,335	1,641	338	(2,985)	36,897
Loan impairment charges and other credit risk provisions	(3,273)	(924)	(598)	(4)			(4,799)
Net operating income	16,042	7,329	9,737	1,637	338	(2,985)	32,098
Employee expenses[59]	(2,944)	(1,106)	(2,181)	(617)	(4,057)		(10,905)
Other operating income/ (expenses)	(7,274)	(2,630)	(2,892)	(496)	8	2,985	(10,299)
Total operating expenses	(10,218)	(3,736)	(5,073)	(1,113)	(4,049)	2,985	(21,204)
Operating profit/(loss)	5,824	3,593	4,664	524	(3,711)		10,894
Share of profit in associates and joint ventures	586	836	383	3	35		1,843
Profit/(loss) before tax	6,410	4,429	5,047	527	(3,676)		12,737

	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**50.3**	**34.8**	**39.6**	**4.1**	**(28.8)**		**100.0**
Cost efficiency ratio	**52.9**	**45.3**	**49.1**	**67.8**			**57.5**
Balance sheet data[47]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**363,353**	**272,817**	**290,749**	**44,018**	**4,048**		**974,985**
Total assets	**526,069**	**351,157**	**1,905,455**	**119,271**	**179,703**	**(429,321)**	**2,652,334**
Customer accounts	**531,782**	**317,077**	**316,219**	**109,101**	**4,310**		**1,278,489**

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

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other[46] US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	12,086	4,814	3,603	729	(481)	(516)	20,235
Net fee income	4,212	2,131	1,730	731	3		8,807
Trading income/(expense) excluding net interest income	166	280	2,830	198	(243)		3,231
Net interest income on trading activities	22	16	997	9	21	516	1,581
Net trading income/ (expense)[51]	188	296	3,827	207	(222)	516	4,812
Net income/(expense) from financial instruments designated at fair value	343	55	(212)		(286)		(100)
Gains less losses from financial investments	70	2	414	(3)	2		485
Dividend income	14	8	39	4	22		87
Net earned insurance premiums	5,698	985	23		(6)		6,700
Other operating income	688	263	280	21	2,997	(2,964)	1,285
Total operating income	23,299	8,554	9,704	1,689	2,029	(2,964)	42,311
Net insurance claims[58]	(5,727)	(874)	(15)		(1)		(6,617)
Net operating income[48]	17,572	7,680	9,689	1,689	2,028	(2,964)	35,694
Loan impairment (charges)/ recoveries and other credit risk provisions	(4,270)	(642)	(334)	(22)	2		(5,266)
Net operating income	13,302	7,038	9,355	1,667	2,030	(2,964)	30,428
Employee expenses[59]	(3,169)	(1,210)	(2,396)	(688)	(3,058)		(10,521)
Other operating expenses	(7,577)	(2,255)	(2,464)	(429)	(228)	2,964	(9,989)
Total operating expenses	(10,746)	(3,465)	(4,860)	(1,117)	(3,286)	2,964	(20,510)
Operating profit/(loss)	2,556	3,573	4,495	550	(1,256)		9,918
Share of profit in associates and joint ventures	570	616	316	2	52		1,556
Profit/(loss) before tax	3,126	4,189	4,811	552	(1,204)		11,474
	%	%	%	%	%		%
Share of HSBC s profit before tax	27.3	36.5	41.9	4.8	(10.5)		100.0
Cost efficiency ratio	61.2	45.1	50.2	66.1	162.0		57.5

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	400,944	268,037	321,061	44,612	3,234		1,037,888
Total assets	557,952	336,094	1,942,835	122,888	189,912	(458,694)	2,690,987
Customer accounts	541,998	301,169	359,757	115,245	818		1,318,987

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Interim Management Report (continued)

	Half-year to 31 December 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other[46]	Inter-segment elimination[57]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit before tax							
Net interest income/ (expense)	12,015	5,117	3,660	710	(430)	(645)	20,427
Net fee income	4,014	2,160	1,497	651	31		8,353
Trading income/(expense) excluding net interest income	(728)	285	476	217	(198)		52
Net interest income on trading activities	21	3	901	7	65	645	1,642
Net trading income/ (expense)[51]	(707)	288	1,377	224	(133)	645	1,694
Net income/(expense) from financial instruments designated at fair value	(1,104)	(22)	140		4,525		3,539
Gains less losses from financial investments	54	18	347	6	(3)		422
Dividend income	13	7	36	3	3		62
Net earned insurance premiums	5,184	971	24		(7)		6,172
Other operating income	219	220	297	9	3,130	(3,394)	481
Total operating income	19,688	8,759	7,378	1,603	7,116	(3,394)	41,150
Net insurance claims[58]	(3,727)	(828)	(10)		1		(4,564)
Net operating income[48]	15,961	7,931	7,368	1,603	7,117	(3,394)	36,586
Loan impairment charges and other credit risk provisions	(5,049)	(1,096)	(650)	(64)	(2)		(6,861)
Net operating income	10,912	6,835	6,718	1,539	7,115	(3,394)	29,725
Employee expenses[59]	(3,369)	(974)	(1,800)	(663)	(3,839)		(10,645)
Other operating expenses	(7,087)	(2,782)	(3,062)	(486)	(367)	3,394	(10,390)
Total operating expenses	(10,456)	(3,756)	(4,862)	(1,149)	(4,206)	3,394	(21,035)
Operating profit	456	3,079	1,856	390	2,909		8,690
Share of profit/(loss) in associates and joint ventures	688	679	382	2	(43)		1,708
Profit before tax	1,144	3,758	2,238	392	2,866		10,398
	%	%	%	%	%		%
Share of HSBC s profit before tax	11.0	36.1	21.5	3.8	27.6		100.0
Cost efficiency ratio	65.5	47.4	66.0	71.7	59.1		57.5
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m

Loans and advances to customers (net)	357,907	262,039	276,463	41,856	2,164		940,429
Total assets	540,548	334,966	1,877,627	119,839	180,126	(497,527)	2,555,579
Customer accounts	529,017	306,174	306,454	111,814	466		1,253,925

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Interim Management Report (continued)

Disposals, held for sale and run-off portfolios

In implementing our strategy, we have sold or agreed to sell a number of businesses across the Group. We expect these disposals to have a significant adverse effect on both the revenue and the profitability of the global businesses in the future, particularly RBWM due to the sale of the profitable US Card and Retail Services portfolio. In addition, two significant portfolios are being run

down. We expect the losses on these portfolios to continue to adversely affect RBWM and GB&M in the future.

The table below presents the historical results of these businesses. We do not expect the historical results to be indicative of future results because of disposal or run-off. Fixed allocated costs, included in total operating costs, will not necessarily be removed upon disposal and have been separately identified on page 38.

Summary income statements for disposals, held for sale and run-off portfolios[43,44]

	Half-year to 30 June 2012				
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m
Net interest income	2,812	75	28	5	(1)
Net fee income/(expense)	411	(10)	(4)	2	
Net trading income[51]	(223)	2	22	1	1
Net income/(expense) from financial instruments designated at fair value	2	1	5		(513)
Gains less losses from financial investments	15	1	(37)		
Dividend income	2				
Net earned insurance premiums	309	132	20		
Other operating income	(8)	16	(3)		
Total operating income	3,320	217	31	8	(513)
Net insurance claims incurred and movement in liabilities to policyholders	(156)	(84)	(13)		
Net operating income[14]	3,164	133	18	8	(513)
Loan impairment charges and other credit risk provisions	(1,927)	(1)	(268)	0	
Net operating income	1,237	132	(250)	8	(513)

Total operating expenses	(1,337)	(97)	(76)	(10)	(9)
Operating profit/(loss)	(100)	35	(326)	(2)	(522)
Share of profit in associates and joint ventures		1			1
Profit/(loss) before tax	(100)	36	(326)	(2)	(521)
By geographical region					
Europe			(369)		
Hong Kong	19		2		
Rest of Asia-Pacific	2	4	(1)	(2)	1
Middle East and North Africa	10		25		
North America	(159)	9	(9)		(513)
Latin America	28	23	26		(9)
Profit/(loss) before tax	(100)	36	(326)	(2)	(521)
Gain on sale	3,837	247	18	67	130

For footnotes, see page 100.

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Summary

In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of US$1,630m (first half of 2011: US$1,567m; second half of 2011: US$1,854m).

Profit/(loss) before tax

	Half-year to					
	30 June 2012		30 June 2011		31 December 2011	
	US$m	**%**	US$m	%	US$m	%
Europe	**(667)**	**(5.2)**	2,147	18.7	2,524	24.3
Hong Kong	**3,761**	**29.5**	3,081	26.9	2,742	26.4
Rest of Asia-Pacific	**4,372**	**34.3**	3,742	32.6	3,729	35.8
Middle East and North Africa	**772**	**6.1**	747	6.5	745	7.2
North America	**3,354**	**26.3**	606	5.3	(506)	(4.9)
Latin America	**1,145**	**9.0**	1,151	10.0	1,164	11.2
	12,737	**100.0**	11,474	100.0	10,398	100.0

Total assets[47]

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,375,553**	**51.9**	1,379,308	51.2	1,281,945	50.3
Hong Kong	**486,608**	**18.3**	474,044	17.6	473,024	18.5

Rest of Asia-Pacific	**334,978**	**12.6**	298,590	11.1	317,816	12.4
Middle East and North Africa	**62,881**	**2.4**	58,038	2.2	57,464	2.2
North America	**500,590**	**18.9**	529,386	19.7	504,302	19.7
Latin America	**138,968**	**5.2**	163,611	6.1	144,889	5.7
Intra-HSBC items	**(247,244)**	**(9.3)**	(211,990)	(7.9)	(223,861)	(8.8)
	2,652,334	**100.0**	2,690,987	100.0	2,555,579	100.0

Risk-weighted assets[60]

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	US$bn	**%**	US$bn	%	US$bn	%
Total	**1,159.9**		1,168.5		1,209.5	
Europe	**329.5**	**27.9**	315.7	26.9	340.2	27.8
Hong Kong	**108.0**	**9.1**	110.8	9.5	105.7	8.6
Rest of Asia-Pacific	**303.2**	**25.7**	241.1	20.6	279.3	22.8
Middle East and North Africa	**63.0**	**5.3**	58.1	5.0	58.9	4.8
North America	**279.2**	**23.6**	335.8	28.6	337.3	27.6
Latin America	**99.8**	**8.4**	110.5	9.4	102.3	8.4

For footnotes, see page 100.

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Europe

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

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**5,073**	5,566	5,435
Net fee income	**3,023**	3,131	3,105
Net trading income	**1,851**	2,007	154
Other income/(expense)	**(280)**	636	4,212
Net operating income[48]	**9,667**	11,340	12,906
Impairment charges[49]	**(1,037)**	(1,173)	(1,339)
Net operating income	**8,630**	10,167	11,567
Total operating expenses	**(9,289)**	(8,014)	(9,055)
Operating profit/(loss)	**(659)**	2,153	2,512
Income from associates[50]	**(8)**	(6)	12
Profit/(loss) before tax	**(667)**	2,147	2,524
Cost efficiency ratio	**96.1%**	70.7%	70.2%
RoRWA[40]	**(0.4%)**	1.4%	1.6%
Period-end staff numbers	**73,143**	76,879	74,892

12%

reduction in reported

loan impairment charges[49]

11%

market share of new

UK mortgage lending

Strong trade revenue growth

For footnotes, see page 100.

The commentary on Europe is on a constant currency basis unless stated otherwise.

Economic background

The **UK** economy remained weak in the first half of 2012. In the second quarter, the level of real Gross Domestic Product (GDP) fell by 0.7%, the third consecutive quarterly contraction. Despite this, the unemployment rate fell slightly to 8.1% in the three months to May, from 8.4% at the end of 2011, although much of the job creation was in part-time work. Consumer Prices Index (CPI) inflation fell sharply from 4.2% in December 2011 to 2.4% in June, in part reflecting the removal of last year s rise in VAT from the annual comparison. The Bank of England left interest rates unchanged at 0.5% but loosened monetary policy by extending its programme of asset purchases by £50bn to £325bn (US$510bn). Strains in the banking system arising from the eurozone sovereign crisis contributed to a tightening in credit conditions for both households and firms, prompting the UK authorities to announce more direct measures aimed at boosting the flow of credit.

The **eurozone** economy continued to face stresses related to the sovereign debt crisis in the first half of 2012. While the economy as a whole stagnated in the first quarter, divergences between countries in the north of the region and those in the south continued to widen. Concerns surrounding the health of the financial sector led the ECB to provide greater liquidity through a long-term repo operation in February 2012. As oil prices eased, eurozone inflation began to moderate towards the ECB s price stability target, allowing it to maintain the refi rate at 1.0% in the period. Worries over the sovereign bond market and the banking sector intensified during the first half of 2012, and the eurozone member states offered up to 100bn (US$124bn) of financial assistance to recapitalise the Spanish banking sector.

Review of performance

Our European operations reported a pre-tax loss of US$0.7bn, compared with a profit of US$2.1bn in the first half of 2011. On a constant currency basis, pre-tax profits declined by US$2.7bn.

In the first half of 2012, we reported adverse fair value movements of US$1.6bn due to the change in credit spreads on the Group s own debt held at fair value, compared with adverse fair value movements of US$71m in the first half of 2011. On an underlying basis, pre-tax profits decreased by 55% due to higher operating expenses as a result of a rise in customer redress provisions, coupled with a credit relating to pension obligations in the UK in the first half of 2011 which did not recur.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2012						
UK	**(166)**	**521**	**357**	**108**	**(2,437)**	**(1,617)**
France[36]	**29**	**114**	**330**	**(5)**	**(175)**	**293**
Germany	**16**	**28**	**153**	**15**	**(28)**	**184**
Malta	**21**	**32**	**16**			**69**
Switzerland				**66**		**66**
Turkey	**5**	**43**	**50**			**98**
Other	**3**	**36**	**137**	**52**	**12**	**240**
	(92)	**774**	**1,043**	**236**	**(2,628)**	**(667)**
Half-year to 30 June 2011						
UK	634	761	483	108	(862)	1,124
France[36]	139	111	274	10	(89)	445
Germany	23	38	121	21	6	209
Malta	31	34	6			71
Switzerland		(5)		122		117
Turkey	11	42	31			84
Other	(69)	63	87	54	(38)	97
	769	1,044	1,002	315	(983)	2,147
Half-year to 31 December 2011						
UK	696	466	(748)	84	1,899	2,397
France[36]	(70)	81	(468)	6	107	(344)
Germany	13	31	82	7	10	143
Malta		38	15			53
Switzerland		(3)		103		100
Turkey	(4)	20	56	2		74
Other	(82)	10	138	40	(5)	101
	553	643	(925)	242	2,011	2,524

For footnote, see page 100.

We continued to make progress in rationalising our operation in Europe using the Group s five filters framework, reducing fragmentation in the region by announcing an exit from operations in Slovakia and entering into agreements to sell our equities broking business in Greece, certain private banking assets in Monaco and our Irish insurance businesses in run-off. We have progressed with the business exits announced in 2011, primarily in Eastern Europe. The disposal of non-core businesses improved capital discipline by simplifying our European portfolio and concentrating our operations on businesses where we can deliver sustainable profits and growth.

We maintained our focus on improving our cost efficiency and organisational effectiveness. Building on the significant initiatives in 2011 across Europe, we announced a restructuring programme in the UK to align each of our businesses to their respective global business operating models in order to reduce bureaucracy and complexity and lower our costs in a sustainable way. As a result of this and other initiatives across the region, total restructuring costs (including impairment of assets) of US$200m were incurred, notably in the UK.

In RBWM, we delivered further strong growth in mortgage balances in the UK, reflecting the success of our competitive offerings and marketing campaigns. Our share of new UK mortgage lending remained at 11% in the first half of the year, which was significantly higher than our total market share of 6%, while maintaining a conservative loan to value ratio of 56%. We have committed to lend at least £17bn (US$26bn) to UK mortgage customers in 2012, of which £4bn (US$6bn) is specifically set aside for first time buyers and had approved new mortgage lending of more than £10bn (US$15bn) at the end of June 2012. In Continental Europe, we continued to target the mass affluent market and build a strong credit card business in Turkey.

In CMB, we continued to invest in the UK in the business by recruiting additional international commercial managers who focus exclusively on international customers. We launched a £4bn (US$6bn) International SME Fund to support UK businesses that trade, or aspire to trade, internationally, and had approved new loans of more than £2.5bn (US$4bn) at the end of June 2012. We also committed to increase gross new lending

Interim Management Report (continued)

facilities to UK SMEs by £12bn (US$18bn). We continued to invest in our businesses in Turkey and Germany to support business growth. Our focus on international customers, together with targeted growth initiatives including deposit acquisition and regional pricing strategies, led to a rise in Payments and Cash Management and Global Trade and Receivable Finance income. CMB s partnership with GB&M delivered income growth of 12% compared with the first half of 2011 to more than US$370m, notably from foreign exchange products, as we continued to support our commercial customers financing and treasury risk management requirements.

In GB&M, we continued to focus on cross-border initiatives to enable us to capture opportunities from increasing trade flows and connect to faster-growing markets. We won a number of mandates in our Payments and Cash Management business, reflecting investment in these areas in previous years. In April 2012, HSBC issued the first international renminbi bond outside sovereign Chinese territory reflecting our commitment to establish the UK as a leading offshore renminbi centre. In addition, we actively reduced our legacy credit exposure in Europe by exiting certain positions. We will seek to further reduce the size of this portfolio as opportunities become available. The financial effect of the legacy credit portfolio on the results of our Europe operations can be seen on page 38.

Within our GPB business, we concentrated on navigating a number of regulatory challenges affecting the industry, by implementing a new target operating model designed to enable us to manage the business globally, better service the needs of clients through global product offerings, and improve risk and compliance standards. We continued to provide access to international investment opportunities and we put in place dedicated resources in both CMB and GPB to increase referral activity and jointly service the diverse corporate and personal investment needs of the Group s largest ultra-high net worth clients.

The forthcoming legislation in relation to the report of the UK Independent Commission on Banking (ICB), which will define the products, services and customers which are either required to be within the ring-fenced bank or prohibited from it, is likely to require us to make major changes to our corporate structure and the business activities we conduct in the UK through our major banking subsidiary, HSBC Bank. These changes would take an extended period to implement, and would have a significant effect on the costs of both establishing and running the ongoing operations as restructured (see page 106).

The following commentary is on a constant currency basis.

Net interest income decreased by 5%, mainly due to the decline in Balance Sheet Management revenues as yield curves continued to flatten and interest rates remained low, together with a reduction in the available-for-sale debt security portfolio as a result of disposals. In addition, there was a fall in effective yields and a reduction in the size of the legacy Credit portfolio. This was partly offset by higher net interest income in CMB, driven by an increase in average term lending balances in the UK and Continental Europe as a result of targeted campaigns in 2011 and the first half of 2012. Net interest income also benefited from strong residential mortgage balance growth in RBWM in the UK and deposit growth across the region as a result of marketing campaigns. This was offset in part by strong competition for deposits in the UK which resulted in lower deposit spreads.

Net fee income was broadly in line with the first half of 2011. Fees in RBWM increased due to lower commissions paid as a result of the non-renewal and transfer to third parties of certain contracts in the Irish reinsurance business. This was largely offset by lower fee income in GPB due to a fall in average assets under management which was driven by net new money outflows, a fall in client numbers and adverse movements in the financial markets in the second half of 2011. In addition, in GB&M, primary revenues in the Rates business decreased as a result of a reduction in bond issuances and lower equity capital markets revenues, which were driven by a decline in deal volumes due to the challenging economic environment.

Net trading income decreased by 5%, mainly due to adverse foreign exchange movements on trading assets held as economic hedges of foreign currency debt designated at fair value, compared with gains in the first half of 2011. These offset favourable foreign exchange movements on the foreign currency debt which is reported in Net expense from financial instruments designated at fair value . Revenues in our legacy Credit portfolio (see page 284) declined due to write-downs compared with net releases in the first half of 2011. There were also adverse movements on non-qualifying hedges in European operating entities as interest rates fell. In addition, there were unfavourable fair value movements on structured liabilities as spreads tightened, along with lower Equities revenues, reflecting a less favourable trading environment.

Interim Management Report (continued)

These factors were partly offset by higher Rates trading revenues, notably in the first quarter of 2012 following the ECB s announcement of the LTRO. Excluding legacy credit, Credit trading revenues increased as credit spreads tightened resulting in gains on corporate bonds. In addition, Foreign Exchange reported strong revenue growth driven by a rise in customer activity, in part due to collaboration with CMB and a favourable trading environment for foreign exchange compared with the first half of 2011.

Net expense from financial instruments designated at fair value increased by US$700m. Excluding adverse fair value movements due to the change in credit spreads on our own debt held at fair value, net income from financial instruments designated at fair value of US$669m in the first half of 2012 compared with a net expense of US$165m in the first half of 2011. This was driven by favourable foreign exchange movements on foreign currency debt designated at fair value issued as part of our overall funding strategy, compared with adverse foreign exchange movements in the same period in 2011, with an offset reported in Net trading income . In addition, investment returns on the fair value of assets held to meet liabilities under insurance and investment contracts were higher than in the first half of 2011 as market conditions improved. To the extent that these investment gains were attributed to policyholders holding unit-linked insurance policies and insurance or investment contracts with DPF, the corresponding movement in liabilities to customers is recorded under Net insurance claims incurred and movement in liabilities to policyholders .

Gains less losses from financial investments increased by US$148m. Balance Sheet Management reported significantly higher gains on the disposal of available-for-sale debt securities, mainly in the UK, as part of structural interest rate risk management activities. This was partly offset by realised losses on the disposal of specific bond positions in the legacy credit portfolio, higher impairment charges on available-for-sale equity investments and lower realised gains from the sale of available-for-sale equity investments due to weaker economic conditions.

Net earned insurance premiums decreased by 17%, primarily due to lower life insurance sales in RBWM in France of investment contracts with DPF resulting from the adverse economic environment and increased competition from other banking products. In addition, there was a reduction in premiums due to the non-renewal and transfer to

third parties of certain contracts in our Irish business during 2011.

Other operating income decreased by 26%, largely reflecting the non-recurrence of the benefit from a refinement of the calculation of the PVIF asset during the first half of 2011 (see footnote 27 on page 100), together with a reduction in the PVIF asset in the first half of 2012 due to the effect of experience and assumption updates. In addition, losses arose on the sale of certain syndicated loans.

Net insurance claims incurred and movement in liabilities to policyholders decreased by 7%. This reflected lower reserves established for new business in line with the decline in premiums in France, together with the non-renewal and transfer to third parties of certain contracts in our Irish business during 2011. This was partly offset by an increase in the movement in liabilities to policyholders reflecting investment gains in the first half of 2012.

Loan impairment charges and other credit risk provisions decreased by 9% to US$1.0bn. This mainly reflected a continued reduction in impairments in RBWM, primarily in the UK, as we focused our lending growth on higher quality assets and continued to pro-actively monitor and identify customers facing financial hardship. This resulted in lower delinquency rates across both the secured and unsecured lending portfolios. In CMB, loan impairment charges were higher due to individually assessed provisions across a range of sectors, reflecting the challenging economic conditions. In GB&M, we incurred higher loan impairment charges due to a small number of significant individually assessed provisions, together with a rise in loan impairment charges in our legacy Credit business. These were partly offset by lower credit risk provisions, primarily driven by reduced impairments on available-for-sale ABSs in legacy credit due to losses arising in the underlying collateral pools, which generated lower charges, coupled with a fall in the impairment charge on Greek sovereign debt.

Operating expenses in the first half of 2012 included additional provisions of US$1.3bn relating to UK customer redress programmes for the possible mis-selling of PPI policies and interest rate protection products in previous years, compared with a charge of US$598m (US$611m as reported) in the first half of 2011 (see page 248). In addition, restructuring costs (including impairment of assets) of US$200m were incurred, largely in the UK, compared with US$86m in the first half of 2011. The first half of 2011 also included a credit of US$570m (US$587m as reported) relating to defined benefit pension obligations in the UK, which did not recur.

Interim Management Report (continued)

Excluding these items, operating expenses increased, mainly driven by higher performance costs in GB&M reflecting the increase in net operating income. This was partly offset by a decline in operating expenses in RBWM as average staff numbers fell as a result of organisational effectiveness programmes and disposals. We achieved sustainable cost savings of about US$280m in the first half of 2012, which enabled us to reinvest and support business growth.

Operating expenses in Europe

	Half-year to		
	30 Jun 2012	30 Jun 2011	31 Dec 2011
	US$m	US$m	US$m
HSBC Holdings	**510**	470	1,194
UK	**6,195**	4,754	5,235
Continental Europe	**2,656**	2,833	2,730
Intra-region eliminations	**(72)**	(43)	(104)
Total operating expenses	**9,289**	8,014	9,055

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,643	1,607	750	428	(345)	(10)	5,073
Net fee income	1,317	809	421	431	45		3,023
Trading income/(expense) excluding net interest income	27	12	1,126	113	(197)		1,081
Net interest income on trading activities	3	5	729	5	18	10	770
Net trading income/(expense)[51]	30	17	1,855	118	(179)	10	1,851
Changes in fair value of long-term debt issued and related derivatives					(1,165)		(1,165)
Net income/(expense) from other financial instruments designated at fair value	194	36	488		(489)		229
Net income/(expense) from financial instruments designated at fair value	194	36	488		(1,654)		(936)
Gains less losses from financial investments	5	(1)	449	(4)			449
Dividend income	1	1	37	3	1		43
Net earned insurance premiums	1,647	208		9	(4)		1,860
Other operating income	29	30	13	5	346	45	468
Total operating income/ (expense)	5,866	2,707	4,013	990	(1,790)	45	11,831
Net insurance claims[58]	(1,933)	(223)		(8)			(2,164)
Net operating income/ (expense)[48]	3,933	2,484	4,013	982	(1,790)	45	9,667
Loan impairment charges and other credit risk provisions	(187)	(412)	(431)	(7)			(1,037)
Net operating income/ (expense)	3,746	2,072	3,582	975	(1,790)	45	8,630
Operating expenses	(3,840)	(1,297)	(2,531)	(738)	(838)	(45)	(9,289)
Operating profit/(loss)	(94)	775	1,051	237	(2,628)		(659)
Share of profit/(loss) in associates and joint ventures	2	(1)	(8)	(1)			(8)
Profit/(loss) before tax	(92)	774	1,043	236	(2,628)		(667)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(0.7)	6.1	8.2	1.9	(20.7)		(5.2)
Cost efficiency ratio	97.6	52.2	63.1	75.2	(46.8)		96.1

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	**157,336**	**101,709**	**156,290**	**29,390**	**720**		**445,445**
Total assets	**224,545**	**129,330**	**1,013,553**	**78,814**	**58,641**	**(129,330)**	**1,375,553**
Customer accounts	**181,540**	**116,308**	**171,280**	**59,512**	**889**		**529,529**

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Interim Management Report (continued)

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

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	2,861	1,522	1,107	476	(271)	(129)	5,566
Net fee income/ (expense)	1,323	813	516	496	(17)		3,131
Trading income/(expense) excluding net interest income	36	6	1,268	84	(196)		1,198
Net interest income on trading activities	6	8	636	9	21	129	809
Net trading income/ (expense)[51]	42	14	1,904	93	(175)	129	2,007
Changes in fair value of long-term debt issued and related derivatives					(371)		(371)
Net income/(expense) from other financial instruments designated at fair value	105	25	(211)		212		131
Net income/(expense) from financial instruments designated at fair value	105	25	(211)		(159)		(240)
Gains less losses from financial investments	56	1	254	(4)	5		312
Dividend income	1	1	19	3	1		25
Net earned insurance premiums	2,201	191			(6)		2,386
Other operating income	142	40	96	8	264	102	652
Total operating income/(expense)	6,731	2,607	3,685	1,072	(358)	102	13,839
Net insurance claims[58]	(2,316)	(180)			(3)		(2,499)
Net operating income/(expense)[48]	4,415	2,427	3,685	1,072	(361)	102	11,340
Loan impairment (charges)/recoveries and other credit risk provisions	(394)	(369)	(382)	(34)	6		(1,173)
Net operating income/(expense)	4,021	2,058	3,303	1,038	(355)	102	10,167
Operating expenses	(3,249)	(1,013)	(2,299)	(723)	(628)	(102)	(8,014)
Operating profit/(loss)	772	1,045	1,004	315	(983)		2,153
Share of loss in associates and joint ventures	(3)	(1)	(2)				(6)
Profit/(loss) before tax	769	1,044	1,002	315	(983)		2,147
	%	%	%	%	%		%
Share of HSBC s profit before tax	6.7	9.1	8.7	2.8	(8.6)		18.7
Cost efficiency ratio	73.6	41.7	62.4	67.4	(173.5)		70.7

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	154,055	100,140	200,498	30,354	1,284		486,331
Total assets	221,095	123,446	1,075,148	80,073	72,488	(192,942)	1,379,308
Customer accounts	178,819	101,195	207,891	60,906			548,811

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 31 December 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	2,792	1,585	995	460	(303)	(94)	5,435
Net fee income	1,310	827	473	446	49		3,105
Trading income/(expense) excluding net interest income	4	(1)	(666)	107	(5)		(561)
Net interest income on trading activities	5	8	569	7	32	94	715
Net trading income/ (expense)[51]	9	7	(97)	114	27	94	154
Changes in fair value of long-term debt issued and related derivatives					3,551		3,551
Net income/(expense) from other financial instruments designated at fair value	(777)	(46)	146		(166)		(843)
Net income/(expense) from financial instruments designated at fair value	(777)	(46)	146		3,385		2,708
Gains less losses from financial investments	(5)	(2)	199	5	6		203
Dividend income			23	1			24
Net earned insurance premiums	1,567	190			(7)		1,750
Other operating income/ (expense)	(47)	18	91	(3)	496	(28)	527
Total operating income	4,849	2,579	1,830	1,023	3,653	(28)	13,906
Net insurance claims[58]	(896)	(107)			3		(1,000)
Net operating income[48]	3,953	2,472	1,830	1,023	3,656	(28)	12,906
Loan impairment charges and other credit risk provisions	(202)	(591)	(494)	(48)	(4)		(1,339)
Net operating income	3,751	1,881	1,336	975	3,652	(28)	11,567
Operating expenses	(3,201)	(1,239)	(2,270)	(733)	(1,640)	28	(9,055)
Operating profit/(loss)	550	642	(934)	242	2,012		2,512
Share of profit/(loss) in associates and joint ventures	3	1	9		(1)		12
Profit/(loss) before tax	553	643	(925)	242	2,011		2,524
	%	%	%	%	%		%
Share of HSBC s profit before tax	5.3	6.2	(8.9)	2.3	19.3		24.2
Cost efficiency ratio	81.0	50.1	124.0	71.7	44.9		70.2

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	150,205	98,154	156,903	28,378	696		434,336
Total assets	210,140	124,049	1,021,486	77,410	63,141	(214,281)	1,281,945
Customer accounts	176,134	104,530	154,208	58,265	267		493,404

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Hong Kong

HSBC s principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in the Asia-Pacific region. It is one of Hong Kong s three note-issuing banks, accounting for over 60% by value of banknotes in circulation in the first half of 2012.

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**2,599**	2,249	2,442
Net fee income	**1,618**	1,612	1,485
Net trading income	**762**	669	520
Other income	**1,154**	884	821
Net operating income[48]	**6,133**	5,414	5,268
Impairment charges[49]	**(32)**	(25)	(131)
Net operating income	**6,101**	5,389	5,137
Total operating expenses	**(2,396)**	(2,339)	(2,419)
Operating profit	**3,705**	3,050	2,718
Income from associates[50]	**56**	31	24
Profit before tax	**3,761**	3,081	2,742
Cost efficiency ratio	**39.1%**	43.2%	45.9%
RoRWA[40]	**7.1%**	5.6%	5.0%
Period-end staff numbers	**27,976**	30,214	28,984

Leading international bank in

offshore renminbi products

19%

growth in revenues from the

collaboration between CMB and GB&M

Best domestic bank in Hong Kong

(Asiamoney 2012)

For footnotes, see page 100.

The commentary on Hong Kong is on a constant currency basis unless stated otherwise.

Economic background

GDP in **Hong Kong** grew by just 0.4% in the first quarter of 2012, as a slowdown in external demand from Europe and mainland China served to depress activity. The sharp contraction in export orders, however, was more than offset by ongoing strength in the domestic economy. The unemployment rate remained steady at close to 3.3% and, although 3 month HIBOR was 0.4% during the first half of 2012, up from 0.26% in June 2011, it remained very low, helping to underpin robust rates of private consumption and investment spending, which increased by 5.6% and 12.2%, respectively, on the year in the first quarter. Inflationary pressures and residential property price inflation eased, the latter slowing to 4.6% in May from 26% a year earlier.

Review of performance

Reported pre-tax profits from our operations in Hong Kong were US$3.8bn compared with US$3.1bn in the first half of 2011, an increase of 22% on both a reported and a constant currency basis.

The increase in profits was driven by higher net interest income in RBWM and CMB coupled with the gain on sale of our shares in two Indian banks. Trading revenues were higher in GB&M from positive performance in the Rates, Foreign Exchange and Credit businesses. These increases were partly offset by higher operating expenses, including staff costs.

In RBWM, we were awarded the Best Wealth Management Award from *The Asian Banker*. We announced the sale of our general insurance business enabling us to focus on life insurance manufacturing where we maintained our market leadership position. We launched a dual currency Hong Kong dollar and renminbi credit card for customers who travel frequently between Hong Kong and mainland China that offers payment flexibility and protection against fluctuating exchange rates. We maintained our market leadership position in deposits, mortgages and mandatory provident funds as well as credit cards where we received 26 awards from Visa, MasterCard and China UnionPay.

In CMB, we capitalised on our international connectivity and our standing as a leading trade finance bank to grow trade-related revenues, particularly with mainland China. Cross-border referrals between Hong Kong and mainland China grew by 13% and by 10% between Hong Kong and the rest of the world. The collaboration between CMB and GB&M continued to strengthen, with growth of 19% in revenues which are shared

HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax by global business

	Half-year to		
	30 June 2012	30 June 2011	31 December 2011
	US$m	US$m	US$m
Retail Banking and Wealth Management	**1,753**	1,599	1,423
Commercial Banking	**1,001**	825	783
Global Banking and Markets	**786**	631	685
Global Private Banking	**122**	130	58
Other	**99**	(104)	(207)
Profit before tax	**3,761**	3,081	2,742

between the global businesses, most notably from the provision of foreign exchange products to our corporate customers. We also won the Best SME Partner Award from the *Hong Kong General Chamber of Small and Medium Business* for the seventh consecutive year, and the Capital Weekly Service Excellence Award SME Banking for the fourth consecutive year.

On a reported basis we achieved record revenues in GB&M. We led the market in Hong Kong dollar bond issuance and participated in several significant debt capital markets transactions. We continued to lead the market in offshore renminbi bond issuance with several high-profile deals completed in the first half of 2012 for multinationals accessing the market.

We reinforced our position as a leading international bank for offshore renminbi products, topping all seven product categories in *Asiamoney s* inaugural Offshore Renminbi Survey, including the Best Overall Products and Services , the Best Clearance, Transaction Banking and Settlement and Best for Deposits .

The following commentary is on a constant currency basis.

Net interest income was 15% higher than in the first half of 2011, notably in RBWM and in CMB, driven primarily by wider deposit spreads and growth in balances of both customer loans and deposits.

In RBWM we experienced growth in average mortgage balances as we maintained our market leadership position. Average personal lending balances also grew. In CMB, average trade-related lending balances were higher as we capitalised on trade and capital flows. Growth in trade-related lending returned in the first half of 2012 following reductions in the second half of 2011.

Net interest income also rose due to higher average deposit balances as we focused on funding lending growth with deposit acquisition.

These were partly offset by narrower asset spreads, notably in residential mortgages in RBWM, as funding costs increased.

Net interest income from Balance Sheet Management was higher in the first half of 2012, through improved fund deployment amidst a consistently low interest rate environment.

Net fee income of US$1.6bn was broadly unchanged. Fees rose from the collaboration between CMB and GB&M and from higher trade-related volumes as we successfully captured opportunities from international trade and capital flows. We also benefited from our participation in several debt capital markets transactions in the first half of 2012. The increase was offset in RBWM, mainly by a reduction in brokerage income from lower market turnover as a result of weaker investor sentiment, and by lower fee income from unit trusts where the customer preference shifted towards lower risk products with lower fees.

Net trading income increased by 14%, driven by a positive performance in GB&M, notably in Rates trading activities, which reflected greater market volatility and tightening of spreads, and in Foreign Exchange, due to increased client activity and, in part, enhanced collaboration with CMB. Credit trading revenues also rose due to the tightening of spreads and increased volumes.

Net income from financial instruments designated at fair value was US$44m compared with US$26m in the first half of 2011 due to higher investment gains on assets held by the insurance business as a result of more favourable equity market conditions. To the extent that these investment gains were attributed to policyholders of unit-linked insurance policies and insurance contracts with DPF, there was a corresponding increase in *Net insurance claims incurred and movement in liabilities to policyholders*.

Net earned insurance premiums increased by 19%, notably on insurance contracts with DPF, following higher sales volumes reflecting strong

Interim Management Report (continued)

sales and renewals of life insurance products as a result of product launches and marketing campaigns. The growth in premiums resulted in a corresponding increase in Net insurance claims incurred and movement in liabilities to policyholders .

Gains less losses from financial investments were US$261m higher, driven by the gain of US$275m from the sale of our shares in Axis Bank Limited and Yes Bank Limited, two non-strategic investments in India.

Other operating income of US$825m was US$90m lower than in the first half of 2011. The fall in income was primarily due to the non-recurrence of the gain from the refinement to the PVIF calculation methodology in the first half of 2011 (see footnote 27 on page 100), partly offset by a rise in PVIF reflecting favourable assumption updates and increased insurance sales in the first six months of

2012. In addition, the gain on revaluation of investment properties was lower in 2012 than in the first half of 2011.

Loan impairment charges and other credit risk provisions stayed at a low level at US$32m as the credit environment remained stable and we maintained our focus on high levels of asset quality.

Operating expenses increased by 2%, primarily due to wage inflation across the business and higher performance-related costs in GB&M reflecting increased revenue. Premises and equipment costs rose, mainly relating to systems implementation programmes and higher volume-driven processing charges, as well as increased property maintenance and rental costs. We continued to maintain strict cost control and progressed with the implementation of our organisational effectiveness programme that started in 2011.

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Interim Management Report (continued)

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit before tax							
Net interest income/(expense)	1,396	768	553	76	(238)	44	2,599
Net fee income	825	433	272	77	11		1,618
Trading income/(expense) excluding net interest income	85	85	392	94	(25)		631
Net interest income on trading activities	2		166		7	(44)	131
Net trading income/(expense)[51]	87	85	558	94	(18)	(44)	762
Net income/(expense) from financial instruments designated at fair value	61	(18)	16		(15)		44
Gains less losses from financial investments			4		275		279
Dividend income			2		16		18
Net earned insurance premiums	2,690	385	4				3,079
Other operating income	357	35	27	6	539	(139)	825
Total operating income	5,416	1,688	1,436	253	570	(139)	9,224
Net insurance claims[58]	(2,745)	(341)	(5)				(3,091)
Net operating income[48]	2,671	1,347	1,431	253	570	(139)	6,133
Loan impairment (charges)/ recoveries and other credit risk provisions	(44)	(2)	12	2			(32)
Net operating income	2,627	1,345	1,443	255	570	(139)	6,101
Operating expenses	(893)	(350)	(660)	(133)	(499)	139	(2,396)
Operating profit	1,734	995	783	122	71		3,705
Share of profit in associates and joint ventures	19	6	3		28		56
Profit before tax	1,753	1,001	786	122	99		3,761
	%	%	%	%	%		%
Share of HSBC s profit before tax	13.6	7.9	6.2	1.0	0.8		29.5
Cost efficiency ratio	33.4	26.0	46.1	52.6	87.5		39.1

Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	**58,290**	**58,694**	**40,699**	**6,192**	**1,329**		**165,204**
Total assets	**89,464**	**67,566**	**242,783**	**19,901**	**82,901**	**(16,007)**	**486,608**
Customer accounts	**184,857**	**80,383**	**34,340**	**18,819**	**421**		**318,820**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,249	625	501	88	(234)	20	2,249
Net fee income	908	356	241	97	10		1,612
Trading income/(expense) excluding net interest income	89	86	320	69	(9)		555
Net interest income on trading activities	4		124		6	(20)	114
Net trading income/(expense)[51]	93	86	444	69	(3)	(20)	669
Net income/(expense) from financial instruments designated at fair value	50	(27)	2		1		26
Gains less losses from financial investments			20		(2)		18
Dividend income		1	11		19		31
Net earned insurance premiums	2,193	390	5				2,588
Other operating income	375	83	22	6	556	(131)	911
Total operating income	4,868	1,514	1,246	260	347	(131)	8,104
Net insurance claims[58]	(2,344)	(342)	(5)		1		(2,690)
Net operating income[48]	2,524	1,172	1,241	260	348	(131)	5,414
Loan impairment (charges)/ recoveries and other credit risk provisions	(38)	(7)	22	(1)	(1)		(25)
Net operating income	2,486	1,165	1,263	259	347	(131)	5,389
Operating expenses	(889)	(342)	(633)	(129)	(477)	131	(2,339)
Operating profit/(loss)	1,597	823	630	130	(130)		3,050
Share of profit in associates and joint ventures	2	2	1		26		31
Profit/(loss) before tax	1,599	825	631	130	(104)		3,081
	%	%	%	%	%		%
Share of HSBC s profit before tax	13.9	7.2	5.5	1.1	(0.8)		26.9
Cost efficiency ratio	35.2	29.2	51.0	49.6	137.1		43.2
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	53,999	58,529	39,124	5,949	1,769		159,370
Total assets	82,184	66,563	232,057	21,545	81,316	(9,621)	474,044

Customer accounts	175,641	74,760	34,348	20,378	599	305,726

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 31 December 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,322	692	550	85	(230)	23	2,442
Net fee income	833	350	234	63	5		1,485
Trading income/(expense) excluding net interest income	31	83	332	66	(107)		405
Net interest income on trading activities	5	1	122		10	(23)	115
Net trading income/ (expense)[51]	36	84	454	66	(97)	(23)	520
Net income/(expense) from financial instruments designated at fair value	(525)	(45)	(7)		14		(563)
Gains less losses from financial investments	3	10	1		(8)		6
Dividend income			3		5		8
Net earned insurance premiums	2,124	368	8				2,500
Other operating income	130	92	57	2	629	(137)	773
Total operating income	3,923	1,551	1,300	216	318	(137)	7,171
Net insurance claims[58]	(1,543)	(355)	(4)		(1)		(1,903)
Net operating income[48]	2,380	1,196	1,296	216	317	(137)	5,268
Loan impairment (charges)/recoveries and other credit risk provisions	(39)	(59)	1	(35)	1		(131)
Net operating income	2,341	1,137	1,297	181	318	(137)	5,137
Operating expenses	(922)	(361)	(615)	(123)	(535)	137	(2,419)
Operating profit/(loss)	1,419	776	682	58	(217)		2,718
Share of profit in associates and joint ventures	4	7	3		10		24
Profit/(loss) before tax	1,423	783	685	58	(207)		2,742
	%	%	%	%	%		%
Share of HSBC s profit before tax	13.7	7.5	6.6	0.6	(2.0)		26.4
Cost efficiency ratio	38.7	30.2	47.5	56.9	168.8		45.9
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	56,296	54,986	39,667	5,447	1,269		157,665
Total assets	85,866	63,516	238,892	20,680	84,782	(20,712)	473,024
Customer accounts	181,316	79,225	35,283	19,622	(101)		315,345

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Rest of Asia-Pacific

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

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

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**2,718**	2,381	2,721
Net fee income	**1,078**	1,117	994
Net trading income	**932**	862	796
Other income	**1,219**	988	854
Net operating income[48]	**5,947**	5,348	5,365
Impairment charges[49]	**(298)**	(100)	(167)
Net operating income	**5,649**	5,248	5,198
Total operating expenses	**(2,865)**	(2,836)	(2,970)
Operating profit	**2,784**	2,412	2,228
Income from associates[50]	**1,588**	1,330	1,501
Profit before tax	**4,372**	3,742	3,729
Cost efficiency ratio	**48.2%**	53.0%	55.4%
RoRWA[40]	**3.0%**	3.3%	2.9%
Period-end staff numbers	**86,207**	91,924	91,051

12%

growth in trade-related lending since June 2011 on a constant currency basis

18%

increase in pre-tax profit

on a constant currency basis

Best Foreign Retail Bank

in China

Asia Banker

For footnotes, see page 100.

The commentary on Rest of Asia-Pacific is on a constant currency basis unless stated otherwise.

Economic background

The **mainland China** economy slowed in the first half of 2012. Annual GDP growth decelerated from 9.2% in 2011 to 7.6% in the second quarter of 2012, reflecting a downturn in demand for Chinese exports and a reduction in the pace of property construction following measures by the authorities to moderate activity in the property market after the rapid price rises in recent years. The slowdown eased inflationary pressures that had been building in 2011, and the annual rate of CPI inflation fell to 2.2% in June. In response to the escalation of the eurozone crisis, policymakers adopted more accommodative measures with cuts in the reserve ratio for banks and deposit and lending rates. A number of fiscal measures were also implemented to support activity such as faster approvals for infrastructure projects, tax incentives to buy energy-efficient home appliances and lower regulatory barriers for investment.

Japan s economy delivered robust growth during the first half of the year, with GDP expanding at almost 5% in the first three months alone on an annualised basis. Domestic demand, led by private consumption and government spending, mostly accounted for the strength. The Bank of Japan also loosened monetary policy by adopting a firmer inflation targeting regime and announcing a further expansion of its asset purchase programme. Economic momentum slowed slightly in the second quarter.

In the early months of 2012, GDP growth in **Singapore** remained robust, driven by investment and private consumption. In the second quarter, GDP growth eased as the eurozone crisis constrained external demand. Annual CPI inflation remained high at nearly 5%, prompting the Monetary Authority of Singapore to tighten monetary policy and strengthen its trade-weighted exchange rate. The recent slowdown in **India s** economy continued in the first quarter of 2012, with annual growth of GDP easing to 5.3% from 6.1% in the final quarter of 2011, the slowest rate since 2004. This reflected the lagged effect of monetary tightening by the Reserve Bank of India (RBI) during 2011 to ease inflationary pressures, the slowdown in external demand and slow progress in key structural reforms. Inflation remained high, so the RBI were only able to cut the key policy rate by half a percentage point in April to 8%.

While the domestic economies in other parts of Asia remained largely firm, the slowdown in demand from mainland China and the West reduced the rate

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Total
	US$m	US$m	US$m	US$m	US$m	US$m
Half-year to 30 June 2012						
Australia	**51**	**(34)**	**80**		**(6)**	**91**
India	**35**	**49**	**306**	**4**	**121**	**515**
Indonesia	**19**	**59**	**91**		**6**	**175**
Mainland China	**500**	**853**	**633**	**(2)**	**38**	**2,022**
Associates	**529**	**755**	**284**			**1,568**
Other mainland China	**(29)**	**98**	**349**	**(2)**	**38**	**454**
Malaysia	**93**	**68**	**124**		**3**	**288**
Singapore	**105**	**62**	**126**	**50**	**(8)**	**335**
Taiwan	**38**	**29**	**77**		**2**	**146**
Vietnam	**3**	**28**	**39**		**8**	**78**
Other	**77**	**136**	**258**	**62**	**189**	**722**
	921	**1,250**	**1,734**	**114**	**353**	**4,372**
Half-year to 30 June 2011						
Australia	36	33	70		(4)	135
India	(4)	78	292	3	82	451
Indonesia	(1)	47	68			114
Mainland China	490	617	472	(2)	194	1,771
Associates	524	539	248		181	1,492
Other mainland China	(34)	78	224	(2)	13	279
Malaysia	77	56	114		4	251
Singapore	95	62	126	46	(2)	327
Taiwan	33	11	67		6	117
Vietnam	1	26	40		15	82
Other	39	131	291	2	31	494
	766	1,061	1,540	49	326	3,742
Half-year to 31 December 2011						
Australia	52	73	38		9	172
India	(10)	44	247	2	79	362
Indonesia	7	42	89		7	145
Mainland China	622	723	644	(2)	(77)	1,910
Associates	655	611	281		(64)	1,483
Other mainland China	(33)	112	363	(2)	(13)	427
Malaysia	96	62	114	1	5	278
Singapore	88	71	63	51	(5)	268
Taiwan	12	12	63		6	93
Vietnam	(1)	25	39		9	72
Other	9	133	252	(10)	45	429

875	1,185	1,549	42	78	3,729

of GDP growth. In **South Korea** in the first half of the year, economic activity was supported by strong government spending and investment, but growth is expected to remain below the levels seen in 2011 as persistent global uncertainties weigh on domestic demand and external trade. Quarterly GDP growth accelerated in the first quarter of 2012 in the **Philippines**, rising by 6.4%. Recent export and remittance indicators suggested growth moderated in the second quarter in line with a slowing in the pace of world trade. Annual GDP growth in **Vietnam** accelerated in the second quarter but growth remained significantly below long-term trend rates.

Domestic demand was relatively weak and headline inflation moderated to 6.9% in June. In **Indonesia**, the central bank cut its policy rate by 25bps in February to 5.75%, following concerns about the slowdown in global demand. However, first quarter GDP growth was robust at an annual rate of 6.3%. Domestic demand was also a significant driver of GDP growth in **Malaysia**. The same trends were apparent in **Thailand**. The economy recovered more strongly than expected in the first quarter in response to recovery efforts after 2011 s floods.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Review of performance

Our operations in the Rest of Asia-Pacific region reported pre-tax profits of US$4.4bn compared with US$3.7bn in the first half of 2011, an increase of 17% or 18% on a constant currency basis. Reported profits included gains from the sale of our RBWM business in Thailand of US$108m, our GPB business in Japan of US$67m, and our interest in a property company in the Philippines of US$130m. These were partly offset by the non-recurrence of an accounting gain arising from the dilution of our shareholding in Ping An in the first half of 2011, following its issue of share capital to a third party.

On an underlying basis which excludes the above gains, pre-tax profit rose by 15%, reflecting strong growth in lending and deposit balances, coupled with improved liability spreads. These were offset by higher expenses, in part due to US$114m of restructuring costs arising from the ongoing strategic review of our businesses and support functions in the region, as well as higher loan impairment charges due to a small number of new individual charges in CMB and GB&M. Increased profits from our associates in mainland China also contributed to our improved profitability.

We maintained our focus on our key priority growth markets in the region. In mainland China, pre-tax profits grew due to higher net interest income from Balance Sheet Management activity, balance sheet growth and increased income from our associates. Loan and deposit growth, wider deposit spreads and higher trading income and significant cost reductions in RBWM contributed to improved profits in India.
In Indonesia, a rise in pre-tax profit was driven by increased Rates trading activities following the country s credit ratings upgrade and growth in fee income. In Malaysia, profit growth was due to volume growth in commercial and residential mortgage lending. In Singapore, profit before tax grew on a strong contribution from higher trading revenues and a continued focus on trade-related business. A specific loan impairment charge on a corporate customer resulted in a fall in profits in Australia, though this was partly offset by higher net interest income as a result of lending and deposit growth in both 2011 and the first half of 2012.

In RBWM, we focused on capturing wealth management opportunities in the region. We continued to expand our branch network in mainland China and Malaysia and launched initiatives to enhance our multi-channel capabilities including a mobile banking platform in Vietnam and expansion of our mobile functionality in mainland China,

Australia and Singapore. We also carried out a detailed review of our loan approval process which reduced processing times. In Taiwan we launched Fundmax, a product that offers our customers the ability to invest in unit trusts with monthly management fees as an alternative to upfront fees.

In CMB, trade revenues grew as we capitalised on our global network to capture cross-border trade and capital flows, particularly with mainland China. Cross-border referrals between mainland China and the rest of the world increased by 11%. We were recognised as Financial institution of the year 2011 by the Brazil-China Chamber of Commerce for our contribution to the growth and development of the fast-growing South South trade corridor.

In GB&M, we achieved record revenues on a reported basis and revenues from the collaboration between CMB and GB&M also increased as we enhanced sales coordination between the global businesses. We continued to be a key participant in the internationalisation of the renminbi and we received approval from the People s Bank of China to be a market maker for direct trading between the renminbi and the Japanese yen in mainland China s interbank market.

The following commentary is on a constant currency basis.

Net interest income increased by 17% due to higher average lending balances in CMB and GB&M, most notably in mainland China. Residential mortgage balances also grew, primarily in Singapore and Malaysia, driven by promotional campaigns.

This was partly offset by narrower asset spreads, particularly in RBWM, due to competitive pricing pressures in residential mortgage lending in a number of markets.

Customer deposit balances rose, notably in Payments and Cash Management from new mandates and deposit acquisition as customers made use of our comprehensive product offering. This reflected our strategy of supporting growth in customer lending with core funding.

Net interest income from Balance Sheet Management was higher in the first half of 2012 primarily in mainland China, reflecting growth in the overall investment portfolio.

Net fee income decreased marginally by 1%, most notably in RBWM due to lower fees in Japan following the discontinuation of our Premier business and in Singapore as a result of weak investor sentiment. This was partly offset by increased fee income from CMB due to higher remittance revenues.

Interim Management Report (continued)

Net trading income increased by 12% compared with the first half of 2011, mainly from Rates trading activities in a number of countries in the region due to a favourable movement in interest rates.

Net income from financial instruments designated at fair value rose by US$61m on the first half of 2011 to US$64m, driven by higher investment gains on assets held by the insurance business, primarily in Singapore, due to positive equity market movements during the first half of 2012. To the extent that these investment gains were attributed to policyholders of unit-linked insurance policies and insurance contracts with DPF, there was a corresponding increase in *Net insurance claims incurred and movement in liabilities to policyholders*.

Gains from financial investments were US$25m compared with losses of US$22m in the first half of 2011, due to a disposal gain on investments managed by a private equity fund and a lower impairment loss on an equity investment in the first half of 2012 than in 2011 in GB&M.

Net earned insurance premiums increased by 16% to US$392m, primarily in Singapore, as a result of increased renewals and new business volumes. The growth in premiums resulted in a corresponding increase in Net insurance claims incurred and movement in liabilities to policyholders.

Other operating income increased by US$193m, due to gains from the sale of our RBWM business in Thailand (US$108m), our GPB business in Japan (US$67m) and our interest in a property company in the Philippines (US$130m). These were partly offset

by the non-recurrence of an accounting gain of US$181m arising from the dilution of our shareholding in Ping An following its issue of share capital to a third party in the first half of 2011.

Loan impairment charges and other credit risk provisions increased by US$197m as a result of an individually assessed impairment of a corporate exposure in Australia, individual loan impairment charges in India and New Zealand, and a credit risk provision on an available-for-sale debt security in GB&M.

Operating expenses increased by 4%, due to restructuring costs of US$114m incurred in several countries as part of the ongoing strategic review of our businesses and support functions in the region. This resulted in a net reduction of more than 4,800 staff numbers in the first half of 2012, which was offset by inflationary pressures and business growth, including branch expansion in mainland China and Malaysia. However, we continued to maintain a tight control on costs as part of the organisational effectiveness programme launched in 2011.

Share of profit from associates and joint ventures increased by 15%, driven by higher profits from BoCom as a result of loan growth and wider spreads. Fee income also increased from settlements and credit cards. The contribution from Industrial Bank rose as a result of strong growth in customer lending and a higher fee-based revenue, which was partly offset by a rise in operating expenses. Profits from Ping An were lower as increased income from the banking business following the consolidation of Shenzhen Development Bank and stable insurance income were more than offset by lower securities broking and underwriting income.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[57]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit before tax							
Net interest income	896	691	1,120	55	83	(127)	2,718
Net fee income/(expense)	429	264	351	37	(3)		1,078
Trading income/(expense) excluding net interest income	43	98	648	35	(30)		794
Net interest income on trading activities			7		4	127	138
Net trading income/ (expense)[51]	43	98	655	35	(26)	127	932
Changes in fair value of long-term debt issued and related derivatives					(2)		(2)
Net income/(expense) from other financial instruments designated at fair value	41	1	(2)		26		66
Net income/(expense) from financial instruments designated at fair value	41	1	(2)		24		64
Gains less losses from financial investments	(1)	1	1		24		25
Dividend income			1		3		4
Net earned insurance premiums	338	54					392
Other operating income	169	44	39	66	840	(82)	1,076
Total operating income	1,915	1,153	2,165	193	945	(82)	6,289
Net insurance claims[58]	(293)	(49)					(342)
Net operating income[48]	1,622	1,104	2,165	193	945	(82)	5,947
Loan impairment charges and other credit risk provisions	(102)	(131)	(65)				(298)
Net operating income	1,520	973	2,100	193	945	(82)	5,649
Operating expenses	(1,132)	(486)	(657)	(79)	(593)	82	(2,865)
Operating profit	388	487	1,443	114	352		2,784
Share of profit in associates and joint ventures	533	763	291		1		1,588
Profit before tax	921	1,250	1,734	114	353		4,372
	%	%	%	%	%		%
Share of HSBC s profit before tax	7.2	9.8	13.6	0.9	2.8		34.3
Cost efficiency ratio	69.8	44.0	30.3	40.9	62.8		48.2

Balance sheet data[47]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**42,171**	**41,241**	**42,652**	**3,243**	**182**		**129,489**
Total assets	**57,289**	**56,071**	**202,228**	**12,240**	**17,066**	**(9,916)**	**334,978**
Customer accounts	**60,037**	**41,999**	**59,475**	**11,600**	**46**		**173,157**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[57]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit before tax							
Net interest income	891	580	900	58	59	(107)	2,381
Net fee income	463	259	359	32	4		1,117
Trading income/(expense) excluding net interest income	50	75	583	30	(29)		709
Net interest income/(expense) on trading activities			51		(5)	107	153
Net trading income/ (expense)[51]	50	75	634	30	(34)	107	862
Changes in fair value of long-term debt issued and related derivatives					(1)		(1)
Net income/(expense) from other financial instruments designated at fair value	7	2	1		(6)		4
Net income/(expense) from financial instruments designated at fair value	7	2	1		(7)		3
Gains less losses from financial investments		1	(23)	1	(1)		(22)
Dividend income			1				1
Net earned insurance premiums	225	115					340
Other operating income	71	33	35	1	877	(85)	932
Total operating income	1,707	1,065	1,907	122	898	(85)	5,614
Net insurance claims[58]	(173)	(94)			1		(266)
Net operating income[48]	1,534	971	1,907	122	899	(85)	5,348
Loan impairment (charges)/ recoveries and other credit risk provisions	(112)	7	4	2	(1)		(100)
Net operating income	1,422	978	1,911	124	898	(85)	5,248
Operating expenses	(1,188)	(458)	(626)	(75)	(574)	85	(2,836)
Operating profit	234	520	1,285	49	324		2,412
Share of profit in associates and joint ventures	532	541	255		2		1,330
Profit before tax	766	1,061	1,540	49	326		3,742
	%	%	%	%	%		%
Share of HSBC s profit before tax	6.7	9.2	13.4	0.4	2.8		32.6
Cost efficiency ratio	77.4	47.2	32.8	61.5	63.8		53.0
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m

Loans and advances to customers (net)	41,707	36,128	39,569	3,846	179		121,429
Total assets	54,326	47,028	181,947	12,802	15,215	(12,728)	298,590
Customer accounts	59,352	39,922	56,262	13,014	39		168,589

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 31 December 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[57]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit before tax							
Net interest income	947	674	1,064	58	64	(86)	2,721
Net fee income/(expense)	441	254	262	50	(13)		994
Trading income/(expense) excluding net interest income	44	81	570	36	(61)		670
Net interest income/(expense) on trading activities	(2)	1	25		16	86	126
Net trading income/ (expense)[51]	42	82	595	36	(45)	86	796
Changes in fair value of long-term debt issued and related derivatives					5		5
Net income/(expense) from other financial instruments designated at fair value	(45)				21		(24)
Net income/(expense) from financial instruments designated at fair value	(45)				26		(19)
Gains less losses on financial investments		1	(2)				(1)
Dividend income			1				1
Net earned insurance premiums	268	151					419
Other operating income	74	39	40	4	715	(93)	779
Total operating income	1,727	1,201	1,960	148	747	(93)	5,690
Net insurance claims[58]	(178)	(146)			(1)		(325)
Net operating income[48]	1,549	1,055	1,960	148	746	(93)	5,365
Loan impairment (charges)/ recoveries and other credit risk provisions	(110)	3	(61)		1		(167)
Net operating income	1,439	1,058	1,899	148	747	(93)	5,198
Operating expenses	(1,221)	(487)	(642)	(106)	(607)	93	(2,970)
Operating profit	218	571	1,257	42	140		2,228
Share of profit/(loss) in associates and joint ventures	657	614	292		(62)		1,501
Profit before tax	875	1,185	1,549	42	78		3,729
	%	%	%	%	%		%
Share of HSBC s profit before tax	8.4	11.4	14.9	0.4	0.8		35.9

Cost efficiency ratio	78.8	46.2	32.8	71.6	81.4		55.4

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	40,970	38,404	41,114	3,190	190		123,868
Total assets	54,484	50,688	195,549	12,879	16,616	(12,400)	317,816
Customer accounts	60,831	40,423	60,855	11,872	31		174,012

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Middle East and North Africa

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

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**705**	673	759
Net fee income	**302**	327	300
Net trading income	**216**	237	245
Other income/(expense)	**14**	(1)	67
Net operating income[48]	**1,237**	1,236	1,371
Impairment charges[49]	**(135)**	(99)	(194)
Net operating income	**1,102**	1,137	1,177
Total operating expenses	**(537)**	(574)	(585)
Operating profit	**565**	563	592
Income from associates[50]	**207**	184	153
Profit before tax	**772**	747	745
Cost efficiency ratio	**43.4%**	46.4%	42.7%
RoRWA[40]	**2.6%**	2.7%	2.5%
Period-end staff numbers	**9,195**	8,755	8,373

6%

decline in reported expenses driven

by sustainable cost save initiatives

Significant progress on capital

deployment programmes including

key strategic acquisitions

Most impressive bank for Middle Eastern and Africa borrowers	**Best Overall Bank for Cash Management in the Middle East**
EuroWeek Bond Awards 2012	*Global Finance Awards*

For footnotes, see page 100.

The commentary on the Middle East and North Africa is on a constant currency basis unless stated otherwise.

Economic background

Brent crude oil prices in excess of US$100 per barrel in the first half of 2012 helped support revenues and spending across much of the **Middle East**. Data from the HSBC Purchasing Managers Index, consumer indicators and credit growth all demonstrated a pick-up in economic activity driven by the expansionary government spending policies which were announced in the wake of protests in 2011. Saudi Arabia, Qatar and Oman showed the strongest signs of recovery, while the UAE economy was more subdued due to a cautious fiscal policy and lack of credit growth. Activity in Bahrain and, to a lesser extent, Kuwait, was held back by political instability. The non-oil producers were increasingly affected by exposure to the troubled eurozone economies in the first half of the year. Export and tourism activity slowed, which limited corporate investment spending. Despite electing its first president since the revolution, Egypt s economic activity remained subdued.

Review of performance

Our operations in the Middle East and North Africa reported a profit before tax of US$772m, an increase of 3% compared with the first half of 2011. On a constant currency basis, pre-tax profits increased by 4%, reflecting higher income from our associates, modest revenue growth in challenging market conditions and lower costs from the implementation of strategic restructuring programmes, partly offset by higher loan impairment charges.

We continued to make progress on our strategic programmes to improve capital deployment, using the Group s five filters framework to review our existing businesses and assess acquisitions. In the first half of 2012, we completed the merger of our operations in Oman with Oman International Bank S.A.O.G. (OIB), giving us a 51% ownership of the combined entity, HSBC Bank Oman S.A.O.G., now the third largest Bank in the Sultanate. We also entered into an agreement to acquire the onshore retail and commercial banking business of Lloyds Banking Group in the UAE, subject to regulatory approval. Lloyds strong presence in expatriate retail banking and complementary commercial banking is a good strategic fit with our position as the leading international bank in the UAE.

We achieved strong growth in profit before tax in all of our priority markets, including Saudi Arabia through our associate, The Saudi British Bank, which won the *Euromoney* award for excellence as

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2012						
Egypt	**33**	**45**	**62**		**(3)**	**137**
Qatar	**5**	**18**	**42**			**65**
United Arab Emirates	**52**	**147**	**104**		**(4)**	**299**
Other	**14**	**62**	**(18)**		**1**	**59**
MENA (excluding Saudi Arabia)	**104**	**272**	**190**		**(6)**	**560**
Saudi Arabia	**36**	**69**	**96**	**4**	**7**	**212**
	140	**341**	**286**	**4**	**1**	**772**
Half-year to 30 June 2011						
Egypt	15	32	67		(1)	113
Qatar	(1)	23	39			61
United Arab Emirates	40	120	119	(3)	(11)	265
Other	10	62	53			125
MENA (excluding Saudi Arabia)	64	237	278	(3)	(12)	564
Saudi Arabia	37	59	61	2	24	183
	101	296	339	(1)	12	747
Half-year to 31 December 2011						
Egypt	28	23	62		(1)	112
Qatar	(3)	12	42			51
United Arab Emirates	94	120	81	(3)	18	310
Other	7	47	40			94
MENA (excluding Saudi Arabia)	126	202	225	(3)	17	567
Saudi Arabia	20	39	79	2	38	178
	146	241	304	(1)	55	745

The Best Bank in Saudi Arabia and The Best Debt House in Saudi Arabia . Strong performances were also reported in the UAE and Egypt. Despite signs of recovery, political and economic uncertainty continued in the region. The strength of the HSBC brand and resilience of the oil-based regional economies together with our international connectivity, positions us well for future growth.

Delivery of sustainable cost savings is a key priority and we realised substantial benefits from the actions taken in 2011 to reduce our cost base. In the first half of 2012, we took further steps to improve our cost efficiency and drive additional sustainable cost savings through our organisational effectiveness initiatives, including a de-layering of our management structure and the transfer of additional operational processes to our global service centre.

In RBWM, we remained focused on growing Wealth Management revenues, launching a number of new investment funds, bonds and deposit products. We also entered into a ten-year strategic partnership with Zurich Life International to be the exclusive provider of their wealth insurance products in the region. We continued to roll out our digital solution for mobile banking in the region and

launched an Arabic version of the HSBC website in the UAE, becoming the first international bank with a bilingual presence there.

In CMB, we continued to strengthen our position as the leading international trade and business bank. We launched our third International Trade SME Fund in the UAE, pledging US$272m to support SMEs engaged in cross-border trade, and added resources to enhance our international capabilities, particularly in respect of emerging trade corridors. Our Payments and Cash Management business was named Best Cash Management Bank in the Middle East 2012 in the *Euromoney* Awards for Excellence and continued to achieve success by growing deposit balances.

In GB&M, our customers benefited from dedicated coverage teams on our mainland China, South Korea and India desks in the UAE, Saudi Arabia and Oman, leveraging our South-South connectivity to provide access to Asian investors for issuers in the region with funding requirements. We continued to focus on generating incremental revenues through the provision of risk management services to regional clients by leveraging our global expertise, including in equity and energy derivatives.

Interim Management Report (continued)

We also completed a record number of bond issuances in the first half of 2012, which is indicative of continuing investor appetite for Middle East and North Africa debt. We won seven *Euromoney* awards for excellence including The Best Project Finance House in the Middle East and The Best Equity House in the Middle East . GB&M also won a number of *EMEA Finance* Achievement Awards, including Best Sukuk House 2011 , and three of GB&M s customer deals were recognised by *The Banker* Deals of the Year 2012 .

The following commentary is on a constant currency basis.

Net interest income rose by 5%, driven by higher average deposit balances in RBWM as a result of targeted customer acquisition and successful marketing campaigns, together with wider spreads as we repriced our deposits and benefited from higher interest rates in Egypt. Deposit balance growth in our Payments and Cash Management business, reflecting targeted client growth, led to an increase in net interest income in GB&M, while Balance Sheet Management benefited from higher yields on the available-for-sale investment portfolios. This was partly offset by a low level of demand for corporate credit in CMB.

Net fee income decreased by 7% due to lower advisory revenues and Securities Services fees in GB&M, both of which were affected by the continuing challenging political and economic environment. Fees also declined due to the repositioning of RBWM s cards portfolio towards higher quality lending, which resulted in a reduction in late and over-limit fees along with higher reward scheme charges following revisions to the agreement with our partner aimed at improving card utilisation. In addition, fees declined in private banking as we exited our domestic private banking operations in the UAE. This was partly offset by higher trade import fees in CMB which were driven by targeted sales activity.

Net trading income decreased by 8%, mainly from adverse credit valuation adjustments on certain trading positions relating to a small number of exposures in GB&M. This was partly offset by higher Rates trading income from increased client activity in the first half of 2012 and revaluation gains on certain equity holdings in Principal Investments.

Gains less losses from financial investments increased by US$11m, driven principally by the non-recurrence of adverse fair value movements on certain investments in 2011.

Loan impairment charges and other credit risk provisions increased by US$37m as significant loan impairment charges were recorded for a small number of large exposures in GB&M. This was partly offset by lower impairments in RBWM, due to an improvement in credit quality which reflected the repositioning of the book towards higher quality lending in previous periods, and in CMB as we worked closely with customers through the credit cycle.

Operating expenses decreased by 6%, as a result of the sustainable cost saving initiatives implemented in 2011 and the first half of 2012. These particularly affected staff costs as we reduced employee numbers by over 750 from their peak in March 2011, although staff numbers increased by more than 1,000 following the merger of our Oman operations with OIB. Performance-related costs rose as a result of the merger with OIB and legal costs increased in connection with the strategic transactions noted above.

Share of profits from associates and joint ventures increased by 13%, mainly from The Saudi British Bank, driven by higher revenues due to growth in lending and a rise in trade, other lending and guarantee fees, good cost control and a decline in loan impairment charges as operating conditions improved.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit before tax							
Net interest income	273	240	191		1		705
Net fee income/(expense)	85	143	77	1	(4)		302
Trading income excluding net interest income	35	48	122		1		206
Net interest income on trading activities			4		6		10
Net trading income[51]	35	48	126		7		216
Net expense from financial instruments designated at fair value					(4)		(4)
Gains less losses from financial investments			5				5
Dividend income			3				3
Other operating income	2	4	5		51	(52)	10
Total operating income	395	435	407	1	51	(52)	1,237
Net insurance claims[58]							
Net operating income[48]	395	435	407	1	51	(52)	1,237
Loan impairment charges and other credit risk provisions	(37)	(12)	(84)	(2)			(135)
Net operating income/ (expense)	358	423	323	(1)	51	(52)	1,102
Operating income/(expenses)	(249)	(151)	(134)	1	(56)	52	(537)
Operating profit/(loss)	109	272	189		(5)		565
Share of profit in associates and joint ventures	31	69	97	4	6		207
Profit before tax	140	341	286	4	1		772
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.1	2.7	2.3				6.1
Cost efficiency ratio	63.0	34.7	32.9	(100.0)	109.8		43.4
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	5,005	12,554	8,519	1	1,817		27,896
Total assets	6,437	14,482	36,539	53	8,676	(3,306)	62,881
Customer accounts	18,468	11,127	6,555	14	2,865		39,029

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Interim Management Report (continued)

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	253	243	174	1	3	(1)	673
Net fee income/(expense)	90	135	96	8	(2)		327
Trading income/(expense) excluding net interest income	30	48	129		(1)		206
Net interest income on trading activities	1	7	22			1	31
Net trading income/(expense)[51]	31	55	151		(1)	1	237
Net expense from financial instruments designated at fair value					(6)		(6)
Gains less losses from financial investments			(6)				(6)
Dividend income			1		1		2
Other operating income	10	7	3		43	(54)	9
Total operating income	384	440	419	9	38	(54)	1,236
Net insurance claims[58]							
Net operating income[48]	384	440	419	9	38	(54)	1,236
Loan impairment (charges)/ recoveries and other credit risk provisions	(58)	(48)	6		1		(99)
Net operating income	326	392	425	9	39	(54)	1,137
Operating expenses	(263)	(155)	(148)	(12)	(50)	54	(574)
Operating profit/(loss)	63	237	277	(3)	(11)		563
Share of profit in associates and joint ventures	38	59	62	2	23		184
Profit/(loss) before tax	101	296	339	(1)	12		747
	%	%	%	%	%		%
Share of HSBC s profit before tax	0.9	2.6	3.0				6.5
Cost efficiency ratio	68.5	35.2	35.3	133.3	131.6		46.4
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	4,861	13,189	7,611	31	2		25,694
Total assets	6,383	14,950	34,306	73	4,958	(2,632)	58,038
Customer accounts	19,301	11,101	6,275	363	79		37,119

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 31 December 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	336	253	197	1	(1)	(27)	759
Net fee income/(expense)	83	136	77	5	(1)		300
Trading income excluding net interest income	32	47	137	1			217
Net interest income/(expense) on trading activities	(1)	(7)	10		(1)	27	28
Net trading income/(expense)[51]	31	40	147	1	(1)	27	245
Net income from financial instruments designated at fair value					16		16
Gains less losses from financial investments	1	1	(1)		(3)		(2)
Dividend income	1	1	2		(1)		3
Other operating income/(expense)	12	4	8	(1)	81	(54)	50
Total operating income	464	435	430	6	90	(54)	1,371
Net insurance claims[58]							
Net operating income[48]	464	435	430	6	90	(54)	1,371
Loan impairment charges and other credit risk provisions	(68)	(68)	(57)		(1)		(194)
Net operating income	396	367	373	6	89	(54)	1,177
Operating expenses	(272)	(165)	(147)	(9)	(46)	54	(585)
Operating profit/(loss)	124	202	226	(3)	43		592
Share of profit in associates and joint ventures	22	39	78	2	12		153
Profit/(loss) before tax	146	241	304	(1)	55		745
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.4	2.3	2.9		0.5		7.2
Cost efficiency ratio	58.6	37.9	34.2	150.0	51.1		42.7
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m

Loans and advances to customers (net)	4,921	12,446	8,479	26	3		25,875
Total assets	6,549	14,556	34,676	72	4,792	(3,181)	57,464
Customer accounts	18,549	10,943	6,703	114	113		36,422

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

North America

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

	Half-year to		
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Net interest income	**4,739**	5,849	5,631
Net fee income	**1,443**	1,718	1,590
Net trading income/(expense)	**161**	448	(810)
Gains on disposal of US branch network and cards business	**3,809**		
Other income/(expense)	**(174)**	225	1,349
Net operating income[48]	**9,978**	8,240	7,760
Impairment charges[49]	**(2,161)**	(3,049)	(3,967)
Net operating income	**7,817**	5,191	3,793
Total operating expenses	**(4,462)**	(4,602)	(4,317)
Operating profit/(loss)	**3,355**	589	(524)
Income from associates[50]	**(1)**	17	18
Profit/(loss) before tax	**3,354**	606	(506)
Cost efficiency ratio	**44.7%**	55.8%	55.6%
RoRWA[40]	**2.1%**	0.4%	(0.3%)
Period-end staff numbers	**23,341**	32,605	30,981

US$3.9bn

gain recognised following

the completion of strategic disposals

Gross balances in the CML portfolio

down by US$3.8bn to

US$45.7bn

29%

reduction in loan

impairment charges

For footnotes, see page 100.

The commentary on North America is on a constant currency basis unless stated otherwise.

Economic background

Annualised **US** GDP growth was 1.6% in the first half of 2012. Annualised consumer spending growth remained moderate at 2% as the process of reducing debt after the credit boom of the last decade continued to restrain growth in spending as households attempted to increase their savings. Employment growth remained positive in the first half of 2012 but slowed during the period. The unemployment rate was 8.2% in June, down from 9.1% a year earlier. In response to slow growth and stable core inflation, the Federal Reserve maintained the federal funds rate in a range of zero to 0.25% and, in January, it announced that these exceptionally low levels were likely to remain in place to at least the end of 2014. In June, the Federal Reserve extended its maturity extension programme to the end of 2012, continuing to purchase longer-term Treasury securities while simultaneously selling an equivalent amount of short-term securities.

Canadian GDP rose by an annualised rate of 1.9% in the first quarter of 2012 and domestic demand remained a key driver of GDP growth. March and April 2012 saw the largest gains in employment in a two-month period since 1976 which, alongside modest upward pressure on wages, helped sustain a rebound in Canadian consumer confidence in the first half of the year. The firm domestic backdrop led the Bank of Canada to suggest in mid-April that some policy tightening may become appropriate , but the deterioration in the global economic outlook saw the central bank maintain interest rates at 1% throughout the first half of 2012. With interest rates remaining low, the federal government put in place a number of measures aimed at reducing the pace of price appreciation in the housing market.

Review of performance

In the first half of 2012, our operations in North America reported a profit before tax of US$3.4bn, compared with US$606m in the first half of 2011. Our reported profits included gains in the US of US$3.1bn and US$661m following the completion of the sales of the Card and Retail Services business and the 138 non-strategic branches, respectively, while in Canada we recorded a gain of US$83m from the sale of the Private Client Services business. In addition, we recognised US$559m of adverse movements on our own debt designated at fair value resulting from tightening credit spreads, compared with adverse movements of US$66m in the first half of 2011 and favourable movements of US$1.0bn in the second half of 2011.

HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2012						
US	**3,326**	**374**	**384**	**38**	**(1,388)**	**2,734**
Canada	**129**	**307**	**174**		**(8)**	**602**
Bermuda	**18**	**1**	**(9)**	**3**	**4**	**17**
Other	**1**					**1**
	3,474	**682**	**549**	**41**	**(1,392)**	**3,354**
Half-year to 30 June 2011						
US	(568)	177	599	47	(244)	11
Canada	95	297	134		(6)	520
Bermuda	28	14	23	2	8	75
Other						
	(445)	488	756	49	(242)	606
Half-year to 31 December 2011						
US	(2,293)	254	(32)	36	1,026	(1,009)
Canada	52	248	131		14	445
Bermuda	21	12	20	5	1	59
Other					(1)	(1)
	(2,220)	514	119	41	1,040	(506)

On an underlying basis, our profit before tax was US$21m compared with US$483m in the first half of 2011. This decrease was mainly due to lower revenue in CML, reflecting a reduction in average lending balances as the business winds down, and lower revenue in GB&M. Operating expenses also increased, including a provision of US$700m related to US anti-money laundering, BSA and OFAC investigations. Partly offsetting this was a reduction in loan impairment charges in CML. In Canada, we increased our underlying profit before tax by 5% to US$537m. This was mainly due to a rise in revenue, notably from an improved performance in GB&M, partly offset by increased costs.

We continued to make progress in disposing of businesses not aligned with the Group s long-term strategy. On 1 May 2012, we completed the sale and transfer of our US Card and Retail Services business. Associated with the sale, over 5,000 employees and certain real estate facilities were transferred to the purchaser. In addition, we entered into a transition services agreement with the purchaser to support some of the account servicing operations until such time as all systems, processes and equipment are integrated into the purchaser s existing infrastructure. We also completed the sale of 138 of the 195 retail branches in upstate New York that we had agreed to sell, recognising gains of US$449m and US$212m in RBWM and CMB, respectively. In the third quarter of 2012, we expect

to complete the disposal of the remaining 57 branches. In Canada, we completed the sale of the Private Client Services business. The impact of these sales on our results can be seen on page 38. We expect these sales to have a significant adverse effect on both revenue and profit in our North America region in the future.

In the first half of 2012, HSBC Bank USA, N.A. (HSBC Bank USA) entered into a strategic relationship with PHH Mortgage to manage our mortgage origination and servicing operations. Under the terms of the agreement, we will continue to own the mortgage servicing rights (MSRs) associated with our current portfolio of serviced loans, but we will not recognise any additional MSRs upon the completion of the transaction. The value of our existing MSRs will remain subject to interest rate risk, which is mitigated through an economic hedging programme. The conversion of these operations is expected to be completed in the first quarter of 2013. In March 2012, we announced the winding down of our consumer finance business in Canada and, except for existing commitments, ceased the origination of loans.

We incurred additional costs of US$151m in the first half of 2012 following restructuring activities in the region; these related mainly to the business disposals, the closure of our consumer finance operations in Canada and the continuation of our organisational effectiveness initiatives while we achieved some US$220m of additional sustainable

Interim Management Report (continued)

cost savings during the same period. These were mainly derived from operational efficiencies and a delayering programme.

We remained focused on managing the run-off of balances in our CML portfolio, with period-end lending balances of US$45.7bn, a decline of 8% from the end of 2011 of which 44% was attributable to the write-off of balances. We engaged an advisor to assist us in exploring options to accelerate the liquidation of this portfolio and identified certain loan pools that we intend to sell as market conditions permit. The financial effect of our run-off portfolio on the results of our North America operations can be seen on page 38.

Also in RBWM, we continued to develop our Wealth Management capabilities across the region. In Canada, we operate the country s largest Chinese and second largest Indian equity funds and, in the US, we launched a renminbi fixed income fund to provide US investors with the opportunity to access mainland China s rapidly growing bond market.

In CMB and GB&M, we continued to target companies with international banking requirements, while CMB s extended collaboration with GB&M resulted in a 26% rise in revenue from the sales of GB&M products to our CMB customers. This revenue is shared between the two global businesses.

In GB&M, we continued to work on delivering integrated solutions for our customers across the Americas, increasing our lending to Latin American corporates. In addition, we actively reduced our legacy credit exposure in the US by exiting certain positions. We will seek to further reduce the size of this portfolio as opportunities become available. The financial effect of the legacy credit portfolio on the results of our North America operations can be seen on page 38.

The following commentary is on a constant currency basis.

Net interest income fell by 19% to US$4.7bn, mainly due to the loss of income from the Card and Retail Services business along with a reduction in average lending balances and lower yields from operations to the date of sale. Excluding the results of the Card and Retail Services business and the other disposals referred to above, net interest income declined, reflecting the reduction in average lending balances as the CML portfolio continued to run-off, while lending spreads in this portfolio also reduced as the product mix

comprised a higher balance of lower yielding products.

Net fee income declined by 16%, primarily due to the sale of the Card and Retail Services business and, to a lesser extent, the sale of the Private Client Services business in Canada. Excluding the results of the disposed businesses, net fee income was broadly unchanged.

Net trading income fell by 64% to US$161m. The reduction reflected lower revenue in GB&M, mainly in the legacy credit portfolio due to reduced net releases of write-downs in the first half of 2012 resulting from lower price appreciation on assets held in this portfolio, and losses incurred on the exit of certain exposures in advance of their scheduled maturity date. In addition, revenue from Credit declined as a result of unfavourable credit spread movements.

In RBWM, higher trading expense reflected an increase in adverse movements in the fair value of non-qualifying hedges used to hedge floating rate debt issued by HSBC Finance. In the first half of 2012, the effects of falling long-term US interest rates was more pronounced than in the first half of 2011, resulting in adverse fair value movements in HSBC Finance of US$217m compared with US$124m in the first half of 2011 and US$1.1bn in the second half of 2011.

Net expense from financial instruments designated at fair value increased from US$118m in the first half of 2011 to US$639m in the first half of 2012. Narrowing credit spreads resulted in adverse movements in the fair value of our own debt in both periods, though the effects were more pronounced in 2012.

Gains less losses from financial investments were US$175m, a rise of 61% compared with the first half of 2011 due to an increase in gains from sales of assets in Balance Sheet Management in the US, as well as an increase in gains from similar sales in Canada. These transactions were undertaken as part of structural interest rate risk management activities.

Other operating income increased following a reduction in losses on foreclosed properties, reflecting fewer sales.

Loan impairment charges and other credit risk provisions were US$2.2bn, 29% lower than in the first half of 2011. This reflected a marked decline in loan impairment charges in the CML portfolio, as well as the sale of the Card and Retail Services business.

Interim Management Report (continued)

Loan impairment charges in the CML portfolio declined by 28% to US$1.6bn, driven by a reduction in lending balances as the portfolio continued to run off, as well as an improvement in two-months-and-over contractual delinquency on balances less than 180 days past due. Loan impairment charges were adversely affected by delays in expected cash flows from mortgage loans due, in part, to delays in foreclosure processing, though the effects were more pronounced in the first half of 2011. Additionally, in the first half of 2012, we increased our loan impairment allowances having updated our assumptions regarding the timing of expected cash flows received from customers with loan modifications.

Further discussions of delinquency trends in the US personal lending portfolios are provided in Areas of special interest US Personal Lending on page 136.

Operating expenses of US$4.5bn were 3% lower than in the first half of 2011, as our cost base reduced following the completion of various disposals and the closure of the consumer finance business in Canada as well as the success of initiatives to lower cost levels and achieve sustainable savings.

Staff costs in the region reduced as average staff numbers fell by over 5,000 compared with the first half of 2011, the majority of whom transferred as part of the businesses sold. Performance-related costs also fell, while lower marketing costs reflected a reduction in marketing programmes. In addition, the costs of holding foreclosed properties declined reflecting lower inventory following the slowing of foreclosure processing activities. Restructuring costs of US$151m compared with US$190m in the first half of 2011. In the current period, restructuring was primarily associated with our business disposals, the closure of the consumer finance business in Canada and the continuation of our organisational effectiveness initiatives. Offsetting the decline in costs in the region was an increase in provisions, including US$700m related to anti-money laundering, BSA and OFAC investigations, which is reported in Other for the purposes of the segmentation by global business. In addition, we incurred higher compliance costs, largely due to investment in process enhancements and infrastructure related to anti-money laundering and BSA consent orders, along with actions to address the regulatory consent orders relating to foreclosure activities.

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Interim Management Report (continued)

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

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
	Half-year to 30 June 2012						
Profit/(loss) before tax							
Net interest income	3,418	715	491	97	50	(32)	4,739
Net fee income	681	272	375	64	51		1,443
Trading income/(expense) excluding net interest income	(206)	20	245	11	8		78
Net interest income on trading activities	9	1	41			32	83
Net trading income/ (expense)[51]	(197)	21	286	11	8	32	161
Changes in fair value of long-term debt issued and related derivatives					(638)		(638)
Net expense from other financial instruments designated at fair value			(1)				(1)
Net expense from financial instruments designated at fair value			(1)		(638)		(639)
Gains less losses from financial investments	12		158		6		176
Dividend income	8	5	11	1	1		26
Net earned insurance premiums	109						109
Gains on disposal of US branch network and cards business	3,597	212					3,809
Other operating income	109	93	87	5	1,011	(1,079)	226
Total operating income	7,737	1,318	1,407	178	489	(1,079)	10,050
Net insurance claims[58]	(72)						(72)
Net operating income[48]	7,665	1,318	1,407	178	489	(1,079)	9,978
Loan impairment (charges)/ recoveries and other credit risk provisions	(2,084)	(51)	(30)	4			(2,161)
Net operating income	5,581	1,267	1,377	182	489	(1,079)	7,817
Operating expenses	(2,108)	(583)	(828)	(141)	(1,881)	1,079	(4,462)
Operating profit/(loss)	3,473	684	549	41	(1,392)		3,355
Share of profit/(loss) in associates and joint ventures	1	(2)					(1)
Profit/(loss) before tax	3,474	682	549	41	(1,392)		3,354
	%	%	%	%	%		%

Share of HSBC s profit before tax	**27.3**	**5.4**	**4.3**	**0.3**	**(11.0)**		**26.3**
Cost efficiency ratio	**27.5**	**44.2**	**58.8**	**79.2**	**384.7**		**44.7**
Balance sheet data[47]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**83,060**	**33,754**	**32,068**	**5,109**			**153,991**
Total assets	**110,038**	**46,321**	**347,728**	**7,444**	**12,054**	**(22,995)**	**500,590**
Customer accounts	**58,962**	**45,783**	**29,465**	**14,061**	**89**		**148,360**

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Interim Management Report (continued)

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

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	4,617	748	465	94	(37)	(38)	5,849
Net fee income	936	276	420	79	7		1,718
Trading income/(expense) excluding net interest income	(68)	16	344	13	(11)		294
Net interest income/(expense) on trading activities	10	1	106		(1)	38	154
Net trading income/ (expense)[51]	(58)	17	450	13	(12)	38	448
Changes in fair value of long-term debt issued and related derivatives					(116)		(116)
Net income/(expense) from other financial instruments designated at fair value			(4)		1		(3)
Net expense from financial instruments designated at fair value			(4)		(115)		(119)
Gains less losses from financial investments	14		96				110
Dividend income	8	4	7	1	1		21
Net earned insurance premiums	118						118
Other operating income/ (expense)	(28)	60	100	5	1,130	(1,099)	168
Total operating income	5,607	1,105	1,534	192	974	(1,099)	8,313
Net insurance claims[58]	(73)						(73)
Net operating income[48]	5,534	1,105	1,534	192	974	(1,099)	8,240
Loan impairment (charges)/ recoveries and other credit risk provisions	(3,035)	(45)	23	11	(3)		(3,049)
Net operating income	2,499	1,060	1,557	203	971	(1,099)	5,191
Operating expenses	(2,945)	(587)	(801)	(154)	(1,214)	1,099	(4,602)
Operating profit/(loss)	(446)	473	756	49	(243)		589
Share of profit in associates and joint ventures	1	15			1		17
Profit/(loss) before tax	(445)	488	756	49	(242)		606
	%	%	%	%	%		%
Share of HSBC s profit before tax	(3.9)	4.3	6.6	0.4	(2.1)		5.3
Cost efficiency ratio	53.2	53.1	52.2	80.2	124.6		55.8

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net) reported in:							
loans and advances to customers (net)	123,891	31,015	19,988	4,368			179,262
Total assets	153,098	42,971	341,246	6,831	13,009	(27,769)	529,386
Customer accounts	76,266	46,940	25,579	13,747	101		162,633

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	Half-year to 31 December 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	4,314	780	428	93	46	(30)	5,631
Net fee income/(expense)	900	275	353	70	(8)		1,590
Trading income/(expense excluding net interest income	(878)	18	(83)	4	(15)		(954)
Net interest income on trading activities	15		99			30	144
Net trading income/ (expense)[51]	(863)	18	16	4	(15)	30	(810)
Changes in fair value of long-term debt issued and related derivatives					1,083		1,083
Net income/(expense) from other financial instruments designated at fair value			(1)		1		
Net income/(expense) from financial instruments designated at fair value			(1)		1,084		1,083
Gains less losses from financial investments	44	7	99		2		152
Dividend income	7	5	6	2	(1)		19
Net earned insurance premiums	118						118
Other operating income/ (expense)	(97)	50	93	6	1,114	(1,108)	58
Total operating income	4,423	1,135	994	175	2,222	(1,108)	7,841
Net insurance claims[58]	(81)						(81)
Net operating income[48]	4,342	1,135	994	175	2,222	(1,108)	7,760
Loan impairment (charges)/ recoveries and other credit risk provisions	(3,894)	(60)	(34)	19	2		(3,967)
Net operating income	448	1,075	960	194	2,224	(1,108)	3,793
Operating expenses	(2,670)	(579)	(841)	(153)	(1,182)	1,108	(4,317)
Operating profit/(loss)	(2,222)	496	119	41	1,042		(524)
Share of profit/(loss) in associates and joint ventures	2	18			(2)		18
Profit/(loss) before tax	(2,220)	514	119	41	1,040		(506)

	%	%	%	%	%		%
Share of HSBC s profit before tax	(21.3)	4.9	1.1	0.4	10.0		(4.9)
Cost efficiency ratio	61.5	51.0	84.6	87.4	53.2		55.6

Balance sheet data[47]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net) reported in:							
loans and advances to customers (net)	86,490	32,215	19,289	4,753			142,747
assets held for sale (disposal groups)	31,058	520					31,578
Total assets	144,278	43,747	320,783	7,138	10,378	(22,022)	504,302
Customer accounts reported in:							
customer accounts	63,558	47,003	30,465	14,862	94		155,982
liabilities of disposal groups held for sale	10,104	5,040					15,144

For footnotes, see page 100.

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Interim Management Report (continued)

Latin America

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

	Half-year to		
	30 Jun 2012	30 Jun 2011	31 Dec 2011
	US$m	US$m	US$m
Net interest income	**3,542**	3,517	3,439
Net fee income	**843**	902	879
Net trading income	**597**	589	789
Other income	**583**	675	663
Net operating income[48]	**5,565**	5,683	5,770
Impairment charges[49]	**(1,136)**	(820)	(1,063)
Net operating income	**4,429**	4,863	4,707
Total operating expenses	**(3,285)**	(3,712)	(3,543)
Operating profit	**1,144**	1,151	1,164
Income from associates[50]	**1**		
Profit before tax	**1,145**	1,151	1,164
Cost efficiency ratio	**59.0%**	65.3%	61.4%
RoRWA[40]	**2.2%**	2.2%	2.2%
Period-end staff numbers	**51,667**	55,618	54,035

14%

increase in Wealth Management revenues

17%

increase in GB&M revenues on a

constant currency basis

HSBC Brazil best in International

Debt Capital Markets

(Brazilian Financial and Capital Markets Association)

For footnotes, see page 100.

The commentary on Latin America is on a constant currency basis unless stated otherwise.

Economic background

Growth in **Latin America** slowed in the first half of 2012, with a common feature being the slowdown in demand from eurozone economies.

Brazilian economic activity slowed markedly; the annual pace of GDP growth fell to 0.8% in the first quarter. In contrast to the other economies of the region, the loss of momentum in Brazil appeared to be mainly the result of weak domestic investment spending. Inflation moderated, allowing the Central Bank of Brazil to cut the Selic policy rate by 400bps from the peak reached in August 2011.

Mexico produced the strongest performance in the region with the annual pace of GDP growth accelerating to 4.6% in the first quarter of 2012. Despite the weakness of global growth, exports remained a key driver of Mexican activity. Domestic demand was also robust. Inflation remained moderate despite strong fluctuations in the currency and, accordingly, Banco de Mexico left the monetary policy rate unchanged at 4.5% during the period.

In **Argentina,** economic activity decelerated markedly during the first half of 2012. Annualised GDP growth fell from 8.9% in 2011 to 3% in the first five months of 2012. Inflation remained high, and the currency depreciated at an annualised rate of 10%. To counter the deterioration in the current and financial account balances, the government required official authorisation of most transactions involving the acquisition of foreign currency.

Review of performance

In Latin America, our operations reported a profit before tax of US$1.1bn for the first half of 2012, an increase of 1%, or 11% on a constant currency basis compared with the first half of 2011. This included a gain of US$102m following the completion of the sale of our general insurance manufacturing business in Argentina, and a loss of US$135m recognised following the reclassification of our non-strategic businesses to held for sale.

On an underlying basis, which excludes the above US$102m gain, pre-tax profits increased by 3%, mainly due to increased revenue in our CMB and RBWM businesses in Brazil and Argentina following growth in average lending balances, primarily during 2011, higher Balance Sheet Management and Rates and Foreign Exchange revenues in Brazil as interest rates declined, and lower operating expenses resulting from lower restructuring costs and cost saving initiatives. This was partly offset by the loss of US$135m described above.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2012						
Argentina	**156**	**100**	**98**		**(42)**	**312**
Brazil	**(83)**	**200**	**413**	**10**	**(35)**	**505**
Mexico	**179**	**77**	**111**		**(1)**	**366**
Panama	**13**	**33**	**21**			**67**
Other	**(51)**	**(29)**	**6**		**(31)**	**(105)**
	214	**381**	**649**	**10**	**(109)**	**1,145**
Half-year to 30 June 2011						
Argentina	49	46	67		(8)	154
Brazil	136	294	250	7	(50)	637
Mexico	169	103	171	2	(142)	303
Panama	17	27	26	1	(2)	69
Other	(35)	5	29		(11)	(12)
	336	475	543	10	(213)	1,151
Half-year to 31 December 2011						
Argentina	42	61	81		6	190
Brazil	105	272	265	6	(55)	593
Mexico	234	26	97	2	(36)	323
Panama	6	32	26	2	(7)	59
Other	(20)	1	37		(19)	(1)
	367	392	506	10	(111)	1,164

Performance in Brazil was affected by higher loan impairment charges, following balance sheet growth in RBWM and CMB during previous periods, which benefited from strong customer sentiment in the buoyant economic conditions. Subsequently, as the economy has slowed, delinquency rates have risen.

In line with the Group s strategy, we applied the five filters to our Latin American businesses and decided on a number of disposals. In the first half of 2012, we announced the sale of our businesses in Costa Rica, El Salvador and Honduras, which is expected to be completed in the second half of 2012. We also announced the sale of our businesses in Colombia, Peru, Uruguay and Paraguay, with completion expected in 2013. We will continue to offer full branch services to customers during the transition.

Following a review of our general insurance business, we completed the sale of our general insurance manufacturing business in Argentina and in Mexico, we agreed to sell a portfolio of general insurance assets and liabilities. Under the terms of these agreements, the purchasers will provide general insurance to HSBC s retail customers in the two countries. This long-term collaboration will broaden and strengthen the suite of general insurance products available to these customers.

In our RBWM business, we continued with our strategy of generating strong long-term relationships

and high risk-adjusted returns, capturing wealth creation opportunities from mass-market customers as a feeder to capitalise on upward social mobility. We grew our Wealth Management revenues across the region by 14%. We also continued to manage down certain vehicle finance and payroll loan portfolios in Brazil where there is no relationship-building capacity.

In CMB, we worked closely with GB&M to ensure our clients have access to relevant GB&M products. This collaboration resulted in revenue growth of 3% as more CMB customers started using Global Markets products. Our relationships with CMB payroll customers enabled us to increase personal lending to their employees, who became our RBWM customers.

In GB&M, we continued to target global corporate customers throughout Latin America. We maintained a strong presence in the foreign exchange and derivatives markets. We were also awarded first place in International Debt Capital Markets by the Brazilian Financial and Capital Markets Association.

We continued to implement measures to improve operational efficiency. As a result, we incurred restructuring costs in the first half of 2012 of US$72m and a 4% net reduction of 2,300 staff numbers during the first half of 2012. We also achieved a total of US$140m of additional sustainable savings.

Interim Management Report (continued)

The following commentary is on a constant currency basis.

Net interest income increased by 12% compared with the first half of 2011, driven by strong growth in our RBWM and CMB businesses.

In RBWM, net interest income increased in Brazil, mainly due to a change in the composition of the lending book as we increased our balances of higher-yielding assets and managed down our exposure in certain vehicle finance and payroll loan portfolios as described earlier. Additionally, in Mexico we increased average lending balances, mainly in payroll and personal loans. In CMB, average lending balances in Brazil were higher than the comparative period, mainly in trade and working capital products.

In Brazil, spreads widened across most lending products in RBWM and CMB as interest rates declined, resulting in lower cost of funds while in Argentina lending spreads in CMB were wider on overdrafts.

In Balance Sheet Management, net interest income increased notably in Brazil as we benefited from the downward movements in interest rates which lowered the cost of funding assets in this portfolio.

Net fee income increased by 4% to US$843m, mainly in Brazil due to higher current accounts and Payments and Cash Management revenues, which benefited from repricing initiatives.

Net trading income of US$597m was 15% higher than in the first half of 2011, primarily in Brazil due to higher GB&M revenues which reflected increased revenues in Rates, resulting from tightening spreads on long bond positions, and also in Foreign Exchange products as a result of increased collaboration with CMB clients.

Net income from financial instruments designated at fair value increased by 38%, reflecting the growth of policyholder assets in Brazil. An offsetting increase was recorded in *Net insurance claims incurred and movement in liabilities to policyholders*.

Gains less losses from financial investments of US$89m was 33% higher than in the first half of 2011, primarily in Mexico and Brazil due to disposals of government bonds in GB&M in the first half of 2012, partly offset by the non-recurrence of a gain in GB&M on the sale of shares in a Mexican listed company in the first half of 2011.

Net earned insurance premiums increased by 12% to US$1.3bn, driven by increased sales in Brazil of unit-linked pension products, term life insurance and credit protection products. Premiums also rose in Mexico, mainly due to growth in sales of the endowment product, partly offset by a decrease in Argentina, driven by the sale of the general insurance business reflecting two months less of operations in the first half of 2012.

Other operating income decreased by US$103m, primarily due to the loss recognised following the reclassification of certain businesses to held-for-sale and the non-recurrence of the gain on sale and leaseback of branches in Mexico in the first half of 2011. This was partly offset by the gain on sale of the insurance business in Argentina of US$102m.

Loan impairment charges and other credit risk provisions increased by 57%, mainly in Brazil. This resulted from increased delinquency rates in RBWM in Brazil, following strong balance sheet growth in previous periods which was driven by increased marketing and acquisitions, and strong consumer demand in buoyant economic conditions which subsequently weakened. In CMB, loan impairment charges almost doubled, mainly in Brazil following increased delinquency and a rise in individually assessed loan impairment charges booked in the first half of 2012. We took a number of steps to address the increase in delinquencies in RBWM and CMB including improving our collections capabilities, reducing third-party originations and lowering credit limits where appropriate.

Operating expenses decreased by 1% compared with the first half of 2011. Restructuring costs declined by US$56m as the equivalent period in 2011 included costs associated with the consolidation of the branch network and the reorganisation of regional and country support functions.

The success of these restructuring initiatives and our continued efforts to exercise strict cost control and progress with our organisational effectiveness programmes contributed to about US$140m of additional sustainable cost savings and a net 7% reduction in staff numbers of almost 4,000 compared with the end of June 2011. These savings were partly offset by inflationary pressures, union-agreed wage increases in Brazil and Argentina, and a provision relating to anti-money laundering in Mexico.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,148	1,123	520	16	(15)	(250)	3,542
Net fee income	423	303	102	15			843
Trading income excluding net interest income	36	52	252	1	3		344
Net interest income on trading activities			3			250	253
Net trading income[51]	36	52	255	1	3	250	597
Net income from financial instruments designated at fair value	223	53			12		288
Gains less losses from financial investments	4	2	83				89
Dividend income	4	4	1				9
Net earned insurance premiums	1,008	235	13				1,256
Other operating income	72	2	(7)	2	73	(95)	47
Total operating income	3,918	1,774	967	34	73	(95)	6,671
Net insurance claims[58]	(889)	(209)	(8)				(1,106)
Net operating income[48]	3,029	1,565	959	34	73	(95)	5,565
Loan impairment charges and other credit risk provisions	(819)	(316)		(1)			(1,136)
Net operating income	2,210	1,249	959	33	73	(95)	4,429
Operating expenses	(1,996)	(869)	(310)	(23)	(182)	95	(3,285)
Operating profit/(loss)	214	380	649	10	(109)		1,144
Share of profit in associates and joint ventures		1					1
Profit/(loss) before tax	214	381	649	10	(109)		1,145
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.7	3.0	5.1	0.1	(0.9)		9.0
Cost efficiency ratio	65.9	55.5	32.3	67.6	249.3		59.0
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	17,491	24,865	10,521	83			52,960
Total assets	38,296	37,387	62,624	819	365	(523)	138,968
Customer accounts	27,918	21,477	15,104	5,095			69,594

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 30 June 2011						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[57] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,215	1,096	456	12	(1)	(261)	3,517
Net fee income	492	292	98	19	1		902
Trading income excluding net interest income	29	49	186	2	3		269
Net interest income on trading activities	1		58			261	320
Net trading income[51]	30	49	244	2	3	261	589
Net income from financial instruments designated at fair value	181	55					236
Gains less losses from financial investments			73				73
Dividend income	5	2					7
Net earned insurance premiums	961	289	18				1,268
Other operating income	118	40	24	1	127	(130)	180
Total operating income	4,002	1,823	913	34	130	(130)	6,772
Net insurance claims[58]	(821)	(258)	(10)				(1,089)
Net operating income[48]	3,181	1,565	903	34	130	(130)	5,683
Loan impairment charges and other credit risk provisions	(633)	(180)	(7)				(820)
Net operating income	2,548	1,385	896	34	130	(130)	4,863
Operating expenses	(2,212)	(910)	(353)	(24)	(343)	130	(3,712)
Operating profit/(loss)	336	475	543	10	(213)		1,151
Share of profit/(loss) in associates and joint ventures							
Profit/(loss) before tax	336	475	543	10	(213)		1,151
	%	%	%	%	%		%
Share of HSBC s profit before tax	2.9	4.1	4.7	0.1	(1.8)		10.0
Cost efficiency ratio	69.5	58.1	39.1	70.6	263.8	100	65.3
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	22,431	29,036	14,271	64			65,802
Total assets	40,866	41,136	78,131	1,564	2,926	(1,012)	163,611
Customer accounts	32,619	27,251	29,402	6,837			96,109

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Interim Management Report (continued)

	Half-year to 31 December 2011						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[57]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,304	1,133	426	13	(6)	(431)	3,439
Net fee income/(expense)	447	318	98	17	(1)		879
Trading income/(expense) excluding net interest income	39	57	186	3	(10)		275
Net interest income/(expense) on trading activities	(1)		76		8	431	514
Net trading income/(expense)[51]	38	57	262	3	(2)	431	789
Net income from financial instruments designated at fair value	243	69	2				314
Gains less losses from financial investments	11	1	51	1			64
Dividend income	5	1	1				7
Net earned insurance premiums	1,107	262	16				1,385
Other operating income	147	17	8	1	95	(120)	148
Total operating income	4,302	1,858	864	35	86	(120)	7,025
Net insurance claims[58]	(1,029)	(220)	(6)				(1,255)
Net operating income[48]	3,273	1,638	858	35	86	(120)	5,770
Loan impairment charges and other credit risk provisions	(736)	(321)	(5)		(1)		(1,063)
Net operating income	2,537	1,317	853	35	85	(120)	4,707
Operating expenses	(2,170)	(925)	(347)	(25)	(196)	120	(3,543)
Operating profit/(loss)	367	392	506	10	(111)		1,164
Share of profit in associates and joint ventures							
Profit/(loss) before tax	367	392	506	10	(111)		1,164
	%	%	%	%	%		%
Share of HSBC s profit before tax	3.5	3.8	4.9	0.1	1.1		11.2
Cost efficiency ratio	66.3	56.5	40.4	71.4	227.9		61.4
Balance sheet data[47]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	19,025	25,834	11,011	62	6		55,938
Total assets	39,231	38,410	66,241	1,660	417	(1,070)	144,889
Customer accounts	28,629	24,050	18,940	7,079	62		78,760

For footnotes, see page 100.

HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of constant currency profit/(loss) before tax

Europe

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	5,566	(230)	5,336	5,073	(9)	(5)
Net fee income	3,131	(136)	2,995	3,023	(3)	1
Changes in fair value[12]	(71)		(71)	(1,605)	(2,161)	(2,161)
Other income[13]	2,714	(75)	2,639	3,176	17	20
Net operating income[14]	**11,340**	**(441)**	**10,899**	**9,667**	**(15)**	**(11)**
Loan impairment charges and other credit risk provisions	(1,173)	38	(1,135)	(1,037)	12	9
Net operating income	**10,167**	**(403)**	**9,764**	**8,630**	**(15)**	**(12)**
Operating expenses	(8,014)	300	(7,714)	(9,289)	(16)	(20)
Operating profit/(loss)	**2,153**	**(103)**	**2,050**	**(659)**		
Share of loss in associates and joint ventures	(6)	(8)	(14)	(8)	(33)	43
Profit/(loss) before tax	**2,147**	**(111)**	**2,036**	**(667)**		

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	5,435	(110)	5,325	5,073	(7)	(5)

Net fee income	3,105	(70)	3,035	3,023	(3)	(0)
Changes in fair value[12]	3,018	(37)	2,981	(1,605)		
Other income[13]	1,348	46	1,394	3,176	136	128
Net operating income[14]	12,906	(171)	12,735	9,667	(25)	(24)
Loan impairment charges and other credit risk provisions	(1,339)	23	(1,316)	(1,037)	23	21
Net operating income	11,567	(148)	11,419	8,630	(25)	(24)
Operating expenses	(9,055)	123	(8,932)	(9,289)	(3)	(4)
Operating profit/(loss)	2,512	(25)	2,487	(659)		
Share of profit/(loss) in associates and joint ventures	12	2	14	(8)		
Profit/(loss) before tax	2,524	(23)	2,501	(667)		

For footnotes, see page 100.

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Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported revenue	**9,667**	11,340	(15)	**9,667**	12,906	(25)
Constant currency		(441)			(134)	
Own credit spread	**1,605**	71		**1,605**	(3,018)	
Acquisitions, disposals and dilutions						
Underlying revenue	**11,272**	10,970	3	**11,272**	9,754	16

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported LICs	**(1,037)**	(1,173)	12	**(1,037)**	(1,339)	23
Constant currency		38			23	
Acquisitions, disposals and dilutions						
Underlying LICs	**(1,037)**	(1,135)	9	**(1,037)**	(1,316)	21

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported operating expenses	**(9,289)**	(8,014)	(16)	**(9,289)**	(9,055)	(3)
Constant currency		300			123	
Acquisitions, disposals and dilutions						
Underlying operating expenses	**(9,289)**	(7,714)	(20)	**(9,289)**	(8,932)	(4)
Underlying cost efficiency ratio	**82.4%**	70.3%		**82.4%**	91.6%	

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

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**(667)**	2,147		**(667)**	2,524	
Constant currency		(111)			14	
Own credit spread	**1,605**	71		**1,605**	(3,018)	
Acquisitions, disposals and dilutions						
Underlying profit/(loss) before tax	**938**	2,107	(55)	**938**	(480)	

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Hong Kong

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported	Currency translation[10]	1H11 at 1H12 exchange rates	1H12 as reported	Reported change[11]	Constant currency change[11]
	US$m	US$m	US$m	US$m	%	%
Net interest income	2,249	10	2,259	2,599	16	15
Net fee income	1,612	4	1,616	1,618		
Changes in fair value[12]						
Other income[13]	1,553	3	1,556	1,916	23	23
Net operating income[14]	**5,414**	**17**	**5,431**	**6,133**	**13**	**13**
Loan impairment charges and other credit risk provisions	(25)		(25)	(32)	(28)	(28)
Net operating income	**5,389**	**17**	**5,406**	**6,101**	**13**	**13**
Operating expenses	(2,339)	(8)	(2,347)	(2,396)	(2)	(2)
Operating profit	**3,050**	**9**	**3,059**	**3,705**	**21**	**21**
Share of profit in associates and joint ventures	31		31	56	81	81
Profit before tax	**3,081**	**9**	**3,090**	**3,761**	**22**	**22**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported	Currency translation[10]	2H11 at 1H12 exchange rates	1H12 as reported	Reported change[11]	Constant currency change[11]
	US$m	US$m	US$m	US$m	%	%
Net interest income	2,442	7	2,449	2,599	6	6
Net fee income	1,485	5	1,490	1,618	9	9
Changes in fair value[12]						
Other income[13]	1,341	4	1,345	1,916	43	42
Net operating income[14]	5,268	16	5,284	6,133	16	16
Loan impairment charges and other credit risk provisions	(131)	1	(130)	(32)	76	75

Net operating income	5,137	17	5,154	6,101	19	18
Operating expenses	(2,419)	(7)	(2,426)	(2,396)	1	1
Operating profit	2,718	10	2,728	3,705	36	36
Share of profit in associates and joint ventures	24	(1)	23	56	133	143
Profit before tax	2,742	9	2,751	3,761	37	37

For footnotes, see page 100.

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Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**6,133**	5,414	13	**6,133**	5,268	16
Constant currency		17			16	
Own credit spread						
Acquisitions, disposals and dilutions						
Underlying revenue	**6,133**	5,431	13	**6,133**	5,284	16

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(32)**	(25)	(28)	**(32)**	(131)	76
Constant currency					1	
Acquisitions, disposals and dilutions						
Underlying LICs	**(32)**	(25)	(28)	**(32)**	(130)	75

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(2,396)**	(2,339)	(2)	**(2,396)**	(2,419)	1
Constant currency		(8)			(7)	
Acquisitions, disposals and dilutions						
Underlying operating expenses	**(2,396)**	(2,347)	(2)	**(2,396)**	(2,426)	1
Underlying cost efficiency ratio	**39.1%**	43.2%		**39.1%**	45.9%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**3,761**	3,081	22	**3,761**	2,742	37
Constant currency		9			9	
Own credit spread						

Acquisitions, disposals and dilutions						
Underlying profit before tax	**3,761**	3,090	22	**3,761**	2,751	37

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Rest of Asia-Pacific

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	**2,381**	**(60)**	**2,321**	**2,718**	**14**	**17**
Net fee income	**1,117**	**(32)**	**1,085**	**1,078**	**(3)**	**(1)**
Changes in fair value[12]	**(2)**		**(2)**	**(2)**		
Other income[13]	**1,852**	**(85)**	**1,767**	**2,153**	**16**	**22**
Net operating income[14]	**5,348**	**(177)**	**5,171**	**5,947**	**11**	**15**
Loan impairment charges and other credit risk provisions	**(100)**	**(1)**	**(101)**	**(298)**	**(198)**	**(195)**
Net operating income	**5,248**	**(178)**	**5,070**	**5,649**	**8**	**11**
Operating expenses	**(2,836)**	**92**	**(2,744)**	**(2,865)**	**(1)**	**(4)**
Operating profit	**2,412**	**(86)**	**2,326**	**2,784**	**15**	**20**
Share of profit in associates and joint ventures	**1,330**	**48**	**1,378**	**1,588**	**19**	**15**
Profit before tax	**3,742**	**(38)**	**3,704**	**4,372**	**17**	**18**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	2,721	(41)	2,680	2,718		1
Net fee income	994	(21)	973	1,078	8	11
Changes in fair value[12]	4		4	(2)		
Other income[13]	1,646	(46)	1,600	2,153	31	35
Net operating income[14]	5,365	(108)	5,257	5,947	11	13
Loan impairment charges and other credit risk provisions	(167)	4	(163)	(298)	(78)	(83)

Net operating income	5,198	(104)	5,094	5,649	9	11
Operating expenses	(2,970)	62	(2,908)	(2,865)	4	1
Operating profit	2,228	(42)	2,186	2,784	25	27
Share of profit in associates and joint ventures	1,501	16	1,517	1,588	6	5
Profit before tax	3,729	(26)	3,703	4,372	17	18

For footnotes, see page 100.

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Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported revenue	**5,947**	5,348	11	**5,947**	5,365	11
Constant currency		(177)			(108)	
Own credit spread	**2**	2		**2**	(4)	
Acquisitions, disposals and dilutions	**(305)**	(184)		**(305)**	(2)	
Underlying revenue	**5,644**	4,989	13	**5,644**	5,251	7

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported LICs	**(298)**	(100)	(198)	**(298)**	(167)	(78)
Constant currency		(1)			4	
Acquisitions, disposals and dilutions						
Underlying LICs	**(298)**	(101)	(195)	**(298)**	(163)	(83)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported operating expenses	**(2,865)**	(2,836)	(1)	**(2,865)**	(2,970)	4
Constant currency		92			62	
Acquisitions, disposals and dilutions		2			13	
Underlying operating expenses	**(2,865)**	(2,742)	(4)	**(2,865)**	(2,895)	1
Underlying cost efficiency ratio	**50.8%**	55.0%		**50.8%**	55.1%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012	30 June 2011	Change	**30 June 2012**	31 December 2011	Change
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**4,372**	3,742	17	**4,372**	3,729	17
Constant currency		(38)			(26)	

Own credit spread	**2**	2		**2**	(4)	
Acquisitions, disposals and dilutions	**(305)**	(182)		**(305)**	59	
Underlying profit before tax	**4,069**	3,524	15	**4,069**	3,758	8

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Middle East and North Africa

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported	Currency translation[10]	1H11 at 1H12 exchange rates	1H12 as reported	Reported change[11]	Constant currency change[11]
	US$m	US$m	US$m	US$m	%	%
Net interest income	**673**	**(4)**	**669**	**705**	**5**	**5**
Net fee income	**327**	**(1)**	**326**	**302**	**(8)**	**(7)**
Changes in fair value[12]	**(4)**		**(4)**	**(4)**		
Other income[13]	**240**	**(2)**	**238**	**234**	**(3)**	**(2)**
Net operating income[14]	**1,236**	**(7)**	**1,229**	**1,237**		**1**
Loan impairment charges and other credit risk provisions	**(99)**	**1**	**(98)**	**(135)**	**(36)**	**(38)**
Net operating income	**1,137**	**(6)**	**1,131**	**1,102**	**(3)**	**(3)**
Operating expenses	**(574)**	**3**	**(571)**	**(537)**	**6**	**6**
Operating profit	**563**	**(3)**	**560**	**565**		**1**
Share of profit in associates and joint ventures	**184**		**184**	**207**	**13**	**13**
Profit before tax	**747**	**(3)**	**744**	**772**	**3**	**4**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported	Currency translation[10]	2H11 at 1H12 exchange rates	1H12 as reported	Reported change[11]	Constant currency change[11]
	US$m	US$m	US$m	US$m	%	%
Net interest income	759	(2)	757	705	(7)	(7)
Net fee income	300	(1)	299	302	1	1
Changes in fair value[12]	18		18	(4)		
Other income[13]	294		294	234	(20)	(20)
Net operating income[14]	1,371	(3)	1,368	1,237	(10)	(10)
Loan impairment charges and other credit risk provisions	(194)		(194)	(135)	30	30
Net operating income	1,177	(3)	1,174	1,102	(6)	(6)
Operating expenses	(585)	1	(584)	(537)	8	8
Operating profit	592	(2)	590	565	(5)	(4)
Share of profit in associates and joint ventures	153		153	207	35	35
Profit before tax	745	(2)	743	772	4	4

For footnotes, see page 100.

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Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**1,237**	1,236	0	**1,237**	1,371	(10)
Constant currency		(7)			(3)	
Own credit spread	**4**	4		**4**	(18)	
Acquisitions, disposals and dilutions					(27)	
Underlying revenue	**1,241**	1,233	1	**1,241**	1,323	(6)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(135)**	(99)	(36)	**(135)**	(194)	30
Constant currency		1				
Acquisitions, disposals and dilutions						
Underlying LICs	**(135)**	(98)	(38)	**(135)**	(194)	30

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(537)**	(574)	6	**(537)**	(585)	8
Constant currency		3			1	
Acquisitions, disposals and dilutions						
Underlying operating expenses	**(537)**	(571)	6	**(537)**	(584)	8
Underlying cost efficiency ratio	**43.3%**	46.3%		**43.3%**	44.1%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**772**	747	3	**772**	745	4
Constant currency		(3)			(2)	

Own credit spread	**4**	4		**4**	(18)	
Acquisitions, disposals and dilutions					(27)	
Underlying profit before tax	**776**	748	4	**776**	698	11

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HSBC HOLDINGS PLC

Interim Management Report (continued)

North America

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported	Currency translation[10]	1H11 at 1H12 exchange rates	1H12 as reported	Reported change[11]	Constant currency change[11]
	US$m	US$m	US$m	US$m	%	%
Net interest income	5,849	(22)	5,827	4,739	(19)	(19)
Net fee income	1,718	(10)	1,708	1,443	(16)	(16)
Changes in fair value[12]	(66)		(66)	(559)	(747)	(747)
Gains on sale of US branch network and cards business				3,809		
Other income[13]	739	(1)	738	546	(26)	(26)
Net operating income[14]	8,240	(33)	8,207	9,978	21	22
Loan impairment charges and other credit risk provisions	(3,049)	3	(3,046)	(2,161)	29	29
Net operating income	5,191	(30)	5,161	7,817	51	51
Operating expenses	(4,602)	15	(4,587)	(4,462)	3	3
Operating profit	589	(15)	574	3,355	470	484
Share of profit/(loss) in associates and joint ventures	17	(1)	16	(1)		
Profit before tax	606	(16)	590	3,354	453	468

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported	Translation[10]	2H11 at 1H12 exchange rates	1H12 as reported	Reported change[11]	Constant currency change[11]
	US$m	US$m	US$m	US$m	%	%
Net interest income	5,631	(4)	5,627	4,739	(16)	(16)
Net fee income	1,590	(1)	1,589	1,443	(9)	(9)
Changes in fair value[12]	1,036	(1)	1,035	(559)		
Gains on disposal of US branch network and cards business				3,809		
Other income/(expense)[13]	(497)		(497)	546		

Net operating income[14]	7,760	(6)	7,754	9,978	29	29
Loan impairment charges and other credit risk provisions	(3,967)		(3,967)	(2,161)	46	46
Net operating income	3,793	(6)	3,787	7,817	106	106
Operating expenses	(4,317)	2	(4,315)	(4,462)	(3)	(3)
Operating profit/(loss)	(524)	(4)	(528)	3,355		
Share of profit/(loss) in associates and joint ventures	18	1	19	(1)		
Profit/(loss) before tax	(506)	(3)	(509)	3,354		

For footnotes, see page 100.

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Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**9,978**	8,240	21	**9,978**	7,760	29
Constant currency		(33)			(5)	
Own credit spread	**559**	66		**559**	(1,036)	
Acquisitions, disposals and dilutions	**(3,892)**	(1,011)		**(3,892)**	(978)	
Underlying revenue	**6,645**	7,262	(8)	**6,645**	5,741	16

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(2,161)**	(3,049)	29	**(2,161)**	(3,967)	46
Constant currency		3				
Acquisitions, disposals and dilutions		369			304	
Underlying LICs	**(2,161)**	(2,677)	19	**(2,161)**	(3,663)	41

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(4,462)**	(4,602)	3	**(4,462)**	(4,317)	(3)
Constant currency		15			2	
Acquisitions, disposals and dilutions		469			288	
Underlying operating expenses	**(4,462)**	(4,118)	(8)	**(4,462)**	(4,027)	(11)
Underlying cost efficiency ratio	**67.1%**	56.7%		**67.1%**	70.1%	

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

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**3,354**	606	453	**3,354**	(506)	
Constant currency		(16)			(2)	

Own credit spread	**559**	66		**559**	(1,036)
Acquisitions, disposals and dilutions	**(3,892)**	(173)		**(3,892)**	(386)
Underlying profit/(loss) before tax	**21**	483	(96)	**21**	(1,930)

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Latin America

30 June 2012 compared with 30 June 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 30 June 2011 (1H11)					
	1H11 as reported US$m	Currency translation[10] US$m	1H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	**3,517**	**(363)**	**3,154**	**3,542**	**1**	**12**
Net fee income	**902**	**(90)**	**812**	**843**	**(7)**	**4**
Other income[13]	**1,264**	**(148)**	**1,116**	**1,180**	**(7)**	**6**
Net operating income[14]	**5,683**	**(601)**	**5,082**	**5,565**	**(2)**	**10**
Loan impairment charges and other credit risk provisions	**(820)**	**97**	**(723)**	**(1,136)**	**(39)**	**(57)**
Net operating income	**4,863**	**(504)**	**4,359**	**4,429**	**(9)**	**2**
Operating expenses	**(3,712)**	**384**	**(3,328)**	**(3,285)**	**12**	**1**
Operating profit	**1,151**	**(120)**	**1,031**	**1,144**	**(1)**	**11**
Share of profit in associates and joint ventures		**1**	**1**	**1**		
Profit before tax	**1,151**	**(119)**	**1,032**	**1,145**	**(1)**	**11**

30 June 2012 compared with 31 December 2011

	Half-year to 30 June 2012 (1H12) compared with half-year to 31 December 2011 (2H11)					
	2H11 as reported US$m	Currency translation[10] US$m	2H11 at 1H12 exchange rates US$m	1H12 as reported US$m	Reported change[11] %	Constant currency change[11] %
Net interest income	3,439	(184)	3,255	3,542	3	9
Net fee income	879	(46)	833	843	(4)	1
Other income[13]	1,452	(95)	1,357	1,180	(19)	(13)
Net operating income[14]	5,770	(325)	5,445	5,565	(4)	2
Loan impairment charges and other credit risk provisions	(1,063)	67	(996)	(1,136)	(7)	(14)
Net operating income	4,707	(258)	4,449	4,429	(6)	(0)
Operating expenses	(3,543)	191	(3,352)	(3,285)	7	2

Operating profit	1,164	(67)	1,097	1,144	(2)	4
Share of profit in associates and joint ventures		(1)	(1)	1		
Profit before tax	1,164	(68)	1,096	1,145	(2)	4

For footnotes, see page 100.

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Reconciliation of reported and underlying revenue[15]

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported revenue	**5,565**	5,683	(2)	**5,565**	5,770	(4)
Constant currency		(601)			(325)	
Own credit spread						
Acquisitions, disposals and dilutions	**(102)**	(25)		**(102)**	(88)	
Underlying revenue	**5,463**	5,057	8	**5,463**	5,357	2

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported LICs	**(1,136)**	(820)	(39)	**(1,136)**	(1,063)	(7)
Constant currency		97			67	
Acquisitions, disposals and dilutions						
Underlying LICs	**(1,136)**	(723)	(57)	**(1,136)**	(996)	(14)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported operating expenses	**(3,285)**	(3,712)	12	**(3,285)**	(3,543)	7
Constant currency		384			191	
Acquisitions, disposals and dilutions		9			1	
Underlying operating expenses	**(3,285)**	(3,319)	1	**(3,285)**	(3,351)	2
Underlying cost efficiency ratio	**60.1%**	65.6%		**60.1%**	62.6%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2012 US$m	30 June 2011 US$m	Change %	**30 June 2012 US$m**	31 December 2011 US$m	Change %
Reported profit before tax	**1,145**	1,151	(1)	**1,145**	1,164	(2)
Constant currency		(119)			(68)	

Own credit spread						
Acquisitions, disposals and dilutions	**(102)**	(16)		**(102)**	(87)	
Underlying profit before tax	**1,043**	1,016	3	**1,043**	1,009	3

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Disposals, held for sale and run-off portfolios

In implementing our strategy, we have sold or agreed to sell a number of businesses across the Group. We expect these disposals to have a significant adverse effect on both the revenue and the profitability of the geographical regions in the

future, especially on North America due to the sale of the profitable US Card and Retail Services business. In addition, two significant portfolios are being run down. We expect the losses on these

portfolios to continue to adversely affect North America and the other geographical regions in the future.

The table below presents the historical results of these businesses. We do not expect the historical results to be indicative of future results because of disposal or run-off. Fixed allocated costs, included in total operating costs, will not necessarily be removed upon disposal and have been separately identified on page 38.

Summary income statements for disposals, held for sale and run-off portfolios[43,44]

	Half-year to 30 June 2012					
	Europe US$m	**Hong Kong US$m**	**Rest of Asia-Pacific US$m**	**MENA US$m**	**North America US$m**	**Latin America US$m**
Net interest income	2	8	34	6	2,666	203
Net fee income/(expense)	(9)	(30)	7	3	431	(3)
Net trading income/(expense)	(36)	(3)	4	37	(213)	14
Net income/(expense) from financial instruments designated at fair value	5		2		(513)	1
Gains less losses from financial investments	(39)				12	6
Dividend income					2	
Net earned insurance premiums		144	46		107	164
Other operating income			6		(7)	6
Total operating income/(expense)	(77)	119	99	46	2,485	391
Net insurance claims incurred and movement in liabilities to policyholders		(71)	(30)		(71)	(81)
Net operating income/(expense)[14]	(77)	48	69	46	2,414	310
Loan impairment (charges)/recoveries and other credit risk provisions	(268)		2		(1,900)	(30)
Net operating income/(expense)	(345)	48	71	46	514	280
Total operating expenses	(24)	(27)	(68)	(11)	(1,186)	(213)
Operating profit/(loss)	(369)	21	3	35	(672)	67

Share of profit in associates and joint ventures			**1**			**1**
Profit/(loss) before tax	**(369)**	**21**	**4**	**35**	**(672)**	**68**
By global business						
Retail Banking and Wealth Management		**19**	**2**	**10**	**(159)**	**28**
Commercial Banking			**4**		**9**	**23**
Global Banking and Markets	**(369)**	**2**	**(1)**	**25**	**(9)**	**26**
Global Private Banking			**(2)**			
Other			**1**		**(513)**	**(9)**
Profit/(loss) before tax	**(369)**	**21**	**4**	**35**	**(672)**	**68**
Gain on sale			**305**		**3,892**	**102**

For footnotes, see page 100.

HSBC HOLDINGS PLC

Interim Management Report (continued)

Other information

Funds under management and assets held in custody

	Half-year to		
	30 June 2012 US$bn	30 June 2011 US$bn	31 December 2011 US$bn
Funds under management			
At beginning of period	**847**	925	948
Net new money	**10**	16	(14)
Value change	**9**	3	(43)
Exchange and other	**(9)**	4	(44)
At end of period	**857**	948	847
Funds under management by business			
HSBC Global Asset Management	**405**	449	396
Global Private Banking	**263**	297	259
Affiliates	**3**	3	3
Other	**186**	199	189
	857	948	847

Funds under management (FuM) at 30 June 2012 amounted to US$857bn, an increase of 1% compared with 31 December 2011. Both Global Asset Management and GPB fund holdings increased in the first half of 2012, reflecting net new money inflows and favourable equity market movements, partly offset by adverse foreign exchange movements. This improvement in FuM only partly reversed the reduction experienced in the second half of 2011, as a result of the fall in equity markets and movements in foreign exchange in the latter part of 2011.

Global Asset Management funds, including emerging market funds, increased by 2% to US$405bn compared with 31 December 2011. Net inflows during the first half of 2012 of US$13bn were mainly from sales of long-term funds, notably fixed income and multi-asset products, in Rest of Asia-Pacific, Hong Kong and Latin America. They also benefited from favourable equity market movements in Asia and Europe, partly offset by unfavourable foreign exchange movements during the first half of 2012.

GPB funds increased by 2% on 31 December 2011 to US$263bn, mainly as a result of favourable market performance and net inflows during the period originating from emerging markets. This was partly offset by negative foreign exchange movements, net outflows in Europe and the reduction of assets following the sale of the Private Banking business in Japan. Client assets, which include FuM and cash deposits and provide an indicator of overall GPB volumes, decreased by US$2.5bn to US$375bn due to the sale of the Japan business and net outflows in Europe.

Other FuM, decreased by 2% to US$186bn, primarily due to the disposal of the private client services business in North America.

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 30 June 2012, we held assets as custodian of US$5.4 trillion, 4% higher than the US$5.2 trillion held at 31 December 2011. This was mainly driven by favourable market and foreign exchange movements.

Our assets under administration business, which includes the provision of various support function activities including the valuation of portfolios of securities and other financial assets on behalf of clients, complements the custody business. At 30 June 2012, the value of assets held under administration by the Group amounted to US$2.7 trillion, compared with US$2.6 trillion at 31 December 2011.

Review of transactions with related parties

The FSA s Disclosure Rules and Transparency Rules require the disclosure of related party transactions that have taken place in the first six months of the current financial year and any changes in the related party transactions described in the *Annual Report and Accounts 2011*, that have or could have materially affected the financial position or performance of HSBC. A fair review has been undertaken and any such related party transactions have been disclosed in the Notes on the Financial Statements.

Interim Management Report (continued)

Footnotes to pages 2 to 99

Financial highlights

1 *Dividends recorded in the financial statements are dividends per ordinary share declared in the first six months of 2012 and are not dividends in respect of, or for, the period.*
2 *Restated for change in disclosure convention for the presentation of impaired loans and advances as described on page 147.*
3 *The return on average ordinary shareholders equity is defined as profit attributable to shareholders of the parent company divided by average ordinary shareholders equity.*
4 *Return on invested capital is based on the profit attributable to ordinary shareholders. Average invested capital is measured as average total shareholders equity after:*
adding back the average balance of goodwill amortised before the transition to IFRSs or subsequently written off directly to reserves;
deducting the average balance of HSBC s revaluation surplus relating to property held for own use. This reserve was generated when determining the deemed carrying amount of such properties on transition to IFRSs and will run down over time as the properties are sold;
deducting average preference shares and other equity instruments issued by HSBC Holdings; and
deducting average reserves for unrealised gains/(losses) on effective cash flow hedges and available-for-sale securities.
5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*
6 *Each ADS represents five ordinary shares.*
7 *Total shareholder return is defined as the growth in share value and declared dividend income during the relevant period.*
8 *The Financial Times Stock Exchange 100 Index.*
9 *The Morgan Stanley Capital International World Index and The Morgan Stanley Capital International World Banks Index.*

Reconciliations of constant currency profit before tax

10 *Currency translation is the effect of translating the results of subsidiaries and associates for the previous half-years at the average rates of exchange applicable in the current half-year.*
11 *Positive numbers are favourable: negative numbers are unfavourable.*
12 *Changes in fair value due to movements in own credit spread on long-term debt issued. This does not include the fair value changes due to own credit spread on structured notes issued and other hybrid instruments included within trading liabilities.*
13 *Other income in this context comprises net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net earned insurance premiums and other operating income less net insurance claims incurred and movement in liabilities to policyholders.*
14 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*
15 *Underlying performance eliminates the effects of acquisitions, disposals and changes of ownership levels of subsidiaries, associates and businesses so we can view results on a like-for-like basis. We achieve this by eliminating gains and losses on disposal or dilution in the period incurred and by adjusting material results of operations in the previous period so that equivalent time periods are reflected. For example, if a disposal was made in the current year after four months of operations, the results of the previous year would be adjusted to also reflect four months of operations.*
16 *Underlying changes to profit before tax are due to constant currency (as detailed in the tables Reconciliation of constant currency profit before tax on pages 16 and 17), own credit spread (included in Other) and acquisitions, disposals and dilution. Individual reconciliations by global businesses are provided in the Form 6-K filed with the SEC, which is available on www.hsbc.com.*
17 *Underlying changes to profit before tax are due to constant currency (as detailed in the tables Reconciliation of constant currency profit before tax on pages 16 and 17), own credit spread, the largest amounts of which are in Europe (loss of US$1,605m, loss of US$71m and gain of US$3,018m for the half-years ended 30 June 2012, 30 June 2011 and 31 December 2011, respectively) and North America (loss of US$559m, loss of US$66m and gain of US$1,036m for the half-years ended 30 June 2012, 30 June 2011 and 31 December 2011, respectively) and acquisitions, disposals and dilution. Individual reconciliations by geographical regions are provided in the Form 6-K filed with the SEC, which is available on www.hsbc.com.*

Financial summary

18 *Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within Global Banking and Markets net trading income as an interest expense.*

19 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets (AIEA).*

20 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*

21 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*

22 *The cost of internal funding of trading assets was US$375m (first half of 2011: US$516m; second half of 2011: US$645m) and is excluded from the reported Net trading income line and included in Net interest income . However, this cost is reinstated in Net trading income in our global business reporting.*

23 *Net trading income includes a charge of US$330m (first half of 2011: income of US$60m; second half of 2011: income of US$398m) associated with changes in the fair value of issued structured notes and other hybrid instrument liabilities derived from movements in HSBC issuance spreads.*

24 *The change in fair value related to movements in the Group s credit spread on long-term debt resulted in an expense of US$2.2bn in the first half of 2012 (first half of 2011: expense of US$143m; second half of 2011: gain of US$4,076bn).*

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

26 *Discretionary participation features.*

27 *The calculation of the PVIF asset was refined during the half-year to 30 June 2011 to bring greater comparability and consistency across the Group s insurance operations. This was achieved by incorporating explicit margins and allowances for certain risks and uncertainties in place of implicit adjustments to the discount rate. The change in calculation reflected explicit risk margins for*

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Interim Management Report (continued)

non-economic risks in the projection assumptions, and explicit allowances for financial options and guarantees using stochastic methods. Discount rates were reduced as a result of removing the implicit adjustments. In certain circumstances, the implicit adjustments were different from the explicit amounts, resulting in a gain of US$243m in the period which was included in Other adjustments .

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

Consolidated balance sheet

29 *Net of impairment allowances.*

30 *The calculation of capital resources, capital ratios and risk-weighted assets for 30 June 2012 and 30 December 2011 is on a Basel 2.5 basis. The 30 June 2011 comparative is on a Basel II basis.*

31 *Capital resources are total regulatory capital, the calculation of which is set out on page 201.*

32 *Includes perpetual preferred securities.*

33 *The definition of net asset value per share is total shareholders equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue.*

34 *Currency translation is the effect of translating the assets and liabilities of subsidiaries and associates for the previous year-end at the rates of exchange applicable at the current period-end.*

35 *See Note 14 on the Financial Statements.*

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

Economic profit

37 *Expressed as a percentage of average invested capital.*

38 *Return on invested capital is based on the profit attributable to ordinary shareholders of the parent company (see Note 4 on the Financial Statements).*

Reconciliation of RoRWA measures

39 *Risk-weighted assets (RWA s).*

40 *Pre-tax return on average risk-weighted assets (RoRWA).*

41 *Underlying RoRWA is calculated using underlying pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals.*

42 *Other includes treasury services related to the US CML business and commercial operations in run-off.*

Disposals, held for sale and run-off portfolios

43 *The results of operations of disposed businesses are stated up to and including the date of disposal. The results of operations of businesses held for sale and run-off portfolios are for the half-year to 30 June 2012.*

44 *The summary income statements present the historical results of disposals, held-for-sale and run-off portfolios to provide information on trends. The historical results are those which appear in the Group IFRS income statement and include fixed allocated costs which will not necessarily be removed or reduced upon disposal or rundown. Fixed allocated costs included in total operating expenses are disclosed separately on page 38. The results of disposed businesses exclude gains on sale and post disposal income and expenditure items; for example, restructuring costs. The results of businesses held for sale exclude losses recognised upon reclassification to the held-for-sale category. These losses are disclosed in note 14.*

45 *RWAs for disposals and Held for sale are shown exclusive of operational risk RWAs, while those for run-off portfolios include operational risk RWAs.*

Analyses by global business and by geographical region

46 *The main items reported under Other are certain property activities, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value (the remainder of the Group s gain on own debt is included in GB&M), and HSBC s holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the Group Head Office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries.*

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

48 *Net operating income before loan impairment charges and other credit risk provisions.*

49 *Loan impairment charges and other credit risk provisions.*

50 *Share of profit in associates and joint ventures.*

51 *In the analysis of global businesses, net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities classified as held for trading, related external and internal interest income and interest expense, and dividends received; in the statutory presentation internal interest income and expense are eliminated.*

52 *In the first half of 2012, Global Markets included an adverse fair value movement of US$330m on the widening of credit spreads on structured liabilities (first half of 2011: favourable fair value movement of US$60m; second half of 2011: favourable fair value movement of US$398m).*

Interim Management Report (continued)

53 *Total income earned on Payments and Cash Management products in the Group amounted to US$3.1bn (first half of 2011: US$2.6bn; second half of 2011: US$3bn), of which US$2.2bn was in CMB (first half of 2011: US$1.9bn; second half of 2011: US$2.1bn) and US$0.9bn was in GB&M (first half of 2011: US$0.7bn; second half of 2011: US$0.8bn).*

54 *Total income earned on other transaction services in the Group amounted to US$1.8bn (first half of 2011: US$1.5bn; second half of 2011: US$1.7bn), of which US$1.4bn was in CMB relating to trade and receivables finance (first half of 2011: US$1.3bn; second half of 2011: US$1.3bn) and US$0.4bn was in GB&M of which US$0.4bn related to trade and receivables finance (first half of 2011: US$0.3bn; second half of 2011: US$0.3bn) and US$11m related to banknotes and other (first half of 2011: US$20m; second half of 2011: US$13m).*

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

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

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

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

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

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

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Risk profile

Managing our risk profile

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

Maintaining capital strength and strong liquidity position

- Our core tier 1 capital ratio remains strong at 11.3%.
- We have sustained our strong liquidity position throughout the first half of 2012.
- The ratio of customer advances to deposits remains below 90%.

Strong governance

Robust risk governance and accountability is embedded across the Group.

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

Our global risk operating model supports adherence to globally consistent standards and risk management policies across the Group.

Our top and emerging risks

Macroeconomic and geopolitical risk.

Macro-prudential, regulatory and legal risks to our business model.

Risks related to our business operations, governance and internal control systems.

Managing risk

The continued growth in our business in the first half of 2012 was achieved while ensuring risks were assumed in a measured manner and in line with our risk appetite. Risks were mitigated when they exceeded our risk appetite, particularly reputational and operational risks.

Balance sheet assets grew by 4% and our credit risk-weighted assets decreased by 3% during the period.

During the first six months of 2012, financial markets were dominated by concerns over sovereign debt default risk and its contagion effects, the Middle East and the perception that the world economic recovery remained fragile. This created volatility in financial markets. In the face of this changeable economic and financial environment, we maintained our conservative risk profile by reducing exposure to the most likely areas of stress. Stress tests are run regularly to evaluate the potential impact of emerging scenarios and, where applicable and necessary, we adjusted our risk appetite accordingly.

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

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

In the first half of 2012 we increased our gross loans and advances in all regions except Latin America, where we classified certain lending balances to held for sale. On a constant currency basis, our loan impairment charges and other credit risk provisions in the first half of 2012 were 6% below the first half of 2011, at US$4.8bn. The US accounted for a significant proportion of the decline, with a reduction in the CML portfolio and the sale of the Card and Retail Services business on 1 May 2012.

For details of HSBC s policies and practices regarding risk management and governance see the Appendix to Risk on page 183.

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Capital and liquidity

Preserving our strong capital position has long been, and will remain, a key priority for HSBC. We are well equipped to respond to the capital requirements imposed by Basel III, which are discussed further on page 198, and to sustain future growth. We utilise an enterprise-wide approach to testing the sensitivities of our capital plans against a number of scenarios; our approach to scenario stress testing analysis is discussed on page 183.

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

Top and emerging risks

Details of the top and emerging risks identified through our risk management processes are set out below:

Macroeconomic and geopolitical risk

- Severe economic slowdown in mature economies impacting global growth
- Eurozone member departing from the currency union or a split into two different monetary regions
- Increased geopolitical risk in certain regions

Severe economic slowdown in mature economies impacting global growth

World growth is slowing as demand in mature economies is subdued and credit availability and investment activity remain very limited. A number of mature economies are implementing austerity measures in order to reduce their deficits and public debt. This is expected to help resolve the sovereign and banking crisis in the medium term, but in the short term it is limiting growth, increasing unemployment and restricting taxation revenues severely. This is affecting the rest of the world through lower trade, reduced international financing as banks are deleveraging and potential disruption to capital flows.

Potential impact on HSBC

- Trade and capital flows may contract as a result of banks deleveraging, the introduction of protectionist measures in certain markets or the emergence of geopolitical risks, which in turn might curtail profitability.
- A prolonged period of low interest rates due to policy actions taken to address the economic crisis in mature economies will constrain, through spread compression and low returns on assets, the interest income we earn from investing our excess deposits.

During the first half of 2012, we continued to reduce our sovereign and financial institution counterparty credit positions in peripheral eurozone countries. In addition, we actively sought to identify and reduce exposures to those counterparties domiciled in core European countries that had exposures to sovereigns and/or banks in peripheral eurozone countries of sufficient size to threaten their ongoing viability in the event of an unfavourable conclusion to the current crisis.

Eurozone member departing from the currency union or a split into two different monetary unions

Exposures to the eurozone have received increasing focus given the continued instability in the area and the potential for contagion from the peripheral to core eurozone countries, and beyond to trading partners.

There is a significant risk of one or more countries leaving the euro. This would place further pressure on banks within the core European countries through their exposures to banks in these countries. In the current context of very low growth due to austerity measures, this could further aggravate the economic crisis and could push European countries into a vicious circle of economic and sovereign debt defaults. Although our exposure to the peripheral eurozone countries is relatively limited, we are exposed to counterparties in the core European countries which could be affected by any sovereign or currency crisis. Our eurozone exposures are described in more detail on pages 121 to 131.

Potential impact on HSBC

We could incur significant losses stemming from the exit of one or more countries from the eurozone and the redenomination of their currencies.

Our exposures to European banks may come under stress, heightening the potential for credit and market risk losses, if the sovereign debt and banking system crisis in the region increases the need to recapitalise parts of the sector.

In the event of contagion from stress in the peripheral eurozone sovereign and financial sectors, our ability to borrow from other

Interim Management Report (continued)

financial institutions or to engage in funding transactions may be adversely affected by market dislocation and tightening liquidity.

We have actively managed the risk of sovereign defaults during the first half of 2012 by reducing exposures and other measures. In addition, should such an event happen without the co-ordinated intervention to protect the rest of the eurozone, it could trigger banking defaults in companies with which we do business and have a knock-on effect on the global banking system.

In seeking to manage and mitigate this risk, we have prepared and tested detailed operational contingency plans to deal with such a scenario.

Increased geopolitical risk in certain regions

We are subject to geopolitical risks in the countries in which we operate. During the first half of 2012, these risks remained heightened in the Middle East.

In Egypt, the political transition process is still ongoing with the risk of instability remaining. In addition the political instability in Syria could spread across the region and become very disruptive for global international relations.

Potential impact on HSBC

Our results are subject to the risk of loss from unfavourable political developments, currency fluctuations, social instability and changes in government policies on matters such as expropriation, authorisations, international ownership, interest-rate caps, foreign exchange transferability and tax in the jurisdictions in which we operate. Actual conflict could bring about loss of life among our staff and physical damage to our assets.

We have increased our monitoring of the geopolitical and economic outlook, in particular in countries where we have material exposures and a physical presence. Our internal credit risk rating of sovereign counterparties takes these factors into account and drives our appetite for conducting business in those countries. Where necessary, we adjust our country limits and exposures to reflect our appetite and mitigate these risks as appropriate.

Macro-prudential, regulatory and legal risks to our business model

Regulatory developments affecting our business model and Group profitability

Regulatory investigations, fines, sanctions and requirements relating to conduct of business and financial crime negatively affecting our results and brand

Dispute risk

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions, together with measures to reduce systemic risk, may significantly alter the competitive landscape. These measures may be introduced as formal requirements in a supra-equivalent manner and to differing timetables across regulatory regimes.

Regulatory developments affecting our business model and Group profitability

There are several key regulatory changes which are likely to have an effect on our activities. These are set out below:

Basel III/CRD IV

In December 2010, the Basel Committee issued two documents: *A global regulatory framework for more resilient banks and banking systems* and *International framework for liquidity risk measurement, standards and monitoring*, which together are commonly referred to as Basel III .

In June 2011, the Basel Committee issued a revision to the former document setting out the finalised capital treatment for counterparty credit risk in bilateral trades.

In July 2011, the European Commission published proposals for a new Regulation and Directive, known collectively as CRD IV, to give effect to the Basel III framework in the EU.

Quality of capital: CRD IV requires a further strengthening and harmonisation of the criteria for eligibility of capital instruments with an emphasis on common equity as the principal component of tier 1 capital.

Capital levels: CRD IV proposals would require banks to hold common equity tier 1 capital

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equal to at least 4.5% of RWAs with an additional capital conservation buffer of 2.5%, which could be used in periods of stress, subject to certain restrictions, for example, on bonus payments and dividends. Banks may also be required to hold a further countercyclical capital buffer to protect against potential future losses, when excess credit growth in the financial system as a whole is associated with an increase in system-wide risk. The level of bank capital will also need to exceed a minimum leverage requirement of 3% of total assets, currently subject to supervisory monitoring and review, prior to becoming a binding requirement from 1 January 2018.

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

Liquidity and funding: a new minimum standard, the liquidity coverage ratio, designed to improve the short-term resilience of a bank s liquidity risk profile, will be introduced after an observation and review period in 2015. To promote resilience by creating incentives for banks to fund their activities with more stable sources of funding, the European Commission will consider proposing a net stable funding ratio after an observation and review period in 2018.

Derivatives and central counterparty clearing: measures have been introduced to give effect to the commitments from the G20 leading group of countries designed to reduce systemic risk and volatility relating to derivatives trading. The G20 agreed that all standardised over-the-counter (OTC) derivatives were to be traded on exchanges or electronic trading platforms, where appropriate, and centrally cleared by the end of 2012. They are to be reported to trade repositories. Higher capital requirements under Basel III will be imposed for bilateral (uncleared) transactions to incentivise the use of clearing.

UK Independent Commission on Banking: the UK government issued its White Paper in June 2012 setting out its proposed implementation of the recommendations of the ICB. It is likely that we will be required to make major changes to our corporate structure and the business activities we conduct in

the UK through our major banking subsidiary, HSBC Bank, as:

at a minimum retail banking activities for most personal customers and smaller businesses currently carried out within that entity will have to be spun-off into a ring-fenced retail bank. These changes will take some time to implement with a significant effect on costs from both implementing the changes and running the ongoing operations as restructured;

significant banks, such as HSBC Bank, will be required to have core tier 1 capital of at least 10% of RWAs and over 3% of total assets, which is a leverage requirement; and

UK-incorporated banks will be required to hold equity and debt capable of absorbing losses if the bank is non-viable, together with primary loss-absorbing capacity (PLAC) of at least 17% of RWAs.

The framework for defining products, services and customers which are either required to be within the ring-fenced bank or prohibited from it are subject to a consultation, and will then be incorporated into draft legislation. Detailed rule making will also be required which will take place over an extended period, probably into 2015.

The Volcker Rule : the so called Volcker Rule proposed under section 619 of the Dodd-Frank Wall Street Reform & Consumer Protection Act (the Dodd-Frank Act) could affect HSBC in North America and across the Group. The Volcker Rule placed restrictions on proprietary trading activities and on investing in and sponsoring hedge fund and private equity funds. In October 2011, a proposed rule was published which generated extensive public comment including submissions from foreign governments and other bodies on, inter alia, the overall scope and extra-territorial effects of the proposed rule. As yet, revised rules to implement the provisions of the Volcker Rule have not been published. On 19 April 2012, the Federal Reserve Board (FRB) clarified that banking entities covered by the Volcker Rule, have the full two-year period provided by the Volcker Rule until 21 July 2014 to fully conform their activities and investments, unless the FRB extends the period.

There is a continued risk of further changes to regulation relating to remuneration and other taxes.

G-SIBs: the capital impact of being designated a global systemically important bank (G-SIB) is discussed on page 200.

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Potential impact on HSBC

The proposals relating to capital and liquidity are likely to result in increased minimum capital and liquidity requirements, although the nature, timing and effect of many of the changes remain unclear, as is the extent to which entities within the Group may already comply with these requirements. Higher requirements in capital and liquidity have an effect on our future financial condition and the results of our operations. There is also the risk of secondary effects as the overall flow of credit to the economy is constrained and economic activity and opportunities for banking income slows.

As an institution with a relatively low-risk portfolio, the proposed leverage ratio could cause HSBC to either accept lower returns on equity than competitors or constrain business activity in areas which are well collateralised or possess sufficient risk mitigants.

For a further description of the possible effects of the new Basel III/CRD IV rules on HSBC see page 198. We could be required to raise more capital or reduce our level of RWAs to meet the requirements. Such actions and any resulting transactions may not be within our operating plans and may not be conducted on the most favourable terms. This could lead to lower returns on equity and cause some business activities and products to be less profitable and, in some instances, to fail to cover their cost of equity.

Proposed changes relating to remuneration and taxes could increase the Group s cost of doing business in the regulatory regimes in which these changes are implemented, reducing future profitability. Proposed changes in regulations such as the rules relating to derivatives and central counterparties regulation, the UK ICB ring-fencing proposals, recovery and resolution plans, the Volcker Rule and the Foreign Account Tax Compliance Act (FATCA) may affect the manner in which we conduct our activities and structure ourselves, with the potential to both increase the costs of doing business and curtail the types of business we can carry out, with the risk of decreased profitability as a result. Due to the stage of development and implementation of these various regulations, it is not possible to estimate the effect, if any, on our operations.

We are closely engaged with the governments and regulators in the countries in which we operate to help ensure that the new requirements are properly thought through and understood so that they can be implemented in an effective manner. We are also ensuring that our capital and liquidity plans take into account the potential effects of the changes. Capital allocation and liquidity management disciplines have been expanded to incorporate future increased capital and liquidity requirements and drive appropriate risk management and mitigating actions.

Regulatory investigations, fines, sanctions and requirements relating to conduct of business and financial crime negatively affecting our results and brand

Financial service providers are at risk of regulatory sanctions or fines related to conduct of business and financial crime. The incidence of regulatory proceedings and other adversarial proceedings against financial service firms is increasing.

HSBC Holdings and certain of its affiliates are the subject of ongoing investigations by bank regulatory and law enforcement agencies in the US relating to their compliance with anti-money laundering laws and regulations, the US Bank Secrecy Act and sanctions programmes administered by the US Office of Foreign Assets Control. In each of these US regulatory and law enforcement matters, HSBC Group companies have received Grand Jury subpoenas or other requests for information from US Government or other agencies, and HSBC is cooperating fully and engaging in efforts to resolve matters including through preliminary discussions with relevant authorities. The resolution of at least some of these matters is likely to involve the filing of corporate criminal as well as civil charges and the imposition of significant fines and penalties. The prosecution of corporate criminal charges in these types of cases has most often been deferred through an agreement with the relevant authorities; however, the US authorities have substantial discretion, and prior settlements can provide no assurance as to how the US authorities will proceed in these matters. In the event of a filing of criminal charges the prosecution of which is not deferred, there could be significant consequences to HSBC and its affiliates, including loss of business, withdrawal of funding and harm to our reputation, all of which could have a material adverse effect on our business, liquidity, financial condition, results of operations and prospects.

Various regulators and competition and enforcement authorities around the world including in the UK, the US, Canada, the EU, Switzerland and Asia are conducting investigations related to certain

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past submissions made by panel banks in connection with the setting of London interbank offered rates (LIBOR), European interbank offered rates (EURIBOR) and other interest rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries have been the subject of regulatory demands for information and are cooperating with those investigations.

Potential impact on HSBC

We are subject to a number of regulatory actions and investigations, see Note 25 on the Financial Statements. It is inherently difficult to predict the outcome of the regulatory proceedings involving our businesses. Unfavourable outcomes are having and may continue to have a material adverse effect on our reputation, brand and results, including loss of business and withdrawal of funding.

In response to this risk, we are progressing a number of initiatives which seek to address the issues identified, including creating our new global management structure, enhancing our governance and oversight, increasing our compliance function resource, emphasising our values and designing and implementing new global standards as outlined elsewhere.

Dispute risk

The current economic environment has increased our exposure to actual and potential litigation against the Group. Further details are discussed in Note 25 on the Financial Statements.

Potential impact on HSBC

Dispute risk gives rise to potential financial loss and significant reputational damage which could adversely affect customer and investor confidence.

Risks related to our business operations, governance and internal control systems

Challenges to achieving our strategy in a downturn

Internet crime and fraud

Social media risk

Level of change creating operational complexity and heightened operational risk

Information security risk

Model risk

Challenges to achieving our strategy in a downturn

The external environment remains challenging and the structural changes which the financial sector is going through are creating obstacles to the achievement of strategic objectives. This, combined with the prolonged global economic slowdown, could affect the achievement of our strategic targets for the Group as a whole and our global businesses.

Potential impact on HSBC

The downturn may put pressure on our ability to earn returns on equity in excess of our cost of equity while operating within the overall parameters of our risk appetite.

Through our strategic initiatives, which have heightened the focus on capital allocation and cost efficiency, we are actively seeking to manage and mitigate this risk.

Internet crime and fraud

We are exposed to potentially fraudulent and criminal activities, in particular a growing threat from internet crime which could result in the loss of customer data and sensitive information. The threat of external fraud may increase during adverse economic conditions, especially in retail and commercial banking.

We also face breakdowns in processes or procedures and systems failure or unavailability and are subject to the risk of disruption to our business arising from events that are wholly or partially beyond our control, such as internet crime and acts of terrorism.

Potential impact on HSBC

Internet crime and fraud may give rise to losses in service to customers and/or economic loss to HSBC. These risks equally apply when we rely on external suppliers or vendors to provide services to us and our customers.

We have increased our monitoring and have implemented additional controls such as two-factor authentication to mitigate the possibility of losses from these risks.

Social media risk

The scale and profile of social media networks (SMN s) have grown both in terms of customer demographic and geographical reach to represent a significant potential reputational risk to our

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organisation, given that these networks can be used as powerful broadcasting tools which can reach large numbers of people in a very short time frame.

Potential impact on HSBC

SMNs can be used to exacerbate the effect of customer complaints and service failures, and provide a means for employees to unlawfully publicise confidential information. SMNs present significant risks to our reputation and brand.

In order to reduce our exposure to these risks, an HSBC presence has been created in several of the larger SMNs in order to provide an official point of contact for our customers and stake-holders. Monitoring has also been implemented in some entities to protect our brand and identity and to understand general sentiment towards us and, in some cases, our specific products and initiatives. We have invested significantly in addressing the risk through increased training to raise staff awareness.

Level of change creating operational complexity and heightened operational risk

There are many drivers of change across HSBC and the banking industry including change driven by new banking regulation, the increased globalisation of the economy and business needs, new products and delivery channels, and organisational change.

Operational complexity has the potential to heighten all types of operational risk across our activities. This includes the risk of process errors, systems failures and fraud. It can also increase operational costs.

The implementation of our strategy to simplify our business, involves the withdrawal from certain markets, which presents disposal risks which must be carefully managed. The implementation of organisational changes to support the Group s strategy also requires close management oversight.

Potential impact on HSBC

Critical systems failure and a prolonged loss of service availability could cause serious damage to our ability to serve our clients, breach regulations under which we operate and cause long-term damage to our business, reputation and brand. Systems and controls could be degraded as a result of organisational effectiveness initiatives unless there is strong governance and an oversight framework to monitor the risk and control environment. We
seek to ensure that our critical systems infrastructure, including IT services, essential buildings, offshore processes and key vendors, is constantly monitored and properly resourced to mitigate against systems failures.

The potential effects of disposal risks include regulatory breaches, industrial action, loss of key personnel and interruption to systems and processes during business transformation, and they can have both financial and reputational implications. Steps taken to manage these risks proactively include a close dialogue with regulators and customers and the involvement of HR, legal, compliance and other functional experts.

Information security risk

The reliability and security of our information and technology infrastructure and customer databases and their ability to combat internet fraud are crucial to maintaining our banking applications and processes and to protecting the HSBC brand.

Potential impact on HSBC

These risks give rise to potential financial loss and reputational damage which could adversely affect customer and investor confidence. Loss of customer data would also result in regulatory breaches which would result in fines and penalties being incurred.

We have invested significantly in addressing this risk through increased training to raise staff awareness of the requirements, enhanced controls around data access and heightened monitoring of information flows.

Model risk

More stringent regulatory requirements governing the development, parameters applied to and controls around models used for measuring risk can give rise to changes, including increases in capital requirements. Furthermore, the changing external economic and legislative environment and changes in customer behaviour can lead to the assumptions we have made in our models becoming invalid.

Potential impact on HSBC

These model risks can result in a potentially increased and volatile capital requirement.

We continue to address these risks through enhanced model development, independent review and model oversight to ensure our models remain fit for purpose.

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Credit risk

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

There have been no material changes to our policies and practices for the management of credit risk as described in the *Annual Report and Accounts 2011.*

Net exposure to the sovereign, agency and bank debt of Spain, Ireland, Italy, Greece, Portugal and Cyprus was US$11.6bn at 30 June 2012.

A summary of our current policies and practices regarding credit risk is provided in the Appendix to Risk on page 183.

Credit risk in the first half of 2012

Exposure, impairment allowances and charges

	At		
	30 Jun 2012	30 Jun 2011	31 Dec 2011

	US$bn	US$bn	US$bn
Total gross loans and advances (A)	**1,174.4**	1,282.8	1,139.1
Impairment allowances	**17.3**	18.9	17.6
as a percentage of A	**1.47%**	1.47%	1.55%

		Half-year to	
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Impairment charges	**4.5**	5.0	6.5

Loan impairment charges and other credit risk provisions

		Half-year to	
	30 Jun 2012 US$m	30 Jun 2011 US$m	31 Dec 2011 US$m
Loan impairment charges and other credit risk provisions	**4,799**	5,266	6,861
	%	%	%
Personal	**69**	81	73
Corporate and commercial	**26**	13	21
Financial			1
Impairment of available-for-sale debt securities	**5**	6	5
of which: Greek Government		2	2
	100	100	100

The Group s total reported gross loans and advances, which excludes lending balances transferred to held for sale, were US$1,174bn at 30 June 2012, an increase of 3% compared with 31 December 2011.

The following commentary is on a constant currency basis.

Total gross loans and advances rose by 3%, compared with the end of 2011. The increase reflected growth in corporate and commercial lending, mainly in Hong Kong and Rest of Asia-Pacific, as well as a rise in overdraft balances in the UK which did not meet netting criteria under current accounting rules. Financial lending also increased, reflecting an increase in reverse repos, while personal lending growth was attributable to an increase in mortgage lending. During the first half of 2012, we reclassified certain lending balances to assets held for sale. At 30 June 2012, lending balances reported as held for sale were US$6.7bn. These included US$4.7bn of balances associated with the disposal of our operations in certain countries in Latin America.

In the first half of 2012, we continued to reduce our sovereign agency and bank credit risk exposure in peripheral eurozone countries. At 30 June 2012, our net exposure to the sovereign, agency and bank debt of Spain, Ireland, Italy, Greece, Portugal and Cyprus was US$11.6bn. At 30 June 2012 our sovereign and agency exposures to these countries were not considered to be impaired. For further details on our exposure to the eurozone, see page 121.

At 30 June 2012, our personal lending balances were US$401bn, an increase of 2% on 31 December 2011 as residential mortgage balances rose while other categories of personal lending declined.

First lien residential mortgage lending at 30 June 2012 was US$287bn, 2% higher than at the end of 2011. It represented 29% of our total gross lending to customers, in line with the end of 2011. Our most significant exposure to residential mortgages was in the UK, the US and Hong Kong.

In the first half of 2012, we continued to grow our residential mortgage portfolios in the UK and Hong Kong. Average loan-to-value (LTV) ratios on new residential mortgage lending in the UK and Hong Kong were 58% and 50%, respectively, while LTV ratios on our total residential mortgage books were 51% in the UK and 34% in Hong Kong. Delinquency levels and loan impairment charges in our residential mortgage portfolios in both the UK and Hong Kong remained at low levels in the first half of 2012.

In the US, we continued to be affected by industry-wide foreclosure delays which have extended the period between when a loan goes 180-days past due and the realisation of cash proceeds from selling the property. There remains a significant backlog of foreclosures which will take time to resolve.

Total personal lending in the US was US$63bn at 30 June 2012, representing 16% of the Group s total personal lending. Balances in the portfolio declined by 5% compared with 31 December 2011, reflecting continued run-off in the CML portfolio. At 30 June 2012, lending balances in the CML portfolio were US$46bn, a decline of 8% compared with 31 December 2011, of which 44% was due to the write-off of balances. During the first half of 2012, we completed the sale of our US Card and Retail Services business. The lending balances associated with this transaction were reported as held for sale at 31 December 2011.

In US dollar terms, lending balances in the CML portfolio that were two months or more delinquent were US$8.3bn compared with US$8.9bn at the end of 2011, with reductions in both the real estate

secured and personal non-credit card sections of the portfolio. Reduced delinquency on real estate secured lending balances reflected a fall in early stage delinquency as the portfolio continued to run off, as well as seasonal improvements in collections, partly offset by higher late stage delinquency due to the temporary suspension of foreclosure activities.

In our *Annual Report and Accounts 2011*, we disclosed a quantification of the value of collateral we hold over a borrower s specific asset, in the event of the borrower failing to meet its contractual obligations. At 30 June 2012, there were no significant changes in the value of collateral compared with the end of 2011.

At 30 June 2012, renegotiated loan balances were US$46.2bn, broadly in line with the end of 2011. The majority of our renegotiated loan balances were in North America in the real estate secured portion of the CML portfolio, where 57% of the lending balances have been reaged, modified or reaged and modified.

Reclassification to assets held for sale

During the period, the decline in gross loans and advances was partly due to a reclassification of certain lending balances to assets held for sale. Disclosures relating to assets held for sale are provided in credit risk management tables, primarily where the disclosure is relevant to the measurement of these financial assets, as follows:

- maximum exposure to credit risk (page 114);

- distribution of financial instruments by credit quality (page 139); and

- ageing analysis of days past due but not impaired gross financial instruments (page 143).

Although gross loans and advances and related impairment allowances are reclassified from Loans and advances to customers and Loans and advances to banks in the balance sheet, there is no equivalent income statement reclassification. As a result, charges for loan impairment losses shown in the credit risk disclosures include loan impairment charges relating to financial assets classified as assets held for sale.

The table below presents Loans and advances to customers and Loans and advances to banks as reported, and differentiates them from those classified as held for sale.

Comparative data at 30 June 2011 have not been separately presented as the amounts are insignificant.

Interim Management Report (continued)

Reported and held-for-sale loans[1]

	At 30 June 2012		At 31 December 2011	
	Total gross loans and advances US$m	Impairment allowances on loans and advances US$m	Total gross loans and advances US$m	Impairment allowances on loans and advances US$m
As reported	**1,174,449**	**17,273**	**1,139,052**	**17,636**
Assets held for sale	**6,721**	**106**	**37,273**	**1,614**
	1,181,170	**17,379**	**1,176,325**	**19,250**

For footnote, see page 180.

The table below analyses the amount of Loan impairment charges and other credit risk provisions arising from assets held for sale and other assets not held for sale. They primarily relate to the US Card and Retail Services businesses classified as held for sale at 31 December 2011. These assets had been disposed of by 30 June 2012.

Loan impairment charges and other credit risk provisions (LIC s)

	Half-year to 30 June 2012 US$m
LICs arising from:	
assets held for sale	335
assets not held for sale	4,464
	4,799

Credit exposure

Maximum exposure to credit risk

Our credit exposure is well diversified across a broad range of asset classes.

Our maximum exposure to loans and advances at amortised cost increased compared with the end of 2011. The rise primarily reflected growth in corporate and commercial lending in Hong Kong and Rest of Asia-Pacific. In addition, lending in the manufacturing sector rose, mainly in the UK, reflecting a rise in overdraft balances which did not meet netting criteria under current accounting rules. Reverse repo balances also rose, largely reflecting the deployment of proceeds from the US disposals, while mortgage lending increased due to growth in the UK and Hong Kong, partly offset by continued run-off in the US.

The loans and advances offset adjustment in the table on page 114 primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default and where,

as a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

Maximum exposure to financial investments decreased moderately compared with the end of 2011. This largely reflected the disposal of available-for-sale securities in Europe, broadly offset by a rise in North America where excess liquidity was used to purchase government debt securities.

In the first half of 2012, our exposure to trading assets rose reflecting increased client activity compared with the subdued levels seen in the second half of 2011. This resulted in higher reverse repo and settlement account balances which vary proportionately with levels of trading activity.

The Group s maximum exposure to cash and balances at central banks increased as we continued to place excess liquidity in Europe with central banks. In North America, we reduced balances at central banks as we repaid debt and increased our purchases of government debt securities.

Maximum exposure to credit risk table (page 114)

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

Our maximum exposure to derivatives at 30 June 2012 increased compared with the end of 2011. This primarily reflected a rise in the fair value of interest rate and, to a lesser extent foreign exchange derivative contracts in Europe following movements in yield curves.

Interim Management Report (continued)

The derivative offset amount in the table overleaf relates to exposures where the counterparty has an offsetting derivative exposure with HSBC, a master netting arrangement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash. At 30 June 2012, the total amount of such offsets was US$340bn (30 June 2011: US$208bn; 31 December 2011: US$306bn), of which US$301bn (30 June 2011: US$188bn; 31 December 2011: US$272bn) were offsets under a master netting arrangement, US$38.5bn (30 June 2011: US$20.1bn; 31 December 2011: US$33.0bn) was collateral received in cash and US$1.1bn (30 June 2011: US$0.2bn; 31 December 2011: US$0.7bn) was other collateral. These amounts do not qualify for net presentation for accounting purposes, as settlement may not actually be made on a net basis.

While not considered as offset in the table overleaf, other arrangements including short positions in securities and financial assets held as part of linked insurance/investment contracts where the risk is predominately borne by the policyholder, reduce our maximum exposure to credit risk. In addition, we hold collateral in respect of individual loans and advances.

Concentration of exposure

Concentrations of credit risk are described in the Appendix to Risk on page 183.

Securities held for trading

Total securities held for trading within trading assets were US$192bn at 30 June 2012 (30 June 2011: US$269bn; 31 December 2011: US$186bn). The largest concentration of these assets was in government and government agency securities. Our most significant exposures were to US Treasury and government agency securities (US$21bn) and UK (US$11bn) and Hong Kong (US$7bn) government securities. A detailed analysis of securities held for trading is set out in Note 7 on the Financial Statements and an analysis of credit quality is provided on page 139.

Debt securities, treasury and other eligible bills

Our holdings of corporate debt, ABSs and other securities were spread across a wide range of issuers and geographical regions, with 15% invested in securities issued by banks and other financial institutions. A more detailed analysis of financial investments is set out in Note 13 on the Financial

Statements and an analysis by credit quality is provided on page 139.

At 30 June 2012, our insurance businesses held diversified portfolios of debt and equity securities designated at fair value of US$31.5bn (30 June 2011: US$31.3bn; 31 December 2011: US$28.9bn) and debt securities classified as financial investments of US$40.2bn (30 June 2011: US$41.7bn; 31 December 2011: US$40.1bn). A more detailed analysis of securities held by the insurance businesses is set out on page 178.

Derivatives

Derivative assets at 30 June 2012 were US$356bn, (30 June 2011: US$261bn; 31 December 2011: US$346bn) of which the largest concentrations of exposure were in interest rate and foreign exchange derivatives. For an analysis of derivatives see Note 12 on the Financial Statements.

Loans and advances

Gross loans and advances to customers (excluding the financial sector) at 30 June 2012 increased by US$26bn or 3% from 31 December 2011. On a constant currency basis the increase was 3%. In the first half of 2012, we increased our exposure to personal lending and most industry sectors, with growth in Asia and Europe.

Summary of gross loans and advances to customers

The following commentary is on a constant currency basis:

Personal lending of US$401bn in the first half of 2012 was higher than at 31 December 2011. At US$287bn, first lien residential mortgage lending continued to represent the Group s largest concentration in a single exposure type, the most significant balances being in the UK (41%), the US (18%) and Hong Kong (17%).

Corporate and commercial lending was 50% of gross lending to customers at 30 June 2012.

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Maximum exposure to credit risk

	At 30 June 2012			At 30 June 2011			At 31 December 2011		
	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m
Cash and balances at central banks	**147,911**		**147,911**	68,218		68,218	129,902		129,902
Items in the course of collection from other banks	**11,075**		**11,075**	15,058		15,058	8,208		8,208
Hong Kong Government certificates of indebtedness	**21,283**		**21,283**	19,745		19,745	20,922		20,922
Trading assets	**361,352**	**(12,665)**	**348,687**	438,232	(10,491)	427,741	309,449	(4,656)	304,793
Treasury and other eligible bills	**30,098**		**30,098**	23,899		23,899	34,309		34,309
Debt securities	**131,563**		**131,563**	208,805		208,805	130,487		130,487
Loans and advances:									
to banks	**94,830**		**94,830**	100,134		100,134	75,525		75,525
to customers	**104,861**	**(12,665)**	**92,196**	105,394	(10,491)	94,903	69,128	(4,656)	64,472
Financial assets designated at fair value	**14,535**		**14,535**	19,977		19,977	12,926		12,926
Treasury and other eligible bills	**91**		**91**	207		207	123		123
Debt securities	**14,238**		**14,238**	18,496		18,496	11,834		11,834
Loans and advances:									
to banks	**127**		**127**	355		355	119		119
to customers	**79**		**79**	919		919	850		850
Derivatives	**355,934**	**(340,442)**	**15,492**	260,672	(208,471)	52,201	346,379	(305,616)	40,763
Loans and advances held at amortised cost:	**1,157,176**	**(93,044)**	**1,064,132**	1,263,931	(103,876)	1,160,055	1,121,416	(87,978)	1,033,438
to banks	**182,191**	**(7,092)**	**175,099**	226,043	(3,173)	222,870	180,987	(3,066)	177,921
to customers	**974,985**	**(85,952)**	**889,033**	1,037,888	(100,703)	937,185	940,429	(84,912)	855,517
Financial investments	**387,050**		**387,050**	408,650		408,650	392,834		392,834
Treasury and other similar bills	**71,552**		**71,552**	61,664		61,664	65,223		65,223
Debt securities	**315,498**		**315,498**	346,986		346,986	327,611		327,611
Assets held for sale[1]	**10,541**	**(4)**	**10,537**				37,808	(204)	37,604
disposal groups	**10,383**	**(4)**	**10,379**				37,746	(204)	37,542
non-current assets held for sale	**158**		**158**				62		62
Other assets	**34,397**		**34,397**	36,789	(3)	36,786	32,992		32,992

Endorsements and acceptances	**12,782**		**12,782**	11,338	(3)	11,335	11,010		11,010
Other	**21,615**		**21,615**	25,451		25,451	21,982		21,982
Financial guarantees and similar contracts	**39,190**		**39,190**	52,232		52,232	39,324		39,324
Loan and other credit-related commitments[2]	**564,113**		**564,113**	660,175		660,175	654,904		654,904
	3,104,557	**(446,155)**	**2,658,402**	3,243,679	(322,841)	2,920,838	3,107,064	(398,454)	2,708,610

For footnotes, see page 180.

International trade and services was the biggest portion of the corporate and commercial lending category, increasing by 3% compared with 31 December 2011. The most significant concentrations of international trade and services lending were in the UK, Hong Kong and Rest of Asia-Pacific.

Commercial real estate lending, which represented 8% of total gross lending to customers, was broadly in line with 31 December 2011. The main concentrations of commercial real estate lending were in the UK and Hong Kong. See Areas of special interest for further discussion on commercial real estate lending.

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Our exposure in the financial category was US$95bn, an increase of 10% compared with 31 December 2011, due to a redeployment of short-term liquidity in North America from central banks to reverse repos. The largest exposure was to non-bank financial institutions and was spread across a range of institutions, with the most significant concentration in France, the UK and the US.

Loans and advances to banks were US$182bn, broadly in line with the end of 2011, and remained widely dispersed across many countries.

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

Gross loans and advances by industry sector

	At 31 December 2011 US$m	Currency effect US$m	Movement US$m	At 30 June 2012 US$m
Personal	393,625	**1,166**	**6,011**	**400,802**
First lien residential mortgages[3]	278,963	**1,643**	**6,174**	**286,780**
Other personal[4]	114,662	**(477)**	**(163)**	**114,022**
Corporate and commercial	472,816	**230**	**19,155**	**492,201**
Manufacturing	96,054	**(169)**	**12,165**	**108,050**
International trade and services	152,709	**22**	**3,964**	**156,695**
Commercial real estate	73,941	**178**	**595**	**74,714**
Other property-related	39,539	**50**	**369**	**39,958**
Government	11,079	**62**	**(1,631)**	**9,510**
Other commercial[5]	99,494	**87**	**3,693**	**103,274**
Financial	86,219	**(321)**	**8,657**	**94,555**
Non-bank financial institutions	85,275	**(313)**	**7,569**	**92,531**
Settlement accounts	944	**(8)**	**1,088**	**2,024**
Asset-backed securities reclassified	5,280	**62**	**(698)**	**4,644**
Total gross loans and advances to customers (TGLAC[6])	957,940	**1,137**	**33,125**	**992,202**
Gross loans and advances to banks	181,112	**(1,434)**	**2,569**	**182,247**
Total gross loans and advances	1,139,052	**(297)**	**35,694**	**1,174,449**
Impaired loans and advances to customers	41,584	**(52)**	**(788)**	**40,744**
as a percentage of TGLAC	4.3%			**4.1%**
Impairment allowances on loans and advances to customers	17,511	**(71)**	**(223)**	**17,217**
as a percentage of TGLAC	1.8%			**1.7%**

	Half-year to 30 June 2011 US$m			Half-year to 30 June 2012 US$m
Charge for impairment losses in the period	4,973	**912**	**(1,360)**	**4,525**
New allowances net of allowance releases	5,703	**879**	**(1,489)**	**5,093**
Recoveries	(730)	**33**	**129**	**(568)**

For footnotes, see page 180.

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

	Gross loans and advances to customers							
	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	As a % of total gross loans
At 30 June 2012								
Personal	**173,650**	**65,669**	**45,409**	**6,015**	**91,611**	**18,448**	**400,802**	**40.4**
First lien residential mortgages[3]	**125,729**	**48,951**	**33,636**	**1,937**	**71,582**	**4,945**	**286,780**	**28.9**
Other personal[4]	**47,921**	**16,718**	**11,773**	**4,078**	**20,029**	**13,503**	**114,022**	**11.5**
Corporate and commercial	**214,423**	**96,164**	**81,029**	**22,216**	**43,540**	**34,829**	**492,201**	**49.6**
Manufacturing	**55,245**	**10,235**	**17,550**	**3,888**	**8,594**	**12,538**	**108,050**	**10.9**
International trade and services	**64,843**	**31,631**	**30,777**	**8,574**	**11,471**	**9,399**	**156,695**	**15.8**
Commercial real estate	**32,563**	**21,510**	**9,544**	**940**	**6,706**	**3,451**	**74,714**	**7.5**
Other property-related	**7,506**	**17,079**	**6,849**	**2,060**	**6,120**	**344**	**39,958**	**4.0**
Government	**2,073**	**2,906**	**390**	**1,514**	**774**	**1,853**	**9,510**	**1.0**
Other commercial[5]	**52,193**	**12,803**	**15,919**	**5,240**	**9,875**	**7,244**	**103,274**	**10.4**
Financial	**58,322**	**3,907**	**3,897**	**1,438**	**25,237**	**1,754**	**94,555**	**9.5**
Non-bank financial institutions	**57,460**	**3,413**	**3,492**	**1,433**	**25,186**	**1,547**	**92,531**	**9.3**
Settlement accounts	**862**	**494**	**405**	**5**	**51**	**207**	**2,024**	**0.2**
Asset-backed securities reclassified	**4,243**				**401**		**4,644**	**0.5**
TGLAC[6]	**450,638**	**165,740**	**130,335**	**29,669**	**160,789**	**55,031**	**992,202**	**100.0**
Percentage of TGLAC by geographical region	**45.5%**	**16.7%**	**13.1%**	**3.0%**	**16.2%**	**5.5%**	**100.0%**	
Impaired loans	**10,881**	**555**	**1,148**	**2,514**	**22,186**	**3,460**	**40,744**	
as a percentage of TGLAC	**2.4%**	**0.3%**	**0.9%**	**8.5%**	**13.8%**	**6.3%**	**4.1%**	
Total impairment allowances	**5,193**	**536**	**846**	**1,773**	**6,798**	**2,071**	**17,217**	
as a percentage of TGLAC	**1.2%**	**0.3%**	**0.6%**	**6.0%**	**4.2%**	**3.8%**	**1.7%**	
At 30 June 2011								
Personal	172,383	61,704	44,300	5,196	131,676	24,091	439,350	41.6
First lien residential mortgages[3]	119,993	45,496	32,224	1,791	76,690	5,897	282,091	26.7
Other personal[4]	52,390	16,208	12,076	3,405	54,986	18,194	157,259	14.9
Corporate and commercial	221,361	94,566	74,726	20,786	38,761	41,147	491,347	46.5
Manufacturing	59,550	9,015	17,350	3,281	6,294	14,806	110,296	10.4
International trade and services	66,118	33,572	28,778	9,035	10,472	12,338	160,313	15.2
Commercial real estate	31,066	20,379	9,728	1,037	7,673	3,449	73,332	6.9
Other property-related	7,189	16,097	5,643	1,897	5,391	840	37,057	3.5
Government	2,126	3,252	430	1,251	311	2,055	9,425	0.9
Other commercial[5]	55,312	12,251	12,797	4,285	8,620	7,659	100,924	9.6
Financial	92,799	3,673	3,231	1,281	16,563	2,712	120,259	11.4

Non-bank financial institutions	91,636	3,042	2,794	1,267	16,563	2,654	117,956	11.2
Settlement accounts	1,163	631	437	14		58	2,303	0.2
Asset-backed securities reclassified	5,120				544		5,664	0.5
TGLAC[6]	491,663	159,943	122,257	27,263	187,544	67,950	1,056,620	100.0
Percentage of TGLAC by geographical region	46.6%	15.1%	11.6%	2.6%	17.7%	6.4%	100.0%	
Impaired loans[7]	10,878	510	1,208	2,293	25,657	3,663	44,209	
as a percentage of TGLAC	2.2%	0.3%	1.0%	8.4%	13.7%	5.4%	4.2%	
Total impairment allowances	5,332	573	828	1,569	8,282	2,148	18,732	
as a percentage of TGLAC	1.1%	0.4%	0.7%	5.8%	4.4%	3.2%	1.8%	

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	Gross loans and advances to customers							
	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	As a % of total gross loans
At 31 December 2011								
Personal	166,147	63,181	43,580	5,269	95,336	20,112	393,625	41.1
First lien residential mortgages[3]	119,902	46,817	32,136	1,837	73,278	4,993	278,963	29.1
Other personal[4]	46,245	16,364	11,444	3,432	22,058	15,119	114,662	12.0
Corporate and commercial	204,984	91,592	77,887	21,152	41,271	35,930	472,816	49.3
Manufacturing	45,632	9,004	16,909	3,517	7,888	13,104	96,054	10.0
International trade and services	64,604	29,066	29,605	8,664	10,710	10,060	152,709	15.9
Commercial real estate	32,099	20,828	9,537	1,002	7,069	3,406	73,941	7.7
Other property-related	7,595	17,367	6,396	1,770	5,729	682	39,539	4.1
Government	3,143	2,918	962	1,563	656	1,837	11,079	1.2
Other commercial[5]	51,911	12,409	14,478	4,636	9,219	6,841	99,494	10.4
Financial	63,671	3,473	3,183	1,168	12,817	1,907	86,219	9.0
Non-bank financial institutions	63,313	3,192	2,937	1,162	12,817	1,854	85,275	8.9
Settlement accounts	358	281	246	6		53	944	0.1
Asset-backed securities reclassified	4,776				504		5,280	0.6
TGLAC[6]	439,578	158,246	124,650	27,589	149,928	57,949	957,940	100.0
Percentage of TGLAC by geographical region	45.9%	16.5%	13.0%	2.9%	15.7%	6.0%	100.0%	
Impaired loans	11,751	604	1,069	2,425	22,696	3,039	41,584	
as a percentage of TGLAC	2.7%	0.4%	0.9%	8.8%	15.1%	5.2%	4.3%	
Total impairment allowances	5,242	581	782	1,714	7,181	2,011	17,511	
as a percentage of TGLAC	1.2%	0.4%	0.6%	6.2%	4.8%	3.5%	1.8%	

For footnotes, see page 180.

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Gross loans and advances to customers by country

	First lien residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 30 June 2012					
Europe	**125,729**	**47,921**	**40,069**	**236,919**	**450,638**
UK	**116,949**	**21,807**	**30,021**	**165,913**	**334,690**
France	**3,244**	**9,436**	**8,067**	**49,885**	**70,632**
Germany	**8**	**355**	**104**	**5,108**	**5,575**
Malta	**1,710**	**546**	**480**	**1,563**	**4,299**
Switzerland	**1,859**	**11,945**	**160**	**1,966**	**15,930**
Turkey	**989**	**3,550**	**296**	**3,665**	**8,500**
Other	**970**	**282**	**941**	**8,819**	**11,012**
Hong Kong	**48,951**	**16,718**	**38,589**	**61,482**	**165,740**
Rest of Asia-Pacific	**33,636**	**11,773**	**16,393**	**68,533**	**130,335**
Australia	**9,528**	**1,415**	**2,477**	**6,504**	**19,924**
India	**866**	**436**	**584**	**4,818**	**6,704**
Indonesia	**83**	**479**	**85**	**5,048**	**5,695**
Mainland China	**3,021**	**302**	**5,425**	**17,092**	**25,840**
Malaysia	**4,630**	**2,076**	**1,592**	**5,871**	**14,169**
Singapore	**8,745**	**4,448**	**3,921**	**9,938**	**27,052**
Taiwan	**3,189**	**581**	**123**	**3,381**	**7,274**
Vietnam	**43**	**205**	**44**	**1,537**	**1,829**
Other	**3,531**	**1,831**	**2,142**	**14,344**	**21,848**
Middle East and North Africa (excluding Saudi Arabia)	**1,937**	**4,078**	**3,000**	**20,654**	**29,669**
Egypt	**2**	**466**	**100**	**2,900**	**3,468**
Qatar	**11**	**423**	**466**	**1,244**	**2,144**
UAE	**1,573**	**1,830**	**1,556**	**11,452**	**16,411**
Other	**351**	**1,359**	**878**	**5,058**	**7,646**
North America	**71,582**	**20,029**	**12,826**	**56,352**	**160,789**
US	**50,773**	**12,405**	**8,015**	**39,241**	**110,434**
Canada	**19,071**	**7,214**	**4,160**	**16,072**	**46,517**
Bermuda	**1,738**	**410**	**651**	**1,039**	**3,838**
Latin America	**4,945**	**13,503**	**3,795**	**32,788**	**55,031**
Argentina	**31**	**1,459**	**105**	**2,239**	**3,834**
Brazil	**1,678**	**8,479**	**1,220**	**18,024**	**29,401**
Mexico	**1,898**	**2,531**	**1,360**	**8,906**	**14,695**
Panama	**1,307**	**1,015**	**1,049**	**2,550**	**5,921**
Other	**31**	**19**	**61**	**1,069**	**1,180**
	286,780	**114,022**	**114,672**	**476,728**	**992,202**

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	First lien residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 30 June 2011					
Europe	119,993	52,390	38,255	281,025	491,663
UK	110,768	25,666	26,486	189,926	352,846
France	3,864	10,233	9,316	66,192	89,605
Germany	11	339	51	4,929	5,330
Malta	1,850	645	585	1,740	4,820
Switzerland	1,502	12,043	165	2,250	15,960
Turkey	858	3,053	253	3,799	7,963
Other	1,140	411	1,399	12,189	15,139
Hong Kong	45,496	16,208	36,476	61,763	159,943
Rest of Asia-Pacific	32,224	12,076	15,371	62,586	122,257
Australia	9,418	1,384	2,375	5,192	18,369
India	949	446	732	3,989	6,116
Indonesia	84	511	112	4,283	4,990
Mainland China	2,441	307	4,332	14,115	21,195
Malaysia	4,158	2,125	1,344	6,289	13,916
Singapore	7,799	4,035	3,700	9,155	24,689
Taiwan	3,261	578	129	3,997	7,965
Vietnam	45	211	78	1,457	1,791
Other	4,069	2,479	2,569	14,109	23,226
Middle East and North Africa (excluding Saudi Arabia)	1,791	3,405	2,934	19,133	27,263
Egypt	3	407	135	2,644	3,189
Qatar	9	455	417	1,323	2,204
UAE	1,500	1,915	1,451	11,386	16,252
Other	279	628	931	3,780	5,618
North America	76,690	54,986	13,064	42,804	187,544
US	55,118	46,396	7,865	26,443	135,822
Canada	19,824	8,095	4,674	15,864	48,457
Bermuda	1,748	495	525	497	3,265
Latin America	5,897	18,194	4,289	39,570	67,950
Argentina	30	1,140	119	2,405	3,694
Brazil	1,554	12,156	1,781	20,219	35,710
Mexico	2,214	2,650	1,424	9,600	15,888
Panama	1,186	1,011	669	4,389	7,255
Other	913	1,237	296	2,957	5,403
	282,091	157,259	110,389	506,881	1,056,620

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Gross loans and advances to customers by country (continued)

	First lien residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 31 December 2011					
Europe	119,902	46,245	39,694	233,737	439,578
UK	111,224	22,218	29,191	160,236	322,869
France	3,353	9,305	8,160	49,572	70,390
Germany	10	343	112	4,518	4,983
Malta	1,708	567	520	1,591	4,386
Switzerland	1,803	10,684	156	1,918	14,561
Turkey	767	2,797	255	3,652	7,471
Other	1,037	331	1,300	12,250	14,918
Hong Kong	46,817	16,364	38,195	56,870	158,246
Rest of Asia-Pacific	32,136	11,444	15,933	65,137	124,650
Australia	9,251	1,327	2,357	6,073	19,008
India	830	461	809	3,914	6,014
Indonesia	81	463	97	4,577	5,218
Mainland China	2,769	317	5,078	15,665	23,829
Malaysia	4,329	2,166	1,351	5,898	13,744
Singapore	7,919	4,108	3,690	9,433	25,150
Taiwan	3,062	550	139	4,555	8,306
Vietnam	42	184	42	1,397	1,665
Other	3,853	1,868	2,370	13,625	21,716
Middle East and North Africa (excluding Saudi Arabia)	1,837	3,432	2,772	19,548	27,589
Egypt	2	441	100	2,775	3,318
Qatar	9	445	354	1,098	1,906
UAE	1,520	1,882	1,464	12,070	16,936
Other	306	664	854	3,605	5,429
North America	73,278	22,058	12,798	41,794	149,928
US	52,484	14,087	7,850	27,307	101,728
Canada	19,045	7,518	4,391	13,600	44,554
Bermuda	1,749	453	557	887	3,646
Latin America	4,993	15,119	4,088	33,749	57,949
Argentina	32	1,379	114	2,331	3,856
Brazil	1,657	9,802	1,660	18,638	31,757
Mexico	1,847	2,261	1,284	8,210	13,602
Panama	1,240	1,014	923	2,537	5,714
Other	217	663	107	2,033	3,020
	278,963	114,662	113,480	450,835	957,940

Loans and advances to banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	Impairment allowances[8] US$m
At 30 June 2012	**58,652**	**29,673**	**50,228**	**9,512**	**14,528**	**19,654**	**182,247**	**(56)**
At 30 June 2011	83,153	37,334	50,331	7,786	19,865	27,736	226,205	(162)
At 31 December 2011	54,406	35,159	47,309	8,571	14,831	20,836	181,112	(125)

For footnote, see page 180.

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Areas of special interest

Eurozone exposures

Eurozone countries are members of the EU and part of the euro single currency bloc. The peripheral eurozone countries are those that exhibited levels of market volatility that exceeded other eurozone countries, demonstrating fiscal or political uncertainty which may persist through the second half of 2012. In the first half of 2012, the peripheral eurozone countries of Greece, Ireland, Italy, Portugal, Spain and Cyprus continued to exhibit a high ratio of sovereign debt to GDP or short to medium-term maturity concentration of their liabilities, with Greece, Spain and Cyprus seeking assistance to meet sovereign liabilities or direct support for banking sector recapitalisations.

The selected other eurozone countries analysed in the table on page 128 are those that HSBC has a net on-balance sheet exposure to exceeding 5% of the Group s total equity at 30 June 2012.

Risk reduction in the first half of 2012

At 30 June 2012, our net exposure to the peripheral eurozone countries was US$37bn including a net exposure to sovereign, agencies and banks of US$12bn. During the period we continued to reduce our overall net exposure to sovereign, agencies and banks of peripheral eurozone countries. In addition, we continued to actively reduce exposures to counterparties domiciled in other eurozone countries that had exposures to sovereigns and/or banks in peripheral eurozone countries of sufficient size to threaten their on-going viability in the event of an unfavourable conclusion to the current crisis.

This was undertaken through an analysis of publicly available information, reviews of external analyst reports, and meetings with the counterparties officials. Vulnerable counterparties were identified and subjected to enhanced monitoring, and our exposure was managed in a similar manner to the monitoring and management of direct exposures to the peripheral eurozone countries. One of the primary issues underpinning this process was the management of our surplus liquidity resulting in the placement of funds directly with central banks in the most highly-rated countries.

Our businesses in peripheral eurozone countries are funded from a mix of local deposits, local wholesale funding and intra-Group loans extended from HSBC operations with surplus funds. Intra-Group funding carries the risk that a member country might exit the eurozone and redenominate its national currency, which could result in a significant

currency devaluation. A description of risks relating to currency redenomination in the event of the exit of a eurozone member is provided on page 129.

Exposures to countries in the eurozone

The tables in this section summarise our exposures to selected eurozone countries, including:

- governments and central banks along with quasi government agencies;

- banks;

- other financial institutions and corporates; and
- personal lending.

Exposures to banks, other financial institutions, other corporates and personal lending are based upon the counterparty s country of domicile.

Basis of preparation

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

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

- short positions managed together with trading assets;
- derivative liabilities for which a legally enforceable right of offset with derivative assets exists; and
- collateral received on derivative assets.

Short positions managed together with trading assets mitigate risk to which HSBC is exposed at the balance sheet date where, in the event of default, the trading asset and related short position crystallise gains and losses simultaneously. Where such relationships exist, an element of the risk will remain where the short and long positions do not match exactly, for example, where the maturity of the short position is less than the trading asset or where it does not represent an identical security. The remaining risk is reflected in the gross balance sheet exposure shown before risk mitigation. However, as the net position best reflects the effects of a credit event should it occur at the balance sheet date we consider that this measure is a key view of risk at that date.

Credit risk mitigation includes derivative liabilities with the same counterparty, where a master netting arrangement is in place and the credit risk exposure is managed on a net basis or the position is specifically collateralised, normally in the form of cash. These amounts do not qualify for net presentation for accounting purposes as settlement

Interim Management Report (continued)

may not actually be made on a net basis, though we consider the net presentation more accurately reflects the risk exposure.

The effect of the transfer of risk to policyholders under unit linked insurance contracts, as well as trading assets which represent collateral to support associated liabilities, are separately disclosed in the detailed peripheral country exposures, but are not deducted from the total net exposure.

Credit default swaps (CDS s) reported in the detailed peripheral eurozone country tables are not included in the derivative exposure line as they are typically transacted with counterparties incorporated or domiciled outside of the country whose exposure they reference.

Credit default swaps and off-balance sheet exposures

The CDSs were transacted with banks with investment grade credit ratings, and would pay out in the event of the default of the referenced security

and certain other credit events. CDS contracts disclosed in the tables below were principally entered into for customer facilitation with banks and financial institutions where their terms are typically drawn up in accordance with the guidance set out in the 2003 ISDA Credit Derivatives Definitions and the 2009 Supplement. The credit events that trigger the payout of CDSs may differ as they are based on the terms of each agreement between the counterparties. Such credit events normally include bankruptcy, payment default on a reference asset or assets, restructuring and repudiation or moratoria.

Off-balance sheet exposures mainly relate to commitments to lend and the amounts shown in the tables represent the amounts that could be drawn down by the counterparties. In some instances, limitations are imposed on a counterparty s ability to draw down on a facility. These limitations are governed by the documentation, which differs from counterparty to counterparty. In the majority of cases, we are bound to fulfil commitments made to third parties.

Summary of net exposures to peripheral eurozone countries

	At 30 June 2012				
	Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Gross balance sheet exposure before risk mitigation	9.8	21.8	18.3	1.2	51.1
Risk mitigation	6.4	15.4	1.4		23.2
Net on-balance sheet exposure	3.4	6.4	16.9	1.2	27.9
Off-balance sheet exposures	1.0	0.8	7.4		9.2

Total net exposure	**4.4**	**7.2**	**24.3**	**1.2**	**37.1**
Total net exposure by country					
Spain (page 123)	**1.3**	**2.7**	**8.4**		**12.4**
Ireland (page 124)	**0.2**	**2.0**	**6.0**	**0.1**	**8.3**
Italy (page 125)	**2.1**	**1.6**	**4.3**	**0.1**	**8.1**
Greece (page 126)	**0.1**	**0.2**	**4.0**	**0.9**	**5.2**
Portugal (page 127)	**0.7**	**0.7**	**1.2**		**2.6**
Cyprus (page 128)			**0.4**	**0.1**	**0.5**
	4.4	**7.2**	**24.3**	**1.2**	**37.1**

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Exposures to peripheral eurozone countries

Exposures to Spain

	At 30 June 2012				
	Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Cash and balances at central banks					
Loans and advances		0.1	5.2		5.3
gross		0.1	5.2		5.3
impairment allowances					
Financial investments held to maturity					
fair value					
Financial investments available for sale[9]	0.4	0.4	0.1		0.9
cumulative impairment					
amortised cost	0.4	0.4	0.1		0.9
available-for-sale reserve					
Financial assets designated at fair value					
Trading assets	1.5	1.9	0.2		3.6
Derivative assets	0.2	4.1	0.7		5.0
Gross balance sheet exposure before risk mitigation	2.1	6.5	6.2		14.8
Risk mitigation	1.8	4.2	0.5		6.5
short trading positions	1.7	0.2	0.1		2.0
collateral and derivative liabilities	0.1	4.0	0.4		4.5
Net on-balance sheet exposure	0.3	2.3	5.7		8.3
Off-balance sheet exposures	1.0	0.4	2.7		4.1
commitments	1.0		2.0		3.0
guarantees and others		0.4	0.7		1.1
Total net exposure	1.3	2.7	8.4		12.4
Of which:					
net trading assets representing cash collateral posted	0.1	1.1			1.2
on-balance sheet exposures held to meet DPF insurance liabilities	0.2	0.3			0.5
Total credit default swaps					
CDS asset positions	0.7	0.2	0.1		1.0
CDS liability positions	(0.7)	(0.1)	(0.1)		(0.9)
CDS asset notionals	4.8	2.1	1.2		8.1

CDS liability notionals	**4.8**	**2.0**	**1.1**		**7.9**

For footnote, see page 180.

At 30 June 2012, our total net exposure to Spain was US$12.4bn, similar to the amount of our exposure at the end of 2011.

At 30 June 2012, our total net exposure to Spanish sovereign and agencies was US$1.3bn, US$0.9bn lower than at the end of 2011. The reduction was primarily due to higher amounts of short trading positions.

At 30 June 2012, our total net exposure to Spanish banks was US$2.7bn, US$0.8bn lower than at the end of 2011. The reduction was primarily due to increased risk mitigation from higher collateral

and derivative liabilities in respect of derivative assets.

At 30 June 2012, our total net exposure to Spanish other financial institutions and corporates was US$8.4bn, an increase of US$1.8bn primarily due to higher off-balance sheet commitments. Our exposure to Spanish other financial institutions and corporates mainly comprised large multinational companies and other financial institutions with significant operations outside Spain, which mitigates the risk. Exposure to the commercial real estate sector in Spain remained insignificant.

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Exposures to Ireland

	At 30 June 2012				
	Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Cash and balances at central banks					
Loans and advances		**0.1**	**2.3**	**0.1**	**2.5**
gross		**0.1**	**2.3**	**0.2**	**2.6**
impairment allowances				**0.1**	**0.1**
Financial investments held to maturity		**0.2**			**0.2**
fair value		**0.2**			**0.2**
Financial investments available for sale	**0.1**		**0.7**		**0.8**
cumulative impairment					
amortised cost	**0.1**		**0.8**		**0.9**
available-for-sale reserve			**(0.1)**		**(0.1)**
Financial assets designated at fair value			**0.1**		**0.1**
Trading assets	**0.2**	**1.6**	**1.0**		**2.8**
Derivative assets	**0.5**	**8.3**	**1.0**		**9.8**
Gross balance sheet exposure before risk mitigation	**0.8**	**10.2**	**5.1**	**0.1**	**16.2**
Risk mitigation	**0.6**	**8.2**	**0.3**		**9.1**
short trading positions	**0.1**				**0.1**
collateral and derivative liabilities	**0.5**	**8.2**	**0.3**		**9.0**
Net on-balance sheet exposure	**0.2**	**2.0**	**4.8**	**0.1**	**7.1**
Off-balance sheet exposures			**1.2**		**1.2**
commitments			**1.0**		**1.0**
guarantees and others			**0.2**		**0.2**
Total net exposure	**0.2**	**2.0**	**6.0**	**0.1**	**8.3**
Of which:					
net trading assets representing cash collateral posted	**0.1**	**1.6**	**0.3**		**2.0**
on-balance sheet exposures held to meet DPF insurance liabilities	**0.1**	**0.3**			**0.4**
Total credit default swaps					
CDS asset positions	**0.2**		**0.1**		**0.3**
CDS liability positions	**(0.2)**				**(0.2)**
CDS asset notionals	**1.3**	**0.3**	**0.3**		**1.9**
CDS liability notionals	**1.3**		**0.3**		**1.6**

At 30 June 2012, our total net exposure to Ireland was US$8.3bn, US$2.6bn higher than at the end of 2011. The majority of the increase was in respect of exposures to other financial institutions and corporates.

At 30 June 2012, our total net exposure to Irish other financial institutions and corporates was US$6.0bn, US$2.5bn higher than at the end of 2011. The increase was primarily due to higher amounts of trading assets and off-balance sheet commitments. A significant portion of our exposure relates to foreign owned entities incorporated in Ireland.

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Interim Management Report (continued)

Exposures to Italy

	At 30 June 2012				
	Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Cash and balances at central banks					
Loans and advances		0.2	1.3	0.1	1.6
gross		0.2	1.3	0.1	1.6
impairment allowances					
Financial investments held to maturity	0.1	0.2			0.3
fair value	0.1	0.2			0.3
Financial investments available for sale[9]	0.3	0.3	0.3		0.9
cumulative impairment					
amortised cost	0.3	0.3	0.2		0.8
available-for-sale reserve					
Financial assets designated at fair value			0.1		0.1
Trading assets	5.0	0.6	0.3		5.9
Derivative assets	0.3	2.2	1.1		3.6
Gross balance sheet exposure before risk mitigation	5.7	3.5	3.1	0.1	12.4
Risk mitigation	3.6	2.1	0.6		6.3
short trading positions	3.6		0.1		3.7
collateral and derivative liabilities		2.1	0.5		2.6
Net on-balance sheet exposure	2.1	1.4	2.5	0.1	6.1
Off-balance sheet exposures		0.2	1.8		2.0
commitments			1.0		1.0
guarantees and others		0.2	0.8		1.0
Total net exposure	2.1	1.6	4.3	0.1	8.1
Of which:					
net trading assets representing cash collateral posted		0.5			0.5
on-balance sheet exposures held to meet DPF insurance liabilities	0.3	0.4	0.2		0.9
Total credit default swaps					
CDS asset positions	0.7	0.5	0.3		1.5
CDS liability positions	(0.7)	(0.5)	(0.2)		(1.4)
CDS asset notionals	5.0	5.4	3.8		14.2
CDS liability notionals	5.2	5.3	3.7		14.2

For footnote, see page 180.

At 30 June 2012, our total net exposure to Italy was US$8.1bn, similar to the amount of our exposure at the end of 2011.

At 30 June 2012, our total net exposure to Italian banks was US$1.6bn, US$0.5bn lower than at the end of 2011. The reduced exposure was primarily due to lower amounts of loans and advances and increased risk mitigation from higher

collateral and derivative liabilities in respect of derivative assets.

Our total net exposure to other financial institutions and corporates at 30 June 2012 of US$4.3bn mainly comprised large multinational companies and other financial institutions with significant operations outside Italy, which mitigates the risk.

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Interim Management Report (continued)

Exposures to Greece

	At 30 June 2012				
	Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Cash and balances at central banks	0.1				0.1
Loans and advances		0.1	3.5	0.9	4.5
gross		0.1	3.7	0.9	4.7
impairment allowances			0.2		0.2
Financial investments held to maturity					
fair value					
Financial investments available for sale					
cumulative impairment					
amortised cost					
available-for-sale reserve					
Financial assets designated at fair value					
Trading assets					
Derivative assets		0.7			0.7
Gross balance sheet exposure before risk mitigation	0.1	0.8	3.5	0.9	5.3
Risk mitigation		0.7			0.7
short trading positions					
collateral and derivative liabilities		0.7			0.7
Net on-balance sheet exposure	0.1	0.1	3.5	0.9	4.6
Off-balance sheet exposures		0.1	0.5		0.6
commitments			0.1		0.1
guarantees and others		0.1	0.4		0.5
Total net exposure	0.1	0.2	4.0	0.9	5.2
Of which:					
net trading assets representing cash collateral posted					
on-balance sheet exposures held to meet DPF insurance liabilities					
Total credit default swaps					
CDS asset positions			0.1		0.1
CDS liability positions			(0.1)		(0.1)
CDS asset notionals			0.2		0.2
CDS liability notionals			0.2		0.2

At 30 June 2012, our total net exposure to Greece was US$5.2bn, US$2.4bn lower that at the end of 2011. Although there was a reduction in exposure levels to all Greek counterparties in the first half of 2012, the majority of the reduction was in respect of exposures to banks and other financial institutions and corporates.

At 30 June 2012, our total net exposure to Greek sovereign and agencies was US$0.1bn, US$0.3bn lower than at the end of 2011. Our Greek sovereign exposure decreased significantly as a result of the debt restructuring in March 2012 and the associated settlement of CDS contracts.

At 30 June 2012, our total net exposure to Greek banks was US$0.2bn, US$0.7bn lower than at the end of 2011. The decrease was primarily due to the maturity of trading balances in the first half of 2012.

At 30 June 2012, our total net exposure to Greek other financial institutions and corporates was US$4.0bn, US$1.3bn lower than at the end of 2011. The reduction was primarily due to lower level of off-balance sheet exposures, including commitments and guarantees. At 30 June 2012, our exposure to Greek shipping companies amounted to US$2.0bn. We believe the industry is less sensitive to the Greek economy as it is mainly dependent on international trade.

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Exposures to Portugal

	At 30 June 2012 Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Cash and balances at central banks					
Loans and advances		0.5	0.2		0.7
gross		0.5	0.2		0.7
impairment allowances					
Financial investments held to maturity					
fair value					
Financial investments available for sale	0.1				0.1
cumulative impairment					
amortised cost	0.1				0.1
available-for-sale reserve					
Financial assets designated at fair value					
Trading assets	0.7	0.1			0.8
Derivative assets	0.3	0.2			0.5
Gross balance sheet exposure before risk mitigation	1.1	0.8	0.2		2.1
Risk mitigation	0.4	0.2			0.6
short trading positions	0.1				0.1
collateral and derivative liabilities	0.3	0.2			0.5
Net on-balance sheet exposure	0.7	0.6	0.2		1.5
Off-balance sheet exposures		0.1	1.0		1.1
commitments			1.0		1.0
guarantees and others		0.1			0.1
Total net exposure	0.7	0.7	1.2		2.6
Of which:					
net trading assets representing cash collateral posted	0.4				0.4
on-balance sheet exposures held to meet DPF insurance liabilities	0.1				0.1
Total credit default swaps					
CDS asset positions	0.3	0.1	0.1		0.5
CDS liability positions	(0.3)	(0.1)	(0.1)		(0.5)
CDS asset notionals	1.5	0.6	0.7		2.8
CDS liability notionals	1.4	0.6	0.8		2.8

At 30 June 2012, our total net exposure to Portugal was US$2.6bn, US$1.5bn higher than at the end of 2011. The increase was primarily in respect of other financial institutions and corporates for which there were higher amounts of off-balance sheet

commitments in the first half of 2012. These increases were predominantly in support of internationally active corporates with significant operations outside Portugal, which reduces the risk.

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Exposures to Cyprus

	At 30 June 2012 Sovereign and agencies US$bn	Banks US$bn	Other financial institutions and corporates US$bn	Personal US$bn	Total US$bn
Cash and balances at central banks					
Loans and advances			0.2	0.1	0.3
gross			0.2	0.1	0.3
impairment allowances					
Financial investments held to maturity					
fair value					
Financial investments available for sale					
cumulative impairment					
amortised cost					
available-for-sale reserve					
Financial assets designated at fair value					
Trading assets					
Derivative assets					
Gross balance sheet exposure before risk mitigation			0.2	0.1	0.3
Risk mitigation					
short trading positions					
collateral and derivative liabilities					
Net on-balance sheet exposure			0.2	0.1	0.3
Off-balance sheet exposures			0.2		0.2
commitments			0.1		0.1
guarantees and others			0.1		0.1
Total net exposure			0.4	0.1	0.5
Of which:					
net trading assets representing cash collateral posted					
on-balance sheet exposures held to meet DPF insurance liabilities					
Total credit default swaps					
CDS asset positions					
CDS liability positions					
CDS asset notionals					
CDS liability notionals					

Exposures to selected other eurozone countries

Summary of net on-balance sheet exposures to selected other eurozone countries

	At 30 June 2012			
	France US$bn	Germany US$bn	The Netherlands US$bn	Total US$bn
Sovereign and agencies	**50**	**27**	**15**	**92**
Banks	**34**	**15**	**6**	**55**
Other financial institutions and corporates	**37**	**18**	**10**	**65**
Personal	**14**			**14**

At 30 June 2012, our net on-balance sheet exposure to France, Germany and the Netherlands was US$226bn, US$9bn lower than at the end of 2011.

At 30 June 2012, our net on-balance sheet exposure to the sovereign and agency debt of France, Germany and the Netherlands was US$92bn, US$5bn

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higher than at the end of 2011. Our exposure to France and Germany was commensurate with the size of our operations in these countries. In 2012, cash balances held with the Dutch Central Bank were reduced and redirected to the French Central Bank to align more closely with our underlying operations. The cash placements continued to be put into the euro clearing system managed by the ECB.

At 30 June 2012, our exposure to the bank debt of France, Germany, and the Netherlands was US$55bn, US$28bn lower than at the end of 2011. The decrease reflected our ongoing efforts to reduce exposure to counterparties domiciled in these countries with exposures to sovereigns and/or banks in peripheral eurozone countries of sufficient size to threaten the counterparties on-going viability in the event of an unfavourable conclusion to the current crisis.

At 30 June 2012, our exposure to the corporate and other financial institution debt of France, Germany and the Netherlands was US$65bn, US$14bn higher than at the end of 2011. Our exposure in Germany and France was commensurate with the size of our operations and was well diversified across portfolios, sectors and products.

Our relationships in these countries are mostly with large global entities that have significant operations outside their respective domestic markets. This mitigates our risk as these corporates have diversified the sources of their revenue and, more importantly, their ability to raise finance internationally should their domestic markets become strained.

In France, our exposure to personal lending at 30 June 2012 was US$14bn, similar to the amount of our exposure at the end of 2011. The exposure was mainly in residential mortgages, loans secured by a national guarantee scheme and unsecured personal loans, and both delinquency and impairment changes remained low.

Exposure to other eurozone countries

In addition to the countries disclosed above, HSBC had net on-balance sheet exposures to other eurozone countries that were not significant to the Group. Of these, the largest exposure was represented by our retail and corporate banking operations in Malta, which held assets of approximately US$4bn. Our second largest exposure was in Luxembourg with approximately US$2bn of exposure to sovereign, agencies and banks (mostly money market placements) and approximately US$2bn to other financial institutions and corporates (mostly loans and advances). We also

had approximately US$2bn of exposure to sovereign and agencies in Austria. Our remaining net on-balance sheet exposure to the eurozone is less than 5% of the Group s total equity.

Redenomination risk

As a result of the continuing distressed conditions experienced by the peripheral eurozone countries, there is an increased possibility of a member state exiting from the eurozone. There is currently no established legal framework within the European treaties to facilitate such an event; consequently, it is not possible to accurately predict the course of events and legal consequences that would ensue.

Our current view is that there would be a greater impact on HSBC from a euro exit of Greece, Italy or Spain than from Ireland, Portugal or Cyprus, where our exposures are substantially lower.

Key risks associated with an exit by a eurozone member include:

Foreign exchange losses: an exit would probably be accompanied by the passing of laws in the country concerned establishing a new local currency and providing for a redenomination of euro-denominated assets into the new local currency. The value of assets and liabilities in the country would immediately fall assuming the value of the redenominated currency is less than the original euros when translated into the carrying amounts. It is not possible to predict what the total consequential loss might be as it is uncertain which assets and liabilities would be legally re-denominated or what the extent of the devaluation would be. However, in order to provide an indication of one part of the possible exposure, the table below identifies assets and liabilities booked in our banking operations in Greece, Italy and Spain (described as in-country). These assets and liabilities predominantly comprise loans and deposits arising from our commercial banking operations in these countries. The net assets represent our net funding exposure to those countries which we consider most likely to be affected by a redenomination event. The table also identifies in-country off-balance sheet exposures as these are at risk of redenomination should they be called, giving rise to a balance sheet exposure. It is to be noted that this analysis can only be an indication as it does not include euro-denominated exposures booked by HSBC outside the countries at risk which are connected with those countries (see external contracts below).

External contracts redenomination risk: contracts entered into between HSBC businesses based outside a country exiting the euro with in-country

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counterparties or those otherwise closely connected with the relevant country, may be affected by redenomination. The effect is subject to a high level of uncertainty. Factors such as the country law under which the contract is documented, the HSBC entity involved and the payment mechanism may all be relevant to this assessment, as will the precise exit scenario as the consequences on external contracts of a disorderly exit or one sanctioned under EU law may be different. In addition, capital controls could be introduced which may affect the ability to repatriate funds including currencies not affected by the redenomination event.

We have been actively identifying and monitoring potential redenomination risks and, where possible, taking steps with the potential to mitigate them and/or reduce our overall exposure to losses that might arise in the event of a redenomination. We would emphasise, however, that a euro exit could take the form of a number of different scenarios giving rise to distinct legal consequences which could significantly alter the potential effectiveness of any steps taken, and it is accordingly not possible to predict how effective particular measures may be until they are tested against the precise circumstances of a redenomination event.

In-country funding exposure at 30 June 2012

	Denominated in:			
	Euros US$bn	US dollars US$bn	other currencies US$bn	Total US$bn
Greece				
In-country assets	2.2	0.1	0.1	2.4
In-country liabilities	(1.4)	(0.8)	(0.1)	(2.3)
Net in-country funding exposure	0.8	(0.7)		0.1
Off-balance sheet exposure/hedging	(0.3)	0.4	0.1	0.2
Italy				
In-country assets	1.3			1.3
In-country liabilities[10]	(2.0)			(2.0)
Net in-country funding exposure	(0.7)			(0.7)
Off-balance sheet exposure	0.3			0.3
Spain				
In-country assets	3.3	0.7	0.1	4.1
In-country liabilities	(2.0)	(0.5)		(2.5)
Net in-country funding exposure	1.3	0.2	0.1	1.6
Off-balance sheet exposure	1.1	0.2		1.3

For footnote, see page 180.

Risk management and contingency planning

There is an established framework for dealing with counterparty and systemic crisis situations, both regionally and globally, which is complemented by regular specific and enterprise-wide stress testing and scenario planning. The framework functions both at pre and in-crisis situations and ensures that we have detailed operational plans in case an adverse scenario materialises.

The main focus continues to be Greece and Spain although we also consider additional scenarios including contagion risk or the exit of a higher impact country. This includes the setting up of a Eurozone Major Incident Group which meets regularly, complemented by a regional eurozone contingency plan covering all global businesses and

functions. The plan has been tested and considers payments, legal, client account, internal and external communication and regulatory and compliance issues associated with eurozone breakup.

Stress testing

Our stress testing programme is described in the *Annual Report and Accounts 2011* (page 188), and is a tool used to assess the impact of potential scenarios on regulatory capital.

In the course of 2012, we have examined several scenarios reflecting potential developments, both in the eurozone and more widely. Scenarios examined and reported to senior management in the course of the first half of 2012 included the following.

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Two global stress scenarios were considered, taking into account the market turmoil that may arise from an orderly or a disorderly Greek default. The analysis generated by the enterprise-wide stress testing informs and shapes ongoing and future management actions which the Group would need to take to mitigate the impact of the stress scenario. The analysis demonstrated that HSBC would remain satisfactorily capitalised under the mild and severe scenarios after taking account of assumed management actions. The assumptions which were applied in each scenario are set out below:

Mild scenario assumptions:

- the situation in Greece worsens and there is an orderly default in Greece;
- Greek banks also default and, with support from the EU and International Monetary Fund, they are bailed out;
- increasing bond yields in Portugal, Ireland, Spain and Italy trigger further fiscal austerity measures, and governments strive to disassociate their countries from Greece;
- through financial and trade linkages, an orderly default of Greece results in the spread of contagion to the rest of the world;
- the UK, US and emerging markets are adversely affected, albeit to varying degrees; and
- slower global demand curbs growth and increases the risk premium on interest rates as well as commodity prices.

Severe scenario assumptions:

- a disorderly default of Greece, where the eurozone governments are unable to ring-fence peripheral countries and their banks;
- default of Portugal and Ireland with increases in bond yields for high debt countries;
- the ensuing credit crunch together with declining business and consumer confidence more than offset any relief gained from the depreciation of the euro;
- investors become increasingly uncomfortable with the US and the UK s fiscal positions, with the severe scenario resulting in a global slowdown; and

emerging economies are less affected by the financial shock.
In addition, our reverse stress test takes into consideration the eurozone crisis as one of its constituent scenarios.

Wholesale lending

Wholesale lending covers the range of credit facilities granted to sovereign borrowers, banks, non-bank financial institutions, corporate entities and commercial borrowers. Our wholesale portfolios are well diversified across geographical and industry sectors, with certain exposures subject to specific portfolio controls.

Middle East and North Africa

In the first half of 2012, significant unrest and political changes in the Middle East and North Africa were mainly confined to Syria and Egypt. Potential future risks arise from the threat to regional stability caused by the potential for the deteriorating internal situation in Syria to affect its neighbours. In Egypt, there is a risk that social unrest and the concomitant disruption to the management of the economy may persist if the recent presidential elections fail to defuse the threat of sustained political intervention by the Egyptian military.

The Group s exposures in the region remain concentrated in our associate investment in Saudi Arabia and in the UAE, where the political landscapes remained stable. Economic growth in these countries is, however, showing signs of slowing as oil prices are affected by the weakening in the world economy. In the countries in which we have a presence we continue to carefully monitor and respond to developments while assisting customers in managing their own risks in the volatile environment.

We continued to work closely with the various entities related to the Government of Dubai to address their prevailing issues. In the first half of 2012, an agreement was reached between Dubai International Capital and its creditors for the restructuring of US$2.4bn of debt which has been extended for five years.

Commercial real estate

In 2012, credit quality across this sector showed some deterioration and there remains a risk of stress in certain markets. Our exposure to commercial real estate lending continued to be concentrated in Hong Kong, the UK and North America. The market in Hong Kong, after relative buoyancy in 2011, began to stabilise in 2012, partly due to initiatives taken by supervisory authorities. In the UK, many regions were negatively affected by weak growth in the economy, though London and the South East continued to exhibit relative strength. We are closely monitoring re-financing requirements in the UK market over the next two to three years. In North

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America, the market continued to be relatively stable, in part supported by the continued low levels of interest rates.

The aggregate of our commercial real estate and other property-related lending was US$115bn at 30 June 2012, broadly in line with 31 December 2011, representing 12% of total loans and advances to customers.

Personal lending

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

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

Group credit policy prescribes the range of acceptable residential property LTV thresholds with the acceptable maximum upper limit for new loans set between 75% and 95%. Specific LTV thresholds and debt-to-income ratios are managed at regional and country levels and, although the parameters must comply with Group policy, strategy and risk appetite, they differ in the various locations in which we operate in order to reflect the local economic and housing market conditions, regulations, portfolio performance, pricing and other product features.

In the first half of 2012, the credit quality of most of our personal lending portfolios improved, reflecting the continued low levels of interest rates and strong customer repayments in many markets, as well as actions taken in previous periods to tighten our lending criteria. Delinquency levels and loan impairment charges reduced in most markets while lending balances in our higher risk portfolios continued to be managed down.

In the US, the origination of new personal lending was limited as we have discontinued all new consumer finance real estate lending following the closure of the consumer finance distribution network. Customer lending balances across HSBC Finance portfolios continued to decline and, in May

2012, we completed the sale of the US Card and Retail Services business. In addition, in the first half of 2012, we engaged an adviser to assist us in exploring options to accelerate the liquidation of the CML portfolio and identified certain loan pools that we are targeting to sell in the future as market conditions permit.

The commentary that follows is on a constant currency basis.

At 30 June 2012, the Group s exposure to personal lending was US$401bn, 2% higher than at 31 December 2011 reflecting a rise in first lien residential mortgage lending, mainly in the UK and Hong Kong, partly offset by a reduction in other personal lending. Loan impairment allowances on our personal lending portfolios were US$9.4bn, compared with US$9.7bn at the end of 2011, while the ratio of loan impairment allowances to total personal lending reduced from 2.5% at 31 December 2011 to 2.3% at 30 June 2012.

Loan impairment charges in our personal lending portfolios were US$3.2bn in the first half of 2012, 23% lower than in the first half of 2011 and representing 69% of the overall Group charge for loan impairment charges and other credit risk provisions. The decline was predominantly in the US and mainly reflected the reduction in balances in the CML portfolio, as well as an improvement in two-months-and-over contractual delinquency on balances less than 180 days past due. The decrease also reflected the sale of the Card and Retail Services business on 1 May 2012.

At 30 June 2012, total personal lending in the UK was US$139bn, representing a small increase from 31 December 2011, mainly due to growth in first lien residential mortgage balances following the success of marketing campaigns and competitive pricing. (UK mortgage lending is discussed in greater detail on page 135).

In Hong Kong, total personal lending grew by 4% compared with the end of 2011 to US$66bn, mainly due to a rise in first lien residential mortgage lending as our mortgage pricing remained competitive backed by a resilient property market.

In Rest of Asia-Pacific, we increased our personal lending following growth in first lien residential mortgage lending in Singapore, Malaysia and Australia, which reflected successful marketing efforts. This was partly offset by the transfer of personal lending balances in Korea to assets held for sale following the announcement of the disposal of our RBWM business there.

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Total personal lending balances in the US at 30 June 2012 were US$63bn, a decrease of 5% compared with the end of 2011. The decline reflected the run-off of our CML portfolio, as well as the seasonal improvements in our collections as customers used tax refunds received in the first half of the year to repay debt.

In Latin America, personal lending decreased by 5% compared with 31 December 2011, following the transfer of balances to assets held for sale, as well as a reduction in other personal lending, in Brazil where we managed down our exposure to non-

strategic portfolios, including vehicle finance and certain other lending products and focused on higher quality lending including first lien residential mortgage lending. This complemented the range of corrective actions, including improving our collections capabilities, reducing third party originations and improving credit scoring models, that were implemented to limit our exposure to further market weakness following a rise in delinquency in 2011 which continued into the first half of 2012.

Total personal lending

	UK US$m	Rest of Europe US$m	US[11] US$m	Rest of North America US$m	Other regions[11] US$m	Total US$m
At 30 June 2012						
First lien residential mortgages	**116,949**	**8,780**	**50,773**	**20,809**	**89,469**	**286,780**
Other personal lending	**21,807**	**26,114**	**12,405**	**7,624**	**46,072**	**114,022**
motor vehicle finance		**29**	**15**	**24**	**3,852**	**3,920**
credit cards	**10,961**	**2,640**	**791**	**1,188**	**13,543**	**29,123**
second lien residential mortgages	**644**		**6,352**	**424**	**144**	**7,564**
other	**10,202**	**23,445**	**5,247**	**5,988**	**28,533**	**73,415**
Total personal lending	**138,756**	**34,894**	**63,178**	**28,433**	**135,541**	**400,802**
Impairment allowances on personal lending						
First lien residential mortgages	**(441)**	**(59)**	**(4,463)**	**(38)**	**(248)**	**(5,249)**
Other personal lending	**(609)**	**(400)**	**(1,425)**	**(121)**	**(1,581)**	**(4,136)**
motor vehicle finance		**(4)**		**(1)**	**(166)**	**(171)**
credit cards	**(165)**	**(189)**	**(35)**	**(33)**	**(417)**	**(839)**
second lien residential mortgages	**(33)**		**(634)**	**(9)**		**(676)**
other	**(411)**	**(207)**	**(756)**	**(78)**	**(998)**	**(2,450)**
Total	**(1,050)**	**(459)**	**(5,888)**	**(159)**	**(1,829)**	**(9,385)**
as a percentage of total personal lending	**0.8%**	**1.3%**	**9.3%**	**0.6%**	**1.3%**	**2.3%**

At 30 June 2011

First lien residential mortgages	110,768	9,225	55,118	21,572	85,408	282,091
Other personal lending	25,666	26,724	46,396	8,590	49,883	157,259
motor vehicle finance		29	60	38	5,918	6,045
credit cards	11,122	2,007	30,670	1,282	14,048	59,129
second lien residential mortgages	795	1	8,509	553	288	10,146
other	13,749	24,687	7,157	6,717	29,629	81,939
Total personal lending	136,434	35,949	101,514	30,162	135,291	439,350
Impairment allowances on personal lending						
First lien residential mortgages	(336)	(61)	(3,980)	(24)	(323)	(4,724)
Other personal lending	(920)	(475)	(3,299)	(131)	(1,681)	(6,506)
motor vehicle finance		(4)			(233)	(237)
credit cards	(237)	(220)	(1,670)	(35)	(466)	(2,628)
second lien residential mortgages	(51)		(697)	(12)		(760)
other	(632)	(251)	(932)	(84)	(982)	(2,881)
Total	(1,256)	(536)	(7,279)	(155)	(2,004)	(11,230)
as a percentage of total personal lending	0.9%	1.5%	7.2%	0.5%	1.5%	2.6%

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Total personal lending (continued)

	UK US$m	Rest of Europe US$m	US[11] US$m	Rest of North America US$m	Other regions[11] US$m	Total US$m
At 31 December 2011						
First lien residential mortgages	111,224	8,678	52,484	20,794	85,783	278,963
Other personal lending	22,218	24,027	14,087	7,971	46,359	114,662
motor vehicle finance		24	20	29	4,494	4,567
credit cards	11,279	2,192	833	1,262	13,922	29,488
second lien residential mortgages	694		7,063	468	233	8,458
other	10,245	21,811	6,171	6,212	27,710	72,149
Total personal lending	133,442	32,705	66,571	28,765	132,142	393,625
Impairment allowances on personal lending						
First lien residential mortgages	(383)	(58)	(4,551)	(27)	(302)	(5,321)
Other personal lending	(745)	(366)	(1,659)	(109)	(1,560)	(4,439)
motor vehicle finance		(4)			(164)	(168)
credit cards	(177)	(148)	(46)	(35)	(428)	(834)
second lien residential mortgages	(42)	(1)	(740)	(9)		(792)
other	(526)	(213)	(873)	(65)	(968)	(2,645)
Total	(1,128)	(424)	(6,210)	(136)	(1,862)	(9,760)
as a percentage of total personal lending	0.8%	1.3%	9.3%	0.5%	1.4%	2.5%

For footnotes, see page 180.

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, interest-only, affordability and offset mortgages.

The commentary that follows is on a constant currency basis.

At 30 June 2012, total mortgage lending, comprising both first lien and second lien residential mortgages, was US$294bn, an increase of 2% compared with the end of 2011.

US mortgage lending

In the US, total mortgage lending balances were US$57bn at 30 June 2012, a decline of 4% compared with the end of 2011. Overall, US mortgage lending represented 14% of our total personal lending and 19% of our total mortgage lending, compared with 15% and 21%, respectively, at 31 December 2011.

At 30 June 2012, mortgage lending balances at HSBC Finance were US$41bn, a decline of 7% compared with the end of 2011 due to the continued run-off of the CML portfolio. The reduction in balances also reflected seasonal improvements in collections as customers used tax refunds to make repayments. During the first half of 2012, we engaged an adviser to assist us in exploring options to accelerate the liquidation of this portfolio.

The rate at which balances in the CML portfolio are declining continues to be affected by the lack of refinancing opportunities available to our customers

and the temporary suspension of foreclosure activities. We have now resumed foreclosure processing in substantially all states, though it will take time to work through the backlog of loans that have not yet been referred to foreclosure. In addition, our loan modification programmes, which are designed to improve cash collections and avoid foreclosure, are contributing to slower loan repayment rates.

See below for a breakdown of mortgage lending in HSBC Finance.

HSBC Finance US Consumer and Mortgage Lending[12] *residential mortgages*

	At 30 Jun 2012 US$m	At 30 Jun 2011 US$m	At 31 Dec 2011 US$m
Residential mortgages			
First lien	**37,188**	42,276	39,608
Second lien	**4,042**	4,996	4,520
Total (A)	**41,230**	47,272	44,128
Impairment allowances	**4,884**	4,504	5,088
as a percentage of (A)	**11.8%**	9.5%	11.5%

For footnotes, see page 180.

In HSBC Bank USA, we continued to sell the majority of new originations to the secondary market as a means of managing our interest rate risk and improving structural liquidity. Mortgage lending balances were US$16bn at 30 June 2012, an increase of 3% compared with the end of 2011, driven by increased origination to our Premier customers.

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A discussion of credit trends in the US mortgage lending portfolio and the steps taken to mitigate risk is provided in US personal lending credit quality on page 136.

Mortgage lending rest of the world

Mortgage lending in the UK was US$118bn at 30 June 2012, representing the Group s largest concentration of mortgage exposure, an increase of 4% compared with the end of 2011. In the first half of 2012, house prices in parts of the UK remained under pressure, with sentiment among potential buyers remaining cautious given economic uncertainty and high levels of unemployment.

The credit quality of our UK mortgage portfolio remained high, reflecting actions taken in previous periods including the restrictions on lending to

purchase residential property for the purpose of rental. Almost all lending is originated through our own salesforce, and the self-certification of income is not permitted. The majority of our mortgage lending in the UK is to existing customers that hold current or savings accounts with HSBC. The average LTV ratio for new business was 58% at 30 June 2012, while loan impairment charges and delinquency levels in our UK mortgage book remained low, aided by the continued low levels of interest rates. In Hong Kong, mortgage lending was US$49bn, an increase of 4% compared with the end of 2011. The quality of our mortgage book was very strong with loan impairment charges at very low levels. The average LTV ratio on new mortgage sales was 50%.

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

Mortgage lending products

	UK US$m	Rest of Europe US$m	US[11] US$m	Rest of North America US$m	Other regions[11] US$m	Total US$m
At 30 June 2012						
First lien residential mortgages	116,949	8,780	50,773	20,809	89,469	286,780
Second lien residential mortgages	644		6,352	424	144	7,564
Total mortgage lending	117,593	8,780	57,125	21,233	89,613	294,344
Second lien as percentage of total mortgage lending	0.5%		11.1%	2.0%	0.2%	2.6%
Impairment allowances on mortgage lending	(474)	(59)	(5,097)	(47)	(248)	(5,925)
First lien residential mortgages	(441)	(59)	(4,463)	(38)	(248)	(5,249)
Second lien residential mortgages	(33)		(634)	(9)		(676)
Interest-only (including offset) mortgages	47,605	48		582	1,225	49,460
Affordability mortgages, including adjustable-rate mortgages (ARM s)	35	480	16,424	276	6,014	23,229
Other	102				201	303
Total interest-only and affordability mortgages	47,742	528	16,424	858	7,440	72,992
as a percentage of total mortgage lending	40.6%	6.0%	28.8%	4.0%	8.3%	24.8%

Negative equity mortgages[13]	**2,291**		**13,782**	**166**	**155**	**16,394**
Other loan to value ratios greater than 90%[14]	**5,039**	**186**	**7,131**	**1,378**	**958**	**14,692**
Total negative equity and other mortgages	**7,330**	**186**	**20,913**	**1,544**	**1,113**	**31,086**
as a percentage of total mortgage lending	**6.2%**	**2.1%**	**36.6%**	**7.3%**	**1.2%**	**10.6%**

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Mortgage lending products (continued)

	UK	Rest of Europe	US[11]	Rest of North America	Other regions[11]	Total
	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2011						
First lien residential mortgages	110,768	9,225	55,118	21,572	85,408	282,091
Second lien residential mortgages	795	1	8,509	553	288	10,146
Total mortgage lending	111,563	9,226	63,627	22,125	85,696	292,237
Second lien as percentage of total mortgage lending	0.7%		13.4%	2.5%	0.3%	3.5%
Impairment allowances on mortgage lending	(387)	(61)	(4,677)	(36)	(323)	(5,484)
First lien residential mortgages	(336)	(61)	(3,980)	(24)	(323)	(4,724)
Second lien residential mortgages	(51)		(697)	(12)		(760)
Interest-only (including offset) mortgages	45,730	54		810	1,362	47,956
Affordability mortgages, including ARMs	692	572	17,789	276	7,816	27,145
Other	118				195	313
Total interest-only and affordability mortgages	46,540	626	17,789	1,086	9,373	75,414
as a percentage of total mortgage lending	41.7%	6.8%	28.0%	4.9%	10.9%	25.8%
Negative equity mortgages[13]	2,365		16,368	86	317	19,136
Other loan to value ratios greater than 90%[14]	5,925	265	9,168	1,648	1,193	18,199
Total negative equity and other mortgages	8,290	265	25,536	1,734	1,510	37,335
as a percentage of total mortgage lending	7.4%	2.9%	40.1%	7.8%	1.8%	12.8%
	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2011						
First lien residential mortgages	111,224	8,678	52,484	20,794	85,783	278,963
Second lien residential mortgages	694		7,063	468	233	8,458
Total mortgage lending	111,918	8,678	59,547	21,262	86,016	287,421
Second lien as percentage of total mortgage lending	0.6%		11.9%	2.2%	0.3%	2.9%
Impairment allowances on mortgage lending	(425)	(59)	(5,291)	(36)	(302)	(6,113)
First lien residential mortgages	(383)	(58)	(4,551)	(27)	(302)	(5,321)
Second lien residential mortgages	(42)	(1)	(740)	(9)		(792)
Interest-only (including offset) mortgages	46,886	48		667	1,256	48,857
Affordability mortgages, including ARMs	177	496	17,089	277	6,894	24,933
Other	106				189	295
Total interest-only and affordability mortgages	47,169	544	17,089	944	8,339	74,085
as a percentage of total mortgage lending	42.1%	6.3%	28.7%	4.4%	9.7%	25.8%
Negative equity mortgages[13]	2,149		14,401	64	823	17,437
Other loan to value ratios greater than 90%[14]	4,845	210	7,964	1,430	1,469	15,918
Total negative equity and other mortgages	6,994	210	22,365	1,494	2,292	33,355
as a percentage of total mortgage lending	6.2%	2.4%	37.6%	7.0%	2.7%	11.6%

For footnotes, see page 180.

US personal lending

Credit quality

During the first half of 2012, the muted improvement in US economic conditions continued. In the second quarter, GDP growth was revised down to 1.9%, while consumer spending growth remained moderate. Serious threats to economic growth remain, including high energy costs,

uncertainty in the housing market and unemployment levels, which declined from the end of 2011 but remained high at 8.2%

Mortgage lending

In the first half of 2012, we further reduced our mortgage exposure in the US as balances continued to run off in our CML portfolio as discussed on

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page 134. At 30 June 2012, first lien residential mortgage lending balances were US$51bn, a decline of 3% compared with the end of 2011.

In our CML first lien residential mortgage portfolio, two-months and over delinquent balances were US$7.7bn, compared with US$7.9bn at December 2011 over the same period. The decline reflected seasonal improvements in our collections in the first half of 2012. In addition, the improvement reflected a decrease in delinquency on accounts less than 180 days contractually delinquent as lending balances continued to run off and economic conditions improved. The reduction was partly offset by the increase in late stage delinquency driven by the temporary suspension of foreclosure activities which began in late 2010, although this has now resumed in substantially all states. In our HSBC Bank USA portfolio, two-months and over delinquent balances remained unchanged at US$1.1bn.

Second lien residential mortgage loans have a risk profile characterised by higher LTV ratios, because in the majority of cases the loans were taken out to complete the refinancing of properties. Loss experience on default of second lien loans has typically approached 100% of the amount outstanding, as any equity in the property is initially applied to the first lien loan.

The majority of second lien residential mortgages are taken up by customers who hold a first lien mortgage issued by a third party. Impairment allowances for these loans are determined by applying a roll-rate migration analysis which captures the propensity of these loans to default based on past experience.

Approximately 97% of our US second lien residential mortgages, where the first lien residential mortgages are held or serviced by us and have a delinquency status of 90 days or more past due, are themselves 90 days or more past due. Once we assume a second lien residential mortgage loan is likely to progress to write-off, the loss severity assumed in establishing our impairment allowance is close to 100%.

In the US, second lien mortgage balances declined by 10% to US$6.4bn at 30 June 2012, representing 11% of the overall US mortgage lending portfolio. Two months or more delinquent balances were US$515m at 30 June 2012 compared with US$674m at 31 December 2011.

Valuation of foreclosed properties in the US

We obtain real estate by foreclosing on the collateral pledged as security for residential mortgages. Prior to foreclosure, carrying amounts of the loans in excess of fair value less costs to sell are written down to the discounted cash flows expected to be recovered, including from the sale of the property. Broker price opinions are obtained and updated every 180 days and real estate price trends are reviewed quarterly to reflect any improvement or additional deterioration. Our methodology is regularly validated by comparing the discounted cash flows expected to be recovered based on current market conditions (including estimated cash flows from the sale of the property) to the updated broker price opinion, adjusted for the estimated historical difference between interior and exterior appraisals. The fair values of foreclosed properties are initially determined based on broker price opinions. Within 90 days of foreclosure, a more detailed property valuation is performed reflecting information obtained from a physical interior inspection of the property and additional loan impairment allowances or write-downs are recorded as appropriate. Updates to the valuation are performed no less than once every 45 days until the property is sold, with declines or increases recognised through changes to impairment allowances.

As previously reported, beginning in late 2010 we temporarily suspended all new foreclosure proceedings and in early 2011 ceased foreclosures where judgement had yet to be entered while we enhanced our processes. We have now resumed the processing of suspended foreclosures and initiating new foreclosures in substantially all states. There remains a significant backlog of foreclosures which will take time to resolve. Any additional delays in the processing of foreclosures could result in an increase in loss severity.

The number of foreclosed properties at HSBC Finance at 30 June 2012 decreased compared with the end of December 2011 due to the suspension of foreclosures discussed above, as well as continuing sales of foreclosed properties. We expect the number of foreclosed properties added to the inventory will begin to increase in the second half of 2012, but this will continue to be affected by ongoing refinements to our processes and extended foreclosure timelines.

The average total loss on foreclosed properties and the average loss on sale of foreclosed properties decreased compared with the second half of 2011. This reflected a lower mix of properties sold which we had held for longer periods of time. Generally the length of time a property is held is reflected in the condition and ultimately the sale price. In addition, a greater proportion of properties sold where we had accepted a deed-in-lieu, partly offset by lower house prices in the first half of 2012. Typically, losses on a deed-in-lieu are lower than losses from properties acquired through a standard foreclosure process and provide quicker resolution to the delinquent account.

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HSBC Finance: foreclosed properties in the US

	Half-year to		
	30 June 2012	30 June 2011	31 December 2011
Number of foreclosed properties at end of period	**2,836**	6,982	3,511
Number of properties added to foreclosed inventory in the half year	**3,615**	8,071	3,116
Average loss on sale of foreclosed properties[15]	**7%**	8%	9%
Average total loss on foreclosed properties[16]	**55%**	55%	57%
Average time to sell foreclosed properties (days)	**179**	168	200

Forfootnotes, see page 180.

Credit cards

In the first half of 2012 we completed the sale of our US Card and Retail Services business, transferring the related general and private label credit card lending balances to the purchaser. The residual balances in the US related to HSBC Bank USA s credit card programme.

Personal non-credit card lending

Personal non-credit card lending balances in the US fell, largely due to run-off. Two months or more delinquent balances declined reflecting the run-off and seasonal improvement in collections.

Loan delinquency

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

Trends in two months and over contractual delinquency in the US

	At 30 June	At 30 June	At 31 December 2011

	2012 US$m	2011 US$m	US$m
In Personal lending in the US			
First lien residential mortgages	**8,851**	7,864	9,065
Consumer and Mortgage Lending	**7,662**	6,852	7,922
Other mortgage lending	**1,189**	1,012	1,143
Second lien residential mortgages	**515**	646	674
Consumer and Mortgage Lending	**372**	478	501
Other mortgage lending	**143**	168	173
Credit card	**29**	628	714
Private label		285	316
Personal non-credit card	**339**	517	513
Total	**9,734**	9,940	11,282
	%[17]	%[17]	%[17]
First lien residential mortgages	**17.4**	14.3	17.1
Second lien residential mortgages	**7.9**	7.6	8.5
Credit card	**3.7**	3.3	3.8
Private label		2.4	2.5
Personal non-credit card	**6.3**	7.2	8.3
Total	**15.3**	9.8	11.4

For footnote, see page 180.

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Credit quality of financial instruments

The five classifications describing the credit quality of our lending, debt securities portfolios and derivatives are set out in the Appendix to Risk on page 183 and defined on page 191 of the *Annual Report and Accounts 2011.* Additional credit quality information in respect of our consolidated holdings of ABSs is provided on page 154.

During 2011, we amended our presentation of impaired loans for portfolios with significant levels of forbearance to provide more relevant information on the effect of forbearance on the credit risk of

loans and advances. This change in presentation does not affect the accounting policy for the recognition of loan impairment allowances. Further details are provided on page 146.

For the purpose of the following disclosure, retail loans which are past due up to 89 days and are not otherwise classified as impaired in accordance with our disclosure convention (see page 146), are not disclosed within the expected loss (EL) grade to which they relate, but are separately classified as past due but not impaired.

Distribution of financial instruments by credit quality

	Neither past due nor impaired				Past due			
	Strong	Good	Satisfactory	Sub-standard	but not impaired	Impaired	Impairment allowances[18]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2012								
Cash and balances at central banks	146,337	1,364	210					147,911
Items in the course of collection from other banks	10,628	173	274					11,075
Hong Kong Government certificates of indebtedness	21,283							21,283
Trading assets[19]	242,618	68,646	49,377	711				361,352
treasury and other eligible bills	26,256	2,726	1,116					30,098
debt securities	97,559	14,196	19,458	350				131,563
loans and advances:								
to banks	60,832	26,423	7,474	101				94,830
to customers	57,971	25,301	21,329	260				104,861
Financial assets designated at fair value[19]	8,356	5,438	608	133				14,535
treasury and other eligible bills	77		14					91
debt securities	8,228	5,359	520	131				14,238
loans and advances:								

to banks	**51**		**74**	**2**				**127**
to customers		**79**						**79**
Derivatives[19]	**271,850**	**53,347**	**27,875**	**2,862**				**355,934**
Loans and advances held at amortised cost	**611,942**	**259,989**	**217,188**	**26,981**	**17,517**	**40,832**	**(17,273)**	**1,157,176**
to banks	**142,693**	**28,284**	**10,531**	**639**	**12**	**88**	**(56)**	**182,191**
to customers[20]	**469,249**	**231,705**	**206,657**	**26,342**	**17,505**	**40,744**	**(17,217)**	**974,985**
Financial investments	**330,781**	**27,343**	**23,265**	**3,456**		**2,205**		**387,050**
treasury and other similar bills	**62,669**	**4,691**	**4,093**	**99**				**71,552**
debt securities	**268,112**	**22,652**	**19,172**	**3,357**		**2,205**		**315,498**
Assets held for sale	**4,677**	**1,365**	**3,125**	**665**	**449**	**366**	**(106)**	**10,541**
disposal groups	**4,632**	**1,365**	**3,125**	**665**	**447**	**255**	**(106)**	**10,383**
non-current assets held for sale	**45**				**2**	**111**		**158**
Other assets	**11,908**	**7,672**	**12,403**	**1,604**	**290**	**520**		**34,397**
endorsements and acceptances	**2,172**	**4,807**	**4,849**	**945**	**5**	**4**		**12,782**
accrued income and other	**9,736**	**2,865**	**7,554**	**659**	**285**	**516**		**21,615**
	1,660,380	**425,337**	**334,325**	**36,412**	**18,256**	**43,923**	**(17,379)**	**2,501,254**

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Distribution of financial instruments by credit quality (continued)

	Neither past due nor impaired				Past due			
	Strong US$m	Good US$m	Satisfactory US$m	Sub-standard US$m	but not impaired US$m	Impaired[7] US$m	Impairment allowances[18] US$m	Total US$m
At 30 June 2011								
Cash and balances at central banks	66,860	999	229	130				68,218
Items in the course of collection from other banks	14,107	658	291	2				15,058
Hong Kong Government certificates of indebtedness	19,745							19,745
Trading assets[19]	318,456	51,432	62,735	5,609				438,232
treasury and other eligible bills	21,488	1,197	1,214					23,899
debt securities	173,233	10,726	22,215	2,631				208,805
loans and advances:								
to banks	73,490	20,773	4,347	1,524				100,134
to customers	50,245	18,736	34,959	1,454				105,394
Financial assets designated at fair value[19]	7,856	5,356	6,700	65				19,977
treasury and other eligible bills	207							207
debt securities	6,660	5,085	6,686	65				18,496
loans and advances:								
to banks	70	271	14					355
to customers	919							919
Derivatives[19]	211,625	34,718	11,096	3,233				260,672
Loans and advances held at amortised cost	695,086	302,837	186,904	31,426	22,166	44,406	(18,894)	1,263,931
to banks	182,273	35,168	7,666	785	116	197	(162)	226,043
to customers[20]	512,813	267,669	179,238	30,641	22,050	44,209	(18,732)	1,037,888
Financial investments	351,940	24,373	25,631	4,103		2,603		408,650
treasury and other similar bills	54,771	3,370	3,479	44				61,664
debt securities	297,169	21,003	22,152	4,059		2,603		346,986
Other assets	11,982	7,285	15,106	1,525	637	254		36,789
endorsements and acceptances	1,801	4,228	4,776	499	16	18		11,338
accrued income and other	10,181	3,057	10,330	1,026	621	236		25,451
	1,697,657	427,658	308,692	46,093	22,803	47,263	(18,894)	2,531,272

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	Neither past due nor impaired Strong	Good	Satisfactory	Sub-standard	Past due but not impaired	Impaired	Impairment allowances[18]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2011								
Cash and balances at central banks	126,926	2,678	263	35				129,902
Items in the course of collection from other banks	7,707	150	350	1				8,208
Hong Kong Government certificates of indebtedness	20,922							20,922
Trading assets[19]	231,594	37,182	39,171	1,502				309,449
treasury and other eligible bills	33,199	538	564	8				34,309
debt securities	103,163	8,497	18,188	639				130,487
loans and advances:								
to banks	49,021	20,699	5,186	619				75,525
to customers	46,211	7,448	15,233	236				69,128
Financial assets designated at fair value[19]	7,176	4,728	830	192				12,926
treasury and other eligible bills	123							123
debt securities	6,148	4,728	767	191				11,834
loans and advances:								
to banks	55		63	1				119
to customers	850							850
Derivatives[19]	279,557	45,858	18,627	2,337				346,379
Loans and advances held at amortised cost	609,081	245,352	194,661	28,210	20,009	41,739	(17,636)	1,121,416
to banks	144,815	28,813	6,722	568	39	155	(125)	180,987
to customers[20]	464,266	216,539	187,939	27,642	19,970	41,584	(17,511)	940,429
Financial investments	340,173	24,757	22,139	3,532		2,233		392,834
treasury and other similar bills	58,627	3,348	3,144	104				65,223
debt securities	281,546	21,409	18,995	3,428		2,233		327,611
Assets held for sale	14,365	12,587	7,931	536	2,524	1,479	(1,614)	37,808
disposal groups	14,317	12,587	7,931	536	2,522	1,467	(1,614)	37,746
non-current assets held for sale	48				2	12		62
Other assets	11,956	6,526	12,379	1,193	421	517		32,992
endorsements and acceptances	1,789	4,075	4,629	504	10	3		11,010
accrued income and other	10,167	2,451	7,750	689	411	514		21,982
	1,649,457	379,818	296,351	37,538	22,954	45,968	(19,250)	2,412,836

For footnotes, see page 180.

We assess credit quality on all financial instruments which are subject to credit risk. The balance of these financial instruments at 30 June 2012 was US$2,501bn, of which US$1,661bn or 66% were classified as strong . This percentage was broadly in line with 31 December 2011. The proportion of financial instruments classified as good and satisfactory remained broadly stable at 17% and 13%, respectively. The proportion of sub-standard financial instruments remained low at 1% at 30 June 2012.

Loans and advances held at amortised cost on which credit quality has been assessed increased by 3% to US$1,157bn. At 30 June 2012, 75% of the Group s lending balances were classified as either strong or good , broadly in line with the end of 2011.

Financial investments on which credit quality is assessed were US$387bn at 30 June 2012, compared with US$393bn at 31 December 2011. The majority of the Group s exposure was in the form of available-for-sale debt securities issued by

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government and government agencies classified as strong and this proportion was broadly in line with the end of 2011.

Derivative assets on which credit quality has been assessed increased by 3% to US$356bn compared with 31 December 2011. This rise was mainly in Europe, driven by a significant rise in the fair value of interest rate contracts due to downward movements of yield curves in major currencies, reflecting the ongoing monetary response to the economic weakness and turmoil in the eurozone. The proportion of balances classified as strong declined marginally from 81% at the end of 2011 to 76% at 30 June 2012 and the proportion of satisfactory balances increased from 5% to 8%.

Trading assets on which credit quality has been assessed grew by 17% to US$361bn from 31 December 2011, as client activity increased from the subdued levels seen in the second half of 2011. This resulted in higher reverse repo and equity securities balances as well as a rise in settlement account balances, which vary significantly in proportion to the level of trading activity. The proportion of balances classified as strong declined despite an overall increase in total balances classified as strong . This reflected a rise in the reverse repo transactions with counterparties classified as good and satisfactory , as well as the downgrade of certain eurozone countries which resulted in the movement of related debt securities balances from strong to good .

Cash and balances at central banks, on which credit quality has been assessed, increased by 14% to US$148bn, reflecting the deposit of surplus liquidity in Europe with the local central bank. Substantially all of the Group s cash and balances at central banks were classified as strong , with the most significant concentrations in Europe and North America.

Assets held for sale on which credit quality has been assessed declined, with reductions across all classifications, following the completion of the sale of our Card and Retail Services business in the US.

Past due but not impaired gross financial instruments

Past due but not impaired loans are those for which the customer is in the early stages of delinquency and has failed to make a payment, or a partial payment, in accordance with the contractual terms of the loan agreement. This is typically where a loan is past due up to 89 days and there are no other indicators of impairment.

Further examples of exposures past due but not impaired include individually assessed mortgages that are in arrears 90 days or more where there are no other indicators of impairment, but where the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty. Where groups of loans are collectively assessed for impairment, collective impairment allowances are recognised for loans classified as past due but not impaired.

At 30 June 2012, US$17.5bn of loans and advances held at amortised cost were classified as past due but not impaired (31 December 2011: US$20.0bn; 30 June 2011: US$22.2bn). The largest concentration of these balances was in HSBC Finance. The decrease in 2012 was primarily due to lower lending balances resulting in a reduction in early stage delinquency in the CML portfolio.

Past due but not impaired gross loans and advances to customers and banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2012	**2,259**	**1,084**	**2,548**	**980**	**7,874**	**2,772**	**17,517**
At 30 June 2011[7]	2,528	1,071	2,377	1,292	11,447	3,451	22,166
At 31 December 2011	1,990	1,107	2,319	1,165	10,216	3,212	20,009

For footnote, see page 180.

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Past due but not impaired gross loans and advances to customers and banks by industry sector

	At 30 June 2012 US$m	At 30 June 2011[7] US$m	At 31 December 2011 US$m
Banks	**12**	116	39
Customers	**17,505**	22,050	19,970
Personal	**12,153**	16,689	13,951
Corporate and commercial	**5,011**	5,047	5,855
Financial	**341**	314	164
	17,517	22,166	20,009

For footnote, see page 180.

Ageing analysis of days past due but not impaired gross financial instruments

	Up to 29 days US$m	30-59 days US$m	60-89 days US$m	90-179 days US$m	180 days and over US$m	Total US$m
At 30 June 2012						
Loans and advances held at amortised cost	**13,137**	**2,903**	**1,307**	**79**	**91**	**17,517**
to banks	**12**					**12**
to customers	**13,125**	**2,903**	**1,307**	**79**	**91**	**17,505**
Assets held for sale[1]	**270**	**116**	**50**	**6**	**7**	**449**
disposal groups	**270**	**114**	**50**	**6**	**7**	**447**
non-current assets held for sale		**2**				**2**
Other assets	**168**	**39**	**30**	**10**	**43**	**290**
endorsements and acceptances	**3**	**1**			**1**	**5**
other	**165**	**38**	**30**	**10**	**42**	**285**
	13,575	**3,058**	**1,387**	**95**	**141**	**18,256**
At 30 June 2011						
Loans and advances held at amortised cost[7]	16,125	3,808	1,911	185	137	22,166
to banks	116					116
to customers	16,009	3,808	1,911	185	137	22,050
Other assets	317	166	72	30	52	637
endorsements and acceptances	13	1			2	16
other	304	165	72	30	50	621

	16,442	3,974	1,983	215	189	22,803
At 31 December 2011						
Loans and advances held at amortised cost	14,239	3,680	1,727	223	140	20,009
to banks	39					