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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a 16 or 15d 16 of

the Securities Exchange Act of 1934

For the month of August 2011

HSBC Holdings plc

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

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

Form 20-F þ Form 40-F ¨

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

Yes ¨ No þ

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

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

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HSBC HOLDINGS PLC

Interim Report 2011

Certain defined terms

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

Interim financial statements and notes

HSBC s Interim Consolidated Financial Statements and Notes thereon, as set out on pages 171 to 218, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority and International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2010 were prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB, and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC s financial statements for the year ended 31 December 2010 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2011, there were no unendorsed standards effective for the period ended 30 June 2011 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

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

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

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

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HSBC HOLDINGS PLC

Interim Report 2011

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

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

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 129 countries and territories.

Highlights

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

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

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

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

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

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

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

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

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

Cover theme

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

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HSBC HOLDINGS PLC

Overview

Financial highlights

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

For the period

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

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

US$35,694m

30 June 2010: US$6,629m

31 December 2010: US$6,117m

30 June 2010: US$35,551m

31 December 2010: US$32,696m

At the period-end

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

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

Capital ratios

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

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

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Overview (continued)

Performance ratios (annualised)

Credit coverage ratios

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

Return ratios

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

Efficiency and revenue mix ratios

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

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

Share information at the period-end

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

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

For footnotes, see page 81.

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Overview (continued)

Cautionary statement regarding forward-looking statements

This *Interim Report 2011* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC s expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ, in some instances materially, from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements that are not historical facts, such as those that include the words potential , value at risk , expects , anticipates , objective , intends , seeks , plans , believes , estimates , and similar expressions or variations on such expressions may be considered forward-looking statements .

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

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Past performance cannot be relied on as a guide to future performance. Trends and factors that are expected to affect HSBC s results of operations are described in the Interim Management Report . A more detailed cautionary statement is given on page 379 of the *Annual Report and Accounts 2010.*

Group Chairman s Statement

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

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

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

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

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

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

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

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Overview (continued)

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

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

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

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

D J Flint, *Group Chairman*

1 August 2011

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Overview (continued)

Group Chief Executive s Review

HSBC s financial performance improved.

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

Progress on strategy

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

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

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

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

Revenues

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

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

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

Loan impairment charges

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

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

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Overview (continued)

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

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

Cost efficiency

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

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

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

Balance sheet

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

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

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

Economic outlook

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

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

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

S T Gulliver, *Group Chief Executive*

1 August 2011

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HSBC HOLDINGS PLC

Overview (continued)

Principal activities

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

Through our subsidiaries and associates, we provide a comprehensive range of banking and related financial services. Headquartered in London, we operate through long-established businesses and have an international network of around 7,500 offices in 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa (MENA), North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases.

HSBC s values

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

HSBC s values are being:

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

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

Strategic direction

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

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

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

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

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

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

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

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

Overview (continued)

Top and emerging risks

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

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

The top and emerging risks are summarised below:

Challenges to our business operations

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

Challenges to our governance and internal control systems

- Level of change creating operational complexity

- Information security risk

Macro-economic and geopolitical risk

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

- Increased geopolitical risk in the Middle East and North Africa

Macro-prudential and regulatory risks to our business model

- Regulatory change impacting our business model and Group profitability

- Regulatory and legislative requirements affecting conduct of business

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

Basis of preparation

The results of customer groups and global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of customer group and global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and Group Management Office (GMO) functions, to the extent that these can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

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

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HSBC HOLDINGS PLC

Interim Management Report

Financial summary

Reconciliation of reported and underlying profit before tax

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

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

Constant currency

Constant currency comparatives for the half-years to 30 June 2010 and 31 December 2010, used in the 2011 commentaries, are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2010 and 31 December 2010 at the average rates of exchange for the half-year to 30 June 2011; and

- the balance sheets at 30 June 2010 and 31 December 2010 at the rates of exchange ruling at 30 June 2011.

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

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

Underlying performance

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

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

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

- the gain of US$62m on reclassification of Bao Viet Holdings (Bao Viet) from an available-for-sale asset to an associate in January 2010;

- the gain of US$66m on sale of our stake in Wells Fargo HSBC Trade Bank in March 2010;

- the gain of US$107m on disposal of HSBC Insurance Brokers Limited in April 2010;

- the dilution gains which arose on our holding in Ping An Insurance (Group) Company of China, Limited (Ping An) following the issue of share capital to third parties in both May 2010 and June 2011 of US$188m and US$181m, respectively;

- the loss on the sale of our investment in British Arab Commercial Bank plc in 2010;

- the gain of US$74m on the deconsolidation of private equity funds following the management buy-out of Headland Capital Partners Ltd (formerly known as HSBC Private Equity (Asia) Ltd) in November 2010;

- the operating results of Eversholt Rail Group for the half year to 30 June 2010 and the gain on the sale of US$255m in December 2010.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying profit before tax

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

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

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Interim Management Report (continued)

Reconciliation of reported and underlying profit before tax (continued)

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

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

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

For footnotes, see page 81.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Consolidated income statement

Summary income statement

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

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

Interim Management Report (continued)

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

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

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

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

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Group performance by income and expense item

Net interest income

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

For footnotes, see page 81.

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

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

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

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

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

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

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

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Net fee income

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

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

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

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

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

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

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

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Net trading income

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

For footnotes, see page 81.

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

This increase was driven by lower adverse fair value movements on non-qualifying hedges compared with the first half of 2010. These instruments are derivatives entered into as part of a documented interest rate management strategy for which hedge accounting was not, or could not be, applied. They are principally cross-currency and interest rate swaps used to economically hedge fixed rate debt issued by HSBC Holdings and floating rate debt issued by HSBC Finance Corporation (HSBC Finance). Long-term US interest rates declined during the first half of 2011 but to a lesser extent than in the corresponding period in 2010, and the decrease relative to sterling and euro rates was also less pronounced, benefiting net trading income in North America and Europe. The size and direction of the changes in fair value of non-qualifying hedges that are recognised in the income statement can be volatile from period to period, but do not alter the cash flows expected as part of the documented interest rate management strategy for both the instruments and the underlying economically hedged assets and liabilities.

Net interest income earned on trading activities increased by 21%, attributable to a rise in holdings of government and government agency debt securities. The cost of internally funding these assets also

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

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

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

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

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

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Interim Management Report (continued)

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

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

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

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

For footnotes, see page 81.

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

The majority of the financial liabilities designated at fair value relate to certain fixed-rate long-term debt issues whose rate profile has been changed to floating through interest rate swaps as part of a documented interest rate management strategy. The movement in fair value of these long-term debt issues includes the effect of our credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. As credit spreads widen or narrow, accounting profits or losses, respectively, are booked. The size and direction of the changes in the credit spread on our debt and ineffectiveness, which are recognised in the income statement, can be volatile from period to period, but do not alter the cash flows envisaged as part of the documented interest rate management strategy. As a consequence, fair value movements arising from changes in our own credit spread on long-term debt and other fair value movements on the debt and related derivatives are not regarded internally as part of managed performance and are therefore not allocated to

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

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

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

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Interim Management Report (continued)

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

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

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

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

Gains less losses from financial investments

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

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

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

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

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

Net earned insurance premiums

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

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

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

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

Investment products with DPF continued to generate strong net earned premium income in France, driven by successful targeted sales campaigns. Life insurance premiums in the UK were also higher, due to increased sales of a unit-linked product driven by our enhanced distribution capabilities.

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

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

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

Other operating income

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

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

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

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

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Interim Management Report (continued)

Net insurance claims incurred and movement in liabilities to policyholders

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

For footnote, see page 81.

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

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

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

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

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

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

Loan impairment charges and other credit risk provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Operating expenses

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

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

Cost efficiency ratios

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

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

For footnote, see page 81.

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

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

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

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

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

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

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

Share of profit in associates and joint ventures

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

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

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

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

Tax expense

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

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

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

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Interim Management Report (continued)

Consolidated balance sheet

Summary consolidated balance sheet

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

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

For footnotes, see page 81.

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

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Movement from 31 December 2010 to 30 June 2011

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

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

Assets

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

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

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

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

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

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

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

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

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

Liabilities

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

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

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

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

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

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

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

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

Equity

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

Reconciliation of reported and underlying changes in assets and liabilities

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

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

For footnote, see page 81.

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

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Interim Management Report (continued)

Economic profit/(loss)

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

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

Economic profit/(loss)

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

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

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

For footnotes, see page 81.

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Interim Management Report (continued)

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

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

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

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Interim Management Report (continued)

Customer accounts by country

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

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

For footnote, see page 81.

Interim Management Report (continued)

Customer groups and global businesses

Summary

HSBC s senior management reviews operating activity on a number of bases, including by geographical region and by customer group and global business. Capital resources are allocated and performance is assessed primarily by geographical region, as presented on page 41.

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

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

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

The commentaries below present customer groups and global businesses followed by geographical regions. Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on an underlying basis (see page 10) unless stated otherwise.

Profit/(loss) before tax

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

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

Total assets[39]

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

Risk-weighted assets[40]

	At 30 June 2011		At 31 December 2010	
	US$bn	**%**	US$bn	%
Total	**1,168.5**	**100.0**	1,103.1	100.0

Retail Banking and Wealth Management