

HSBC HOLDINGS PLC  
Form 6-K  
August 07, 2014  
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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 2014**

**Commission File Number: 001-14930**

## **HSBC Holdings plc**

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

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

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Form 20-F  Form 40-F

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

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

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

Yes  No

(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, 2014 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158054, 333-158065, 333-162565, 333-17025, 333-176732, 333-180288, 333-183806 and 333-197839.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 6-K and that it has duly caused and authorized the undersigned to sign this interim report on its behalf.

**HSBC Holdings plc**

By: /s/ Iain J Mackay  
Name: Iain J Mackay  
Title: Group Finance Director

Dated: 7 August 2014

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HSBC HOLDINGS PLC

**Interim Report 2014**

## Certain defined terms

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

## Interim financial statements and notes

*HSBC's* Interim Consolidated Financial Statements and Notes thereon, as set out on pages 206 to 268, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct 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 2013 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 2013, there were no unendorsed standards effective for the year ended 31 December 2013 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 2013 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2014, there were no unendorsed standards effective for the period ended 30 June 2014 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 to *underlying* is made in tables or commentaries, the comparative information has been expressed at constant currency (see page 19), the impact of fair value movements in respect of credit spread changes on *HSBC's* own debt has been eliminated and the effects of acquisitions, disposals and dilutions have been adjusted as reconciled on page 22. *Underlying* return on risk-weighted assets (RoRWA) is defined and reconciled on page 43.

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Cover images: internationalisation of the renminbi

The images show the views from HSBC's head offices in Shanghai, Hong Kong and London – the three cities that are key to the development of China's currency, the renminbi ( RMB ). The growth of the RMB is set to be a defining theme of the 21st century. HSBC has RMB capabilities in over 50 countries and territories worldwide, where our customers can count on an expert service.

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HSBC HOLDINGS PLC

## **Overview**

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### **Who we are**

HSBC is one of the largest banking and financial services organisations in the world.

Customers:

52 million

Served by:

256,000 employees

Through four global businesses:

Retail Banking and Wealth Management

Commercial Banking

Global Banking and Markets

Global Private Banking

Located in:

74 countries and territories

Across five geographical regions:

Europe

Asia

Middle East and North Africa

North America

Latin America

Offices:

Over 6,200

Global headquarters:

London

Market capitalisation:

US\$193 billion

Listed on stock exchanges in:

London

Hong Kong

New York

Paris

Bermuda

Shareholders:

216,000 in 129 countries and territories

## **Our purpose**

Our purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

## **Our strategic priorities**

We aim to be the world's leading and most respected international bank. We will achieve this by focusing on the needs of our customers and the societies we serve, thereby delivering long-term sustainable value to all our stakeholders.

We have established three interconnected and equally weighted priorities for 2014 to 2016 to help us deliver our strategy:

grow the business and dividends;

implement Global Standards; and

streamline processes and procedures.

Each priority is interrelated, complementary and underpinned by initiatives within our day-to-day business. Together they create value for our customers and shareholders, and contribute to the long-term sustainability of HSBC.

## **How we measure performance**

We track our progress in implementing our strategy with a range of financial and non-financial objectives which are set within the context of the risk appetite and strategic direction agreed by the Board. Specific targets have been set for the period 2014 to 2016 at both a Group level and for each of our global businesses and regions.

**Rewarding performance**

The remuneration of all staff within the Group, including executive Directors, is based on the achievement of financial and non-financial objectives, which are aligned with the Group's strategy. To be considered for a variable pay award, an individual must have fully complied with HSBC Values.



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**Overview** (continued)**Highlights**

Profit before tax was down 12% at US\$12.3bn on a reported basis. Underlying profit before tax was down 4% at US\$12.6bn. We continued to implement our three strategic priorities to grow the business and dividends, implement our Global Standards programme, and streamline our processes and procedures. CRD IV end point basis common equity tier 1 ratio was 11.3%, 0.4% higher than at the end of 2013.

**For the half-year to 30 June 2014**

<i>Profit before taxation</i> <i>(Reported basis)</i> <i>(US\$bn)</i>	<i>Underlying profit</i> <i>before taxation</i> <i>(US\$bn)</i>	<i>Profit attributable to the</i> <i>ordinary shareholders of</i> <i>the parent company</i> <i>(US\$bn)</i>	<i>Earnings per share</i> <i>(US\$)</i>
<i>Dividends per ordinary share</i> <i>(in respect of period)<sup>1</sup></i> <i>(US\$)</i>	<i>Dividend payout ratio</i> <i>(%)</i>	<i>Cost efficiency ratio<sup>2</sup></i> <i>(%)</i>	<i>Loan impairment charges to</i> <i>total operating income</i> <i>(%)</i>

**At 30 June 2014**

<i>Total equity</i> <i>(US\$bn)</i>	<i>Total assets</i> <i>(US\$bn)</i>	<i>Loans and advances</i> <i>to customers<sup>3</sup></i> <i>(US\$bn)</i>	<i>Customer accounts<sup>3</sup></i> <i>(US\$bn)</i>

For footnotes, see page 96.



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HSBC HOLDINGS PLC

**Overview** (continued)

<i>Annualised return on average ordinary shareholders' equity</i>	<i>Post-tax return on average total assets</i>	<i>Ratio of customer advances to customer accounts<sup>3</sup></i>
(%)	(%)	(%)
Half-year to:	Half-year to:	

**Capital, leverage and return ratios**

<i>Common equity tier 1 ratio (end point)</i>	<i>Common equity tier 1 ratio (year 1 transition)</i>	<i>Total capital ratio (year 1 transition)</i>	<i>Risk-weighted assets (US\$bn)</i>
(%)	(%)	(%)	
<i>Core tier 1 ratio</i>	<i>Total capital ratio</i>	<i>Risk-weighted assets</i>	
(%)	(%)	(US\$bn)	
<i>Pre-tax return on average RWAs<sup>6</sup></i>	<i>Estimated leverage ratio<sup>7</sup></i>		
(%)	(%)		
Half-year to:			

**Share information at 30 June 2014**

<b>US\$0.50 ordinary shares in issue</b>	<b>Market capitalisation</b>	<b>London</b>	<b>Closing market price Hong Kong</b>	<b>American Depository Share<sup>8</sup></b>
19,071m	US\$193bn	£5.93	HK\$78.60	US\$50.80

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		30 Jun 2013: £6.82	30 Jun 2013: HK\$81.25	
30 Jun 2013: 18,627m	30 Jun 2013: US\$196bn	31 Dec 2013: £6.62	31 Dec 2013: HK\$84.15	30 Jun 2013: US\$51.90
31 Dec 2013: 18,830m	31 Dec 2013: US\$207bn			31 Dec 2013: US\$55.13
		Over 1 year	<b>Total shareholder return<sup>9</sup></b> Over 3 years	Over 5 years
<b>To 30 June 2014</b>		<b>92</b>	<b>112</b>	<b>149</b>
Benchmark:				
MSCI Bank <sup>49</sup>		110	126	164
<i>For footnotes, see page 96.</i>				

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**Overview** (continued)

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**Cautionary statement regarding forward-looking statements**

The *Interim Report 2014* contains certain forward-looking statements with respect to HSBC's financial condition, results of operations and business.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as *expects*, *anticipates*, *intends*, *plans*, *believes*, *seeks*, *estimates*, *potential* and *reasonably possible*, variations of these words and expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any 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. These include, but are not limited to:

changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;

changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and

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factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the DPAs.

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**Overview** (continued)

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**Group Chairman's Statement**

In the first half of 2014, against a backdrop of continuing low interest rates and reduced financial market volumes, HSBC produced a suitably well-balanced financial performance. This was achieved while continuing to invest significant time and resources in reshaping the Group to meet the heightened and evolving expectations of our regulators and of the communities we serve. At a time of residual concerns over the sustainability of economic growth in many major markets and with heightened geopolitical tensions apparent, the Board supported management's view that this was not the time to expand risk appetite to offset the effect of lower revenues arising from business disposals and legacy portfolio run-off.

Pre-tax profits on a reported basis were US\$12.3bn, US\$1.7bn or 12% less than in the first half of 2013. On an underlying basis, profit before tax was 4% behind the comparable period, with the major business contributor being lower revenues from traded markets. Earnings per ordinary share were US\$0.50 (2013: US\$0.54), amply covering the first two dividends in respect of 2014 of US\$0.20, which were consistent with those of last year at the same stage.

These results illustrate the challenge of funding a considerable expansion of Risk and Compliance resources as well as the operational and structural changes needed to address new regulatory and public policy requirements at a time of limited revenue growth opportunities. That we have been able to hold growth in underlying costs to 2% is attributable to further good progress with regard to systems and process re-engineering and simplification, as well as continuing cost discipline.

Business disposals and portfolio run-off do, however, contribute positively to internal capital generation. This, together with capital

generated from operating performance and the benefit of scrip dividends, contributed to a further strengthening of the Group's capital position. At 30 June 2014, our end point common equity tier 1 ratio improved to 11.3% compared with 10.9% at the beginning of the year and 10.1% a year ago.

The Group Chief Executive's Business Review draws out the highlights of business performance in the first half of 2014. I want to highlight three points which arise both from industry and our own re-shaping.

**Execution challenges are necessarily the primary focus of Board oversight**

The demands now being placed on the human capital of the firm and on our operational and systems capabilities are unprecedented. The cumulative workload arising from a regulatory reform programme that is unfortunately increasingly fragmented, often extraterritorial, still evolving and still adding definition is hugely consumptive of resources that would otherwise be customer facing. Add to this recent obligations to perform highly granular multiple stress tests which are inconsistent in definition and scenarios between major jurisdictions and so require considerable duplication of effort; recently announced significant wholesale market practice and competition reviews in the UK; reorganising the financial, operational and structural framework of the Group to respond to evolving thinking on cross-border resolution protocols; and, finally, planning what will be a multi-year project to separate and establish the ring-fenced bank in the UK, and the dimension of the execution risk is obvious.

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To be clear, we are committed and resourced to deliver all of the above. But there is extremely limited spare capacity. Prioritisation, which is clearly critical, will require support and guidance from public policy and regulatory bodies, particularly in the UK, regarding the juxtaposition of the recently announced competition review and preparation for the creation of the ring-fenced bank. Equally important is delivery of the stated intention of the Financial Stability Board and the G20 to seek to draw a close on fresh regulatory initiatives by the end of this year.

### **Retention of our human capital is essential**

Following on from the above it is also obvious how critical it is that we retain the goodwill and commitment of all of our staff as we plan and deliver the above transformation agenda alongside business as usual support for our customers in satisfying their business and personal needs. I do not think we have ever had to ask so much of so many. The commitment



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HSBC HOLDINGS PLC

### **Overview** (continued)

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and loyalty we receive is recognised with deep gratitude by executive management and the Board. We cannot, however, be complacent that this can be taken for granted. We face growing fatigue within critical functions as well as increased market competition for trained staff from other financial institutions facing similar resource challenges. This is adding to cost pressures both from increased salaries as market rates increase, and from investment in training and systems support to improve productivity. This underscores the importance of finalising the regulatory reform agenda in the near term.

#### **Growing danger of risk aversion and financial exclusion**

We continue to make good progress with implementing Global Standards, aiming to deliver a consistent approach to risk management, particularly in relation to financial crime risk. Success will be reflected in reduced incidence and severity of future customer redress and less exposure to regulatory and legal penalties. Recent high profile financial penalties and legal proceedings initiated against individuals are serving their intended purpose of highlighting the risks, both to shareholders' capital and to staff held responsible, of future infringement. Today, no one in our industry can fail to be aware of the heightened expectations of society regarding the role of banks in supporting economic activity; nor can they be unaware of the potential penalties for failing to live up to these expectations, particularly regarding conduct issues or breach of trust.

Greater focus on conduct and financial crime risks at all levels of the firm globally is clearly the right response to past shortcomings. There is, however, an observable and growing danger of disproportionate risk aversion creeping into decision-making in our businesses as individuals, facing uncertainty as to what may be criticised with hindsight and perceiving a zero tolerance of error, seek to protect themselves and the firm from future censure. We can address this behaviour through training and leadership, but we also need clarity from public policy and regulatory bodies over their expectations in this regard. Unwarranted risk aversion threatens to restrict access to the formal financial system to many who could benefit from it and risks unwinding parts of the ecosystem of networks and relationships that support global trade and investment.

#### **Board changes**

Since we reported to shareholders at the Annual General Meeting there have been two further changes to the Board, both announced on 1 August.

We are delighted to welcome Heidi Miller to the Board and to the Group Risk and Conduct & Values Committees with effect from 1 September. Heidi brings to the Board extensive international banking and finance experience developed in a career spanning over 30 years in some of the largest and most complex banking organisations.

As President of International at JPMorgan Chase & Co. from 2010 to 2012, Heidi had responsibility for leading the bank's global expansion and international business strategy across the Investment Bank and Asset Management divisions, as well as for the Treasury and Securities Services division, which she had run for the previous six years. Other former roles include Chief Financial Officer at both Bank One Corporation and Citigroup Inc.

Marvin Cheung, who has decided to retire for personal reasons, will be sorely missed. Marvin has served on the Board and on the Audit Committee since 2009, contributing great technical accounting and audit skills as well as a deep understanding of Hong Kong and mainland China issues. On behalf of the Board I want to thank him for his contribution over many years and wish him well for the future.

#### **Looking forward**

Notwithstanding the challenges before us, I am confident that the business model outlined in the Group Chief Executive's Business Review has further potential, and that we have the leadership and capabilities throughout the firm to make the most of that potential to the benefit of all our stakeholders. Although we spend much time grappling with the technicalities of the outstanding regulatory agenda, we never lose sight of why it is urgent we implement the required changes. In summary, we need to energise our staff with the prospect of rebalancing their workloads away from looking back and away from embedding new requirements and training and on to supporting the investment needed to stimulate growth,

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on to the design of new products to better manage risk, on to more exciting use of the new technologies that will allow people greater and cheaper access to a wider range of well-designed financial services, and on to the innovation that will help people deal with retirement through more efficient management of, and access to, their savings and investments.

D J Flint, *Group Chairman*

4 August 2014

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HSBC HOLDINGS PLC

## **Overview** (continued)

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### **Group Chief Executive's**

#### **Business Review**

2014 marks the start of the next phase of the implementation of our strategy. Against the backdrop of continuing regulatory change highlighted in the Group Chairman's statement, in the first six months of the year we continued to implement our three equal priorities to grow the business and dividends, implement our Global Standards programme, and streamline our processes and procedures.

Reported profit before tax was US\$12.3bn, US\$1.7bn lower than the equivalent period in 2013, as last year's first half benefited from higher gains from disposals and reclassifications, principally with respect to Hang Seng Bank's investment in Industrial Bank.

Underlying profit before tax was US\$12.6bn, US\$0.5bn lower than the prior year, and was affected by a number of significant items. Excluding these, profit before tax was US\$0.4bn higher. Return on average ordinary shareholders' equity was 10.7%.

Commercial Banking revenue continued to grow, with a good performance in Asia.

Global Banking and Markets, with its differentiated business model, was affected by low market volatility and client activity in our Markets business; however, we increased our market share in debt and equity capital markets, mergers and acquisitions, and lending.

Retail Banking and Wealth Management underlying revenue, excluding significant items, was lower primarily reflecting the run-off of our US Consumer Mortgage Lending portfolio. In our Principal business, also excluding significant items, underlying revenue was broadly unchanged.

Loan impairment charges fell and we continued to closely manage our costs while investing further in our Risk and Compliance functions and Global Standards, in line with our strategy.

Our capital position remained strong and our CRD IV end point basis common equity tier 1 ratio improved to 11.3% compared with the year-end position of 10.9%.

#### **A universal bank with an unrivalled global network**

The course that we first charted for the Group in 2011 to capitalise on the growth of global trade and capital flows, and economic development in developing markets remains firmly in place. These trends play naturally to the strengths of HSBC's global network and to the benefits of our universal banking model.

Between 2011 and 2013, we re-modelled the Group to meet the requirements of our strategy. This meant selling or exiting non-strategic businesses and running down our legacy portfolios, as well as changing aspects of the way we do business. Whilst we have foregone a substantial amount of revenue through this process, it has created a more coherent, logical and stronger bank with a solid platform for growth.

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HSBC today is a universal bank with a presence in 74 markets, including all of the top 15 countries by GDP. Our universal banking model gives us two major advantages in our pursuit of a greater share of the market.

First, it enables us to offer an integrated service between our global businesses and geographies.

Secondly, it increases our resilience as a Group and our ability to react to local circumstances and policy developments, whilst adhering to global standards.

By emphasising the connectedness of our global businesses and our international network, and applying the benefits of our scale on a local basis, we are able to provide a service that is responsive and tailored to the needs of our clients.

The strength of this model is reflected in the naming of HSBC as the Best Emerging Markets Bank and the Best Bank in Asia at the *Euromoney* Awards for Excellence 2014.

### **Capitalising on our network**

Our ongoing task is to apply these strengths to replace the revenue foregone as a result of the sale or closure of non-strategic businesses, the reduction of

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### **Overview** (continued)

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risk in our ongoing business, the run-off of our legacy portfolios, and the adverse effect of the low interest rate environment since the financial crisis.

A large portion of this revenue has already been replaced organically, and over the next three years we will continue to invest in the higher growth areas of our business, centred on our unique international network.

This network is HSBC's biggest competitive strength. Developed over nearly 150 years, it is highly distinctive, difficult to replicate and ideally positioned for the world's top trade corridors.

A significant proportion of revenue in our global businesses arises from strategic product areas that benefit from our international network and collaboration between our global businesses.

These product areas – Global Trade and Receivables Finance; Payments and Cash Management; Foreign Exchange; and renminbi services – are our investment priorities for the next three years. They embody HSBC's strengths in that they cut across global businesses and rely on superior connectivity to capture market share and deliver growth and scale.

Global Trade and Receivables Finance is an area of natural strength for HSBC in which we have continued to increase our market share. In the first half of 2014, we maximised the benefits of our network to win a number of high profile deals and began to reorganise our operating platforms for Receivables Finance on a regional basis. This allows us to provide a faster, more efficient service, benefiting our clients as well as our business.

Payments and Cash Management is a strong and stable provider of profit growth for the Group. Between 2011 and 2013 we grew our market share in PCM from 8% to 10.9%. In the first half of 2014, we increased new customer mandates by 19% compared with the same period in 2013, and delivered improved client coverage, including in the United States and mainland China. Expanding our reach should enable us to improve our market position further in future periods.

In Foreign Exchange, we are investing to prepare our business for the future by upgrading our platforms. With the opportunities afforded by our network, this establishes a base that should enable us to increase our share of the foreign exchange market beyond the gains made in the first three years of our strategy. Our market share has increased to 7.1% and we are optimistic about future growth.

HSBC has a major position in renminbi services which reflects our significant presence in the major renminbi hubs of Hong Kong, London, Shanghai and Singapore. We consolidated that position in the first half of 2014. HSBC ranked first across all eight categories in *Asiamoney's* Offshore RMB Poll 2014 and was voted the Best Overall Offshore RMB Products/Services provider for the third successive year.

Our investment in these products is supported by investment in countries that bridge trade and capital flows – such as Germany, the United States and mainland China – and large city clusters which contain deep international revenue pools.

We believe this investment will lead to growth in profits and increased dividends for our shareholders. We are pursuing these alongside our equal priorities to implement our Global Standards programme and streamline our processes and procedures.

### **Business outlook**

We remain broadly positive about the economic outlook for the majority of our home and priority markets. The UK in particular should maintain a firm recovery. We have slightly increased our forecasts for mainland China GDP growth in 2014 to 7.5% and expect Hong Kong to benefit from export growth in the second half of the year. Growth in Latin America remains muted. Our Middle East business continues to perform well, albeit overshadowed by regional uncertainties.

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There are indications that interest rates could start to rise as early as the fourth quarter of 2014 in the UK and the first half of 2015 in the US, which given the size of our commercial surplus has positive implications for our revenues.

Whilst regulatory uncertainty persists, our balance sheet remains strong. Our ability to generate capital continues to support our progressive dividend policy. We remain well placed to meet expected future capital requirements, to continue to deliver an attractive total shareholder return and to establish HSBC as the world's leading international bank.

S T Gulliver, *Group Chief Executive*

4 August 2014

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HSBC HOLDINGS PLC

**Overview** (continued)

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**Value creation and long-term sustainability**

Through our principal activities – making payments, holding savings, providing finance and managing risks – we play a central role in society and in the economic system. Our target is to build and maintain a business which is sustainable in the long term.

**How we create value**

Banks play a crucial role in the economic and social system, creating value for many parties in different ways. We provide a facility for customers to securely and conveniently deposit their savings. We allow funds to flow from savers and investors to borrowers, either directly or through the capital markets. The borrowers then use these loans or other forms of credit to buy goods or invest in businesses. By these means, we help the economy to convert savings which may be individually short-term into financing which is, in aggregate, longer term. We bring together investors and people looking for investment funding and we develop new financial products. We also facilitate personal and commercial transactions by acting as payment agent both within countries and internationally. Through these activities, we take on risks which we then manage and reflect in our prices.

Our direct lending includes residential and commercial mortgages and overdrafts, and term loan facilities. We finance importers and exporters engaged in international trade and provide advances to companies secured on amounts owed to them by their customers.

We also offer additional financial products and services including broking, asset management, financial advisory services, life insurance, corporate finance, securities services and alternative investments. We make markets in financial assets so that investors have confidence in efficient pricing and the availability of buyers and sellers. We provide these products for clients ranging from governments to large and mid-market corporates, small and medium-sized enterprises, high net worth individuals and retail customers. We help customers raise financing from external investors in debt and equity capital markets. We create liquidity and price transparency in these securities allowing investors to buy and sell them on the secondary market. We exchange national currencies, helping international trade.

*Value creation*

*Our main products and services are described in more detail on page 79 of the Annual Report and Accounts 2013.*

**Our operating income is primarily derived from:**

*net interest income* – interest income we earn on customer loans and advances and on our surplus funds, less interest expense we pay on interest-bearing customer accounts and debt securities in issue;

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*net fee income* fee income we earn from the provision of financial services and products to customers less fees we pay; and

*net trading income* income from client driven trading activities primarily conducted in Markets, including Foreign Exchange, Credit, Rates and Equities trading.

We offer products that help a wide range of customers to manage their risks and exposures through, for example, life insurance and pension products for retail customers and receivables finance or documentary trade instruments for companies. Corporate customers also ask us to help with managing the financial risks arising in their businesses by employing our expertise and market access.

An important way of managing risks arising from changes in asset and liability values and movements in rates is provided by derivative



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HSBC HOLDINGS PLC

### **Overview** (continued)

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products such as forwards, futures, swaps and options. In this connection, we are an active market-maker and derivative counterparty. Customers use derivatives to manage their risks, for example, by:

using forward foreign currency contracts to hedge their income from export sales or costs of imported materials;

using an inflation swap to hedge future inflation-linked liabilities, for example, for pension payments;

transforming variable payments of debt interest into fixed rate payments, or vice versa; or

providing investors with hedges against movements in markets or particular stocks.

We charge customers a margin, representing the difference between the price charged to the customer and the theoretical cost of executing an offsetting hedge in the market. We retain that margin, which represents a profit to the Group, at maturity of the transaction if the risk management of the position has been effective.

We then use derivatives along with other financial instruments to constrain the risks arising from customer business within risk limits. Normally, we will have customers both buying and selling relevant instruments so our focus is then on managing any residual risks through transactions with other dealers or professional counterparties. Where we do not fully hedge the residual risks we may gain or lose money as market movements affect the net value of the portfolio.

Stress tests and other risk management techniques are also used to ensure that potential losses remain within our risk appetite under a wide range of potential market scenarios.

In addition, we manage risks within HSBC, including those which arise from the business we do with customers.

### **Long-term sustainability**

At HSBC, we understand that the success of our business is closely connected to the economic, environmental and social landscape in which we operate. For us, long-term corporate sustainability means achieving a sustainable return on equity and profit growth so that we can continue to reward shareholders and employees, build long-lasting relationships with customers and suppliers, pay taxes and duties in the countries in which we operate, and invest in communities for future growth. The way we do business is as important as what we do: our

responsibilities to our customers, employees and shareholders as well as to the countries and communities in which we operate go far beyond simply being profitable.

Continuing financial success depends, in part, on our ability to identify and address environmental, social and ethical developments which present risks or opportunities for the business. It also depends on the consistent implementation of the highest standards everywhere we operate to detect, deter and protect against financial crime. Our response to these factors shapes our reputation, drives employee engagement and affects the riskiness of the business, and can help reduce costs and secure new revenue streams.

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Our international network and the long-established position of many of our businesses in HSBC's home and priority growth markets, when combined with our wide-ranging portfolio of products and services, differentiate HSBC from our competitors and give our business and operating models an inherent resilience. This has enabled the Group to remain profitable and grow through the most turbulent of times for our industry, and we are confident that the models will continue to stand us in good stead in the future and will underpin the achievement of our strategic priorities.

### **Our strategy**

Our strategy is designed to ensure we have a sustainable business for the long term.

### **Long-term trends**

Our strategy is aligned to two long-term trends.

The world economy is becoming ever more connected, with growth in world trade and cross-border capital flows continuing to outstrip growth in average gross domestic product. Over the next decade we expect 35 markets to generate 90% of world trade growth with a similar degree of concentration in cross-border capital flows.

Of the world's top 30 economies, we expect those of Asia, Latin America, the Middle East and Africa to have increased by around fourfold in size by 2050, benefiting from demographics and urbanisation. By this time they will be larger than those of Europe and North America combined. By 2050, we expect 18 of the 30 largest economies will be from Asia, Latin America or the Middle East and Africa.

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### **Overview** (continued)

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Competitive advantages

What matters in this environment are:

having an international network and global product capabilities to capture international trade and movements in capital; and

being able to take advantage of organic investment opportunities in the most attractive growth markets and maintaining the capacity to invest. HSBC's competitive advantages come from:

our meaningful presence in and long-term commitment to our key strategic markets;

our strong ability to add to our capital base while also providing competitive rewards to our staff and good returns to our shareholders;

our stable funding base, with about US\$1.4 trillion of customer accounts of which 74% has been advanced to customers;

our business network, which covers over 90% of global trade and capital flows; and

our local balance sheet strength and trading capabilities in the most relevant financial hubs.

#### **A two-part strategy**

Based on these long-term trends and our competitive advantages, we have developed a two-part strategy:

*A network of businesses connecting the world.* HSBC's network spans the largest and fastest-growing international trade corridors, putting us in a strong position to capture international trade and capital flows. The range of services available through our Commercial Banking and Global Banking and Markets businesses can help clients grow from small enterprises into large multinationals.

*Wealth management and retail with local scale.* We will capture opportunities arising from social mobility and wealth creation in our priority growth markets through our Premier proposition and Global Private Banking business. We will invest in full-scale retail banking only in markets where we can achieve profitable scale, namely our home markets of the UK and Hong Kong.

#### **Our strategic priorities**

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Our strategic priorities are designed to ensure we have a sustainable business for the long term.

### Grow the business and dividends

Profit underpins long-term business sustainability and growing our profit is an integral part of our strategy. The conditions for creating value and generating profits are reflected in our business and operating models, which determine how our global businesses, geographical regions and functions interact. We continue to invest in products and geographies that help us capitalise on our position as a leading international bank. Delivering organic growth will support a progressive dividend.

### Implement Global Standards

As a global bank we need Global Standards – consistent operating principles that are fundamental to the way we do business and which help us to detect, deter and protect against financial crime. Implementing Global Standards affects how we govern the Group, the nature of our core business and the performance, recognition and behaviours of all our people in managing high quality customer relationships. It starts with embedding our HSBC Values in everything we do. Over the long term, implementing Global Standards will create a competitive advantage and enhance the quality of our earnings.

### Streamline processes and procedures

Society's expectations of the financial services industry are evolving and becoming more demanding. At the same time, digital technologies are making it easier for new entrants to join the industry and markets are becoming increasingly competitive. In this environment, it is essential that we focus relentlessly on improving efficiency, ensuring that all parts of the Group streamline their processes and procedures and, as a consequence, reduce their costs. At the same time we recognise and respect our wider obligations to the community, including human rights, and the environment. Streamlining processes and procedures will support our investment in growth and Global Standards.

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HSBC HOLDINGS PLC

**Overview** (continued)

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**Business and operating models**

Our businesses are organised to serve a cohesive portfolio of markets, as tabulated below. Our comprehensive range of banking and related financial services is provided by operating subsidiaries and associates. Services are primarily delivered by domestic banks, typically with local deposit bases.

**Business model**

Our business model is based on an international network connecting faster-growing and developed markets.

The UK and Hong Kong are our home markets, and a further 19 countries form our priority growth markets (see table below). These 21 markets accounted for over 90% of our profit before tax in the first half of 2014, and are the primary focus of

capital deployment. Network markets are markets with strong international relevance which serve to complement our international spread, operating mainly through Commercial Banking and Global Banking and Markets. Our combination of home, priority growth and network markets covers around 85-90% of all international trade and financial flows.

The final category, small markets, includes those where our operations are of sufficient scale to operate profitably, or markets where we maintain representative offices.

Our legal entities are regulated by their local regulators and on a Group-wide basis we are regulated from the UK by the Prudential Regulation Authority ( PRA ) for prudential matters (safety and soundness) and by the Financial Conduct Authority ( FCA ) for conduct (consumer and market protection).

*HSBC's market structure*

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**Operating model**

Our operating model is based on a matrix management structure comprising global businesses, geographical regions and global functions. The matrix is overlaid on a legal entity structure headed by HSBC Holdings plc.

**Holding company**

HSBC Holdings, the holding company of the Group, is the primary source of equity capital for its subsidiaries and provides non-equity capital to them when necessary.

Under authority delegated by the Board of HSBC Holdings, the Group Management Board ( GMB ) is responsible for the management and day-to-day running of the Group, within the risk appetite set by the Board. GMB works to ensure that there are sufficient cash resources to pay dividends to shareholders, interest to bondholders, expenses and taxes.

HSBC Holdings does not provide core funding to any banking subsidiary, nor is a lender of last resort, and does not carry out any banking business in its own right. Subsidiaries operate as separately capitalised entities implementing the Group strategy.

**Matrix management structure**

The following table lists our four global businesses, five geographical regions and 11 global functions, and summarises their responsibilities under HSBC s matrix structure.

*Matrix management structure*

*For footnotes, see page 96.*

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### **Overview** (continued)

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#### Global businesses

Our four global businesses are Retail Banking and Wealth Management ( RBWM ), Commercial Banking ( CMB ), Global Banking and Markets ( GB&M ) and Global Private Banking ( GPB ). They are responsible for developing, implementing and managing their business propositions consistently across the Group, focusing on profitability and efficiency. They set their strategies

within the parameters of the Group strategy in liaison with the geographical regions, are responsible for issuing planning guidance regarding their businesses, are accountable for their profit and loss performance, and manage their headcount.

*The main business activities of our global business are summarised below, and their products and services on page 79 of the Annual Report and Accounts 2013.*

#### *Main business activities by global business and reported revenue<sup>13</sup>*

*For footnotes, see page 96.*

#### Investment criteria

Our investment criteria are governed by six filters. The first two filters – international connectivity and economic development – determine whether the business is strategically relevant. The next three filters – profitability, efficiency and liquidity – determine whether the financial position of the business is attractive. The sixth filter – the risk of financial crime – governs our activities in high risk jurisdictions, and is applied to protect us by restricting the scope of our business where appropriate.

Decisions over where to invest additional resources have three components:

*Strategic* – we will only invest in businesses aligned to our strategy, mostly in our 21 home and priority growth markets and in target businesses and clients;

*Financial* – the investment must be value accretive for the Group, and must meet minimum returns, revenue and cost hurdles; and

*Risk* – the investment must be consistent with our risk appetite.

*Using the six filters in decision-making*





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#### **Global Standards**

We have developed Global Standards shaped by the highest or most effective standards of financial crime compliance available in any jurisdiction where HSBC operates and are now in the process of deploying these globally on a consistent basis.

By definition, the impact of Global Standards is organisation-wide, and the principal means by which we drive consistently high standards is through universal application of our HSBC Values, strong systems of governance and the behaviours, performance and recognition of all our people in managing high quality customer relationships.

In line with our ambition to be recognised as the world's leading international bank, we aspire to set the industry standard for knowing our customers and detecting, deterring and protecting against financial crime. As international markets become more interconnected and complex and as threats to the global financial system grow, we are strengthening further the policies and practices which govern how we do business and with whom.

We greatly value our reputation. Our success over the years is due in no small part to our reputation for trustworthiness and integrity. In areas where we have fallen short in recent years – in the application of our standards and in our ability to identify and so prevent misuse and abuse of the financial system through our networks – we have moved immediately to strengthen our governance processes and have committed to adopt and enforce the highest or most effective financial crime compliance standards across HSBC.

We continue to reinforce the status and significance of compliance and adherence to our Global Standards by building strong internal controls, developing world class capabilities through communication, training and assurance programmes to make sure employees understand and can meet their responsibilities, and redesigning core elements of how we assess and reward senior executives.

We see the implementation of Global Standards as a source of competitive advantage. Global Standards allow us to:

strengthen our response to the ongoing threat of financial crime;

make consistent and therefore simplify the ways by which we monitor and enforce high standards at HSBC;

strengthen policies and processes that govern how we do business and with whom; and  
ensure that we consistently apply our HSBC Values.

We expect our Global Standards to underpin our business practices now and in the future. Initially, we are concentrating on transforming how we detect, deter and protect against financial crime. We are implementing a more consistent, comprehensive approach to assessing financial crime risk in order to help protect our customers, our employees and the financial system as a whole.

#### **Governance framework**

Following Board approval of HSBC's global anti-money laundering (AML) and sanctions policies in January 2014, the programme to implement Global Standards is transitioning from the design phase into deployment.

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The global businesses and Financial Crime Compliance organisation, supported by HSBC Technology and Services, are formally accountable for delivering business procedures, controls and the associated operating environment to implement our new policies within each global business and jurisdiction.

To ensure that programme governance reflects this shift in accountability, we have revised the composition of the Global Standards Execution Committee to include the Chief Executive Officers of each global business, under the chairmanship of the Group Chief Risk Officer.

Correspondingly, and to promote closer integration with business as usual, a report on the implementation of Global Standards has now become a standing item at the Group's Risk Management Meeting. This replaces the Global Standards Steering Meeting (formerly a meeting of the GMB). The Financial System Vulnerabilities Committee and the Board continue to receive regular reports on the Global Standards programme.

The process of embedding Global Standards and the supporting controls and capabilities that allow the business to identify and mitigate financial crime risk has begun. The implementation programme is focused on the following four areas, as described on page 24 of the *Annual Report and Accounts 2013*:

data readiness;

customer due diligence;

financial crime compliance; and

financial intelligence.

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HSBC HOLDINGS PLC

### **Overview** (continued)

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#### Risk appetite

Over the longer term, the sustainable operation of financial crime risk controls as part of our everyday business is governed according to our global Financial Crime Risk Appetite Statement. The overarching approach and appetite to financial crime risk is that we will not tolerate operating without the appropriate systems and controls in place to prevent and detect financial crime and will not conduct business with individuals or entities we believe are engaged in illicit behaviour.

#### Enterprise-wide risk assessment

We have established an annual process for conducting enterprise-wide assessments of our risks and controls related to sanctions and AML compliance. The outcome of these assessments forms the basis for risk management planning, prioritisation and resource allocation.

#### **The Monitor**

Under the agreements entered into with the US Department of Justice ( DoJ ), the FCA (formerly the FSA) and the US Federal Reserve Board ( FRB ) in 2012, including the five-year Deferred Prosecution Agreement ( US DPA ), it was agreed that an independent compliance monitor ( the Monitor ) would be appointed to evaluate our progress in fully implementing our obligations and produce regular assessments of the effectiveness of our Compliance function.

Michael Cherkasky began his work as the Monitor in July 2013, charged with evaluating and reporting upon the effectiveness of the Group s internal controls, policies and procedures as they relate to ongoing compliance with applicable AML, sanctions, terrorist financing and proliferation financing obligations, over a five-year period.

The Monitor s work is proceeding as expected, consistent with the timelines and requirements set forth in the relevant agreements. HSBC is taking concerted action to remediate AML and sanctions compliance deficiencies and to implement Global Standards. We recognise we are only at the start of a long journey, being just over a year into our US DPA. We look forward to maintaining a strong, collaborative relationship with the Monitor and his team.

#### **HSBC Values**

Embedding HSBC Values in every decision and every interaction with customers and with each other

is a top priority for the Group and is shaping the way we do business.

The role of HSBC values in daily operating practice is fundamental to our culture, and is particularly important in the light of developments in regulatory policy, investor confidence and society s expectations of banks.

We require high standards of behaviour from all our employees. HSBC s Values of being dependable, open and connected form part of the performance assessment of every employee, including our most senior managers.

*HSBC Values*

**Be dependable and do the right thing**

stand firm for what is right, deliver on commitments, be resilient and trustworthy; and

take personal accountability, be decisive, use judgement and common sense, empower others.

**Be open to different ideas and cultures**

communicate openly, honestly and transparently, value challenge, learn from mistakes; and

listen, treat people fairly, be inclusive, value different perspectives.

**We connected with our customers, communities, regulators and each other**

build connections, be externally focused, collaborate across boundaries; and

care about individuals and their progress, show respect, be supportive and responsive.

We continued to educate employees at all levels about our values, through induction and other learning programmes covering Group strategy, leadership and professional skills. Also, a number of employees have left the Group for breaching our values.

To achieve a values-led high performance culture, our leaders are being coached to listen, be open to other people's views and engage in honest and meaningful conversations. In 2014, we expect participation in our Values-led High Performance Workshop to extend to 20,000 employees.

We have continued to strengthen the alignment of employee compensation to our values and expected behaviours through the development of a malus and clawback policy and enhanced communication to employees and guidance to line management outlining how behaviours will affect remuneration. We are also developing a framework to more consistently apply consequence management across the Group for behaviours and outcomes that are not aligned with our values, business principles and regulation.

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**Overview** (continued)

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**Risk**

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

All 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.

Our risk culture is fundamental to the delivery of the Group's strategic priorities. It may be characterised as conservative, control-based and collegiate. It is reinforced by our HSBC Values and our Global Standards, and forms the basis on which our risk appetite is established. Our risk

management framework is employed at all levels of the organisation, and is instrumental in aligning the behaviour of individuals with the Group's attitude to assuming and managing risk and ensuring that our risk profile is aligned to our risk appetite. The main elements that underpin our risk culture are described on page 39 of the *Annual Report and Accounts 2013*.

The chart below provides a high level guide to how HSBC's business activities are reflected in our risk measures and in our balance sheet. The third-party assets and liabilities shown therein indicate the contribution of each global business to the Group's balance sheet. The regulatory RWAs illustrate the relative size of the risks each of them incur.

*Exposure to risks arising from the business activities of global businesses*

*For footnote, see page 96.*

**Risk factors**

Our businesses are exposed to a broad range of risks that could potentially affect the results of our operations or financial condition. These risk

factors are summarised on page 135 of the *Annual Report and Accounts 2013*. They inform the ongoing assessment of our top and emerging risks, which may result in our risk appetite being revised.

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**Top and emerging risks**

Identifying and monitoring top and emerging risks are integral to our approach to risk management. We define a top risk as being a current, emerged risk which has arisen across any of our risk categories, global businesses or regions and has the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may form and crystallise within a one-year horizon. We consider an emerging risk to be one with potentially significant but uncertain outcomes which may form and crystallise beyond a one-year horizon, in the event of which it could have a material effect on our ability to achieve our long-term strategy.

Our top and emerging risk framework enables us to identify and manage current and forward-looking risks to ensure our risk appetite remains appropriate.

Top and emerging risks fall under the following three categories:

macroeconomic and geopolitical risk;

macro-prudential, regulatory and legal risks to our business model; and

risks related to our business operations, governance and internal control systems.

During the first half of 2014, senior management paid particular attention to a range of top and emerging risks. Our current ones are summarised below.

*Top and emerging risks /*

**Macroeconomic and geopolitical risk**

Emerging markets slowdown

Increased geopolitical risk

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

Regulatory developments affecting our business model and Group profitability

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

Dispute risk

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

Heightened execution risk

People risk

Stress test impact risk

Social media risk

Internet crime and fraud

Information security risk

Data management

Model risk

We made a number of changes to our top and emerging risks in the first half of 2014 to reflect our revised assessment of their effect on HSBC. Stress test impact risk was identified as a top risk because of the increase in volume and granularity of regulatory stress test exercises and because public disclosure of the results of the exercises could have unexpected consequences for business and our reputation. HSBC is subject to a number of major regulatory stress tests during 2014, as described on page 105. Social media risk was also assessed as a top risk due to the speed at which speculation about an institution or customer complaints, either specific to an institution or more generally in relation to a particular product, can spread through the use of social media channels. Whilst people risk is inherent within a number of the Top and Emerging Risks, it has now been disclosed as a standalone risk, as the risks in this area continue to heighten.

When the top and emerging risks were assessed as having the potential to result in our risk appetite being exceeded, we took steps to mitigate them, including reducing our exposure to areas of stress. Significant senior management attention was given to tracking and monitoring our compliance with the requirements of the US DPA and improving our policies, processes and controls to minimise the risk of a breach.

A detailed account of these risks is provided on page 100. Further comments on risks and uncertainties are made throughout the *Annual Report and Accounts 2013*, particularly in the section on Risk, pages 134 to 297.

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**Overview** (continued)

**Risk appetite**

The Group’s Risk Appetite Statement ( RAS ) describes the types and quantum of risks that we are willing to accept in achieving our medium and long-term strategic objectives. It is approved by the Board on the advice of the Group Risk Committee.

The RAS is a key component of our risk management framework, guides the annual planning process by defining the desired forward-looking risk profile of the Group in achieving our strategic objectives, and plays an important role in our six filters process. Our risk appetite may be revised in response to our assessment of the top and emerging risks we have identified.

Global businesses and geographical regions are required to align their risk appetite statements to the Group’s RAS.

Quantitative and qualitative metrics are measured and monitored in ten key categories: returns, capital, liquidity and funding, securitisations, cost of risk, intra-Group lending, strategic investments, risk categories like credit, market and operational risk, risk diversification and concentration, and financial crime compliance. Measurement against the metrics:

guides underlying business activity, ensuring it is aligned to risk appetite statements;

informs risk-adjusted remuneration;

enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and

allows the business decisions needed to mitigate risk to be promptly identified.

Some of the core metrics that are measured, monitored and presented monthly to the Risk Management Meeting of the GMB are tabulated below:

*Risk appetite metrics*

		At 30 June 2014
Common equity tier 1 ratio <sup>5</sup>	2014 target <sup>21</sup> >10%	11.3%
Return on equity	Trending upwards  to 12% to 15%	10.7%



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Return on RWAs <sup>5</sup> Cost efficiency ratio Advances to customer accounts ratio <sup>3</sup> Cost of risk (LICs)	by 2016 2.2% to 2.6% Mid-50s Below 90% Below 15% of	<b>2.1%</b> <b>58.6%</b> <b>74.0%</b>  <b>5.3%</b>
	operating income	

*For footnotes, see page 96.*

With effect from 2014 our common equity tier 1 ratio target was changed from 9.5-10.5% to >10% and our return on RWA target from 2.1-2.7%, to 2.2-2.6%, both calculated on an estimated CRD IV end point basis. The changes were made to reflect our anticipated regulatory capital requirements under CRD IV (see page 185). Similarly, the timeframe around achieving our return on equity target was extended to the medium term while capital rules are finalised. Our cost efficiency ratio target was changed from 48-52% to the mid-50s as our focus moves from organisational efficiency to streamlining processes and procedures while investing for growth.

In addition to the revisions noted above, we strengthened the Group's RAS in 2014 by incorporating into it measures related to the core financial crime compliance principles on deterrence, detection and protection.

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Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 206. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures. Non-GAAP financial measures that we use throughout our Financial Review are described below. Other non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

**Constant currency**

Constant currency adjusts the period-on-period effects of foreign currency translation differences on performance by comparing reported results for the half-year to 30 June 2014 with reported results for the half-years to 30 June 2013 and 31 December 2013 retranslated at average exchange rates for the half-year to 30 June 2014. Except where stated otherwise, commentaries are on a constant currency basis, as reconciled in the table overleaf.

The foreign currency translation differences reflect the period-on-period movements of the US dollar against most major currencies.

We exclude the translation differences because we consider the like-for-like basis of constant currency financial measures more appropriately reflects changes due to operating performance.

**Constant currency**

Constant currency comparatives for the half-years to 30 June 2013 and 31 December 2013 referred to in the commentaries below 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 2013 and 31 December 2013 at the average rates of exchange for the half-year to 30 June 2014; and

the balance sheets at 30 June 2013 and 31 December 2013 at the prevailing rates of exchange at 30 June 2014.

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

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

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**Interim Management Report** (continued)*Reconciliation of reported and constant currency profit before tax*

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
			1H13			
		Currency	at 1H14		Constant	
		translation	exchange	1H14 as	Reported	currency
	1H13 as reported	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
US\$m	US\$m	US\$m	US\$m	%	%	
<b>HSBC</b>						
Net interest income	17,819	(235)	17,584	17,405	(2)	(1)
Net fee income	8,404	(44)	8,360	8,177	(3)	(2)
Net trading income	6,362	142	6,504	3,275	(49)	(50)
Own credit spread <sup>24</sup>	(19)	4	(15)	(215)		
Other income/(expense) from financial instruments designated at fair value	(1,178)	(78)	(1,256)	1,875		
Net income/(expense) from financial instruments designated at fair value	(1,197)	(74)	(1,271)	1,660		
Gains less losses from financial investments	1,856	16	1,872	946	(49)	(49)
Net earned insurance premiums	6,226	(17)	6,209	6,137	(1)	(1)
Other operating income (including dividend income)	1,053	(30)	1,023	626	(41)	(39)
<b>Total operating income</b>	<b>40,523</b>	<b>(242)</b>	<b>40,281</b>	<b>38,226</b>	<b>(6)</b>	<b>(5)</b>
Net insurance claims incurred and movement in liabilities to policyholders	(6,151)	(19)	(6,170)	(7,059)	(15)	(14)
<b>Net operating income<sup>13</sup></b>	<b>34,372</b>	<b>(261)</b>	<b>34,111</b>	<b>31,167</b>	<b>(9)</b>	<b>(9)</b>
Loan impairment charges and other credit risk provisions	(3,116)	106	(3,010)	(1,841)	41	39
<b>Net operating income</b>	<b>31,256</b>	<b>(155)</b>	<b>31,101</b>	<b>29,326</b>	<b>(6)</b>	<b>(6)</b>
Operating expenses	(18,399)	125	(18,274)	(18,266)	1	
<b>Operating profit</b>	<b>12,857</b>	<b>(30)</b>	<b>12,827</b>	<b>11,060</b>	<b>(14)</b>	<b>(14)</b>
Share of profit in associates and joint ventures	1,214	22	1,236	1,280	5	4
<b>Profit before tax</b>	<b>14,071</b>	<b>(8)</b>	<b>14,063</b>	<b>12,340</b>	<b>(12)</b>	<b>(12)</b>
<b>By global business</b>						
Retail Banking and Wealth Management	3,267	43	3,310	3,045	(7)	(8)
Commercial Banking	4,133	16	4,149	4,771	15	15
Global Banking and Markets	5,723	(46)	5,677	5,033	(12)	(11)
Global Private Banking	108	11	119	364	237	206
Other	840	(32)	808	(873)		
Profit before tax	14,071	(8)	14,063	12,340	(12)	(12)
<b>By geographical region</b>						
Europe	2,768	227	2,995	2,258	(18)	(25)
Asia <sup>11</sup>	9,262	(98)	9,164	7,894	(15)	(14)

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Middle East and North Africa	909	(3)	906	989	9	9
North America	666	(33)	633	825	24	30
Latin America	466	(101)	365	374	(20)	2
Profit before tax	14,071	(8)	14,063	12,340	(12)	(12)

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**Interim Management Report** (continued)Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )  
2H13

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
<b>HSBC</b>						
Net interest income	17,720	66	17,786	17,405	(2)	(2)
Net fee income	8,030	39	8,069	8,177	2	1
Net trading income	2,328	(87)	2,241	3,275	41	46
Own credit spread <sup>24</sup>	(1,227)	(13)	(1,240)	(215)	82	83
Other expense from financial instruments designated at fair value	3,192	109	3,301	1,875	(41)	(43)
Net income from financial instruments designated at fair value	1,965	96	2,061	1,660	(16)	(19)
Gains less losses from financial investments	156		156	946		
Net earned insurance premiums	5,714	12	5,726	6,137	7	7
Other operating income (including dividend income)	1,901	6	1,907	626	(67)	(67)
Total operating income	37,814	132	37,946	38,226	1	1
Net insurance claims incurred and movement in liabilities to policyholders	(7,541)	(23)	(7,564)	(7,059)	6	7
Net operating income <sup>13</sup>	30,273	109	30,382	31,167	3	3
Loan impairment charges and other credit risk provisions	(2,733)	(3)	(2,736)	(1,841)	33	33
Net operating income	27,540	106	27,646	29,326	6	6
Operating expenses	(20,157)	(146)	(20,303)	(18,266)	9	10
Operating profit	7,383	(40)	7,343	11,060	50	51
Share of profit in associates and joint ventures	1,111		1,111	1,280	15	15
Profit before tax	8,494	(40)	8,454	12,340	45	46
By global business						
Retail Banking and Wealth Management	3,382	20	3,402	3,045	(10)	(10)
Commercial Banking	4,308	2	4,310	4,771	11	11
Global Banking and Markets	3,718	(45)	3,673	5,033	35	37
Global Private Banking	85		85	364		
Other	(2,999)	(17)	(3,016)	(873)	71	71
Profit before tax	8,494	(40)	8,454	12,340	45	46
By geographical region						
Europe	(943)	61	(882)	2,258		
Asia <sup>11</sup>	6,591	(10)	6,581	7,894	20	20
Middle East and North Africa	785	(3)	782	989	26	26
North America	555	(24)	531	825	49	55
Latin America	1,506	(64)	1,442	374	(75)	(74)
Profit before tax	8,494	(40)	8,454	12,340	45	46

For footnotes, see page 96.



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

**Underlying performance**

Underlying performance:

adjusts for the period-on-period effects of foreign currency translation;

eliminates the fair value movements on our long-term debt attributable to credit spread ( own credit spread ) where the net result of such movements will be zero upon maturity of the debt (see footnote 24 on page 96); and

adjusts for acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses. For acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses, we eliminate the gain or loss on disposal or dilution and any associated gain

or loss on reclassification or impairment recognised in the period incurred, and remove the operating profit or loss of the acquired, disposed of or diluted subsidiaries, associates, joint ventures and businesses from all the periods presented so we can view results on a like-for-like basis. Disposal of investments other than those included in the above definition do not lead to underlying adjustments.

We use underlying performance to explain period-on-period changes when the effect of fair value movements on own debt, acquisitions, disposals or dilution is significant because we consider that this basis more appropriately reflects operating performance.

The following disposals and changes to ownership levels affected the underlying performance:

*Disposal gains/(losses) affecting underlying performance*

	Date	US\$m
Reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties <sup>25</sup>	Jan 2013	1,089
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in Bao Viet Holding <sup>25</sup>	Mar 2013	104
Household Insurance Group holding company's disposal of its insurance manufacturing business <sup>25</sup>	Mar 2013	(99)
HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC's disposal of its property and Casualty Insurance business in Mexico <sup>25</sup>	Apr 2013	20
HSBC Bank plc's disposal of its shareholding in HSBC (Hellas) Mutual Funds Management SA <sup>26</sup>	Apr 2013	(7)
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited <sup>25</sup>	May 2013	28



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HSBC Bank plc's disposal of HSBC Assurances IARD <sup>5</sup>	May 2013	(4)
The Hongkong and Shanghai Banking Corporation Limited's disposal of HSBC Life (International) Limited's Taiwan branch operations <sup>26</sup>	June 2013	(36)
HSBC Markets (USA) Inc.'s disposal of its subsidiary, Rutland Plastic Technologies <sup>26</sup>	Aug 2013	17
HSBC Insurance (Singapore) Pte Ltd's disposal of its Employee Benefits Insurance business in Singapore <sup>26</sup>	Aug 2013	(8)
HSBC Investment Bank Holdings plc's disposal of its investment in associate FIP Colorado <sup>26</sup>	Aug 2013	(5)
HSBC Investment Bank Holdings plc group's disposal of its investment in subsidiary, Viking Sea Tech <sup>5</sup>	Aug 2013	54
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A. <sup>6</sup>	Oct 2013	1,107
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Peru) S.A. <sup>6</sup>	Nov 2013	(18)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Paraguay) S.A. <sup>6</sup>	Nov 2013	(21)
Reclassification loss in respect of our holding in Yantai Bank Co., Limited following an increase in its registered share capital <sup>25</sup>	Dec 2013	(38)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Colombia) S.A. <sup>5</sup>	Feb 2014	18
Reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence <sup>25</sup>	Jun 2014	(32)
HSBC Bank Middle East Limited's disposal of its banking business in Jordan <sup>5</sup>	Jun 2014	

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

The following table reconciles our reported revenue, loan impairment charges, operating expenses and profit before tax for the first half of 2014 and the two halves of 2013 to an underlying basis. Throughout this *Interim Report*, we reconcile other reported results to underlying results when

doing so results in a more useful discussion of operating performance. Equivalent tables are provided for each of our global businesses and geographical segments on pages which are available on [www.hsbc.com](http://www.hsbc.com).

*Reconciliation of reported and underlying items*

	30 June	30 June		Half-year to 30 June	31 December	
	2014 US\$m	2013 US\$m	Change <sup>23</sup> %	2014 US\$m	2013 US\$m	Change <sup>23</sup> %
<b>Net interest income</b>						
Reported	17,405	17,819	(2)	17,405	17,720	(2)
Currency translation adjustment <sup>22</sup>		(235)			66	
Acquisitions, disposals and dilutions	(27)	(223)		(27)	(150)	
Underlying	17,378	17,361		17,378	17,636	(1)
<b>Other operating income</b>						
Reported	538	946	(43)	538	1,686	(68)
Currency translation adjustment <sup>22</sup>		(28)			6	
Acquisitions, disposals and dilutions	14	(1,107)		14	(1,132)	
Underlying	552	(189)		552	560	(1)
<b>Revenue<sup>13</sup></b>						
Reported	31,167	34,372	(9)	31,167	30,273	3
Currency translation adjustment <sup>22</sup>		(265)			122	
Own credit spread <sup>23</sup>	215	19		215	1,227	
Acquisitions, disposals and dilutions	(23)	(1,406)		(23)	(1,332)	
Underlying	31,359	32,720	(4)	31,359	30,290	4
<b>Loan impairment charges and other credit risk provisions</b>						
Reported	(1,841)	(3,116)	41	(1,841)	(2,733)	33
Currency translation adjustment <sup>22</sup>		106			(3)	
Acquisitions, disposals and dilutions	2	44		2	17	
Underlying	(1,839)	(2,966)	38	(1,839)	(2,719)	32
<b>Total operating expenses</b>						
Reported	(18,266)	(18,399)	1	(18,266)	(20,157)	9
Currency translation adjustment <sup>22</sup>		125			(146)	
Acquisitions, disposals and dilutions	26	315		26	146	
Underlying	(18,240)	(17,959)	(2)	(18,240)	(20,157)	10
Underlying cost efficiency ratio	58.2%	54.9%		58.2%	66.5%	

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<b>Share of profit in associates and joint ventures</b>						
Reported	<b>1,280</b>	1,214	5	<b>1,280</b>	1,111	15
Currency translation adjustment <sup>22</sup>		22				
Acquisitions, disposals and dilutions		(14)			102	
Underlying	<b>1,280</b>	1,222	5	<b>1,280</b>	1,213	6
<b>Profit before tax</b>						
Reported	<b>12,340</b>	14,071	(12)	<b>12,340</b>	8,494	45
Currency translation adjustment <sup>22</sup>		(12)			(27)	
Own credit spread <sup>3</sup>	<b>215</b>	19		<b>215</b>	1,227	
Acquisitions, disposals and dilutions	<b>5</b>	(1,061)		<b>5</b>	(1,067)	
Underlying	<b>12,560</b>	13,017	(4)	<b>12,560</b>	8,627	46
<i>For footnotes, see page 96.</i>						

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**Interim Management Report** (continued)*Underlying profit before tax*

	<b>30 June</b>	30 June		Half-year to <b>30 June</b>	31 December	
	<b>2014 US\$m</b>	2013 US\$m	Change <sup>23</sup> %	<b>2014 US\$m</b>	2013 US\$m	Change <sup>23</sup> %
<b>By global business</b>						
Retail Banking and Wealth Management	<b>3,039</b>	3,382	(10)	<b>3,039</b>	3,104	(2)
Commercial Banking	<b>4,758</b>	4,098	16	<b>4,758</b>	3,831	24
Global Banking and Markets	<b>5,024</b>	5,662	(11)	<b>5,024</b>	3,307	52
Global Private Banking	<b>364</b>	119	206	<b>364</b>	84	
Other	<b>(625)</b>	(244)	(156)	<b>(625)</b>	(1,699)	63
Underlying profit before tax	<b>12,560</b>	13,017	(4)	<b>12,560</b>	8,627	46
<b>By geographical region</b>						
Europe	<b>2,417</b>	3,011	(20)	<b>2,417</b>	109	
Asia <sup>11</sup>	<b>7,931</b>	8,035	(1)	<b>7,931</b>	6,727	18
Middle East and North Africa	<b>984</b>	891	10	<b>984</b>	768	28
North America	<b>870</b>	775	12	<b>870</b>	717	21
Latin America	<b>358</b>	305	17	<b>358</b>	306	17
Underlying profit before tax	<b>12,560</b>	13,017	(4)	<b>12,560</b>	8,627	46

*For footnotes, see page 96.*

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**Interim Management Report** (continued)*Reconciliation of reported and underlying average risk weighted assets***Group**

	<b>30 June</b>	30 June		Half year to <b>30 June</b>	31 December	
	<b>2014</b>	2013	Change <sup>23</sup>	<b>2014</b>	2013	Change <sup>23</sup>
	<b>US\$bn</b>	US\$bn	%	<b>US\$bn</b>	US\$bn	%
Average reported RWAs	<b>1,200</b>	1,109	8	<b>1,200</b>	1,099	9
Currency translation adjustment <sup>44</sup>		2			4	
Acquisitions, disposals and dilutions	<b>(3)</b>	(27)		<b>(3)</b>	(10)	
Average underlying RWAs	<b>1,197</b>	1,084	10	<b>1,197</b>	1,093	10

**US CML and other**

	<b>30 June</b>	30 June		Half year to <b>30 June</b>	31 December	
	<b>2014</b>	2013	Change	<b>2014</b>	2013	Change
	<b>US\$bn</b>	US\$bn	%	<b>US\$bn</b>	US\$bn	%
Average reported RWAs	<b>74</b>	99	(25)	<b>74</b>	83	(11)
Average underlying RWAs	<b>74</b>	99	(25)	<b>74</b>	83	(11)

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Consolidated income statement***Summary income statement*

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Net interest income	<b>17,405</b>	17,819	17,720
Net fee income	<b>8,177</b>	8,404	8,030
Net trading income	<b>3,275</b>	6,362	2,328
Net income/(expense) from financial instruments designated at fair value	<b>1,660</b>	(1,197)	1,965
Gains less losses from financial investments	<b>946</b>	1,856	156
Dividend income	<b>88</b>	107	215
Net earned insurance premiums	<b>6,137</b>	6,226	5,714
Other operating income	<b>538</b>	946	1,686
<b>Total operating income</b>	<b>38,226</b>	40,523	37,814
Net insurance claims incurred and movement in liabilities to policyholders	<b>(7,059)</b>	(6,151)	(7,541)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>31,167</b>	34,372	30,273
Loan impairment charges and other credit risk provisions	<b>(1,841)</b>	(3,116)	(2,733)
<b>Net operating income</b>	<b>29,326</b>	31,256	27,540
Total operating expenses	<b>(18,266)</b>	(18,399)	(20,157)
<b>Operating profit</b>	<b>11,060</b>	12,857	7,383
Share of profit in associates and joint ventures	<b>1,280</b>	1,214	1,111
<b>Profit before tax</b>	<b>12,340</b>	14,071	8,494
Tax expense	<b>(2,022)</b>	(2,725)	(2,040)
<b>Profit for the period</b>	<b>10,318</b>	11,346	6,454
Profit attributable to shareholders of the parent company	<b>9,746</b>	10,284	5,920
Profit attributable to non-controlling interests	<b>572</b>	1,062	534
Average foreign exchange translation rates to US\$: US\$: £	<b>0.599</b>	0.648	0.632
US\$: ¥	<b>0.730</b>	0.761	0.745

Reported profit before tax of US\$12.3bn in the first half of 2014 was US\$1.7bn or 12% less than in the first half of 2013, primarily reflecting lower gains (net of losses) from disposals and reclassifications. Our results in the first half of 2013 included a US\$1.1bn accounting gain arising from the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties. In addition, there were adverse fair value movements of US\$0.2bn on own debt designated at fair value in the first half of 2014 compared with minimal movements in the first half of 2013.

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On an underlying basis, profit before tax of US\$12.6bn was 4% lower, primarily driven by reduced net operating income before loan impairment charges and other credit risk provisions ( revenue ) which was partly offset by lower loan impairment charges and other credit risk provisions ( LIC s).

The following commentary is on an underlying basis and comparisons are with the first half of 2013, except where stated otherwise. The difference between reported and underlying results is explained and reconciled on page 23.

Revenue of US\$31.4bn was US\$1.4bn or 4% lower, reflecting the reduced effect of significant items in the first half of 2014. Revenue in the first half of 2014 included:

a gain of US\$428m on the sale of our shareholding in Bank of Shanghai;

an adverse debit valuation adjustment ( DVA ) of US\$155m (compared with a favourable DVA of US\$451m in the first half of 2013) on derivative contracts;

adverse fair value movements on non-qualifying hedges (see footnote 28) of US\$322m compared with favourable

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**Interim Management Report** (continued)

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movements of US\$293m in the first half of 2013; and

a provision of US\$367m arising from a review of compliance with the Consumer Credit Act in the UK.  
In the first half of 2013, we reported the following items:

a net gain on completion of the Ping An disposal of US\$553m; and

foreign exchange gains on sterling debt issued by HSBC Holdings of US\$442m; partly offset by

a loss of US\$279m recognised following the write-off of allocated goodwill relating to our GPB business in Monaco;

a loss of US\$271m on sale of the non-real estate accounts in the US run-off portfolio in RBWM;

a loss of US\$199m on early termination of cash flow hedges in the US run-off portfolio in RBWM; and

a loss on the sale of an HFC Bank UK secured loan portfolio in RBWM of US\$138m.  
Excluding these items, revenue was US\$0.1bn lower:

in RBWM, revenue fell by US\$0.4bn, reflecting reduced net interest income following the sale of real estate and non-real estate portfolios and lower average balances in the US run-off portfolio. In our Principal RBWM business (see footnote 55 on page 97), revenue was broadly unchanged, with a reduction in personal lending revenue mostly offset by higher income from current accounts, savings and deposits;

in GB&M, revenue was down by US\$0.3bn or 3%, mainly driven by Markets (down by US\$0.3bn or 7%), reflecting decreased revenue in our Foreign Exchange business from lower market volatility and reduced client flows. In addition, in line with expectations, Balance Sheet Management revenue decreased reflecting lower gains on disposals of available-for-sale debt securities. By contrast, our Equities business grew and revenue was higher in Principal Investments and Credit, notably legacy credit, driven by price appreciation across certain classes in the asset-backed securities (ABS) market; and

in GPB, revenue was US\$0.2bn lower, reflecting lower market volatility and a managed reduction in client assets as we continued to reposition the business.  
These factors were partly offset by:



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CMB, where revenue rose by US\$0.4bn. This was due to higher net interest income driven by average lending and deposit growth in Asia and rising average deposit balances and wider lending spreads in the UK. In addition, revenue grew from higher net fee income driven by an increase in term lending fees in the UK.

LICs of US\$1.8bn were US\$1.1bn less than in the first half of 2013, primarily from reductions in Europe, North America and Latin America:

in Europe, LICs decreased by US\$0.6bn, mainly driven by lower individually and collectively assessed impairments in CMB in the UK, reflecting the improved quality of the portfolio and the economic environment, together with higher net releases of credit risk provisions on available-for-sale ABSs in GB&M;

in North America, LICs decreased by US\$0.3bn, reflecting reduced levels of delinquency and new impaired loans in the Consumer and Mortgage Lending ( CML ) portfolio and lower lending balances from the continued run-off and loan sales, partly offset by lower favourable market value adjustments of the underlying properties as improvements in housing market conditions were less pronounced in the first half of 2014; and

in Latin America, LICs decreased by US\$0.3bn, primarily in Brazil. This was driven by changes to the impairment model and revisions to the assumptions for restructured loan account portfolios made in 2013 in both RBWM and CMB. It was partly offset by refinements to the impairment model for non-restructured loan portfolios, primarily in RBWM, in the first half of 2014. In Mexico, LICs improved due to reduced specific provisions for CMB, in particular relating to homebuilders.

Operating expenses of US\$18.2bn were 2% higher and included a number of significant items as follows.

The first half of 2014 included:

lower UK customer redress programme charges of US\$234m compared with US\$412m in the first half of 2013. Charges for the period included estimated redress for possible mis-selling in previous years in respect of Payment Protection Insurance ( PPI ); and

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**Interim Management Report** (continued)

lower restructuring and other related costs of US\$82m compared with US\$238m in the first half of 2013. In addition, the following significant items were recorded in the first half of 2013:

Madoff-related litigation costs in GB&M of US\$298m;

regulatory investigation provisions in GPB of US\$119m;

a customer remediation provision connected to our former Card and Retail Services ( CRS ) business of US\$100m; partly offset by

an accounting gain of US\$430m relating to changes in delivering ill-health benefits to certain employees in the UK. Excluding significant items, operating expenses were US\$756m or 4% higher, primarily reflecting increased investment in the Risk function (including

Compliance) and Global Standards and inflation, partly offset by cost saving initiatives.

Income from associates was 5% higher, driven by increased contributions from Bank of Communications ( BoCom ) and The Saudi British Bank.

The effective tax rate for the first half of 2014 was 16.4% compared with 19.4% for the first half of 2013 as the former benefited from a current tax credit for prior years and a non-taxable gain on the disposal of Bank of Shanghai. The effective tax rate in the first half of 2013 was higher because the tax exempt gains associated with the reclassification of our shareholding in Industrial Bank as a financial investment and the disposal of our investment in Ping An were partly offset by a write-down of deferred tax assets recognised in Mexico following clarification of the tax law by the Mexican fiscal authority.

*Significant revenue items*

	<b>30 June 2014 US\$m</b>	Half-year to 30 June 2013 US\$m	31 Dec 2013 US\$m
Debit valuation adjustment on derivative contracts	(155)	451	(346)
Fair value movement on non-qualifying hedges <sup>28</sup>	(322)	293	218
Foreign exchange gains relating to the sterling debt issued by HSBC Holdings		442	
Gain on sale of shareholding in Bank of Shanghai	428		
Loss on early termination of cash flow hedges in the US run-off portfolio		(199)	
Loss on sale of an HFC Bank UK secured loan portfolio		(138)	(8)

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Loss on sale of several tranches of real estate secured accounts in the US	(15)	(1)	(122)
Loss on sale of the non-real estate portfolio in the US		(271)	
Net gain on completion of Ping An disposal		553	
Provision arising from a review of compliance with the Consumer Credit Act in the UK	(367)		
Write-off of allocated goodwill relating to the GPB Monaco business		(279)	
	<b>(431)</b>	851	(258)

### *Significant cost items*

	<b>30 June 2014 US\$m</b>	Half-year to 30 June 2013 US\$m	31 Dec 2013 US\$m
Accounting gain arising from change in basis of delivering ill-health benefits in the UK		(430)	
Madoff-related litigation costs		298	
Regulatory investigation provisions in GPB		119	233
Restructuring and other related costs	82	238	245
UK bank levy	(45)	9	907
UK customer redress programmes	234	412	823
US customer remediation provision relating to CRS		100	
	<b>271</b>	746	2,208

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**Interim Management Report** (continued)**Group performance by income and expense item****Net interest income**

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Interest income	<b>25,435</b>	25,740	25,452
Interest expense	<b>(8,030)</b>	(7,921)	(7,732)
Net interest income <sup>29</sup>	<b>17,405</b>	17,819	17,720
Average interest-earning assets	<b>1,801,862</b>	1,657,555	1,680,988
Gross interest yield <sup>30</sup>	<b>2.85%</b>	3.13%	3.00%
Cost of funds	<b>(1.03%)</b>	(1.15%)	(1.05%)
Net interest spread <sup>31</sup>	<b>1.82%</b>	1.99%	1.95%
Net interest margin <sup>31</sup>	<b>1.95%</b>	2.17%	2.09%

*For footnotes, see page 96.*

The commentary in the following sections is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

Reported net interest income of US\$17.4bn decreased by US\$414m compared with the first half of 2013. On a constant currency basis, net interest income decreased by US\$179m. This was driven in part by a provision arising from a review of our compliance with the Consumer Credit Act ( CCA ) in the UK and the impact of the disposals of non-strategic operations in Latin America, although these factors were partially offset by increased income in Asia.

On an underlying basis, which excludes the net interest income earned by the businesses sold during 2013 and the first half of 2014 from all periods presented (first half of 2014: US\$27m; first half of 2013: US\$223m) and currency translation movements of US\$235m, net interest income was broadly unchanged.

On both reported and constant currency bases, net interest spread and margin fell, reflecting lower yields on customer lending in North America and Europe. In North America this was due to changes in the composition of the lending portfolios towards lower yielding secured assets, and to the run-off of the CML portfolio. In Europe, it was due to the CCA provision noted above. These factors were partially offset by a lower cost of funds. In addition, the benefit of net free funds fell, due to the decrease in non-interest bearing liabilities.

**Interest income**

On a constant currency basis, interest income was broadly unchanged. Interest on loans and advances to customers decreased, principally in North

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America as a consequence of the disposal of the higher yielding non-real estate loan portfolio and the reduction in the CML portfolio from run off and sales. In addition, new lending to customers in RBWM and CMB was at lower yields in the current low rate environment, reflecting a shift in the portfolio towards higher levels of lower yielding first lien real estate secured loans. In Europe, interest income fell primarily due to the provision from a review of our compliance with the CCA. By contrast, we recorded increased interest income on customer lending in Asia, driven by growth in term lending and residential mortgages during the first half of 2014. This increase in balances was partially offset by compressed yields on customer lending. In Latin America, interest income on customer lending activity was broadly unchanged, as increases in Brazil and Argentina were largely offset by disposals of non-strategic businesses in 2013. In Brazil, term lending and mortgages grew during the first half of 2014, although yields on customer lending decreased, despite the rise in average interest rates. This reflected the shift in product and client mix to more secured, relationship-led lending. In Argentina, growth in interest income was driven by increased average balances and higher yields, as interest rates rose.

Interest income on short-term funds and financial investments increased in Asia and Latin America, as interest rates rose in certain countries in these regions, notably in Brazil, Argentina and mainland China. Average balances for both short-term funds and financial investments also grew in these regions. However, in Europe, interest income on short-term funds and financial investments fell as maturing positions were replaced by longer-term but lower-yielding bonds.

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**Interim Management Report** (continued)**Interest expense**

Interest expense increased in the first half of 2014 to a greater extent than interest income, primarily relating to customer accounts. In Latin America, interest expense increased as reductions in average balances were more than offset by the increase in the cost of funds due to interest rate rises. However, this was partly offset by the disposal of non-strategic operations. In Asia, the growth in the average balances of customer accounts drove the increase while the cost of funds was broadly unchanged. Conversely, in North America, interest expense on customer deposits declined as a result of business disposals leading to a fall in average outstanding balances, as well as a strategic decision to re-price deposits downwards. In addition, interest expense decreased due to a release of accrued interest associated with an uncertain tax position.

Interest expense on debt issued was broadly unchanged, as decreasing balances offset the increase in cost of funds. In North America, the effect of the business disposals led to a decline in our funding requirements. Cost of funds also fell as higher coupon debt matured and was repaid. In Europe, interest expense on debt decreased as

average outstanding balances fell as a result of net redemptions. The cost of funds also decreased as issuance of new debt was at lower prevailing rates. By contrast, interest expense increased in Latin America, notably in Brazil, in line with interest rate rises and increased medium-term loan note balances.

**Repos and reverse repos**

During the final quarter of 2013, GB&M changed the way it managed reverse repurchase ( reverse repo ) and repurchase ( repo ) activities. This had the effect of reducing the net interest margin as average interest earning assets and interest bearing liabilities increased significantly. These reverse repo and repo agreements have a lower gross yield and cost of funds, respectively, than the remainder of our portfolio.

Net interest income includes the expense of internally funded trading assets, while related revenue is reported in Net trading income . The internal cost of funding these assets increased, as average trading liability balances fell to a greater extent than trading assets. In reporting our global business results, this cost is included within Net trading income .

**Net fee income**

	<b>30 June</b>	Half-year to	
	<b>2014</b>	30 June	31 December
	<b>US\$m</b>	US\$m	US\$m
Account services	<b>1,734</b>	1,701	1,880
Funds under management	<b>1,283</b>	1,347	1,326
Cards	<b>1,210</b>	1,304	1,151
Credit facilities	<b>963</b>	930	977
Broking income	<b>664</b>	734	654
Imports/exports	<b>558</b>	580	577

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Underwriting	<b>536</b>	518	348
Unit trusts	<b>518</b>	481	410
Remittances	<b>411</b>	415	434
Global custody	<b>359</b>	364	334
Insurance	<b>302</b>	280	271
Other	<b>1,493</b>	1,494	1,463
Fee income	<b>10,031</b>	10,148	9,825
Less: fee expense	<b>(1,854)</b>	(1,744)	(1,795)
Net fee income	<b>8,177</b>	8,404	8,030

Net fee income fell by US\$227m on a reported basis and by US\$183m on a constant currency basis.

Account services and cards fees declined in aggregate, mainly in Europe due to lower current account charges in the UK following a reduction in overdraft fees, and also from a managed reduction of client assets in our GBP business in Switzerland as we continued to reposition the business. In Mexico,

lower fees from a reduction in customer numbers also reflected repositioning.

Fees from funds under management reduced, mainly in Asia due to higher net fund outflows reflecting lower sales as a result of changes to customer investment appetite, and in Latin America partly reflecting a change in product mix. Broking fee income also fell, mainly in RBWM in Hong

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**Interim Management Report** (continued)

Kong from lower Wealth Management sales volumes and in Europe reflecting the managed reduction in client assets in GBP referred to above.

Other fee income was affected by the expiry of the Transition Servicing Agreements we entered into with the buyer of the CRS business in North America. In addition, higher fee expense reflected adverse adjustments to mortgage servicing rights

valuations in North America due to mortgage interest rate decreases in the first half of 2014, and higher fees payable under partnership agreements in the UK.

These factors were partly offset by increased fee income in credit facilities, mainly in Asia and Europe and, to a lesser extent, in North America reflecting increased new business volumes.

**Net trading income**

	<b>30 June</b>	Half-year to	
		30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Trading activities	<b>2,666</b>	5,766	1,155
Ping An contingent forward sale contract <sup>32</sup>		(682)	
Net interest income on trading activities	<b>913</b>	1,132	915
Gain/(loss) on termination of hedges	<b>(4)</b>	(200)	6
Other trading income/(expense) hedge ineffectiveness:			
on cash flow hedges	<b>15</b>	7	15
on fair value hedges	<b>22</b>	46	19
Non-qualifying hedges	<b>(337)</b>	293	218
Net trading income <sup>33,34</sup>	<b>3,275</b>	6,362	2,328

*Significant items included in net trading income*

	<b>30 June</b>	Half-year to	
		30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Included within trading activities:			



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debit valuation adjustment	(155)	451	(346)
foreign exchange gains on sterling debt issued by HSBC Holdings		442	
Other significant items:			
Ping An contingent forward sale contract <sup>2</sup>		(682)	
loss on termination of cash flow hedges in CML		(199)	
non-qualifying hedges <sup>8</sup>	(322)	293	218
	(477)	305	(128)

*For footnotes, see page 96.*

Reported net trading income of US\$3.3bn was US\$3.1bn lower, mainly in Europe. On a constant currency basis, income reduced by US\$3.2bn or 50%. This was partly the effect of various significant items, as noted in the table above.

Excluding significant items, net trading income from trading activities decreased, notably driven by adverse foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value, compared with favourable movements in the first half of 2013. These movements offset fair value movements on the foreign currency debt which are reported in Net income from financial instruments designated at fair value .

In Markets, income from trading activities decreased, mainly driven by a fall in our Foreign Exchange business, reflecting lower market volatility and reduced client flows. By contrast, Rates revenue was broadly in line with the first half of 2013 as higher revenue in Latin America, in part driven by increased client activity, was offset by the effect of subdued client flows and lower market volatility, mainly in Europe. However, we recorded higher income in secondary Credit and revenue growth in Equities, notwithstanding the revaluation gains reported in the first half of 2013. The growth in our Equities business was driven by successful positioning of the business to capture increased client activity.

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**Interim Management Report** (continued)

Net interest income from trading activities also fell due to lower average balances, notably relating to reverse repos and repos, in line with the change in

the way GB&M manages them. The net interest income from these activities is now recorded in Net interest income .

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

	<b>30 June 2014 US\$m</b>	Half-year to 30 June 2013 US\$m	31 December 2013 US\$m
<b>Net income/(expense) arising from:</b>			
financial assets held to meet liabilities under insurance and investment contracts	<b>1,396</b>	717	2,453
liabilities to customers under investment contracts	<b>(231)</b>	(506)	(731)
HSBC's long-term debt issued and related derivatives	<b>438</b>	(1,419)	191
Change in own credit spread on long-term debt <sup>35</sup>	<b>(215)</b>	(19)	(1,227)
Other changes in fair value <sup>36</sup>	<b>653</b>	(1,400)	1,418
other instruments designated at fair value and related derivatives	<b>57</b>	11	52
Net income/(expense) from financial instruments designated at fair value	<b>1,660</b>	(1,197)	1,965

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

	<b>30 June 2014 US\$m</b>	At 30 June 2013 US\$m	31 December 2013 US\$m
Financial assets designated at fair value at period-end	<b>31,823</b>	35,318	38,430
Financial liabilities designated at fair value at period-end	<b>82,968</b>	84,254	89,084
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DP <sup>F</sup>	<b>11,906</b>	10,017	10,717
unit-linked insurance and other insurance and investment contracts	<b>16,927</b>	23,365	25,423
Long-term debt issues designated at fair value	<b>75,740</b>	71,456	75,278

For footnotes, see page 96.

The majority of the financial liabilities designated at fair value is fixed-rate long-term debt issued and managed in conjunction with interest rate swaps as part of our interest rate management strategy. These liabilities are discussed further on page 57 of the *Annual Report and Accounts 2013*.

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Net income from financial instruments designated at fair value was US\$1.7bn in the first half of 2014, compared with net expense of US\$1.2bn in the first half of 2013 on a reported basis, and US\$1.3bn on a constant currency basis. The former included adverse movements in the fair value of our own long-term debt of US\$215m due to credit spread movements, compared with minimal fair value movements in the first half of 2013.

Net income arising from financial assets held to meet liabilities under insurance and investment

contracts of US\$1.4bn was US\$643m higher on a constant currency basis. This was driven by improved equity market performance in Hong Kong, higher net income on the bonds portfolio in Brazil and higher fair value gains in France, partly offset by weaker UK equity market performance. The investment gains or losses result in a corresponding movement in liabilities to customers (see page 57 of the *Annual Report and Accounts 2013* for details of the treatment of the movement in these liabilities).

Other changes in fair value mainly reflects fair value movements on foreign currency debt designated at fair value and issued as part of our overall funding strategy. In the first half of 2014, these movements were favourable, following adverse movements in the first half of 2013. An offset from assets held as economic hedges was reported in Net trading income .

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**Interim Management Report** (continued)**Gains less losses from financial investments**

	<b>30 June</b>	Half-year to	
	<b>2014</b>	30 June	31 December
	<b>US\$m</b>	US\$m	US\$m
Net gains/(losses) from disposal of:			
debt securities	<b>185</b>	416	75
Ping An equity securities classified as available-for-sale <sup>2</sup>		1,235	
other equity securities	<b>782</b>	253	209
other financial investments	<b>2</b>	(2)	1
	<b>969</b>	1,902	285
Impairment of available-for-sale equity securities	<b>(23)</b>	(46)	(129)
Gains less losses from financial investments	<b>946</b>	1,856	156

*For footnote, see page 96.*

In the first half of 2014, gains less losses from financial investments decreased by US\$910m on a reported basis and by US\$926m on a constant currency basis, driven by the effect of significant items as follows:

in the first half of 2013, we reported a US\$1.2bn gain on disposal of available-for-sale equity securities in Asia, following the sale of our investment in Ping An; and

in the first half of 2014, we reported a US\$428m gain on disposal of available-for-sale equity securities relating to the sale of our shareholding in the Bank of Shanghai.

Excluding these items, gains less losses from financial investments decreased, primarily driven by a reduction in net gains on the disposal of debt securities. The first half of 2013 included gains on disposal of available-for-sale government debt securities in Balance Sheet Management in Europe and North America, as part of a continuing strategy to re-balance the securities portfolio for risk management purposes.

**Net earned insurance premiums**

Half-year to

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	<b>30 June</b>	30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Gross insurance premium income	<b>6,358</b>	6,451	5,947
Reinsurance premiums	<b>(221)</b>	(225)	(233)
Net earned insurance premiums	<b>6,137</b>	6,226	5,714

Net earned insurance premiums decreased on both reported and constant currency bases, as lower net earned premiums in Europe were mostly offset by an increase in Hong Kong.

In Europe, net earned premiums decreased, mainly in the UK, reflecting lower sales following the withdrawal of external independent financial adviser distribution channels for certain linked insurance contracts in the second half of 2013. In

addition, decreases in France reflected lower sales of investment contracts with discretionary participation features ( DPF ).

In Hong Kong, premium income increased due to increased new business from deferred annuity, universal life and endowment contracts, coupled with higher renewals. This was partly offset by lower new business from unit-linked contracts.

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**Interim Management Report** (continued)**Other operating income**

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Rent received	<b>82</b>	77	78
Gains/(losses) recognised on assets held for sale	<b>10</b>	(481)	(248)
Gains on investment properties	<b>71</b>	110	3
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	<b>3</b>	14	164
Gains/(losses) arising from dilution of interest in Industrial Bank and other associates and joint ventures	<b>(32)</b>	1,089	(38)
Gains on disposal of HSBC Bank (Panama) S.A.			1,107
Change in present value of in-force long-term insurance business	<b>200</b>	100	425
Other	<b>204</b>	37	195
Other operating income	<b>538</b>	946	1,686

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

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Value of new business	<b>479</b>	517	407
Expected return	<b>(286)</b>	(249)	(256)
Assumption changes and experience variances	<b>(3)</b>	(127)	215
Other adjustments	<b>10</b>	(41)	59
Change in present value of in-force long-term insurance business	<b>200</b>	100	425

Other operating income of US\$538m decreased by US\$408m on a reported basis and by US\$380m on a constant currency basis.

Reported other operating income included the effects of the disposals and the reclassifications listed on page 22 of US\$14m, compared with net gains of US\$1.1bn which largely related to an accounting gain arising from the reclassification of Industrial Bank as a financial investment.

On an underlying basis, which excludes the effects of disposals noted on page 22, the results of disposed of operations and the effects of foreign currency translation, other operating income increased. This was primarily driven by the following significant items in the first half of 2013;

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loss of US\$271m on the sale of our CML non-real estate personal loan portfolio in April 2013;

write-off of goodwill relating to our GPB business in Monaco of US\$279m; and

a loss of US\$138m on the sale of an HFC Bank UK secured loan portfolio in RBWM.

Excluding significant items, other operating income rose, reflecting gains from legacy credit in GB&M in the UK due to price appreciation across certain asset classes in the ABS market and increased favourable movements in the present value of in-force ( PVIF ) long-term insurance business. This was mainly in Brazil due to the non-recurrence of adverse experience variances resulting from higher lapse rates and adverse interest rate movements in the first half of 2013, while favourable movements in Asia reflected market condition updates and a rise in the value of new business. This was partly offset in France by adverse movements due to investment and market conditions.

These gains were partly offset by lower disposal and revaluation gains on investment properties in Hong Kong than in the first half of 2013.

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**Interim Management Report** (continued)**Net insurance claims incurred and movement in liabilities to policyholders**

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	<b>7,212</b>	6,239	7,709
reinsurers share	<b>(153)</b>	(88)	(168)
net	<b>7,059</b>	6,151	7,541

*For footnote, see page 96.*

Net insurance claims incurred and movement in liabilities to policyholders increased by US\$908m on a reported basis and by US\$889m on a constant currency basis.

Movements in claims resulting from investment returns on the assets held to support policyholder contracts where the policyholder bears investment risk increased, reflecting higher investment income in Hong Kong as a result of favourable equity market movements, and higher net income on the bond portfolio in Brazil, partly offset by weaker

equity market performance in the UK. The gains or losses recognised on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Reductions in claims resulting from a decrease in new business written in Europe were mostly offset by increases in Hong Kong as explained under Net earned insurance premiums .

**Loan impairment charges and other credit risk provisions**

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Loan impairment charges			



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New allowances net of allowance releases	<b>2,581</b>	3,828	3,516
Recoveries of amounts previously written off	<b>(556)</b>	(639)	(657)
	<b>2,025</b>	3,189	2,859
Individually assessed allowances	<b>558</b>	1,121	1,199
Collectively assessed allowances	<b>1,467</b>	2,068	1,660
Releases of impairment of available-for-sale debt securities	<b>(214)</b>	(82)	(129)
Other credit risk provisions	<b>30</b>	9	3
Loan impairment charges and other credit risk provisions	<b>1,841</b>	3,116	2,733
	<b>%</b>	%	%
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised)	0.4	0.7	0.6

On a reported basis, LICs of US\$1.8bn were US\$1.3bn lower, primarily in Europe, Latin America and North America. Underlying LICs decreased by US\$1.1bn.

On a reported basis, the percentage of impairment charges to average gross loans and advances fell to 0.4% at 30 June 2014 from 0.7% at 30 June 2013.

On a constant currency basis, LICs fell by US\$1.2bn, a reduction of 39%. This was driven by a reduction in both individually assessed and collectively assessed loan impairment charges.

Individually assessed charges improved by US\$590m, primarily in Europe, but also in Latin America and North America. In Europe, they were lower, mainly in CMB, reflecting improved quality in the portfolio and economic environment. In Latin America, the reduction was primarily in CMB, in particular in Mexico where impairments relating to homebuilders from a change in public housing policy were lower than in the first half of 2013. Individually assessed charges were also lower in North America, mainly in Canada in CMB.

Collectively assessed charges decreased by US\$473m, primarily due to reductions in North

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**Interim Management Report** (continued)

America and Latin America. In North America, the improvement was mainly in RBWM, reflecting lower levels of new impaired loans and reduced balances in the US run-off portfolio, though this was partly offset by lower favourable market value adjustments of the underlying properties as improvements in housing market conditions were less pronounced in the first half of 2014. In addition, collectively assessed charges in CMB and GB&M were adversely affected as we revised certain estimates used in our corporate loan impairment calculation. In Latin America, the reduction reflected the adverse effect of changes to the impairment model and assumption revisions for restructured loan

portfolios in Brazil which occurred in the first half of 2013, both in RBWM and CMB, though this was partly offset by an increase due to refinements to the impairment model for non-restructured loan portfolios, primarily in RBWM, in the first half of 2014. In addition, collectively assessed charges were lower due to reduced Business Banking provisions reflecting improved delinquency rates, and the effect of the disposal of non-strategic businesses.

Net releases of credit risk provisions were US\$127m higher, primarily on available-for-sale ABSs in GB&M in Europe.

**Operating expenses**

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Employee compensation and benefits	<b>9,978</b>	9,496	9,700
Premises and equipment (excluding depreciation and impairment)	<b>2,092</b>	2,008	2,175
General and administrative expenses	<b>5,035</b>	5,719	7,163
Administrative expenses	<b>17,105</b>	17,223	19,038
Depreciation and impairment of property, plant and equipment	<b>712</b>	699	665
Amortisation and impairment of intangible assets	<b>449</b>	477	454
Operating expenses	<b>18,266</b>	18,399	20,157
<i>Staff numbers (full-time equivalent)</i>			

	<b>30 June</b>	At 30 June	31 December
	<b>2014</b>	2013	2013
<b>Geographical regions</b>			
Europe	<b>69,642</b>	69,599	68,334
Asia <sup>11</sup>	<b>115,111</b>	113,631	113,701
Middle East and North Africa	<b>8,530</b>	8,667	8,618
North America	<b>20,649</b>	21,454	20,871

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Latin America	<b>42,157</b>	46,046	42,542
Staff numbers	<b>256,089</b>	259,397	254,066

*For footnote, see page 96.*

Reported operating expenses of US\$18.3bn were US\$133m or 1% lower. On an underlying basis, costs increased by 2%.

On a constant currency basis, operating expenses in the first half of 2014 were in line with the comparable period in 2013. A number of significant items recorded in the first half of 2013 did not recur, mainly:

Madoff-related litigation cost in GB&M of US\$298m;

regulatory investigation provisions in GPB of US\$119m; and  
a customer remediation provision connected to our former CRS business of US\$100m; partly offset by

an accounting gain of US\$430m relating to changes in delivering ill-health benefits to certain employees in the UK.  
In addition, the first half of 2014 included:

US\$178m lower UK customer redress programme charges (from US\$412m in the first half of 2013 to US\$234m in the first half of 2014).  
Charges for the period included estimated redress for possible mis-selling in previous years in respect of PPI of US\$194m; and

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**Interim Management Report** (continued)

US\$156m lower restructuring and related costs (from US\$238m in the first half of 2013 to US\$82m in the first half of 2014). Excluding significant items and business disposals which were primarily in Latin America, operating expenses were US\$756m higher, reflecting:

increased investment in the Risk function (including Compliance) and Global Standards of US\$326m;

inflationary pressures, including wage inflation;

business growth in CMB, primarily in Asia; and

the Financial Services Compensation Scheme ( FSCS ) levy in the UK, as a result of the timing of recognition. During the first half of 2014, we generated further sustainable cost savings of US\$0.5bn which were primarily driven by re-engineering our back office processes and which in part offset the investments listed above and inflation. These programmes, together with business disposals, contributed to a fall of 2% in average staff numbers.

Performance-related costs also fell, mainly in GB&M reflecting lower revenue.

*Cost efficiency ratios<sup>2</sup>*

	<b>30 June</b>	Half-year to	
	<b>2014</b>	30 June	31 December
	%	%	%
<b>HSBC</b>	<b>58.6</b>	53.5	66.6
<b>Geographical regions</b>			
Europe	<b>76.8</b>	68.5	102.7
Asia <sup>11</sup>	<b>41.4</b>	36.2	46.0
Middle East and North Africa	<b>47.4</b>	49.2	53.8
North America	<b>69.8</b>	70.7	75.3
Latin America	<b>67.8</b>	61.9	51.0
<b>Global businesses</b>			
Retail Banking and Wealth Management	<b>67.1</b>	63.6	65.4
Commercial Banking	<b>44.2</b>	42.4	43.7

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Global Banking and Markets	<b>50.6</b>	47.0	58.2
Global Private Banking	<b>70.6</b>	89.9	92.7

*For footnote, see page 96.*

### Share of profit in associates and joint ventures

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Associates			
Bank of Communications Co., Limited	<b>978</b>	941	937
The Saudi British Bank	<b>239</b>	208	195
Other	<b>37</b>	43	(38)
Share of profit in associates	<b>1,254</b>	1,192	1,094
Share of profit in joint ventures	<b>26</b>	22	17
Share of profit in associates and joint ventures	<b>1,280</b>	1,214	1,111

HSBC's share of profit in associates and joint ventures was US\$1.3bn, an increase of 5% on a reported basis. On a constant currency basis, it increased by 4%, driven by higher contributions from BoCom and The Saudi British Bank.

Our share of profit from BoCom rose as a result of higher trading and fee income, as well as balance

sheet growth, partly offset by higher operating expenses and a rise in loan impairment charges.

At 30 June 2014, we performed an impairment review of our investment in BoCom and concluded that it was not impaired, based on our value in use calculation (see Note 21 on the Financial Statements for further details).

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**Interim Management Report** (continued)

In future periods, the value in use may increase or decrease depending on whether the combined effect of changes to the current calculation assumptions is favourable or unfavourable. However, it is expected that the carrying amount will increase in the second half of 2014 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, HSBC would

continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

Profits from The Saudi British Bank rose reflecting strong, balance sheet growth.

**Tax expense**

	<b>30 June</b>	Half-year to 30 June	31 December
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Profit before tax	<b>12,340</b>	14,071	8,494
Tax expense	<b>(2,022)</b>	(2,725)	(2,040)
Profit after tax	<b>10,318</b>	11,346	6,454
Effective tax rate	<b>16.4%</b>	19.4%	24.0%

The effective tax rate for the first half of the year of 16.4% was lower than the UK corporation tax rate of 21.5%. The results for the first half of 2014 included exempt income and gains, the post tax profits of associates and joint ventures and a current tax credit

for prior years. The effective tax rate for the first half of 2013 also included tax exempt income and gains and the post tax profits of associates and joint ventures offset by the write down of a deferred tax asset.

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**Interim Management Report** (continued)**Consolidated balance sheet***Summary consolidated balance sheet*

	At 30 June 2014 US\$m	At 30 June 2013 US\$m	At 31 December 2013 US\$m
<b>ASSETS</b>			
Cash and balances at central banks	132,137	148,285	166,599
Trading assets	347,106	432,601	303,192
Financial assets designated at fair value	31,823	35,318	38,430
Derivative assets	269,839	299,213	282,265
Loans and advances to banks <sup>3</sup>	127,387	127,810	120,046
Loans and advances to customers <sup>3,39</sup>	1,047,241	938,294	992,089
Reverse repurchase agreements non-trading <sup>3</sup>	198,301	88,400	179,690
Financial investments	423,710	404,214	425,925
Assets held for sale	10,248	20,377	4,050
Other assets	165,801	150,804	159,032
Total assets	2,753,593	2,645,316	2,671,318
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits by banks <sup>3</sup>	92,764	92,709	86,507
Customer accounts <sup>3</sup>	1,415,705	1,266,905	1,361,297
Repurchase agreements non-trading <sup>3</sup>	165,506	66,591	164,220
Trading liabilities	228,135	342,432	207,025
Financial liabilities designated at fair value	82,968	84,254	89,084
Derivative liabilities	263,494	293,669	274,284
Debt securities in issue	96,397	109,389	104,080
Liabilities under insurance contracts	75,223	69,771	74,181
Liabilities of disposal groups held for sale	12,361	19,519	2,804
Other liabilities	122,318	117,716	117,377
Total liabilities	2,554,871	2,462,955	2,480,859
<b>Equity</b>			
Total shareholders' equity	190,281	174,070	181,871
Non-controlling interests	8,441	8,291	8,588
Total equity	198,722	182,361	190,459
Total equity and liabilities	2,753,593	2,645,316	2,671,318
<i>Selected financial information</i>			
Called up share capital	9,535	9,313	9,415

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Capital resources <sup>40,41</sup>	<b>192,834</b>	183,450	194,009
Undated subordinated loan capital	<b>2,777</b>	2,777	2,777
Preferred securities and dated subordinated loan capital <sup>42</sup>	<b>49,644</b>	44,539	48,114
Risk-weighted assets CRD IV basis	<b>1,248,572</b>	n/a	1,214,939
Risk-weighted assets Basel 2.5 basis	<b>n/a</b>	1,104,764	1,092,653
	<b>%</b>	<b>%</b>	<b>%</b>
<b>Financial statistics</b>			
Loans and advances to customers as a percentage of customer accounts <sup>3</sup>	<b>74.0</b>	74.1	72.9
Average total shareholders' equity to average total assets	<b>6.9</b>	6.4	6.6
Net asset value per ordinary share at period-end <sup>43</sup> (US\$)	<b>9.64</b>	8.96	9.27
Number of US\$0.50 ordinary shares in issue (millions)	<b>19,071</b>	18,627	18,830
Closing foreign exchange translation rates to US\$:			
US\$1: £	<b>0.586</b>	0.657	0.605
US\$1: ¥	<b>0.732</b>	0.767	0.726

*For footnotes, see page 96.*

*A more detailed consolidated balance sheet is contained in the Financial Statements on page 208.*



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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**Movement from 31 December 2013 to 30 June 2014**

Total reported assets were US\$2.8 trillion, 3% higher than at 31 December 2013. On a constant currency basis, total assets were US\$50bn or 2% higher.

Our balance sheet remains strong with a ratio of customer advances to customer accounts of 74%. Customer advances grew by US\$41bn, mainly driven by a rise in term lending in Asia. Customer accounts grew by US\$38bn, mainly in Asia and Europe.

The following commentary is on a constant currency basis.

**Assets**

*Cash and balances at central banks* decreased by US\$37bn, notably in Europe, in part reflecting net redemptions of debt and reductions in repurchase agreements.

*Trading assets* increased by 13%, mainly driven by a rise in settlement accounts, notably in Europe. These balances vary according to customer trading activity, which is typically lower at the end of the year. There were increased holdings of debt securities in Asia. In Europe, holdings of equity securities also increased, reflecting growth in our Equities business, although we recorded a reduction in reverse repos held for trading.

*Financial assets designated at fair value* decreased by US\$7.3bn, notably in Europe, largely from the transfer to *Assets held for sale* of balances relating to the UK Pension business of HSBC Life (UK) Limited.

*Derivative assets* decreased by 6%, notably in Europe relating to interest rate contracts reflecting movements in yield curves. In Asia, foreign exchange derivative contracts also decreased, in part due to maturities.

*Loans and advances to banks* increased by US\$6.8bn, mainly from higher placements with financial institutions in Europe, the Middle East and North Africa and Latin America.

*Loans and advances to customers* increased by US\$41bn or 4%, largely from growth in Asia and, to a lesser extent, in Europe. In Asia, term lending to CMB and GB&M customers grew, with the latter notably relating to our Capital Financing business. Mortgage balances also increased, mainly in Hong Kong, mainland China and Taiwan. In Europe, there was a rise in corporate overdraft balances, mainly in GB&M, in accounts which are structured to allow customer corporate treasury functions to benefit

from net interest arrangements but where net settlement is not intended to occur, together with a corresponding rise in current accounts, as noted below. In addition, there was an increase from our Capital Financing business. Lending in North America was broadly unchanged, as growth in balances with CMB and GB&M customers was offset by a decline in RBWM, reflecting the continued reduction in the US run-off portfolio and the transfer to *Assets held for sale* of US first lien mortgage balances.

*Assets held for sale* increased by US\$6.2bn driven by the transfer of balances relating to the UK Pension business of HSBC Life (UK) Limited, and the transfer of US first lien mortgage balances.

**Liabilities**

*Customer accounts* increased by US\$38bn or 3% notably in Asia and Europe. In Asia, customer account balances increased, reflecting growth in our Payments and Cash Management business in GB&M and CMB together with a rise in RBWM, in part reflecting new Premier customers. In Europe, balances increased in RBWM reflecting customers' continued preference for holding balances in current and savings accounts.

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In addition, current accounts grew mainly in GB&M, in line with the increase in corporate overdraft balances as noted above in Loans and advances to customers, and in part from growth in Payments and Cash Management.

*Trading liabilities* rose by 9%, notably in Europe where an increase in settlement accounts reflected client activity levels, and in Asia, where there were increased positions, partly offset by a reduction in repurchase agreements held for trading.

*Financial liabilities designated at fair value* reduced by 8%, mainly in Europe from the transfer to Liabilities held for sale of balances relating to the UK Pension business of HSBC Life (UK) Limited.

The reduction in *derivative liabilities* was in line with that of Derivative assets as the underlying risk is broadly matched.

*Debt securities in issue* decreased by 9%, mainly in Europe driven by maturing debt that was not replaced.

*Liabilities for disposal groups held for sale* increased by US\$9.5bn, mainly from the transfer of balances relating to the UK Pension business of HSBC Life (UK) Limited.

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**Interim Management Report** (continued)

## Equity

Total shareholders' equity rose by 4%, driven by profits generated in the period which were partly offset by dividends paid. In addition, the available-for-sale fair value reserve increased by US\$917m on

a reported basis in the period as fair value gains recognised were partly offset by previously unrecognised fair value gains transferred to the income statement, notably relating to the disposal of our shareholding in the Bank of Shanghai.

*Reconciliation of reported and constant currency assets and liabilities*

	30 June 2014 compared with 31 December 2013					
	31 Dec 13		31 Dec 13		Constant	
	as reported	Currency translation <sup>44</sup>	at 30 Jun 14	30 Jun 14	Reported	currency
	US\$m	US\$m	US\$m	US\$m	change	change
		exchange rates	as reported	%	%	
<b>HSBC</b>						
Cash and balances at central banks	166,599	2,988	169,587	132,137	(21)	(22)
Trading assets	303,192	4,496	307,688	347,106	14	13
Financial assets designated at fair value	38,430	670	39,100	31,823	(17)	(19)
Derivative assets	282,265	4,623	286,888	269,839	(4)	(6)
Loans and advances to banks <sup>3</sup>	120,046	524	120,570	127,387	6	6
Loans and advances to customers <sup>3</sup>	992,089	13,803	1,005,892	1,047,241	6	4
Reverse repurchase agreements – non-trading <sup>3</sup>	179,690	2,317	182,007	198,301	10	9
Financial investments	425,925	2,955	428,880	423,710	(1)	(1)
Assets held for sale	4,050	23	4,073	10,248	153	152
Other assets	159,032	(297)	158,735	165,801	4	4
<b>Total assets</b>	<b>2,671,318</b>	<b>32,102</b>	<b>2,703,420</b>	<b>2,753,593</b>	<b>3</b>	<b>2</b>
Deposits by banks <sup>3</sup>	86,507	1,130	87,637	92,764	7	6
Customer accounts <sup>3</sup>	1,361,297	16,739	1,378,036	1,415,705	4	3
Repurchase agreements – non-trading <sup>3</sup>	164,220	2,090	166,310	165,506	1	
Trading liabilities	207,025	2,353	209,378	228,135	10	9
Financial liabilities designated at fair value	89,084	1,123	90,207	82,968	(7)	(8)
Derivative liabilities	274,284	4,693	278,977	263,494	(4)	(6)
Debt securities in issue	104,080	1,968	106,048	96,397	(7)	(9)
Liabilities under insurance contracts	74,181	218	74,399	75,223	1	1
Liabilities of disposal groups held for sale	2,804	15	2,819	12,361		
Other liabilities	117,377	1,032	118,409	122,318	4	3

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Total liabilities	<b>2,480,859</b>	<b>31,361</b>	<b>2,512,220</b>	<b>2,554,871</b>	<b>3</b>	<b>2</b>
Total shareholders' equity	<b>181,871</b>	<b>722</b>	<b>182,593</b>	<b>190,281</b>	<b>5</b>	<b>4</b>
Non-controlling interests	<b>8,588</b>	<b>19</b>	<b>8,607</b>	<b>8,441</b>	<b>(2)</b>	<b>(2)</b>
Total equity	<b>190,459</b>	<b>741</b>	<b>191,200</b>	<b>198,722</b>	<b>4</b>	<b>4</b>
Total equity and liabilities	<b>2,671,318</b>	<b>32,102</b>	<b>2,703,420</b>	<b>2,753,593</b>	<b>3</b>	<b>2</b>

*For footnotes, see page 96.*

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**Interim Management Report** (continued)

In the second half of 2013, GB&M changed the way it managed repo and reverse repo activities in the Credit and Rates businesses. Previously, they were managed in the trading environment; during the second half of 2013, they were organised into trading and non-trading portfolios, with separate risk management procedures. This resulted in an increase in the amount of Non-trading reverse repos and a decline in the amount classified as Trading assets, and an increase in the amount of Non-trading repos and a decline in the amount classified as Trading liabilities at 31 December 2013 compared with previous period-ends.

From 1 January 2014, non-trading reverse repos and repos are presented as separate lines in the balance sheet to align disclosure with market

practice and provide more meaningful information in relation to loans and advances. Previously, non-trading reverse repos were included within Loans and advances to banks and Loans and advances to customers and non-trading repos were included within Deposits by banks and Customer accounts. Comparative data have been re-presented accordingly.

The effect of repos and reverse repos on the balance sheet is set out in the table below. The table also provides a combined view of customer lending and customer deposits which, by taking into account loans and advances to customers and customer account balances reported as held for sale, more accurately reflects the overall size of our lending and deposit books.

*Combined view of customer lending and customer deposits<sup>3</sup>*

	At 30 June 2014 US\$m	At 30 June 2013 US\$m	Change %	At 30 June 2014 US\$m	At 31 December 2013 US\$m	Change %
<b>Customers amortised cost</b>						
Loans and advances to customers	1,047,241	938,294	12	1,047,241	992,089	6
Loans and advances to customers reported as held for sale <sup>45</sup>	1,658	13,808	(88)	1,658	1,703	(3)
Reverse repurchase agreements non-trading	80,710	31,088	160	80,710	88,215	(9)
Combined customer lending	1,129,609	983,190	15	1,129,609	1,082,007	4
Customer accounts	1,415,705	1,266,905	12	1,415,705	1,361,297	4
Customer accounts reported in Liabilities of disposal groups held for sale	4,880	17,280	(72)	4,880	2,187	123
Repurchase agreements non-trading	104,902	49,277	113	104,902	121,515	(14)
Combined customer deposits	1,525,487	1,333,462	14	1,525,487	1,484,999	3
<b>Banks amortised cost</b>						
Loans and advances to banks	127,387	127,810		127,387	120,046	6
Reverse repurchase agreements non-trading	117,591	57,312	105	117,591	91,475	29
Combined bank lending	244,978	185,122	32	244,978	211,521	16
Deposits by banks	92,764	92,709		92,764	86,507	7

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Repurchase agreements non-trading	<b>60,604</b>	17,314	250	<b>60,604</b>	42,705	42
Combined bank deposits	<b>153,368</b>	110,023	39	<b>153,368</b>	129,212	19
<b>Customers and banks fair value</b>						
Trading assets reverse repos	<b>4,485</b>	104,273	(96)	<b>4,485</b>	10,120	(56)
loans and advances to customers	<b>3,945</b>	53,044	(93)	<b>3,945</b>	7,180	(45)
loans and advances to banks	<b>540</b>	51,229	(99)	<b>540</b>	2,940	(82)
Trading liabilities repos	<b>5,189</b>	134,506	(96)	<b>5,189</b>	17,421	(70)
customer accounts	<b>1,365</b>	100,100	(99)	<b>1,365</b>	9,611	(86)
deposits by banks	<b>3,824</b>	34,406	(89)	<b>3,824</b>	7,810	(51)

For footnotes, see page 96.

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**Interim Management Report** (continued)*Customer accounts by country*<sup>3</sup>

	At	At	At
	30 June	30 June	31 December
	2014	2013	2013
	US\$m	US\$m	US\$m
<b>Europe</b>	<b>614,776</b>	520,984	581,933
UK	499,295	410,971	462,796
France <sup>46</sup>	47,347	43,246	45,149
Germany	15,912	17,251	16,615
Malta	6,216	5,797	6,222
Switzerland	11,073	18,779	16,796
Turkey	8,492	7,537	7,795
Other	26,441	17,403	26,560
<b>Asia<sup>11</sup></b>	<b>570,221</b>	516,616	548,483
Hong Kong	381,058	342,632	365,905
Australia	20,803	18,240	19,812
India	12,155	9,852	11,549
Indonesia	5,979	6,559	5,865
Mainland China	41,198	37,843	40,579
Malaysia	17,570	16,899	17,093
Singapore	45,885	44,145	43,988
Taiwan	14,609	12,053	12,758
Other	30,964	28,393	30,934
<b>Middle East and North Africa</b> (excluding Saudi Arabia)	<b>40,082</b>	41,142	38,683
Egypt	6,945	7,158	7,401
Qatar	3,236	4,065	2,861
UAE	19,840	18,822	18,433
Other	10,061	11,097	9,988
<b>North America</b>	<b>136,774</b>	136,693	140,809
US	79,536	80,340	80,037
Canada	46,197	45,455	47,872
Bermuda	11,041	10,898	12,900
<b>Latin America</b>	<b>53,852</b>	51,470	51,389
Argentina	4,168	4,940	4,468
Brazil	27,068	25,515	23,999
Mexico	20,112	19,327	21,529
Other	2,504	1,688	1,393
	<b>1,415,705</b>	1,266,905	1,361,297

*For footnotes, see page 96.*



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**Interim Management Report** (continued)*Financial investments*

	At 30 June 2014			At 30 June 2013			At 31 December 2013		
	Securities			Securities			Securities		
	Equity	Debt	Total	Equity	Debt	Total	Equity	Debt	Total
	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn
Balance Sheet Management		311.3	311.3		279.1	279.1		314.4	314.4
Insurance entities		48.4	48.4		44.0	44.0		46.4	46.4
Structured entities	0.1	18.5	18.6	0.1	23.5	23.6	0.1	22.6	22.7
Principal Investments	2.4		2.4	2.9		2.9	2.7		2.7
Other	6.2	36.8	43.0	6.4	48.2	54.6	6.3	33.4	39.7
	8.7	415.0	423.7	9.4	394.8	404.2	9.1	416.8	425.9

The table above analyses the Group's holdings of financial investments by business activity. Further information can be found in the following sections:

Balance Sheet Management (page 161) for a description of the activities and an analysis of third-party assets in balance sheet management.

Risk management of insurance operations (page 169) includes an analysis of the financial investments within our insurance operations by the type of contractual liabilities that they back.

Structured entities (page 550 of the *Annual Report and Accounts 2013*) for further information about the nature of securities investment conduits in which the above financial investments are held.

Equity securities classified as available for sale (page 161) includes private equity holdings and other strategic investments.

Other represents financial investments held in certain locally managed treasury portfolios and other GB&M portfolios held for specific business activities.

**Reconciliation of RoRWA measures**

**Performance Management**

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

In addition to measuring return on average risk-weighted assets ( RoRWA ), we measure our performance internally using underlying RoRWA, which is underlying pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals. Underlying RoRWA adjusts performance for certain items which distort year-on-year performance as explained on page 22. RoRWAs are calculated using average RWAs based on a Basel 2.5 basis for all periods up to and including 31 December 2013 and on a CRD IV end point basis for 31 March 2014 and 30 June 2014.

Legacy credit in GB&M includes securitisation positions that were previously deducted from capital and are now included as RWAs, risk-weighted at 1,250% under the CRD IV end point basis.

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

The CRS average RWAs in the table below represent the average of the associated operational risk RWAs that were not immediately released on disposal and have not already been adjusted as part of the underlying RoRWA calculation. The pre-tax loss for CRS in the table below relates to litigation expenses that occurred after the sale of the business that have not been adjusted as part of the underlying RoRWA calculation.

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**Interim Management Report** (continued)

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

	Half-year to 30 June 2014		
	Pre-tax	Average	RoRWA
	return	RWAs <sup>47</sup>	47.48
	US\$m	US\$bn	%
Reported	12,340	1,200	2.1
Underlying <sup>48</sup>	12,560	1,197	2.1
Run-off portfolios	343	122	0.6
Legacy credit in GB&M	307	48	1.3
US CML and other <sup>49</sup>	36	74	0.1
Card and Retail Services		1	
Underlying (excluding run-off portfolios and Card and Retail Services)	12,217	1,074	2.3

	Half-year to 30 June 2013			Half-year to 31 December 2013		
	Pre-tax	Average	RoRWA	Pre-tax	Average	RoRWA
	return	RWAs <sup>47</sup>	47.48	return	RWAs <sup>47</sup>	47.48
	US\$m	US\$bn	%	US\$m	US\$bn	%
Reported	14,071	1,109	2.6	8,494	1,099	1.5
Underlying <sup>48</sup>	13,017	1,084	2.4	8,627	1,093	1.6
Run-off portfolios	7	135		67	113	0.1
Legacy credit in GB&M	157	36	0.9	33	30	0.2
US CML and other <sup>49</sup>	(150)	99	(0.3)	34	83	0.1
Card and Retail Services		5			2	
Underlying (excluding run-off portfolios and Card and Retail Services)	13,010	944	2.8	8,560	978	1.7

*For footnotes, see page 96.*

*Reconciliation of reported and underlying average risk-weighted assets*

	Half-year to					
	30 Jun	30 Jun		30 Jun	31 Dec	
	2014	2013	Change	2014	2013	Change
	US\$bn	US\$bn	%	US\$bn	US\$bn	%

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Average reported RWAs <sup>47</sup>	<b>1,200</b>	1,109	8	<b>1,200</b>	1,099	9
Currency translation adjustment <sup>44</sup>		2			4	
Acquisitions, disposals and dilutions	<b>(3)</b>	(27)		<b>(3)</b>	(10)	
Average underlying RWAs	<b>1,197</b>	1,084	10	<b>1,197</b>	1,093	10

*For footnotes, see page 96.*

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**Interim Management Report** (continued)**Ratios of earnings to combined fixed charges (and preference share dividends)**

	<b>Half-year</b>					
	<b>to 30 June</b>	Year ended 31 December				
	<b>2014</b>	2013	2012	2011	2010	2009
Ratios of earnings to combined fixed charges: <sup>1</sup>						
excluding interest on deposits	<b>4.19</b>	3.84	3.03	2.82	2.71	1.53
including interest on deposits	<b>2.14</b>	2.09	1.76	1.68	1.73	1.22
Ratios of earnings to combined fixed charges and preference share dividends: <sup>1</sup>						
excluding interest on deposits	<b>3.82</b>	3.50	2.79	2.64	2.56	1.48
including interest on deposits	<b>2.07</b>	2.01	1.71	1.64	1.69	1.20

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

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**Interim Management Report** (continued)**Global businesses**

<b><u>Summary</u></b>	45	<i><u>Profit/(loss) before tax</u></i>	46
		<i><u>Total assets</u></i>	46
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**Summary**

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

The commentaries below present global businesses followed by geographical regions (page 61).

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Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on a constant currency basis (see page 19) unless stated otherwise.

### **Basis of preparation**

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that these can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Those costs which are not allocated to global businesses are included in Other .

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

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

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**Interim Management Report** (continued)*Profit/(loss) before tax*

	30 June 2014		Half-year to 30 June 2013		31 December 2013	
	US\$m	%	US\$m	%	US\$m	%
Retail Banking and Wealth Management	3,045	24.7	3,267	23.2	3,382	39.8
Commercial Banking	4,771	38.7	4,133	29.4	4,308	50.7
Global Banking and Markets	5,033	40.8	5,723	40.7	3,718	43.8
Global Private Banking	364	2.9	108	0.8	85	1.0
Other <sup>50</sup>	(873)	(7.1)	840	5.9	(2,999)	(35.3)
	<b>12,340</b>	<b>100.0</b>	<b>14,071</b>	<b>100.0</b>	<b>8,494</b>	<b>100.0</b>

*Total assets<sup>51</sup>*

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	US\$m	%	US\$m	%	US\$m	%
Retail Banking and Wealth Management	523,729	19.0	504,205	19.1	517,085	19.4
Commercial Banking	377,374	13.7	350,503	13.2	360,623	13.5
Global Banking and Markets	2,043,767	74.2	1,992,770	75.3	1,975,509	74.0
Global Private Banking	99,379	3.6	114,883	4.3	97,655	3.7
Other	170,802	6.2	176,122	6.7	171,812	6.4
Intra-HSBC items	(461,458)	(16.7)	(493,167)	(18.6)	(451,366)	(17.0)
	<b>2,753,593</b>	<b>100.0</b>	<b>2,645,316</b>	<b>100.0</b>	<b>2,671,318</b>	<b>100.0</b>

*Risk-weighted assets*

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	US\$bn	%	US\$bn	%	US\$bn	%
Retail Banking and Wealth Management	223.0	17.9	243.4	22.0	233.5	21.4
Commercial Banking	424.9	34.0	385.9	34.9	391.7	35.8
Global Banking and Markets	537.3	43.0	429.2	38.9	422.3	38.6
Global Private Banking	22.1	1.8	21.8	2.0	21.7	2.0
Other	41.3	3.3	24.5	2.2	23.5	2.2
	<b>1,248.6</b>	<b>100.0</b>	<b>1,104.8</b>	<b>100.0</b>	<b>1,092.7</b>	<b>100.0</b>

Selected items included in profit before tax by global business

*Acquisitions, disposals and dilutions<sup>52</sup>*

Half-year to



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	<b>30 June 2014 US\$m</b>	30 June 2013 US\$m	31 December 2013 US\$m
Retail Banking and Wealth Management	<b>6</b>	(72)	298
Commercial Banking	<b>13</b>	51	479
Global Banking and Markets	<b>9</b>	15	366
Global Private Banking			1
Other	<b>(33)</b>	1,067	(77)
	<b>(5)</b>	1,061	1,067

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Retail Banking and Wealth Management**

RBWM provides banking and wealth management services for our personal customers to help them secure their future prosperity and realise their ambitions.

	Total RBWM US\$m	US	
		run-off portfolio US\$m	Principal RBWM US\$m
<b>Half-year to 30 June 2014</b>			
Net interest income	8,427	750	7,677
Net fee income/(expense)	3,291	(1)	3,292
Other income/(expense)	605	(149)	754
<b>Net operating income<sup>13</sup></b>	<b>12,323</b>	<b>600</b>	<b>11,723</b>
LICs <sup>53</sup>	(1,225)	(180)	(1,045)
<b>Net operating income</b>	<b>11,098</b>	<b>420</b>	<b>10,678</b>
Total operating expenses	(8,269)	(361)	(7,908)
<b>Operating profit</b>	<b>2,829</b>	<b>59</b>	<b>2,770</b>
Income from associates <sup>54</sup>	216		216
<b>Profit before tax</b>	<b>3,045</b>	<b>59</b>	<b>2,986</b>
RoRWA <sup>47</sup>	2.7%	0.2%	3.9%
<b>Half-year to 30 June 2013</b>			
Net interest income	9,310	1,151	8,159
Net fee income/(expense)	3,586	(3)	3,589
Other income/(expense)	393	(355)	748
<b>Net operating income<sup>13</sup></b>	<b>13,289</b>	<b>793</b>	<b>12,496</b>
LICs <sup>53</sup>	(1,768)	(396)	(1,372)
<b>Net operating income</b>	<b>11,521</b>	<b>397</b>	<b>11,124</b>
Total operating expenses	(8,451)	(631)	(7,820)
<b>Operating profit/(loss)</b>	<b>3,070</b>	<b>(234)</b>	<b>3,304</b>
Income from associates <sup>54</sup>	197		197
<b>Profit/(loss) before tax</b>	<b>3,267</b>	<b>(234)</b>	<b>3,501</b>
RoRWA <sup>47</sup>	2.5%	(0.5%)	4.5%
<b>Half-year to 31 December 2013</b>			
Net interest income	9,029	910	8,119
Net fee income	3,435	14	3,421
Other income/(expense)	987	(45)	1,032
<b>Net operating income<sup>13</sup></b>	<b>13,451</b>	<b>879</b>	<b>12,572</b>
LICs <sup>53</sup>	(1,459)	(309)	(1,150)

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Net operating income	11,992	570	11,422
Total operating expenses	(8,797)	(535)	(8,262)
Operating profit	3,195	35	3,160
Income from associates <sup>54</sup>	187	(1)	188
Profit before tax	3,382	34	3,348
RoRWA <sup>47</sup>	2.8%	0.1%	4.3%

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.*

### Principal RBWM RoRWA

## 3.9%

### Global mobile application

**downloads surpass**

## 4 million

### Best Regional Retail Business 2014

#### Asia Pacific

*(The Asian Banker)*

### Review of performance

RBWM profit before tax of US\$3.0bn was lower by US\$0.2bn on a reported basis and by US\$0.3bn on constant currency and underlying bases. This reflected lower revenue, partly offset by reduced LICs.

In the US run-off portfolio, a profit before tax was recorded compared with a loss in 2013. This was due to a fall in operating expenses, mainly from the non-recurrence of a CRS customer redress provision and lower LICs reflecting decreased lending balances, reduced new impaired loans and lower delinquency levels, partly offset by a decline in revenue.

*The commentary that follows reflects performance in our Principal RBWM business (see footnote 55).*

Profit before tax fell by US\$558m to US\$3.0bn on a constant currency basis. Excluding disposals and items noted below, it decreased by US\$386m as higher operating expenses were partly offset by lower LICs, with revenue broadly unchanged.

Significant items in reported revenue included a US\$353m provision arising from a review of compliance with the Consumer Credit Act in the UK, adverse movements in non-qualifying hedges of US\$47m in the first half of both 2014 and 2013, and a US\$138m loss on disposal in the first half of 2013 of an HFC UK Bank secured lending portfolio. Reported operating expenses included UK customer redress provisions of US\$194m compared with US\$412m in the first half of 2013, in addition to restructuring costs of US\$18m compared with US\$74m in the prior year. The first half of 2013 also included a gain of US\$189m relating to changes in delivering ill-health benefits.

*Revenue* declined by 5%, reflecting the effect of disposals and the items referred to above. Excluding these, revenue was broadly unchanged, with a reduction in personal lending revenue mostly offset by higher income from current accounts, savings and deposits.



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Principal RBWM<sup>55</sup>: management view of revenue<sup>13</sup>*

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Current accounts, savings and deposits	<b>2,914</b>	2,785	2,928
Wealth products	<b>3,196</b>	3,187	3,145
Investment distribution <sup>56</sup>	<b>1,721</b>	1,852	1,733
Life insurance manufacturing	<b>908</b>	760	888
Asset Management	<b>567</b>	575	524
Personal lending	<b>5,712</b>	6,034	5,803
Mortgages	<b>1,604</b>	1,610	1,584
Credit cards	<b>2,168</b>	2,244	2,206
Other personal lending <sup>57</sup>	<b>1,940</b>	2,180	2,013
Other <sup>58</sup>	<b>(99)</b>	490	696
Net operating income <sup>13</sup>	<b>11,723</b>	12,496	12,572

*For footnotes, see page 96.***Strategic direction**

RBWM provides retail banking and wealth management services for personal customers in markets where we have, or can build cost effectively, scale in our target customer segments.

We focus on three strategic imperatives:

building a consistent, high standard, customer needs-driven wealth management service for retail customers drawing on our Insurance and Asset Management businesses;

leveraging global expertise to improve customer service and productivity, to provide a high standard of banking solutions and service to our customers efficiently; and

simplifying and re-shaping the RBWM portfolio of businesses globally, to focus our capital and resources on key markets. Our three growth priorities are customer growth in target segments, deepening customer relationships through wealth management and relationship-led lending, and enhancing distribution capabilities, including digital.

Implementing Global Standards, enhancing risk management control models and simplifying processes also remain top priorities for RBWM.

Current accounts, savings and deposits revenue increased. Spreads improved, mainly in the UK due to re-pricing activity and, to a lesser extent, in mainland China, partly offset by spread compression in Hong Kong. Balances increased, mainly in the UK and Hong Kong.

Wealth products revenue increased by 1% from higher life insurance manufacturing income, most notably in Hong Kong reflecting improved sales and favourable market movements. This was partially offset by a decline in investment distribution income, mainly as a result of lower fees from mutual funds in part reflecting the Retail Distribution Review in the UK, and from reduced volumes in Hong Kong. Personal lending revenue fell by 3% on a constant currency basis. All products were adversely affected by business disposals and the run-off of our Canadian consumer finance business. Excluding these, mortgages and credit card revenue was broadly unchanged. Other personal lending declined, notably in the UK due to cessation of certain overdraft fees, and in Brazil as the rebalancing of the portfolio towards secured lending continued.

LICs decreased by 18%, mainly in the US and the UK due to lower delinquency levels. In Brazil, LICs also reduced as impairment model changes and assumption revisions for restructured loans in 2013 were partly offset by refinements to the impairment model for non-restructured portfolios in the first half of 2014.

*Operating expenses* increased by 3%. Excluding the effect of disposals, items referred to above and higher costs of US\$111m as a result of the timing of the recognition of the FSCS levy, operating expenses increased by 5%, driven by the effect of inflation in Latin America and Asia, together with higher investment in the Risk and Compliance functions across all regions.

Growth priorities

#### **Focus on relationship-led personal lending to drive balance sheet growth**

We aim to deepen the relationships with our existing customers by providing them with borrowing products that fit their needs, ranging from cards and other unsecured loans to longer-term facilities like mortgages. We also use personal lending to generate new relationships, targeted carefully by segment and offerings in each market.

To achieve this we continue to use our improved analytics to better support product decisions in line with regulatory changes and customer fairness principles. Based on pricing and customer response measures, we enhanced revenue and grew participation in target segments, including double digit mortgage growth in mainland China. Repricing initiatives are reflected in lending spreads, which have stabilised over the past four quarters following 10 quarters of steady decline.

We maintained discipline around lending within our risk appetite. Since the fourth quarter of 2013, other personal loan average balances in our home markets increased by 6%. In other priority markets, we also managed growth and

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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rebalanced portfolios towards secured loans, increasing mortgage average balances by 2%. This was achieved with lower LICs in the first half of 2014 than in the second half of 2013.

In January 2014, we introduced a new discretionary incentive framework for our Retail Banking front-line staff. Similar to the framework launched for Wealth Management relationship managers (RM s) in 2013, this new plan removes the formulaic link between product sales and variable pay for a further 50,000 front-line staff. Implementation contributed to a slowdown in revenue growth, though we expect it to enhance the quality of revenue ultimately. Customer recommendation levels improved in several markets in the first half of 2014, with the volume of complaints related to products and services decreasing by more than 10% globally compared with the second half of 2013.

**Continue to develop Wealth Management with focus on growing customer balances**

We remain committed to capturing opportunities from wealth creation, primarily through our Premier offering. Our approach has been informed by the emerging conduct risk agenda, and we have taken proactive measures, including the implementation of our Wealth incentive framework, to reposition the business.

We continued to invest in our Premier offering and delivered new platforms and digital capabilities to enhance the end-to-end delivery process and customer experience. In addition, we improved RM productivity through new training programmes and development tools.

Client contact and coverage rates increased since the beginning of the year with higher numbers of client appointments, financial reviews and needs fulfilled per RM.

**Develop digital capabilities to support customers and reduce cost**

At June 2014, worldwide downloads of our global mobile application, now with enriched functionality, reached 4.3m with almost 2m in the first half of the year.

The migration of customers to digital channels continued to progress. In the UK, we launched Paym , a service which provides customers with the ability to register and make payments using a mobile phone number as a proxy for their bank account. In the US, we launched

Mobile Check Deposit which allows customers to deposit a cheque by taking a picture of it with their phone. These enhancements reflect our continued commitment to improving the customer experience while streamlining processes.

Across our priority markets, between December 2013 and May 2014, the monthly average sales and transaction revenue through digital channels increased by 12%.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Commercial Banking**

CMB offers a full range of financial services and tailored solutions to almost three million customers ranging from small and medium-sized enterprises to publicly quoted companies in around 60 countries.

	<b>30 Jun 2014</b>	<b>Half-year to 30 Jun 2013</b>	<b>31 Dec 2013</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Net interest income	5,184	5,050	5,150
Net fee income	2,413	2,337	2,380
Other income	519	476	972
<b>Net operating income<sup>13</sup></b>	<b>8,116</b>	<b>7,863</b>	<b>8,502</b>
LICs <sup>53</sup>	(562)	(1,160)	(1,224)
<b>Net operating income</b>	<b>7,554</b>	<b>6,703</b>	<b>7,278</b>
Total operating expenses	(3,588)	(3,337)	(3,712)
<b>Operating profit</b>	<b>3,966</b>	<b>3,366</b>	<b>3,566</b>
Income from associates <sup>54</sup>	805	767	742
<b>Profit before tax</b>	<b>4,771</b>	<b>4,133</b>	<b>4,308</b>
RoRWA <sup>47</sup>	2.3%	2.2%	2.2%

**7%****growth in customer lending balances****since June 2013 on a constant currency basis****8%****growth in deposit balances****since June 2013 on a constant currency basis****Best Trade Bank in the World***(Trade & Forfaiting Review)*



**Strategic direction**

CMB aims to be the banking partner of choice for international businesses by building on our rich heritage, international capabilities and relationships to enable global connectivity.

We have four growth priorities:

providing consistency and efficiency for our customers through a business model organised around global customer segments and products;

utilising our distinctive geographical network to support and facilitate global trade and capital flows;

delivering excellence in our core flow products – specifically in Trade and Payments and Cash Management; and

enhancing collaboration with other global businesses.

Implementing Global Standards, enhancing risk management controls and simplifying processes remain top priorities for CMB.

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.*

**Review of performance**

CMB reported profit before tax of US\$4.8bn in the first half of 2014, 15% higher on both reported and constant currency bases. On an underlying basis, profit before tax increased by 16%. This was driven by a reduction in LICs and increased revenues, partly offset by a rise in operating expenses.

*Revenue* increased by 5% on a constant currency basis and by 6% on an underlying basis. This was due to higher net interest income driven by growth in average lending and deposit balances in Asia and rising average deposit balances and wider lending spreads in the UK. Higher net fee income was mainly driven by an increase in term lending fees in the UK.

Despite lending spread compression compared with the first half of 2013, spreads in the first half of 2014 were broadly unchanged from the end of 2013.

*Management view of revenue*<sup>13</sup>

	<b>30 Jun</b>	Half-year to	31 Dec
	<b>2014</b>	30 Jun	2013
	<b>US\$m</b>	US\$m	US\$m
Global Trade and Receivables Finance	<b>1,429</b>	1,459	1,470
Credit and Lending	<b>3,108</b>	3,008	3,095

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Payments and Cash Management, current accounts and savings deposits	2,738	2,579	2,708
Other	841	817	1,229
Net operating income <sup>13</sup>	<b>8,116</b>	7,863	8,502

Global Trade and Receivables Finance revenue decreased by 2%, but was broadly unchanged on a constant currency basis. It reflected the effect of a significant increase in average balances, with growth in Asia and Europe, which was largely offset by spread compression in Latin America and Asia despite spreads in the first half of 2014 being broadly unchanged. In Latin America, spreads narrowed in Brazil due to a portfolio shift towards lower-yielding middle market enterprises ( MME s), while in Asia spread compression reflected increased competition.

Credit and Lending revenue increased, reflecting higher average balances in Hong Kong and increased fee income in the UK due to a rise in term lending fees from higher new business

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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volumes. This was partly offset by spread compression in Latin America, in Brazil, as discussed above and in Mexico due to the repositioning of the business.

Payments and Cash Management revenue also increased. This reflected strong deposit growth, notably in the UK and Hong Kong, which was driven by increased transaction volumes supported by our focus on international customers. Deposit spreads remained broadly unchanged.

LICs decreased by US\$580m, mainly in Europe and Latin America. Lower LICs in Europe reflected a reduction in individually assessed loan impairment charges, mainly in the UK and Spain. In Latin America, a reduction in LICs was driven by lower collectively assessed impairments in Brazil, mainly due to impairment model changes and assumption revisions for restructured loans in the Business Banking portfolios in 2013, while, in Mexico, individually assessed charges reduced, in particular relating to homebuilders. Additionally, in North America, lower LICs were due to lower individually assessed impairment charges in Canada, partly offset by a rise in LICs in the US as we revised certain estimates used in our corporate loan impairment calculation.

*Operating expenses* increased by 10%, including the non-recurrence of an accounting gain of US\$160m arising from a change in the basis of delivering ill health benefits in the first half of 2013. Excluding this gain, operating expenses were higher, mainly due to inflationary pressures in Asia and Latin America, the latter largely attributable to union-agreed salary increases in Brazil. Higher costs in Asia also reflected business growth, including increased staff numbers.

*Income from associates* increased by 4%, as we benefited from the improved performance of The Saudi British Bank and BoCom due to balance sheet growth.

Growth priorities

**Providing consistency through a globally led business model**

We continued to invest in providing global product coverage for our business segments. This will enable us to achieve greater consistency and transparency in servicing our customers' needs while managing risk more efficiently.

New leadership and a more defined global strategy within our large corporate and MME segments enabled us to improve client coverage. We appointed a new Global Head of International Subsidiary Banking to drive investment in supporting our international customers across our network. In addition, we redefined our large corporate segment, focusing on a smaller number of higher value clients in 14 priority markets, and accelerated market penetration in our six key MME markets (Hong Kong, the UK, Canada, the US, Mexico and Brazil).

In conjunction with GB&M, we acted as sole financial adviser for an Asian client's first strategic acquisition outside their home market. This demonstrated our ability to meet the needs of a large corporate client by executing a substantial and complex multi-jurisdictional transaction.

In Business Banking, we launched the international RMs' model into more of our priority markets in the first half of this year. We expect the number of international RMs to increase by approximately 20% in 2014, supporting small and medium-sized enterprise (SME) clients with

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their international growth aspirations. We launched five major campaigns in the first half of 2014 to help SME customers achieve their growth ambitions and assist businesses looking to expand overseas, including funds in the UK, France, the US, Canada and Australia totalling US\$14bn.

### **Utilising our geographical network to support our customers' international growth ambitions**

HSBC's geographical reach at either end of the top 20 global trade corridors has helped us win a number of high profile deals, including a mandate to provide supply chain finance across nine countries for a large consumer brands client.

Our operating platforms for Receivables Finance are being consolidated into regional hubs, with Europe and Asia completed in the first half of 2014. This offers us the ability to deploy these capabilities rapidly into new markets, providing better risk management and lower operating costs.

### **Delivering excellence in our core products**

HSBC is one of the largest trade finance banks in the world with access to more than 70% of

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

the world's trade flows. We currently support clients from 32 different countries utilising 19 different currencies. We continued to enhance our open account financing capabilities in key hubs for our clients, with our new Supply Chain Solutions platform which has generated over US\$0.7m of revenue.

Commodity and Structured Trade Finance saw double-digit asset balance growth in the first half of 2014. We expanded these products into Indonesia, India and Malaysia.

In Payments and Cash Management, CMB remains well positioned to benefit from global trends such as increasing cross-border payment flows, given HSBC is strategically located where over 90% of the world's payment activity originates. New customer mandates increased by 19% compared with the first half of 2013. We made progress in the digital space, and have migrated around 80,000 customers from legacy platforms to core electronic banking channels and developed innovative solutions for our customers. Most recently, we provided end-of-day renminbi cross-border pooling capability from the Shanghai free trade zone.

**Enhancing collaboration with other global businesses**

We continued to strengthen CMB's collaboration with GB&M and GPB by increasing product coverage across the Group to our customers. Revenue remained broadly unchanged with lower sales of Markets products mostly offset by growth in the sale of Capital Financing products.

**Global Banking and Markets**

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

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest income	<b>3,602</b>	3,334	3,432
Net fee income	<b>1,939</b>	1,818	1,664
Net trading income <sup>59</sup>	<b>2,790</b>	5,606	1,174
Other income/(expense)	<b>1,460</b>	(96)	2,244
<b>Net operating income<sup>13</sup></b>	<b>9,791</b>	10,662	8,514
LICs <sup>53</sup>	<b>(49)</b>	(174)	(33)
<b>Net operating income</b>	<b>9,742</b>	10,488	8,481
Total operating expenses	<b>(4,958)</b>	(5,007)	(4,953)
<b>Operating profit</b>	<b>4,784</b>	5,481	3,528
Income from associates <sup>54</sup>	<b>249</b>	242	190
<b>Profit before tax</b>	<b>5,033</b>	5,723	3,718

RoRWA<sup>47</sup>

2.0%

2.8%

1.7%

**Increased market share in  
debt and equity capital markets, M&A  
and lending**

**Best Overall Primary Debt House**

*(Euromoney Primary Debt Survey 2014)*

**Best Overall Offshore RMB**

**Products/Services,**

**for the 3rd consecutive year**

*(Asiamoney Offshore RMB Poll 2014)*

#### **Strategic direction**

GB&M is delivering on its well-established emerging markets-led and financing-focused strategy, with the objective of being a top 5 bank to our priority clients. This strategy has evolved to include a greater emphasis on connectivity between the global businesses across the regions and within GB&M, utilising the Group's extensive distribution network.

We focus on the following growth priorities:

leveraging our distinctive geographical network, which connects developed and faster-growing regions;

connecting clients to global growth opportunities; and

continuing to be well-positioned in products that will benefit from global trends;

Collaborating with other global businesses, implementing Global Standards, enhancing risk management controls and simplifying processes remain top priorities for GB&M.

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Review of performance**

GB&M reported profit before tax of US\$5.0bn, 12% lower than in the first half of 2013. On a constant currency and underlying basis, profit before tax decreased by 11%, driven by lower revenue due to an adverse DVA movement partly offset by a reduction in loan impairment charges and lower operating expenses.

Revenue fell by 9%. In the first half of 2014, revenue included an adverse DVA of US\$155m, compared with a favourable DVA of US\$451m. Excluding this, revenue decreased by 3%, mainly driven by a reduction in Foreign Exchange. In addition, in line with expectations, Balance Sheet Management revenue of US\$1.5bn declined by US\$153m. These factors were partly offset by an increase in our Credit, Payments and Cash Management and Principal Investments businesses. Despite this decline in overall revenue, we captured increased market share in debt and equity capital markets, M&A and lending.

Markets revenue of US\$3.8bn was 7% lower. This was primarily driven by a fall in revenue from our Foreign Exchange business, which reflected lower market volatility and reduced client flows. By contrast, Rates revenue was broadly in line as higher revenue in Latin America, in part driven by increased client activity, was offset by the effect of subdued client flows and lower market volatility, mainly in Europe. However, we reported higher revenue in secondary Credit and strong revenue growth in our Equities business, notwithstanding the non-recurrence of revaluation gains reported in the first half of 2013. The growth in our Equities business was driven by successful positioning to capture increased client activity, notably in Europe. In addition, revenue in legacy credit increased, reflecting price appreciation across certain asset classes in the ABS market.

Revenue in Capital Financing was broadly unchanged. Volumes and market share increased globally across debt and equity capital market issuance, advisory and lending. In our Credit and Lending business, volumes grew by 11%. These factors were, however, largely offset by spread and fee compression.

*Management view of revenue*<sup>13,60,61</sup>

	<b>30 Jun</b>	Half-year to 30 Jun	31 Dec
	<b>2014</b>	2013	2013
	<b>US\$m</b>	US\$m	US\$m
Markets <sup>62</sup>	<b>3,845</b>	4,070	2,865
Credit	<b>593</b>	488	308
Rates	<b>1,127</b>	1,106	547
Foreign Exchange	<b>1,434</b>	1,833	1,353
Equities	<b>691</b>	643	657
Capital Financing	<b>2,075</b>	2,042	1,952
Payments and Cash Management	<b>904</b>	862	908
Securities Services	<b>846</b>	847	815

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Global Trade and Receivables Finance	<b>389</b>	371	370
Balance Sheet Management	<b>1,502</b>	1,680	1,430
Principal Investments	<b>342</b>	205	307
Debit valuation adjustment	<b>(155)</b>	451	(346)
Other <sup>63</sup>	<b>43</b>	134	213
Net operating income <sup>13</sup>	<b>9,791</b>	10,662	8,514

*For footnotes, see page 96.*

Payments and Cash Management revenue rose, driven by growth in deposit balances and an increase in transaction volumes.

Balance Sheet Management revenue declined by US\$153m, driven by lower gains on the disposal of available-for-sale debt securities, notably in Europe and North America.

Principal Investments revenue increased, in part due to foreign exchange revaluation gains, disposal gains and lower impairments.

*LICs* decreased by US\$141m, primarily due to higher net releases of credit risk provisions on available-for-sale ABSs in our legacy portfolio, reflecting price appreciation.

*Operating expenses* were US\$123m or 2% lower. The first half of 2013 included a Madoff-related litigation charge of US\$298m and an accounting gain of US\$81m relating to changes in delivering ill-health benefits to certain employees in the UK. Excluding these items, and despite a reduction in performance costs, expenses increased as we continued to invest in our regulatory resources. In addition, expenses relating to risk and compliance rose.



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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Growth priorities

**Leveraging our distinctive geographical network which connects developed and faster-growing regions**

We remain strongly positioned to service the needs of our multinational clients. We were recently successful in a competitive pan-Asian tender and we now serve as universal bank for the production and distribution hub in mainland China of a new European corporate client, with opportunities for further expansion in Asia and into Latin America. Our ability to win mandates like this demonstrates the value of our distinctive geographical network to our clients.

Our long-standing cross-border coverage and our ability to execute multi-faceted transactions also attracted new financing and advisory mandates, including those won through collaboration with CMB. This helped clients to grow their business activities, and contributed to increasing our market share in several product categories including mergers and acquisitions and debt and equity capital markets.

**Connecting clients to global growth opportunities**

Our Payments and Cash Management business benefited from volume growth and delivered improved client coverage. During the first half of 2014, the business expanded its Global Liquidity Solutions offering into the US, mainland China and certain European countries and is now active in 50 markets.

We remain focused on our Foreign Exchange business and continue to improve our distribution platforms, electronic pricing and risk management capabilities, to ensure that we remain well positioned to capture increases in market share and volume growth.

**Continuing to be well positioned in products that will benefit from global trends**

Capturing new opportunities arising from the internationalisation of the renminbi remains a key growth priority for GB&M, as demand for the currency outside Asia-Pacific grows. We are investing to build on the strength of our offering and to maintain our global leadership position. In April 2014, we announced the appointment of a new Global Head of Renminbi Business Development to deliver our strategic priorities in this growing market.

Our Securities Services business became the first custodian to service London-based renminbi-qualified institutional investors, following regulatory approval to open up mainland China's securities markets to overseas investors.

We are well placed to benefit from companies increasingly looking to raise finance directly from the debt capital markets. In March 2014, for the first time, we were recognised by Bloomberg as the top international bond provider and also maintained leading positions in euro market and emerging market debt issuance, with market share increases in the noted categories.

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With governments increasingly requiring financing solutions for infrastructure development and institutional investors seeking long-term real assets, infrastructure finance continues to migrate from banks to capital markets. Our project finance team is actively capturing opportunities and delivered several successful transactions including arranging financing for a UK-based infrastructure project which also featured a direct investment by a UK pension fund.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Global Private Banking**

GPB serves high net worth individuals and families with complex and international financial needs within the Group's priority markets.

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest income	536	575	571
Net fee income	533	602	548
Other income/(expense)	161	(26)	169
<b>Net operating income<sup>13</sup></b>	<b>1,230</b>	1,151	1,288
LICs <sup>53</sup>	(6)	(14)	(17)
<b>Net operating income</b>	<b>1,224</b>	1,137	1,271
Total operating expenses	(868)	(1,035)	(1,194)
<b>Operating profit</b>	<b>356</b>	102	77
Income from associates <sup>54</sup>	8	6	8
<b>Profit before tax</b>	<b>364</b>	108	85
RoRWA <sup>47</sup>	3.3%	1.0%	0.8%

**Profit before tax continued to be affected by actions**

**taken to reposition the customer base**

**Net new money from CMB referrals tripled**

**compared with the first half of 2013**

**Outstanding Private Bank**

**in South East Asia**

*Private Banker International*

*Global Wealth Awards*

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### Strategic direction

GPB aims to build on HSBC's commercial banking heritage to be the leading private bank for high net worth business owners.

We have two growth priorities:

capturing growth opportunities in home and priority markets, particularly from Group collaboration by accessing owners and principals of CMB and GB&M clients; and

repositioning the business to concentrate on onshore markets, aligned with Group priorities. Implementing Global Standards, enhancing risk management controls, tax transparency and simplifying processes remain top priorities for GPB.

For footnotes, see page 96.

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

### Review of performance

Reported profit before tax of US\$364m was US\$256m higher, and US\$245m higher on constant currency and underlying bases. This was primarily because the first half of 2013 included the loss on write-off of allocated goodwill relating to our Monaco business of US\$279m and a regulatory investigation provision of US\$119m. Excluding these items, profit before tax was lower, primarily due to actions taken to reposition the business.

*Revenue* increased by 5%, primarily due to the non-recurrence of the loss related to the write-off of goodwill noted above. Excluding this, revenue declined as trading income and net fee income decreased, reflecting lower market volatility, and a managed reduction in client assets. Net interest income also decreased, mainly due to lower treasury revenue in Asia following actions taken to reposition the business, lower average deposit balances and a narrowing of lending spreads.

*Operating expenses* decreased by 17%, primarily due to the non-recurrence of the regulatory investigation provision noted above, and the non-recurrence of a provision relating to the UK Rubik agreement, a bilateral tax agreement between the UK and Swiss governments, as well as the partial release of a customer redress provision. Excluding these items, operating expenses were broadly unchanged as lower staff costs from a managed reduction in average staff numbers and lower performance-related costs were offset by increased IT costs, primarily to support the implementation of the new global banking platform.

*Client assets*<sup>64</sup>

	30 Jun 2014 US\$bn	Half-year to	
		30 Jun 2013 US\$bn	31 Dec 2013 US\$bn
At beginning of period	382	398	386
Net new money	(3)	(10)	(16)
Of which: areas targeted for growth	5	(3)	(3)
Value change	6		12
Exchange and other	(1)	(2)	
At end of period	384	386	382

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Client assets, which include funds under management and cash deposits, increased on a reported basis compared with 31 December 2013 due to favourable market and foreign

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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exchange movements, partly offset by negative net new money and the effect of the disposal of our HSBC Trinkaus & Burkhardt AG business in Luxembourg. Negative net new money of US\$3bn was mainly driven by the continued repositioning of our business. However, we attracted positive net new money of US\$5bn in areas that we have targeted for growth, including our home and priority markets and the high net worth client segment.

Our return on assets, defined as the percentage of revenue to average client assets, was 65bps in the first half of 2014 compared with 59bps. The increase was primarily due to the non-recurrence of the write-off relating to goodwill noted above. Excluding the effect of this item, our return on assets was 8bps lower in the first half of 2014, reflecting the fall in revenue. Our client return on assets, which excludes treasury and capital revenue, was 4bps lower in the first half of 2013 at 60bps.

Growth priorities

**Capturing growth in our home and priority markets and focusing on collaboration revenues**

We enhanced our approach to collaborating with other global businesses in line with our aspiration to be the preferred private bank for the owners and principals of our CMB and GB&M clients. We are moving away from a traditional referral model, adopting a more coordinated and systematic approach for clients who need both private and corporate coverage, supported by more effective marketing, communications, awareness and training. This resulted in net new money from CMB referrals more than tripling compared with the first half of 2013.

In addition, we formalised and implemented the Global Priority Clients initiative, a collaborative venture between GPB, GB&M and CMB for the Group's most significant dual banked clients. This gathered momentum in the first half of 2014 as we identified over 60 large relationships that could benefit from an enhanced coverage, creating significant incremental revenue opportunities.

We expanded our product offering with investment opportunities in three new Alternatives products, comprising two private equity funds and a real estate portfolio. In addition, we strengthened our investment group with the implementation of Global Product Lines, which allow us to offer a consistent global proposition for key products and utilise more efficiently GB&M and Global Asset Management services and products.

**Repositioning the business**

We continued to reposition the GPB business model and client base in the first half of 2014, primarily by reviewing our portfolio and ensuring that all clients comply with Global Standards, including financial crime compliance and tax transparency standards.

We remain focused on clients with wider Group connectivity who meet our segmentation thresholds within our home and priority markets, while also reducing the number of clients in non-priority markets. In line with this strategy, we agreed to sell a portfolio of private banking assets of clients in non-priority markets booked in Switzerland to LGT Bank (Switzerland) Ltd. The portfolio had client assets of US\$12.5bn at 31 December 2013, representing 15% of client assets in Switzerland, and we reclassified the associated balances to held for sale at 30 June 2014. This transaction is expected to complete in the second half of 2014.

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The replacement of GPB's multiple IT platforms with a new single banking platform is under way. This will deliver improved efficiency, an enhanced proposition and a consistent client experience globally. The initial roll-out, including Switzerland, is expected in the second half of 2015.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Other**<sup>50</sup>

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

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest expense	(221)	(376)	(361)
Net fee income	1	61	3
Net trading income/ (expense) <sup>59</sup>	(120)	(169)	175
Changes in fair value of long-term debt issued and related derivatives	438	(1,419)	191
Changes in other financial instruments designated at fair value	(719)	957	(1,533)
Net expense from financial instruments designated at fair value	(281)	(462)	(1,342)
Other income	3,279	5,096	3,026
<b>Net operating income</b>	<b>2,658</b>	4,150	1,501
Total operating expenses	(3,533)	(3,312)	(4,484)
<b>Operating profit/(loss)</b>	<b>(875)</b>	838	(2,983)
Income from associates <sup>54</sup>	2	2	(16)
<b>Profit/(loss) before tax</b>	<b>(873)</b>	840	(2,999)

For footnotes, see page 96.

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

**Notes**

Reported loss before tax of US\$873m compared with a profit of US\$840m (US\$808m on a constant currency basis). 2013 included gains of US\$1.1bn relating to Industrial Bank.

On an underlying basis, a pre-tax loss of US\$625m compared with a loss of US\$244m. The first half of 2013 included a net gain on completion of the disposal of our investment in Ping An of US\$553m, and foreign exchange gains of US\$442m relating to sterling debt issued by HSBC Holdings, while the first half of 2014 included a gain of US\$428m from the sale of our investment in Bank of Shanghai. Excluding these items and fair value movements

on non-qualifying hedges, loss before tax improved from lower adverse fair value movements from ineffectiveness in the hedging of our own debt and a reduction in interest expense partly offset by higher costs.



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*Net trading expense* decreased by US\$56m, primarily due to the non-recurrence of adverse fair value movements of US\$682m on the contingent forward sale contract relating to Ping An. This was mostly offset by the foreign exchange gains in HSBC Holdings in 2013 noted above. In addition, in the first half of 2014 there were adverse fair value movements on non-qualifying hedges, notably in Europe, compared with favourable movements in the first half of 2013.

*Net expense from financial instruments designated at fair value* reduced by US\$186m. The reduction was primarily due to lower adverse movements from interest and exchange rate ineffectiveness in the hedging of long-term debt designated at fair value issued principally by HSBC Holdings and its European subsidiaries. This was partly offset by adverse movements in the fair value of our own debt compared with minimal movements in the same period in 2013.

*Gains less losses from financial investments* reduced by US\$772m due to the non-recurrence of a gain of US\$1.2bn on the disposal of our investment in Ping An in the first half of 2013, partly offset by a gain of US\$428m on the disposal of our investment in Bank of Shanghai in the first half of 2014.

*Other operating income* decreased by US\$1.0bn, driven by the non-recurrence of an accounting gain of US\$1.1bn arising from the reclassification of Industrial Bank as a financial investment in the first half of 2013.

*Operating expenses* increased by US\$248m, reflecting increased investment in Global Standards, Risk and Compliance. This was partly offset by a reduction in North America due to lower divestiture costs from the sale in 2012 of our CRS business and the expiration in the first half of 2014 of the related Transaction Services Agreements. In addition, the first half of 2014 included a favourable adjustment of US\$45m relating to the previous year's bank levy charge, compared with an unfavourable adjustment of US\$9m.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Reconciliation of reported and constant currency profit/(loss) before tax****Retail Banking and Wealth Management**

30 June 2014 compared with 30 June 2013

**Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )**

	1H13		1H14		Constant	
	Currency	at 1H14			currency	
	translation	exchange	1H14 as	Reported	change <sup>23</sup>	change <sup>23</sup>
	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>		
1H13 as reported					%	%
US\$m	US\$m	US\$m	US\$m			
Net interest income	9,310	(122)	9,188	8,427	(9)	(8)
Net fee income	3,586	(23)	3,563	3,291	(8)	(8)
Net trading income/(expense)	275	(8)	267	(13)		
Net income from financial instruments designated at fair value	122	(2)	120	1,073		
Gains less losses from financial investments	48	3	51	8	(83)	(84)
Net earned insurance premiums	5,469	(9)	5,460	5,480		
Other operating income/(expense) (including dividend income)	(81)	(16)	(97)	393		
<b>Total operating income</b>	<b>18,729</b>	<b>(177)</b>	<b>18,552</b>	<b>18,659</b>		<b>1</b>
Net insurance claims <sup>66</sup>	(5,440)	(15)	(5,455)	(6,336)	(16)	(16)
<b>Net operating income<sup>13</sup></b>	<b>13,289</b>	<b>(192)</b>	<b>13,097</b>	<b>12,323</b>	<b>(7)</b>	<b>(6)</b>
LICs <sup>53</sup>	(1,768)	104	(1,664)	(1,225)	31	26
<b>Net operating income</b>	<b>11,521</b>	<b>(88)</b>	<b>11,433</b>	<b>11,098</b>	<b>(4)</b>	<b>(3)</b>
Operating expenses	(8,451)	129	(8,322)	(8,269)	2	1
<b>Operating profit</b>	<b>3,070</b>	<b>41</b>	<b>3,111</b>	<b>2,829</b>	<b>(8)</b>	<b>(9)</b>
Income from associates <sup>54</sup>	197	2	199	216	10	9
<b>Profit before tax</b>	<b>3,267</b>	<b>43</b>	<b>3,310</b>	<b>3,045</b>	<b>(7)</b>	<b>(8)</b>

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Retail Banking and Wealth Management** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	9,029	43	9,072	8,427	(7)	(7)
Net fee income	3,435	18	3,453	3,291	(4)	(5)
Net trading income/(expense)	411	(11)	400	(13)		
Net income from financial instruments designated at fair value	1,516	10	1,526	1,073	(29)	(30)
Gains less losses from financial investments	7		7	8	14	14
Net earned insurance premiums	5,074	9	5,083	5,480	8	8
Other operating income (including dividend income)	646	(2)	644	393	(39)	(39)
Total operating income	20,118	67	20,185	18,659	(7)	(8)
Net insurance claims <sup>66</sup>	(6,667)	(14)	(6,681)	(6,336)	5	5
Net operating income <sup>13</sup>	13,451	53	13,504	12,323	(8)	(9)
LICs <sup>53</sup>	(1,459)	17	(1,442)	(1,225)	16	15
Net operating income	11,992	70	12,062	11,098	(7)	(8)
Operating expenses	(8,797)	(48)	(8,845)	(8,269)	6	7
Operating profit	3,195	22	3,217	2,829	(11)	(12)
Income from associates <sup>54</sup>	187	(2)	185	216	16	17
Profit before tax	3,382	20	3,402	3,045	(10)	(10)

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Management view of Retail Banking and Wealth Management and Principal RBWM business revenue**

	<b>30 Jun 2014</b>	Half-year to 30 Jun 2013	31 Dec 2013
	<b>US\$m</b>	US\$m	US\$m
<b>Retail Banking and Wealth Management business</b>			
Current accounts, savings and deposits	2,914	2,785	2,928
Wealth products	3,196	3,187	3,145
Investment distribution <sup>56</sup>	1,721	1,852	1,733
Life insurance manufacturing	908	760	888
Asset Management	567	575	524
Personal lending	6,410	6,778	6,538
Mortgages	2,302	2,501	2,299
Credit cards	2,168	2,244	2,206
Other personal lending <sup>57</sup>	1,940	2,033	2,033
Other <sup>58</sup>	(197)	539	840
Net operating income <sup>13</sup>	<b>12,323</b>	13,289	13,451
<b>US run-off</b>			
Current accounts, savings and deposits			
Wealth products			
Investment distribution <sup>56</sup>			
Life insurance manufacturing			
Asset Management			
Personal lending	698	744	735
Mortgages	698	891	715
Credit cards			
Other personal lending <sup>57</sup>		(147)	20
Other <sup>58</sup>	(98)	49	144
Net operating income <sup>13</sup>	<b>600</b>	793	879
<b>Principal Retail Banking and Wealth Management business</b>			
Current accounts, savings and deposits	2,914	2,785	2,928
Wealth products	3,196	3,187	3,145
Investment distribution <sup>56</sup>	1,721	1,852	1,733
Life insurance manufacturing	908	760	888
Asset Management	567	575	524
Personal lending	5,712	6,034	5,803
Mortgages	1,604	1,610	1,584
Credit cards	2,168	2,244	2,206
Other personal lending <sup>57</sup>	1,940	2,180	2,013
Other <sup>58</sup>	(99)	490	696
Net operating income <sup>13</sup>	<b>11,723</b>	12,496	12,572

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Management view of total operating income/(expense) of Principal Retail Banking and Wealth Management** (continued)

30 June 2014 compared with 30 June 2013

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	1H13					
		Currency	at 1H14		Constant	
		translation	exchange	1H14 as	Reported	currency
	1H13 as reported US\$m	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
	US\$m	US\$m	US\$m	%	%	
Current accounts, savings and deposits	2,785	(16)	2,769	2,914	5	5
Wealth products	3,187	(15)	3,172	3,196		1
Investment distribution <sup>56</sup>	1,852	(3)	1,849	1,721	(7)	(7)
Life insurance manufacturing	760	(19)	741	908	19	23
Asset management	575	7	582	567	(1)	(3)
Personal lending	6,034	(121)	5,913	5,712	(5)	(3)
Mortgages	1,610	35	1,645	1,604		(2)
Credit cards	2,244	(52)	2,192	2,168	(3)	(1)
Other personal lending <sup>57</sup>	2,180	(104)	2,076	1,940	(11)	(7)
Other <sup>58</sup>	490	(40)	450	(99)		
<b>Net operating income<sup>13</sup></b>	<b>12,496</b>	<b>(192)</b>	<b>12,304</b>	<b>11,723</b>	<b>(6)</b>	<b>(5)</b>

30 June 2014 compared with 31 December 2013

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )					
	2H13					
		Currency	at 1H14		Constant	
		translation	exchange	1H14 as	Reported	currency
	2H13 as reported US\$m	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
	US\$m	US\$m	US\$m	%	%	
Current accounts, savings and deposits	2,928	15	2,943	2,914		(1)
Wealth products	3,145	10	3,155	3,196	2	1
Investment distribution <sup>56</sup>	1,733	13	1,746	1,721	(1)	(1)
Life insurance manufacturing	888	(9)	879	908	2	3
Asset management	524	6	530	567	8	7
Personal lending	5,803	37	5,840	5,712	(2)	(2)
Mortgages	1,584	32	1,616	1,604	1	(1)

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Credit cards	2,206	2	2,208	2,168	(2)	(2)
Other personal lending <sup>57</sup>	2,013	3	2,016	1,940	(4)	(4)
Other <sup>58</sup>	696	(9)	687	(99)		
<b>Net operating income<sup>13</sup></b>	<b>12,572</b>	<b>53</b>	<b>12,625</b>	<b>11,723</b>	<b>(7)</b>	<b>(7)</b>

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Principal Retail Banking and Wealth Management business***30 June 2014 compared with 30 June 2013*

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
		Currency	at 1H14			Constant
		translation	exchange	1H14 as	Reported	currency
	1H13 as reported	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
US\$m	US\$m	US\$m	US\$m	%	%	
Net interest income	8,159	(122)	8,037	7,677	(6)	(4)
Net fee income	3,589	(23)	3,566	3,292	(8)	(8)
Other income <sup>27</sup>	748	(47)	701	754	1	8
Net operating income <sup>13</sup>	12,496	(192)	12,304	11,723	(6)	(5)
LICs <sup>53</sup>	(1,372)	104	(1,268)	(1,045)	24	18
<b>Net operating income</b>	<b>11,124</b>	<b>(88)</b>	<b>11,036</b>	<b>10,678</b>	<b>(4)</b>	<b>(3)</b>
Total operating expenses	(7,820)	129	(7,691)	(7,908)	(1)	(3)
<b>Operating profit</b>	<b>3,304</b>	<b>41</b>	<b>3,345</b>	<b>2,770</b>	<b>(16)</b>	<b>(17)</b>
Income from associates <sup>54</sup>	197	2	199	216	10	9
<b>Profit before tax</b>	<b>3,501</b>	<b>43</b>	<b>3,544</b>	<b>2,986</b>	<b>(15)</b>	<b>(16)</b>

*30 June 2014 compared with 31 December 2013*

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )					
		Currency	at 1H14			Constant
		translation	exchange	1H14 as	Reported	currency
	2H13 as reported	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
US\$m	US\$m	US\$m	US\$m	%	%	
Net interest income	8,119	43	8,162	7,677	(5)	(6)
Net fee income	3,421	18	3,439	3,292	(4)	(4)
Other income <sup>27</sup>	1,032	(8)	1,024	754	(27)	(26)
Net operating income <sup>13</sup>	12,572	53	12,625	11,723	(7)	(7)
LICs <sup>53</sup>	(1,150)	17	(1,133)	(1,045)	9	8

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Net operating income	11,422	70	11,492	10,678	(7)	(7)
Total operating expenses	(8,262)	(48)	(8,310)	(7,908)	4	5
Operating profit	3,160	22	3,182	2,770	(12)	(13)
Income from associates <sup>54</sup>	188	(2)	186	216	15	16
Profit before tax	3,348	20	3,368	2,986	(11)	(11)

*For footnotes, see page 96.*

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**Interim Management Report** (continued)**Commercial Banking**

30 June 2014 compared with 30 June 2013

**Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )**

	1H13		1H14		Constant	
	Currency	at 1H14				
	translation	exchange	1H14 as	Reported	currency	
1H13	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>	
as reported						
US\$m	US\$m	US\$m	US\$m	%	%	
Net interest income	5,050	(75)	4,975	5,184	3	4
Net fee income	2,337	(6)	2,331	2,413	3	4
Net trading income	346	(13)	333	336	(3)	1
Net income from financial instruments designated at fair value	104	3	107	124	19	16
Gains less losses from financial investments	(6)	(1)	(7)	24		
Net earned insurance premiums	748	(7)	741	636	(15)	(14)
Other operating income/(expense) (including dividend income)	(11)	(1)	(12)	95		
<b>Total operating income</b>	<b>8,568</b>	<b>(100)</b>	<b>8,468</b>	<b>8,812</b>	<b>3</b>	<b>4</b>
Net insurance claims <sup>66</sup>	(705)		(705)	(696)	1	1
<b>Net operating income<sup>13</sup></b>	<b>7,863</b>	<b>(100)</b>	<b>7,763</b>	<b>8,116</b>	<b>3</b>	<b>5</b>
LICs <sup>53</sup>	(1,160)	18	(1,142)	(562)	52	51
<b>Net operating income</b>	<b>6,703</b>	<b>(82)</b>	<b>6,621</b>	<b>7,554</b>	<b>13</b>	<b>14</b>
Operating expenses	(3,337)	88	(3,249)	(3,588)	(8)	(10)
<b>Operating profit</b>	<b>3,366</b>	<b>6</b>	<b>3,372</b>	<b>3,966</b>	<b>18</b>	<b>18</b>
Income from associates <sup>54</sup>	767	10	777	805	5	4
<b>Profit before tax</b>	<b>4,133</b>	<b>16</b>	<b>4,149</b>	<b>4,771</b>	<b>15</b>	<b>15</b>

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Commercial Banking** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )

	2H13 as reported US\$m	Currency	at 1H14	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
		translation adjustment <sup>22</sup> US\$m	exchange rates US\$m			
Net interest income	5,150	10	5,160	5,184	1	
Net fee income	2,380	19	2,399	2,413	1	1
Net trading income	303	(7)	296	336	11	14
Net income from financial instruments designated at fair value	228	7	235	124	(46)	(47)
Gains less losses from financial investments	7	1	8	24	243	200
Net earned insurance premiums	627	3	630	636	1	1
Other operating income (including dividend income)	647	(1)	646	95	(85)	(85)
Total operating income	9,342	32	9,374	8,812	(6)	(6)
Net insurance claims <sup>66</sup>	(840)	(9)	(849)	(696)	17	18
Net operating income <sup>13</sup>	8,502	23	8,525	8,116	(5)	(5)
LICs <sup>53</sup>	(1,224)	(14)	(1,238)	(562)	54	55
Net operating income	7,278	9	7,287	7,554	4	4
Operating expenses	(3,712)	(8)	(3,720)	(3,588)	3	4
Operating profit	3,566	1	3,567	3,966	11	11
Income from associates <sup>54</sup>	742	1	743	805	8	8
Profit before tax	4,308	2	4,310	4,771	11	11

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Global Banking and Markets**

30 June 2014 compared with 30 June 2013

## Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )

	1H13					
	1H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	3,334	(63)	3,271	3,602	8	10
Net fee income	1,818	(18)	1,800	1,939	7	8
Net trading income	5,606	184	5,790	2,790	(50)	(52)
Net income/(expense) from financial instruments designated at fair value	(961)	(70)	(1,031)	743		
Gains less losses from financial investments	597	15	612	462	(23)	(25)
Net earned insurance premiums	3	(1)	2	2	(33)	
Other operating income (including dividend income)	266	(6)	260	254	(5)	(2)
<b>Total operating income</b>	<b>10,663</b>	<b>41</b>	<b>10,704</b>	<b>9,792</b>	<b>(8)</b>	<b>(9)</b>
Net insurance claims <sup>66</sup>	(1)		(1)	(1)		
<b>Net operating income<sup>13</sup></b>	<b>10,662</b>	<b>41</b>	<b>10,703</b>	<b>9,791</b>	<b>(8)</b>	<b>(9)</b>
LICs <sup>53</sup>	(174)	(16)	(190)	(49)	72	74
<b>Net operating income</b>	<b>10,488</b>	<b>25</b>	<b>10,513</b>	<b>9,742</b>	<b>(7)</b>	<b>(7)</b>
Operating expenses	(5,007)	(74)	(5,081)	(4,958)	1	2
<b>Operating profit</b>	<b>5,481</b>	<b>(49)</b>	<b>5,432</b>	<b>4,784</b>	<b>(13)</b>	<b>(12)</b>
Income from associates <sup>54</sup>	242	3	245	249	3	2
<b>Profit before tax</b>	<b>5,723</b>	<b>(46)</b>	<b>5,677</b>	<b>5,033</b>	<b>(12)</b>	<b>(11)</b>

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Global Banking and Markets** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	3,432	4	3,436	3,602	5	5
Net fee income	1,664	1	1,665	1,939	17	16
Net trading income	1,174	(58)	1,116	2,790	138	150
Net income from financial instruments designated at fair value	1,560	90	1,650	743	(52)	(55)
Gains less losses from financial investments	150	(1)	149	462	208	210
Net earned insurance premiums	3	(1)	2	2	(33)	
Other operating income (including dividend income)	533	5	538	254	(52)	(53)
Total operating income	8,516	40	8,556	9,792	15	14
Net insurance claims <sup>66</sup>	(2)	1	(1)	(1)	50	
Net operating income <sup>13</sup>	8,514	41	8,555	9,791	15	14
LICs <sup>53</sup>	(33)	(5)	(38)	(49)	(48)	(29)
Net operating income	8,481	36	8,517	9,742	15	14
Operating expenses	(4,953)	(80)	(5,033)	(4,958)		1
Operating profit	3,528	(44)	3,484	4,784	36	37
Income from associates <sup>54</sup>	190	(1)	189	249	31	32
Profit before tax	3,718	(45)	3,673	5,033	35	37

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**Interim Management Report** (continued)**Management view of total operating income/(expense) of Global Banking and Markets***30 June 2014 compared with 30 June 2013*

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	Currency		at 1H14		Constant	
	1H13 as	translation	exchange	1H14 as	Reported	currency
	reported	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
	US\$m	US\$m	US\$m	US\$m	%	%
Markets <sup>62</sup>	4,070	64	4,134	3,845	(6)	(7)
Credit	488	8	496	593	22	20
Rates	1,106	30	1,136	1,127	2	(1)
Foreign Exchange	1,833	7	1,840	1,434	(22)	(22)
Equities	643	19	662	691	7	4
Capital Financing	2,042	9	2,051	2,075	2	1
Payments and Cash Management	862	(8)	854	904	5	6
Securities Services	847	3	850	846		
Global Trade and Receivables Finance	371	(6)	365	389	5	7
Balance Sheet Management	1,680	(25)	1,655	1,502	(11)	(9)
Principal Investments	205	10	215	342	67	59
Debit valuation adjustment	451	11	462	(155)	(134)	(134)
Other <sup>63</sup>	134	(17)	117	43	(68)	(63)
<b>Total operating income</b>	<b>10,662</b>	<b>41</b>	<b>10,703</b>	<b>9,791</b>		

*30 June 2014 compared with 31 December 2013*

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )					
	Currency		at 1H14		Constant	
	2H13 as	translation	exchange	1H14 as	Reported	currency
	reported	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>
	US\$m	US\$m	US\$m	US\$m	%	%
Markets <sup>62</sup>	2,865	1	2,866	3,845	34	34
Credit	308	1	309	593	93	92
Rates	547	(1)	546	1,127	106	106
Foreign Exchange	1,353	(14)	1,339	1,434	6	7
Equities	657	15	672	691	5	3

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Capital Financing	1,952	39	1,991	2,075	6	4
Payments and Cash Management	908	3	911	904		(1)
Securities Services	815	9	824	846	4	3
Global Trade and Receivables Finance	370	1	371	389	5	5
Balance Sheet Management	1,430	(2)	1,428	1,502	5	5
Principal Investments	307	11	318	342	11	8
Debit valuation adjustment	(346)	(10)	(356)	(155)	(55)	(56)
Other <sup>63</sup>	213	(11)	202	43	(80)	(79)
Total operating income	8,514	41	8,555	9,791		

*For footnotes, see page 96.*

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**Interim Management Report** (continued)**Global Private Banking***30 June 2014 compared with 30 June 2013*

	Half year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	1H13 as reported US\$m	Currency	at 1H14	1H14 as reported US\$m	Reported	Constant
		translation	exchange		change <sup>23</sup>	currency
		adjustment <sup>22</sup>	rates		%	change <sup>23</sup>
	US\$m	US\$m		%	%	
Net interest income	575	11	586	536	(7)	(9)
Net fee income	602	2	604	533	(11)	(12)
Net trading income	230	5	235	159	(31)	(32)
Net income from financial instruments designated at fair value				1		
Gains less losses from financial investments	4		4	12	200	200
Net earned insurance premiums	6	1	7	19	217	171
Other operating expense (including dividend income)	(261)		(261)	(4)	98	98
<b>Total operating income</b>	<b>1,156</b>	<b>19</b>	<b>1,175</b>	<b>1,256</b>	<b>9</b>	<b>7</b>
Net insurance claims <sup>66</sup>	(5)		(5)	(26)		
<b>Net operating income<sup>13</sup></b>	<b>1,151</b>	<b>19</b>	<b>1,170</b>	<b>1,230</b>	<b>7</b>	<b>5</b>
LICs <sup>53</sup>	(14)	(1)	(15)	(6)	57	60
<b>Net operating income</b>	<b>1,137</b>	<b>18</b>	<b>1,155</b>	<b>1,224</b>	<b>8</b>	<b>6</b>
Operating expenses	(1,035)	(7)	(1,042)	(868)	16	17
<b>Operating profit</b>	<b>102</b>	<b>11</b>	<b>113</b>	<b>356</b>	<b>249</b>	<b>215</b>
Income from associates <sup>54</sup>	6		6	8	33	33
<b>Profit before tax</b>	<b>108</b>	<b>11</b>	<b>119</b>	<b>364</b>	<b>237</b>	<b>206</b>

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**Interim Management Report** (continued)**Global Private Banking** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )  
2H13

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	571	8	579	536	(6)	(7)
Net fee income	548	2	550	533	(3)	(3)
Net trading income	164	(4)	160	159	(3)	(1)
Net income from financial instruments designated at fair value	4		4	1	(75)	(75)
Gains less losses from financial investments	(7)	(1)	(8)	12		
Net earned insurance premiums	10	1	11	19	90	73
Other operating income/(expense) (including dividend income)	30		30	(4)		
Total operating income	1,320	6	1,326	1,256	(5)	(5)
Net insurance claims <sup>66</sup>	(32)	(1)	(33)	(26)	19	21
Net operating income <sup>13</sup>	1,288	5	1,293	1,230	(5)	(5)
LICs <sup>53</sup>	(17)	(1)	(18)	(6)	65	67
Net operating income	1,271	4	1,275	1,224	(4)	(4)
Operating expenses	(1,194)	(5)	(1,199)	(868)	27	28
Operating profit	77	(1)	76	356		
Income from associates <sup>54</sup>	8	1	9	8		(11)
Profit before tax	85		85	364	328	328

For footnotes, see page 96.



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Other**

30 June 2014 compared with 30 June 2013

	Half year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
			1H13			
		Currency	at 1H14		Constant	
	1H13 as reported	translation	exchange	1H14 as reported	Reported	currency
US\$m	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>	
	US\$m	US\$m	US\$m	%	%	
Net interest expense	(376)	(5)	(381)	(221)	41	42
Net fee income	61	1	62	1	(98)	(98)
Net trading expense	(169)	(7)	(176)	(120)	29	32
Own credit spread	(19)	4	(15)	(215)		
Net expense from financial instruments designated at fair value	(443)	(9)	(452)	(66)	85	85
Gains less losses from financial investments	1,213	(1)	1,212	440	(64)	(64)
Net earned insurance premiums		(1)	(1)			100
Other operating income (including dividend income)	3,883	(45)	3,838	2,838	(27)	(26)
<b>Total operating income</b>	<b>4,150</b>	<b>(63)</b>	<b>4,087</b>	<b>2,657</b>	<b>(36)</b>	<b>(35)</b>
Net insurance claims <sup>66</sup>		(4)	(4)			100
<b>Net operating income<sup>13</sup></b>	<b>4,150</b>	<b>(67)</b>	<b>4,083</b>	<b>2,657</b>	<b>(36)</b>	<b>(35)</b>
LICs <sup>53</sup>		1	1	1		
<b>Net operating income</b>	<b>4,150</b>	<b>(66)</b>	<b>4,084</b>	<b>2,658</b>	<b>(36)</b>	<b>(35)</b>
Operating expenses	(3,312)	27	(3,285)	(3,533)	(7)	(8)
<b>Operating profit/(loss)</b>	<b>838</b>	<b>(39)</b>	<b>799</b>	<b>(875)</b>		
Income from associates <sup>54</sup>	2	7	9	2		(78)
<b>Profit/(loss) before tax</b>	<b>840</b>	<b>(32)</b>	<b>808</b>	<b>(873)</b>		

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Other** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest expense	(361)	(3)	(364)	(221)	39	39
Net fee income	3	(1)	2	1	(67)	(50)
Net trading income/(expense)	175	(3)	172	(120)		
Own credit spread	(1,227)	(13)	(1,240)	(215)	82	83
Net expense from financial instruments designated at fair value	(115)	2	(113)	(66)	43	42
Gains less losses from financial investments	(1)	1		440		
Other operating income (including dividend income)	3,027	8	3,035	2,838	(6)	(6)
<b>Total operating income</b>	<b>1,501</b>	<b>(9)</b>	<b>1,492</b>	<b>2,657</b>	<b>77</b>	<b>78</b>
Net insurance claims <sup>66</sup>						
<b>Net operating income</b> <sup>13</sup>	<b>1,501</b>	<b>(9)</b>	<b>1,492</b>	<b>2,657</b>	<b>77</b>	<b>78</b>
LICs <sup>53</sup>				1		
<b>Net operating income</b>	<b>1,501</b>	<b>(9)</b>	<b>1,492</b>	<b>2,658</b>	<b>77</b>	<b>78</b>
Operating expenses	(4,484)	(9)	(4,493)	(3,533)	21	21
<b>Operating loss</b>	<b>(2,983)</b>	<b>(18)</b>	<b>(3,001)</b>	<b>(875)</b>	<b>71</b>	<b>71</b>
Income from associates <sup>54</sup>	(16)	1	(15)	2		
<b>Loss before tax</b>	<b>(2,999)</b>	<b>(17)</b>	<b>(3,016)</b>	<b>(873)</b>	<b>71</b>	<b>71</b>

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**Interim Management Report** (continued)**Reconciliation of reported and underlying items****Retail Banking and Wealth Management**

	30 June 2014 US\$m	30 June 2013 US\$m	Change <sup>23</sup> %	Half-year to 30 June 2014 US\$m	31 December 2013 US\$m	Change <sup>23</sup> %
<b>Net interest income</b>						
Reported	8,427	9,310	(9)	8,427	9,029	(7)
Currency translation adjustment <sup>22</sup>		(122)			43	
Acquisitions, disposals and dilutions	(13)	(125)		(13)	(77)	
Underlying	8,414	9,063	(7)	8,414	8,995	(6)
<b>Other operating income/(expense)</b>						
Reported	378	(92)		378	636	(41)
Currency translation adjustment <sup>22</sup>		(16)			(1)	
Acquisitions, disposals and dilutions	(7)	(1)		(7)	(314)	
Underlying	371	(109)		371	321	16
<b>Revenue<sup>13</sup></b>						
Reported	12,323	13,289	(7)	12,323	13,451	(8)
Currency translation adjustment <sup>22</sup>		(192)			53	
Acquisitions, disposals and dilutions	(24)	(158)		(24)	(408)	
Underlying	12,299	12,939	(5)	12,299	13,096	(6)
<b>LICs<sup>53</sup></b>						
Reported	(1,225)	(1,768)	31	(1,225)	(1,459)	16
Currency translation adjustment <sup>22</sup>		104			17	
Acquisitions, disposals and dilutions	3	45		3	20	
Underlying	(1,222)	(1,619)	25	(1,222)	(1,422)	14
<b>Operating expenses</b>						
Reported	(8,269)	(8,451)	2	(8,269)	(8,797)	6
Currency translation adjustment <sup>22</sup>		129			(48)	
Acquisitions, disposals and dilutions	15	190		15	72	
Underlying	(8,254)	(8,132)	(2)	(8,254)	(8,773)	6
Underlying cost efficiency ratio	67.1%	62.8%		67.1%	67.0%	
<b>Income from associates<sup>54</sup></b>						
Reported	216	197	10	216	187	16
Currency translation adjustment <sup>22</sup>		2			(2)	
Acquisitions, disposals and dilutions		(5)			18	
Underlying	216	194	11	216	203	6

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<b>Profit before tax</b>						
Reported	3,045	3,267	(7)	3,045	3,382	(10)
Currency translation adjustment <sup>22</sup>		43			20	
Acquisitions, disposals and dilutions	(6)	72		(6)	(298)	
Underlying	3,039	3,382	(10)	3,039	3,104	(2)
	<b>US\$bn</b>	US\$bn		<b>US\$bn</b>	US\$bn	
<b>Average risk-weighted assets ( RWAs )</b>						
Average reported RWAs	228	261	(13)	228	239	(5)
Currency translation adjustment <sup>22</sup>					1	
Acquisitions, disposals and dilutions		(5)			(2)	
Average underlying RWAs	228	256	(11)	228	238	(4)

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**Interim Management Report** (continued)**Retail Banking and Wealth Management** (continued)

	2013	2012	2011	2010
	US\$m	US\$m	US\$m	US\$m
<b>Revenue</b>				
Reported	26,740	33,861	33,533	33,611
Currency translation adjustment <sup>1</sup>		(590)	(1,528)	(786)
Acquisitions, disposals and dilutions	(525)	(6,558)	(6,587)	(7,196)
Underlying	26,215	26,713	25,418	25,629
<b>Profit before tax</b>				
Reported	6,649	9,575	4,270	3,839
Currency translation adjustment <sup>22</sup>		(26)	(113)	58
Acquisitions, disposals and dilutions	(228)	(5,648)	(3,325)	(3,010)
Underlying	6,421	3,901	832	887

*For footnotes, see page 96.*



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					US\$m	
<b>Revenue<sup>13</sup></b>						
Reported	<b>600</b>	793	(24)	<b>600</b>	879	(32)
Acquisitions, disposals and dilutions		105				
Underlying	<b>600</b>	898	(33)	<b>600</b>	879	(32)
<b>Profit/(loss) before tax</b>						
Reported	<b>59</b>	(234)	(125)	<b>59</b>	34	74
Acquisitions, disposals and dilutions		120				
Underlying	<b>59</b>	(114)	(152)	<b>59</b>	34	74
<b>Average RWAs</b>						
Average reported RWAs	<b>74</b>	99	(25)	<b>74</b>	83	(11)
Currency translation adjustment <sup>12</sup>						
Average underlying RWAs	<b>74</b>	99	(25)	<b>74</b>	83	(11)

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Analysis of reported items****Retail Banking and Wealth Management and Principal RBWM business**

	30 June 2014 US\$m	30 June 2013 US\$m	Change <sup>23</sup> %	Half-year to 30 June 2014 US\$m	31 December 2013 US\$m	Change <sup>23</sup> %
<b>Net interest income</b>						
Reported RBWM	8,427	9,310	(9)	8,427	9,029	(7)
US run-off portfolio	750	1,151	(35)	750	910	(18)
Principal RBWM business	7,677	8,159	(6)	7,677	8,119	(5)
<b>Net fee income/(expense)</b>						
Reported RBWM	3,291	3,586	(8)	3,291	3,435	(4)
US run-off portfolio	(1)	(3)	(67)	(1)	14	
Principal RBWM business	3,292	3,589	(8)	3,292	3,421	(4)
<b>Other income/(expense)<sup>27</sup></b>						
Reported RBWM	605	393	54	605	987	(39)
US run-off portfolio	(149)	(355)	(58)	(149)	(45)	231
Principal RBWM business	754	748	1	754	1,032	(27)
<b>Net operating income<sup>13</sup></b>						
Reported RBWM	12,323	13,289	(7)	12,323	13,451	(8)
US run-off portfolio	600	793	(24)	600	879	(32)
Principal RBWM business	11,723	12,496	(6)	11,723	12,572	(7)
<b>LICs<sup>53</sup></b>						
Reported RBWM	(1,225)	(1,768)	31	(1,225)	(1,459)	16
US run-off portfolio	(180)	(396)	55	(180)	(309)	42
Principal RBWM business	(1,045)	(1,372)	24	(1,045)	(1,150)	9
<b>Net operating income</b>						
Reported RBWM	11,098	11,521	(4)	11,098	11,992	(7)
US run-off portfolio	420	397	6	420	570	(26)
Principal RBWM business	10,678	11,124	(4)	10,678	11,422	(7)
<b>Total operating expenses</b>						
Reported RBWM	(8,269)	(8,451)	2	(8,269)	(8,797)	6
US run-off portfolio	(361)	(631)	43	(361)	(535)	33
Principal RBWM business	(7,908)	(7,820)	(1)	(7,908)	(8,262)	4
<b>Operating profit/(loss)</b>						
Reported RBWM	2,829	3,070	(8)	2,829	3,195	(11)
US run-off portfolio	59	(234)	69	59	35	69
Principal RBWM business	2,770	3,304	(16)	2,770	3,160	(12)
<b>Income from associates<sup>54</sup></b>						
Reported RBWM	216	197	10	216	187	16
US run-off portfolio					(1)	(100)
Principal RBWM business	216	197	10	216	188	15
<b>Profit/(loss) before tax</b>						



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Reported RBWM	<b>3,045</b>	3,267	(7)	<b>3,045</b>	3,382	(10)
US run-off portfolio	<b>59</b>	(234)		<b>59</b>	34	74
Principal RBWM business	<b>2,986</b>	3,501	(15)	<b>2,986</b>	3,348	(11)

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Commercial Banking**

	30 June		Change <sup>23</sup> %	Half-year to		Change <sup>23</sup> %
	2014 US\$m	2013 US\$m		30 June 2014 US\$m	31 December 2013 US\$m	
<b>Net interest income</b>						
Reported	5,184	5,050	3	5,184	5,150	1
Currency translation adjustment <sup>22</sup>		(75)			10	
Acquisitions, disposals and dilutions	(9)	(69)		(9)	(51)	
Underlying	5,175	4,906	5	5,175	5,109	1
<b>Other operating income/(expense)</b>						
Reported	81	(19)		81	640	(87)
Currency translation adjustment <sup>22</sup>						
Acquisitions, disposals and dilutions	(7)	(4)		(7)	(467)	
Underlying	74	(23)		74	173	(57)
<b>Revenue<sup>13</sup></b>						
Reported	8,116	7,863	3	8,116	8,502	(5)
Currency translation adjustment <sup>22</sup>		(100)			23	
Acquisitions, disposals and dilutions	(20)	(98)		(20)	(535)	
Underlying	8,096	7,665	6	8,096	7,990	1
<b>LICs<sup>53</sup></b>						
Reported	(562)	(1,160)	52	(562)	(1,224)	54
Currency translation adjustment <sup>22</sup>		18			(14)	
Acquisitions, disposals and dilutions	(1)	(1)		(1)	(3)	
Underlying	(563)	(1,143)	51	(563)	(1,241)	55
<b>Operating expenses</b>						
Reported	(3,588)	(3,337)	(8)	(3,588)	(3,712)	3
Currency translation adjustment <sup>22</sup>		88			(8)	
Acquisitions, disposals and dilutions	8	54		8	34	
Underlying	(3,580)	(3,195)	(12)	(3,580)	(3,686)	3
Underlying cost efficiency ratio	44.2%	41.7%		44.2%	46.1%	
<b>Income from associates<sup>54</sup></b>						
Reported	805	767	5	805	742	8
Currency translation adjustment <sup>22</sup>		10			1	
Acquisitions, disposals and dilutions		(5)			25	
Underlying	805	772	4	805	768	5
<b>Profit before tax</b>						
Reported	4,771	4,133	15	4,771	4,308	11
Currency translation adjustment <sup>22</sup>		16			2	
Acquisitions, disposals and dilutions	(13)	(51)		(13)	(479)	
Underlying	4,758	4,098	16	4,758	3,831	24



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**Interim Management Report** (continued)**Commercial Banking** (continued)

	2013	2012	2011	2010
	US\$m	US\$m	US\$m	US\$m
<b>Revenue<sup>13</sup></b>				
Reported	16,365	16,551	15,611	13,834
Currency translation adjustment <sup>22</sup>		(329)	(856)	(401)
Acquisitions, disposals and dilutions	(588)	(781)	(400)	(540)
Underlying	15,777	15,441	14,355	12,893
<b>Profit before tax</b>				
Reported	8,441	8,535	7,947	6,090
Currency translation adjustment <sup>22</sup>		(96)	(275)	(94)
Acquisitions, disposals and dilutions	(519)	(845)	(361)	(414)
Underlying	7,922	7,594	7,311	5,582

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Global Banking and Markets**

	30 June	30 June		Half-year to	31 December	
	2014	2013	Change <sup>23</sup>	30 June	2013	Change <sup>23</sup>
	US\$m	US\$m	%	2014	US\$m	%
				US\$m		
<b>Net interest income</b>						
Reported	3,602	3,334	8	3,602	3,432	5
Currency translation adjustment <sup>22</sup>		(63)			4	
Acquisitions, disposals and dilutions	(5)	(26)		(5)	(21)	
Underlying	3,597	3,245	11	3,597	3,415	5
<b>Other operating income</b>						
Reported	222	201	10	222	469	(53)
Currency translation adjustment <sup>22</sup>		(8)			4	
Acquisitions, disposals and dilutions	(5)	(11)		(5)	(397)	
Underlying	217	182	19	217	76	186
<b>Revenue<sup>13</sup></b>						
Reported	9,791	10,662	(8)	9,791	8,514	15
Currency translation adjustment <sup>22</sup>		41			41	
Acquisitions, disposals and dilutions	(12)	(57)		(12)	(434)	
Underlying	9,779	10,646	(8)	9,779	8,121	20
<b>LICs<sup>53</sup></b>						
Reported	(49)	(174)	72	(49)	(33)	(48)
Currency translation adjustment <sup>22</sup>		(16)			(5)	
Acquisitions, disposals and dilutions						
Underlying	(49)	(190)	74	(49)	(38)	(29)
<b>Operating expenses</b>						
Reported	(4,958)	(5,007)	1	(4,958)	(4,953)	
Currency translation adjustment <sup>22</sup>		(74)			(80)	
Acquisitions, disposals and dilutions	3	45		3	31	
Underlying	(4,955)	(5,036)	2	(4,955)	(5,002)	1
Underlying cost efficiency ratio	50.7%	47.3%		50.7%	61.6%	
<b>Income from associates<sup>54</sup></b>						
Reported	249	242	3	249	190	31
Currency translation adjustment <sup>22</sup>		3			(1)	
Acquisitions, disposals and dilutions		(4)			38	
Underlying	249	241	3	249	227	10
<b>Profit before tax</b>						
Reported	5,033	5,723	(12)	5,033	3,718	35
Currency translation adjustment <sup>22</sup>		(46)			(45)	
Acquisitions, disposals and dilutions	(9)	(15)		(9)	(366)	
Underlying	5,024	5,662	(11)	5,024	3,307	52

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**Average RWAs**

Reported	<b>504</b>	415	21	<b>504</b>	423	19
Currency translation adjustment <sup>12</sup>		1			1	
Acquisitions, disposals and dilutions	<b>(1)</b>	(7)		<b>(1)</b>	(3)	
Underlying	<b>503</b>	409	23	<b>503</b>	421	19

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Global Banking and Markets** (continued)

	2013	2012	2011	2010
	US\$m	US\$m	US\$m	US\$m
<b>Revenue<sup>13</sup></b>				
Reported	19,176	18,273	17,057	18,912
Currency translation adjustment <sup>22</sup>		(253)	(685)	(257)
Acquisitions, disposals and dilutions	(461)	(221)	(184)	(890)
Underlying	18,715	17,799	16,188	17,765
<b>Profit before tax</b>				
Reported	9,441	8,520	7,049	9,215
Currency translation adjustment <sup>22</sup>		(147)	(345)	(190)
Acquisitions, disposals and dilutions	(429)	(529)	(352)	(777)
Underlying	9,012	7,844	6,352	8,248

*For footnotes, see page 96.***Global Banking and Markets - legacy credit**

	2013	2012	2011	2010
	US\$m	US\$m	US\$m	US\$m
<b>Revenue/(expense)<sup>13</sup></b>				
Reported	149	(11)	165	840
Currency translation adjustment <sup>22</sup>		2	(2)	13
Acquisitions, disposals and dilutions				
Underlying	149	(9)	163	853
<b>Profit before tax</b>				
Reported	185	(280)	(428)	231
Currency translation adjustment <sup>22</sup>		7	7	(12)
Acquisitions, disposals and dilutions				
Underlying	185	(273)	(421)	219

**Global Banking and Markets - excluding legacy credit**

	2013	2012	2011	2010
	US\$m	US\$m	US\$m	US\$m
<b>Revenue<sup>13</sup></b>				
Reported	19,027	18,284	16,892	18,072

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Currency translation adjustment <sup>22</sup>		(255)	(683)	(270)
Acquisitions, disposals and dilutions	(461)	(221)	(184)	(890)
Underlying	18,566	17,808	16,025	16,912
<b>Profit before tax</b>				
Reported	9,256	8,800	7,477	8,984
Currency translation adjustment <sup>22</sup>		(154)	(352)	(178)
Acquisitions, disposals and dilutions	(429)	(529)	(352)	(777)
Underlying	8,827	8,117	6,773	8,029
<i>For footnotes, see page 96.</i>				



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Global Private Banking**

	30 June	30 June		Half-year to 30 June	31 December	
	2014 US\$m	2013 US\$m	Change <sup>23</sup> %	2014 US\$m	2013 US\$m	Change <sup>23</sup> %
<b>Net interest income</b>						
Reported	536	575	(7)	536	571	(6)
Currency translation adjustment <sup>22</sup>		11			8	
Acquisitions, disposals and dilutions		(3)			(1)	
Underlying	536	583	(8)	536	578	(7)
<b>Other operating income/(expense)</b>						
Reported	(7)	(267)	97	(7)	28	
Currency translation adjustment <sup>22</sup>					(1)	
Acquisitions, disposals and dilutions					(1)	
Underlying	(7)	(267)	97	(7)	27	
<b>Revenue<sup>13</sup></b>						
Reported	1,230	1,151	7	1,230	1,288	(5)
Currency translation adjustment <sup>22</sup>		19			5	
Acquisitions, disposals and dilutions		(3)			(2)	
Underlying	1,230	1,167	5	1,230	1,291	(5)
<b>LICs<sup>53</sup></b>						
Reported	(6)	(14)	57	(6)	(17)	65
Currency translation adjustment <sup>22</sup>		(1)			(1)	
Acquisitions, disposals and dilutions						
Underlying	(6)	(15)	60	(6)	(18)	67
<b>Operating expenses</b>						
Reported	(868)	(1,035)	16	(868)	(1,194)	27
Currency translation adjustment <sup>22</sup>		(7)			(5)	
Acquisitions, disposals and dilutions		3			1	
Underlying	(868)	(1,039)	16	(868)	(1,198)	28
Underlying cost efficiency ratio	70.6%	89.0%		70.6%	92.8%	
<b>Income from associates<sup>54</sup></b>						
Reported	8	6	33	8	8	
Currency translation adjustment <sup>22</sup>					1	
Acquisitions, disposals and dilutions						
Underlying	8	6	33	8	9	(11)
<b>Profit before tax</b>						
Reported	364	108	237	364	85	
Currency translation adjustment <sup>22</sup>		11			(1)	
Acquisitions, disposals and dilutions					(1)	
Underlying	364	119	206	364	84	

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	2013	2010
	US\$m	US\$m
<b>Revenue<sup>13</sup></b>		
Reported	2,439	3,093
Currency translation adjustment <sup>22</sup>		(6)
Acquisitions, disposals and dilutions	(6)	(29)
Underlying	2,433	3,058
<i>For footnotes, see page 96.</i>		

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Other**

	30 June	30 June		Half-year to 30 June	31 December	
	2014 US\$m	2013 US\$m	Change <sup>23</sup> %	2014 US\$m	2013 US\$m	Change <sup>23</sup> %
<b>Other operating income</b>						
Reported	2,814	3,866	(27)	2,814	2,895	(3)
Currency translation adjustment <sup>22</sup>		(42)			7	
Acquisitions, disposals and dilutions	33	(1,091)		33	47	
Underlying	2,847	2,733	4	2,847	2,949	(3)
<b>Revenue<sup>13</sup></b>						
Reported	2,657	4,150	(36)	2,657	1,501	77
Currency translation adjustment <sup>22</sup>		(71)			4	
Own credit spread <sup>24</sup>	215	19		215	1,227	
Acquisitions, disposals and dilution	33	(1,090)		33	47	
Underlying	2,905	3,008	(3)	2,905	2,779	5
<b>Operating expenses</b>						
Reported	(3,533)	(3,312)	(7)	(3,533)	(4,484)	21
Currency translation adjustment <sup>22</sup>		27			(9)	
Acquisitions, disposals and dilutions		23			8	
Underlying	(3,533)	(3,262)	(8)	(3,533)	(4,485)	21
					2013	2010
					US\$m	US\$m
<b>Revenue<sup>13</sup></b>						
Reported					5,651	4,660
Currency translation adjustment <sup>22</sup>						(147)
Own credit spread					1,246	63
Acquisitions, disposals and dilutions					(1,048)	(293)
Underlying					5,849	4,283

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Analysis by global business***HSBC profit/(loss) before tax and balance sheet data*

	Half-year to 30 June 2014					Inter-segment elimination <sup>65</sup>	Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other <sup>50</sup> US\$m		
<i>Profit/(loss) before tax</i>							
Net interest income/(expense)	8,427	5,184	3,602	536	(221)	(123)	17,405
Net fee income	3,291	2,413	1,939	533	1		8,177
Trading income/(expense) excluding net interest income	(14)	340	2,001	161	(126)		2,362
Net interest income/(expense) on trading activities	1	(4)	789	(2)	6	123	913
Net trading income/(expense) <sup>59</sup>	(13)	336	2,790	159	(120)	123	3,275
Net income/(expense) from financial instruments designated at fair value	1,073	124	743	1	(281)		1,660
Gains less losses from financial investments	8	24	462	12	440		946
Dividend income	15	14	32	3	24		88
Net earned insurance premiums	5,480	636	2	19			6,137
Other operating income/(expense)	378	81	222	(7)	2,814	(2,950)	538
<b>Total operating income</b>	<b>18,659</b>	<b>8,812</b>	<b>9,792</b>	<b>1,256</b>	<b>2,657</b>	<b>(2,950)</b>	<b>38,226</b>
Net insurance claims <sup>66</sup>	(6,336)	(696)	(1)	(26)			(7,059)
<b>Net operating income<sup>13</sup></b>	<b>12,323</b>	<b>8,116</b>	<b>9,791</b>	<b>1,230</b>	<b>2,657</b>	<b>(2,950)</b>	<b>31,167</b>
Loan impairment (charges)/recoveries and other credit risk provisions	(1,225)	(562)	(49)	(6)	1		(1,841)
<b>Net operating income</b>	<b>11,098</b>	<b>7,554</b>	<b>9,742</b>	<b>1,224</b>	<b>2,658</b>	<b>(2,950)</b>	<b>29,326</b>
Employee expenses <sup>67</sup>	(2,500)	(1,191)	(1,806)	(363)	(4,118)		(9,978)
Other operating income/(expense)	(5,769)	(2,397)	(3,152)	(505)	585	2,950	(8,288)
Total operating expenses	(8,269)	(3,588)	(4,958)	(868)	(3,533)	2,950	(18,266)
<b>Operating profit/(loss)</b>	<b>2,829</b>	<b>3,966</b>	<b>4,784</b>	<b>356</b>	<b>(875)</b>		<b>11,060</b>
Share of profit in associates and joint ventures	216	805	249	8	2		1,280
<b>Profit/(loss) before tax</b>	<b>3,045</b>	<b>4,771</b>	<b>5,033</b>	<b>364</b>	<b>(873)</b>		<b>12,340</b>
	%	%	%	%	%		%

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Share of HSBC's profit before tax	24.7	38.7	40.8	2.9	(7.1)		100.0
Cost efficiency ratio	67.1	44.2	50.6	70.6	133.0		58.6
<i>Balance sheet data</i> <sup>51</sup>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	380,108	316,246	303,133	45,131	2,623		1,047,241
Total assets	523,729	377,374	2,043,767	99,379	170,802	(461,458)	2,753,593
Customer accounts <sup>3</sup>	597,714	366,171	360,732	89,641	1,447		1,415,705

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**Interim Management Report** (continued)

	Half-year to 30 June 2013						Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Banking and Markets US\$m	Global Private Banking US\$m	Other <sup>50</sup> US\$m	Inter- segment elimination <sup>65</sup> US\$m	
<i>Profit/(loss) before tax</i>							
Net interest income/ (expense)	9,310	5,050	3,334	575	(376)	(74)	17,819
Net fee income	3,586	2,337	1,818	602	61		8,404
Trading income/(expense)excluding net interest income	275	343	4,577	226	(191)		5,230
Net interest income on trading activities		3	1,029	4	22	74	1,132
Net trading income/(expense) <sup>59</sup>	275	346	5,606	230	(169)	74	6,362
Net income/(expense) from financial instruments designated at fair value	122	104	(961)		(462)		(1,197)
Gains less losses from financial investments	48	(6)	597	4	1,213		1,856
Dividend income	11	8	65	6	17		107
Net earned insurance premiums	5,469	748	3	6			6,226
Other operating income/(expense)	(92)	(19)	201	(267)	3,866	(2,743)	946
Total operating income	18,729	8,568	10,663	1,156	4,150	(2,743)	40,523
Net insurance claims <sup>66</sup>	(5,440)	(705)	(1)	(5)			(6,151)
Net operating income <sup>13</sup>	13,289	7,863	10,662	1,151	4,150	(2,743)	34,372
Loan impairment charges and other credit risk provisions	(1,768)	(1,160)	(174)	(14)			(3,116)
Net operating income	11,521	6,703	10,488	1,137	4,150	(2,743)	31,256
Employee expenses <sup>67</sup>	(2,651)	(1,163)	(1,882)	(381)	(3,419)		(9,496)
Other operating income/(expense)	(5,800)	(2,174)	(3,125)	(654)	107	2,743	(8,903)
Total operating expenses	(8,451)	(3,337)	(5,007)	(1,035)	(3,312)	2,743	(18,399)
Operating profit	3,070	3,366	5,481	102	838		12,857
Share of profit in associates and joint ventures	197	767	242	6	2		1,214
Profit before tax	3,267	4,133	5,723	108	840		14,071
	%	%	%	%	%		%
Share of HSBC's profit before tax	23.2	29.4	40.7	0.8	5.9		100.0
Cost efficiency ratio	63.6	42.4	47.0	89.9	79.8		53.5
<i>Balance sheet data<sup>51</sup></i>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	358,464	286,539	251,768	39,161	2,362		938,294
Total assets	504,205	350,503	1,992,770	114,883	176,122	(493,167)	2,645,316

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Customer accounts <sup>3</sup>	547,140	327,612	298,501	92,298	1,354	1,266,905
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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*HSBC profit/(loss) before tax and balance sheet data (continued)*

	Half-year to 31 December 2013							Total US\$m
	Retail Banking		Global Banking			Inter- segment elimination <sup>65</sup>		
	and Wealth Management	Commercial Banking	and Markets	Global Private Banking	Other <sup>50</sup>			
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m		
<i>Profit before tax</i>								
Net interest income/(expense)	9,029	5,150	3,432	571	(361)	(101)	17,720	
Net fee income	3,435	2,380	1,664	548	3		8,030	
Trading income excluding net interest income	414	306	376	164	153		1,413	
Net interest income/(expense) on trading activities	(3)	(3)	798		22	101	915	
Net trading income <sup>59</sup>	411	303	1,174	164	175	101	2,328	
Net income/(expense) from financial instruments designated at fair value	1,516	228	1,560	4	(1,342)	(1)	1,965	
Gains less losses from financial investments	7	7	150	(7)	(1)		156	
Dividend income	10	7	64	2	132		215	
Net earned insurance premiums	5,074	627	3	10			5,714	
Other operating income	636	640	469	28	2,895	(2,982)	1,686	
Total operating income	20,118	9,342	8,516	1,320	1,501	(2,983)	37,814	
Net insurance claims <sup>66</sup>	(6,667)	(840)	(2)	(32)			(7,541)	
Net operating income <sup>13</sup>	13,451	8,502	8,514	1,288	1,501	(2,983)	30,273	
Loan impairment charges and other credit risk provisions	(1,459)	(1,224)	(33)	(17)			(2,733)	
Net operating income	11,992	7,278	8,481	1,271	1,501	(2,983)	27,540	
Employee expenses <sup>67</sup>	(2,568)	(1,164)	(1,667)	(395)	(3,906)		(9,700)	
Other operating expenses	(6,229)	(2,548)	(3,286)	(799)	(578)	2,983	(10,457)	
Total operating expenses	(8,797)	(3,712)	(4,953)	(1,194)	(4,484)	2,983	(20,157)	
Operating profit/(loss)	3,195	3,566	3,528	77	(2,983)		7,383	
Share of profit/(loss) in associates and joint ventures	187	742	190	8	(16)		1,111	
Profit/(loss) before tax	3,382	4,308	3,718	85	(2,999)		8,494	
	%	%	%	%	%		%	
Share of HSBC's profit before tax	39.8	50.7	43.8	1.0	(35.3)		100.0	
Cost efficiency ratio	65.4	43.7	58.2	92.7	298.7		66.6	



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*Balance sheet data*<sup>51</sup>

	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	375,086	297,852	272,473	44,224	2,454		992,089
Total assets	517,085	360,623	1,975,509	97,655	171,812	(451,366)	2,671,318
Customer accounts <sup>3</sup>	579,994	354,298	328,800	96,770	1,435		1,361,297

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Balance sheet data significant to Global Banking and Markets**

				North	Latin	Total US\$m
	Europe US\$m	Asia US\$m	MENA US\$m	America US\$m	America US\$m	
<b>At 30 June 2014</b>						
Trading assets <sup>1</sup>	240,210	50,654	554	42,515	8,051	341,984
Derivative assets <sup>2</sup>	224,538	47,358	949	53,072	5,867	331,784
Trading liabilities	150,717	18,736	1,294	39,491	3,446	213,684
Derivative liabilities <sup>2</sup>	265,134	45,948	899	52,197	5,390	369,568
<b>At 30 June 2013</b>						
Trading assets <sup>1</sup>	269,959	47,208	443	102,260	7,210	427,080
Derivative assets <sup>2</sup>	236,502	56,577	1,334	67,714	6,031	368,158
Trading liabilities	202,431	15,134	1,241	108,139	3,507	330,452
Derivative liabilities <sup>2</sup>	286,255	54,413	1,379	65,277	5,496	412,820
<b>At 31 December 2013</b>						
Trading assets <sup>1</sup>	212,941	39,940	432	38,709	6,660	298,682
Derivative assets <sup>2</sup>	227,985	58,911	1,143	57,131	5,971	351,141
Trading liabilities	137,448	14,335	1,230	38,850	2,823	194,686
Derivative liabilities <sup>2</sup>	273,086	55,866	1,158	55,105	5,499	390,714

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

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

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**Summary**

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In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of US\$1,439m (first half of 2013: US\$1,236m; second half of 2013: US\$1,392m).

From 1 January 2014, the geographical region Asia replaced the geographical regions previously reported as Hong Kong and Rest of Asia-Pacific. This aligns with changes made to the financial information used internally to manage the business. Comparative data have been re-presented accordingly.

### *Profit/(loss) before tax*

	<b>30 June 2014</b>		Half-year to		31 December 2013	
	US\$m	%	30 June 2013	%	US\$m	%
Europe	2,258	18.3	2,768	19.7	(943)	(11.1)
Asia <sup>11</sup>	7,894	64.0	9,262	65.8	6,591	77.6
Middle East and North Africa	989	8.0	909	6.5	785	9.2
North America	825	6.7	666	4.7	555	6.5
Latin America	374	3.0	466	3.3	1,506	17.8
	<b>12,340</b>	<b>100.0</b>	14,071	100.0	8,494	100.0

*For footnote, see page 96.*

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**Interim Management Report** (continued)*Total assets*<sup>51</sup>

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	US\$m	%	US\$m	%	US\$m	%
Europe	1,430,863	52.0	1,365,534	51.6	1,392,959	52.1
Asia <sup>11</sup>	874,334	31.8	799,842	30.2	831,791	31.1
Middle East and North Africa	61,289	2.2	63,292	2.4	60,810	2.3
North America	437,706	15.9	473,218	17.9	432,035	16.2
Latin America	125,630	4.6	123,032	4.7	113,999	4.3
Intra-HSBC items	(176,229)	(6.5)	(179,602)	(6.8)	(160,276)	(6.0)
	<b>2,753,593</b>	<b>100.0</b>	2,645,316	100.0	2,671,318	100.0

*Risk-weighted assets*<sup>68</sup>

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	US\$bn	%	US\$bn	%	US\$bn	%
Total	1,248.6		1,104.8		1,092.7	
Europe	393.6	31.0	305.4	27.4	300.1	27.1
Asia <sup>11</sup>	481.1	37.9	413.1	37.0	430.7	38.9
Middle East and North Africa	62.7	4.9	64.2	5.8	62.5	5.7
North America	236.9	18.6	236.4	21.1	223.8	20.2
Latin America	96.8	7.6	96.7	8.7	89.5	8.1

Selected items included in profit before tax by geographical region

*Fair value movements arising from changes in own credit spreads*<sup>24</sup>

	30 June 2014 US\$m	Half-year to	
		30 June	31 December
		2013	2013
Europe	(159)	3	(1,018)
Asia <sup>11</sup>	(5)	1	(3)
Middle East and North Africa	(6)	(1)	(3)
North America	(45)	(22)	(203)
	<b>(215)</b>	<b>(19)</b>	<b>(1,227)</b>

*Acquisitions, disposals and dilutions*<sup>52</sup>

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	<b>30 June 2014 US\$m</b>	Half-year to 30 June 2013 US\$m	31 December 2013 US\$m
Europe		(23)	40
Asia <sup>11</sup>	(32)	1,128	(143)
Middle East and North Africa	11	16	17
North America		(120)	17
Latin America	16	60	1,136
	(5)	1,061	1,067

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Europe**

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

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest income	5,244	5,250	5,443
Net fee income	3,188	2,969	3,063
Net trading income	982	4,339	84
Other income/(expense)	1,459	(1,084)	903
<b>Net operating income<sup>13</sup></b>	<b>10,873</b>	11,474	9,493
LICs <sup>53</sup>	(266)	(846)	(684)
<b>Net operating income</b>	<b>10,607</b>	10,628	8,809
Total operating expenses	(8,352)	(7,862)	(9,751)
<b>Operating profit/(loss)</b>	<b>2,255</b>	2,766	(942)
Income/(expense) from associates <sup>54</sup>	3	2	(1)
<b>Profit/(loss) before tax</b>	<b>2,258</b>	2,768	(943)
Cost efficiency ratio	76.8%	68.5%	102.7%
RoRWA <sup>47</sup>	1.2%	1.8%	(0.6%)
Period-end staff numbers	69,642	69,599	68,334

**Debt Capital Markets business**

**continues to be rated**

**in the top three in the UK**

*(Dealogic 2014)*

**Best Bank Mortgage Provider Award in the UK**

*(Moneyfacts Awards, 2014)*

*Sixth consecutive year*

**70%**

**decrease in**

**loan impairment charges**

*on a constant currency basis*

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise. Tables are on a reported basis.*

### **Economic background**

The **UK** recovery gained pace during the first half of 2014, with real Gross Domestic Product ( **GDP** ) expanding by 0.8% in the period and unemployment falling to 6.5% in May. One measure of consumer confidence rose to a nine-year high in June, and house prices rose by 10.5% in the 12 months to May. Signs of overheating in the housing market prompted the Bank of England to announce in June a number of macro-prudential measures to prevent a build-up of debt in the household sector. Consumer spending was the main contributor to the improvement in activity. Annual consumer price index ( **CPI** ) inflation fell below the central bank's target of 2% throughout the first half of 2014. The Bank of England kept Bank Rate and its Asset Purchase Programme steady at 0.5% and £375bn, respectively.

The recovery in the **eurozone** stalled in the first months of the year. Real GDP in the region as a whole grew by 0.2% in the first quarter relative to the final quarter of 2013, but the recovery was increasingly uneven. The German and Spanish economies expanded but many other countries in the region saw economic activity contract. Domestic weakness and the strength of the euro contributed to a decline in inflation, which fell to 0.5% in June. The likelihood that low growth and inflation could persist for an extended period prompted the European Central Bank ( **ECB** ) to cut both the refinancing and deposit rates by 0.1% in June, taking the latter into negative territory.

### **Financial overview**

Our European operations reported a profit before tax of US\$2.3bn in the first half of 2014 compared with US\$2.8bn (US\$3.0bn on a constant currency basis). On an underlying basis profit before tax decreased by US\$0.6bn, driven by a number of significant items, primarily affecting revenue. These included a US\$367m provision in the UK arising from a review of compliance with the Consumer Credit Act and adverse DVA movements of US\$77m compared with favourable movements of US\$306m. In addition, the first half of 2013 included a US\$442m foreign exchange gain on sterling debt issued by HSBC Holdings, partly offset by a loss of US\$279m following the write-off of allocated goodwill relating to our Monaco business.

Excluding these items, underlying profit before tax rose, driven primarily by a reduction in LICs, notably in CMB in the UK, partly offset by an increase in operating expenses, whilst revenue was broadly unchanged.



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax by country within global businesses*

	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m	Total US\$m
<b>Half-year to 30 June 2014</b>						
UK	565	1,324	887	112	(1,192)	1,696
France <sup>46</sup>	(39)	123	237	(2)	(115)	204
Germany	14	38	86	17	(7)	148
Malta	17	22	15			54
Switzerland		2	1	14	(2)	15
Turkey	(83)	22	35		(2)	(28)
Other	6	20	164	35	(56)	169
	<b>480</b>	<b>1,551</b>	<b>1,425</b>	<b>176</b>	<b>(1,374)</b>	<b>2,258</b>
<b>Half-year to 30 June 2013</b>						
UK	804	894	1,047	132	(657)	2,220
France <sup>46</sup>	130	135	302		(78)	489
Germany	15	31	45	21	(6)	106
Malta	22	29	19			70
Switzerland		1	1	(42)		(40)
Turkey	(18)	31	72		(1)	84
Other	3	(35)	82	(225)	14	(161)
	<b>956</b>	<b>1,086</b>	<b>1,568</b>	<b>(114)</b>	<b>(728)</b>	<b>2,768</b>
<b>Half-year to 31 December 2013</b>						
UK	667	790	199	120	(2,836)	(1,060)
France <sup>46</sup>	155	120	49	21	(84)	261
Germany	15	39	138	23	(19)	196
Malta	12	22	16			50
Switzerland		1	1	(249)		(247)
Turkey	(56)	5	36	(1)	2	(14)
Other	4	25	(206)	35	13	(129)
	<b>797</b>	<b>1,002</b>	<b>233</b>	<b>(51)</b>	<b>(2,924)</b>	<b>(943)</b>

*For footnote, see page 96.***Country business highlights**

In the UK, CMB lending decreased compared with the first half of 2013. However, new lending and re-financing before attrition and amortisation increased by 23%. This was offset by higher levels of repayments in the existing loan book. We approved over 80% of small business loan applications. In addition, Business Banking UK launched a campaign to offer further support and lending to SME customers that trade either domestically or internationally. As part of this, £5.8bn (US\$9.9bn) of lending was made available, along with a programme of

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activities such as Fast Lane to Growth events for larger SMEs and workshops for micro-businesses.

We also grew our Payments and Cash Management business through a targeted deposit acquisition strategy.

In RBWM, we continued to support the housing market in the first half of 2014, approving £6.5bn (US\$11.1bn) of new mortgage lending to over 56,000 customers, including £1.8bn (US\$3.0bn) to over 13,000 first time buyers. Our mortgage balances remained broadly unchanged. The loan-to-value ( LTV ) ratio on new lending remained robust

at 59.7% compared with an average of 46.3% for the total mortgage portfolio. In addition, the UK mobile banking app has had nearly one million log-ons each week since its launch last year, offering a range of new functions such as a Cash ISA application and Paym .

In GB&M, our Capital Financing business was successful with a number of transactions. Through collaboration with CMB, GB&M acted as joint bookrunner on a rights issue for a UK client, our largest ever bookrunning mandate for a UK CMB customer, demonstrating our ability to utilise connections between global businesses.

We strengthened our support of the renminbi ( RMB ) internationalisation and in January became the first custodian bank servicing London-based RMB qualified foreign institutional investors following regulatory approval to the opening of mainland China 's securities market to overseas investors.

In France, CMB signed innovative partnership agreements with Bpifrance and UBIFRANCE, designed to make it easier for clients who aspire to trade internationally to expand. Following the success of the SME Fund last year, CMB allocated

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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another 1.5bn (US\$2.0bn) to support customers seeking international growth, approving 0.9bn (US\$1.2bn) of lending in the first half of 2014. In RBWM, we continued to focus on growing the home loans proposition by generating high quality new business and long-term relationships with affluent clients, increasing average balances by US\$3.3bn.

We continued our growth initiative in Germany with the aim of positioning the corporate banking business as the Leading International Bank by extending our product offerings to internationally operating middle market enterprises (Mittelstand) and international corporations.

In Turkey, RBWM launched a new transactional offering campaign Big Step , attracting over 59,000 customers in the first half of the year. CMB set up a strategic partnership with the Exporters Association for customers seeking to trade internationally and embarked upon a programme of structural optimisation of the branch network to drive efficiencies. In addition across CMB Europe, our Trade business embarked on a series of initiatives to enable customers to fulfil their international trade ambitions, which included the roll out of trade academies and the launch of Trade Radar communications in local languages. In Switzerland, we continued to reposition the GPB business and focused on growth through the high net worth client segment.

**Review of performance**

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

*Net interest income* decreased by US\$0.3bn, primarily due to a provision in the UK arising from a review of compliance with the Consumer Credit Act. Excluding this, net interest income was broadly unchanged as an increase in the UK was offset by a decrease in Turkey.

In the UK, excluding the provision noted above, net interest income increased in GB&M, CMB and RBWM. In GB&M, there was an increase in Capital Financing from growth in volumes, notwithstanding continuing spread compression, and in Balance Sheet Management from rising average balances in liquid asset portfolios. In CMB, net interest income rose due to higher spreads in term lending and deposit volume growth in Payments and Cash Management, although term lending volumes fell, while in RBWM the increase was from growth in deposit volumes and widening deposit spreads, despite narrower lending spreads.

These factors were broadly offset by a decrease in net interest income in Turkey due to interest rate caps on cards and overdrafts imposed by the local regulator.

*Net fee income* increased marginally, as increases in the UK and Turkey were partly offset by decreases in Switzerland.

In the UK, net fee income in GB&M increased, primarily due to a reduction in fees paid to other regions due to lower activity in Markets. In Capital Financing, the effects of market share and volume gains were broadly offset by fee compression. We also recorded a rise in fees in CMB due to increased volumes of new business lending in the large corporate and mid-market segments. By contrast, there was a decrease in RBWM as a result of higher fees payable under partnership agreements, along with lower investment and overdraft fees.

In Turkey, net fee income rose from growth in card fees. However, in Switzerland in GPB, net fee income decreased, reflecting a reduction in client assets as we continued to reposition the business.

*Net trading income* decreased by US\$3.6bn to US\$1.0bn. This included the effects of a number of significant items including:

adverse movements on non-qualifying hedges of US\$144m compared with favourable movements of US\$98m in the first half of 2013;

adverse movements on a DVA of US\$77m, compared with favourable movements of US\$306m; and

a foreign exchange gain on sterling debt issued by HSBC Holdings of US\$442m in the first half of 2013, which did not recur. Excluding these items, trading income decreased, primarily in the UK, driven by adverse foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value compared with favourable movements in the first half of 2013, with the offset reported in Net income from financial instruments designated at fair value .

In addition, net trading income in Markets declined, primarily in Foreign Exchange and, to a lesser extent, in Rates, reflecting lower market volatility and reduced client flows. These were partially offset by an increase in Equities, notwithstanding revaluation gains reported in the first half of 2013, as we successfully positioned the business to capture increased client activity.

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**Interim Management Report** (continued)

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*Net income from financial instruments designated at fair value* was US\$1.0bn compared with net expense of US\$1.0bn. In the UK, in the first half of 2014 we reported adverse movements on the fair value of our own debt, compared with minimal movements in the first half of 2013.

Excluding this, net income rose, driven by favourable foreign exchange movements on foreign currency debt compared with adverse movements last year.

In addition, there were favourable fair value movements from interest and exchange rate ineffectiveness in the hedging of long-term debt issued principally by HSBC Holdings in 2014, compared with adverse movements in 2013.

*Other operating income* increased by US\$584m, primarily driven by a number of significant items in the first half of 2013:

a loss following the write-off of allocated goodwill relating to our Monaco business; and

a loss on the disposal of an HFC Bank secured loan portfolio in the UK.

Excluding these items, other operating income rose as we reported gains from legacy credit in the UK in GB&M reflecting price appreciation across certain asset classes in the ABS market.

*LICs* decreased by 70% to US\$0.3bn, as decreases in the UK and Spain were partially offset by increases in Turkey and France. In the UK, individually and collectively assessed loan impairment charges in CMB fell, reflecting the enhanced quality of the portfolio and improved economic environment. GB&M recorded higher net releases of credit risk provisions on available-for-sale ABSs, mainly reflecting price appreciation on

the legacy portfolio. Loan impairment charges in RBWM also decreased as a result of the improved economic environment and customer behaviour. In Spain, loan impairment charges decreased, as economic conditions improved.

These factors were partially offset by increases in Turkey in RBWM, driven by the growth in the portfolio and the increase in card delinquency rates, and in France in GB&M, from an increase in individually assessed provisions relating to a small number of customers.

*Operating expenses* were broadly unchanged and included several significant items recorded in the first half of 2013 including:

Madoff-related litigation charges in GB&M in Ireland (US\$298m); and

a provision in respect of regulatory investigations in GPB in Switzerland (US\$119m); partly offset by

the non-recurrence of the benefit of an accounting gain relating to changes in delivering ill-health benefits to certain employees in the UK (US\$430m).

In addition, operating expenses in the first half of 2014 included:

a reduction of US\$178m in charges in the UK relating to customer redress programmes (see page 243 for further details);

lower restructuring costs of US\$50m; and

adjustments relating to the prior year UK bank levy charges (2014: US\$45m credit; 2013 US\$9m charge).

Excluding these items, operating expenses increased as a result of the timing of the recognition of the FSCS levy and increased Risk and Compliance expenses in line with the implementation of Global Standards, despite sustainable costs savings of over US\$260m.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax and balance sheet data Europe*

	Half-year to 30 June 2014						Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m	Inter- segment elimination <sup>65</sup> US\$m	
<i>Profit/(loss) before tax</i>							
Net interest income/(expense)	2,567	1,806	1,020	334	(352)	(131)	5,244
Net fee income	1,225	978	653	326	6		3,188
Trading income/(expense) excluding net interest income	(134)	20	683	72	(123)		518
Net interest income/(expense) on trading activities	7	1	328	(2)		130	464
Net trading income/(expense) <sup>59</sup>	(127)	21	1,011	70	(123)	130	982
Changes in fair value of long-term debt issued and related derivatives					545		545
Net income/(expense) from other financial instruments designated at fair value	403	47	740	1	(720)		471
Net income/(expense) from financial instruments designated at fair value	403	47	740	1	(175)		1,016
Gains less losses from financial investments	8	5	304	11	8		336
Dividend income	4	7	15	1	1		28
Net earned insurance premiums	1,429	125		19	1		1,574
Other operating income/(expense)	(51)	(7)	165	(15)	500	(70)	522
<b>Total operating income/(expense)</b>	<b>5,458</b>	<b>2,982</b>	<b>3,908</b>	<b>747</b>	<b>(134)</b>	<b>(71)</b>	<b>12,890</b>
Net insurance claims <sup>66</sup>	(1,840)	(151)		(26)			(2,017)
<b>Net operating income/(expense)<sup>13</sup></b>	<b>3,618</b>	<b>2,831</b>	<b>3,908</b>	<b>721</b>	<b>(134)</b>	<b>(71)</b>	<b>10,873</b>
Loan impairment (charges)/recoveries and other credit risk provisions	(131)	(128)	(4)	(4)	1		(266)
<b>Net operating income/(expense)</b>	<b>3,487</b>	<b>2,703</b>	<b>3,904</b>	<b>717</b>	<b>(133)</b>	<b>(71)</b>	<b>10,607</b>
Operating expenses	(3,010)	(1,153)	(2,479)	(541)	(1,240)	71	(8,352)
<b>Operating profit/(loss)</b>	<b>477</b>	<b>1,550</b>	<b>1,425</b>	<b>176</b>	<b>(1,373)</b>		<b>2,255</b>
Share of profit/(loss) in associates and joint ventures	3	1			(1)		3
<b>Profit/(loss) before tax</b>	<b>480</b>	<b>1,551</b>	<b>1,425</b>	<b>176</b>	<b>(1,374)</b>		<b>2,258</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	3.9	12.6	11.5	1.4	(11.1)		18.3
Cost efficiency ratio	83.2	40.7	63.4	75.0	(925.4)		76.8

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*Balance sheet data*<sup>51</sup>

	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Loans and advances to customers (net) <sup>3</sup>	180,967	108,218	162,661	26,768	1,056	479,670
Total assets	241,878	123,632	1,080,070	76,006	75,403	1,430,863
Customer accounts <sup>3</sup>	217,080	140,043	212,557	44,176	920	614,776



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax and balance sheet data – Europe(continued)*

	Half-year to 30 June 2013					Inter-segment elimination <sup>65</sup>	Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m		
<i>Profit/(loss) before tax</i>							
Net interest income/(expense)	2,751	1,638	799	357	(310)	15	5,250
Net fee income/(expense)	1,246	844	489	397	(7)		2,969
Trading income excluding net interest income	102	26	2,958	108	538		3,732
Net interest income on trading activities	3	7	594	4	14	(15)	607
Net trading income <sup>59</sup>	105	33	3,552	112	552	(15)	4,339
Changes in fair value of long-term debt issued and related derivatives					(1,347)		(1,347)
Net income/(expense) from other financial instruments designated at fair value	296	103	(965)		964		398
Net income/(expense) from financial instruments designated at fair value	296	103	(965)		(383)		(949)
Gains less losses from financial investments	43	(7)	332	3	2		373
Dividend income	2	1	32	4	1		40
Net earned insurance premiums	1,519	222		6	(1)		1,746
Other operating income/(expense)	(149)	(21)	(11)	(274)	343	62	(50)
Total operating income	5,813	2,813	4,228	605	197	62	13,718
Net insurance claims <sup>66</sup>	(1,958)	(281)		(5)			(2,244)
Net operating income <sup>13</sup>	3,855	2,532	4,228	600	197	62	11,474
Loan impairment charges and other credit risk provisions	(169)	(498)	(166)	(13)			(846)
Net operating income	3,686	2,034	4,062	587	197	62	10,628
Operating expenses	(2,731)	(950)	(2,493)	(700)	(926)	(62)	(7,862)
Operating profit/(loss)	955	1,084	1,569	(113)	(729)		2,766
Share of profit/(loss) in associates and joint ventures	1	2	(1)	(1)	1		2
Profit/(loss) before tax	956	1,086	1,568	(114)	(728)		2,768
	%	%	%	%	%		%
Share of HSBC's profit before tax	6.8	7.7	11.1	(0.8)	(5.2)		19.7
Cost efficiency ratio	70.8	37.5	59.0	116.7	470.1		68.5

*Balance sheet data*<sup>51</sup>

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	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	157,613	97,814	129,954	23,095	795		409,271
Total assets	220,259	115,819	1,091,624	74,917	70,010	(207,095)	1,365,534
Customer accounts <sup>3</sup>	187,725	121,334	165,147	45,888	890		520,984

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

	Half-year to 31 December 2013						Total US\$m
	Retail Banking and Wealth Management		Banking and Markets		Inter- segment elimination <sup>65</sup>		
	US\$m	Commercial Banking US\$m	US\$m	Global Private Banking US\$m	Other US\$m	US\$m	
<i>Profit/(loss) before tax</i>							
Net interest income/(expense)	2,849	1,715	975	365	(384)	(77)	5,443
Net fee income	1,299	945	468	347	4		3,063
Trading income/(expense) excluding net interest income	104	4	(777)	84	160		(425)
Net interest income/(expense) on trading activities	(1)	(2)	419		16	77	509
Net trading income/(expense) <sup>59</sup>	103	2	(358)	84	176	77	84
Changes in fair value of long-term debt issued and related derivatives					411		411
Net income/(expense) from other financial instruments designated at fair value	763	168	1,556	4	(1,534)	(1)	956
Net income/(expense) from financial instruments designated at fair value	763	168	1,556	4	(1,123)	(1)	1,367
Gains less losses from financial investments	9	7	12	(20)	(2)		6
Dividend income	2	1	33		(1)		35
Net earned insurance premiums	1,263	139	(1)	10	1		1,412
Other operating income	46	30	121	21	423	(62)	579
Total operating income/(expense)	6,334	3,007	2,806	811	(906)	(63)	11,989
Net insurance claims <sup>66</sup>	(2,178)	(286)		(32)			(2,496)
Net operating income/(expense) <sup>13</sup>	4,156	2,721	2,806	779	(906)	(63)	9,493
Loan impairment charges and other credit risk provisions	(160)	(437)	(76)	(11)			(684)
Net operating income/(expense)	3,996	2,284	2,730	768	(906)	(63)	8,809
Operating expenses	(3,203)	(1,281)	(2,494)	(819)	(2,017)	63	(9,751)
Operating profit/(loss)	793	1,003	236	(51)	(2,923)		(942)
Share of profit/(loss) in associates and joint ventures	4	(1)	(3)		(1)		(1)
Profit/(loss) before tax	797	1,002	233	(51)	(2,924)		(943)
	%	%	%	%	%		%
Share of HSBC's profit before tax	9.4	11.8	2.7	(0.6)	(34.4)		(11.1)
Cost efficiency ratio	77.1	47.1	88.9	105.1	(222.6)		102.7

*Balance sheet data*<sup>51</sup>

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	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Loans and advances to customers (net) <sup>3</sup>	177,357	105,498	145,136	27,289	830	456,110
Total assets	238,499	124,242	1,054,506	75,718	72,174	(172,180) 1,392,959
Customer accounts <sup>3</sup>	205,288	134,120	191,715	49,789	1,021	581,933

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Asia**<sup>11</sup>

HSBC's principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in Asia. We offer a full range of banking and financial services in mainland China, mainly through our local subsidiary, HSBC Bank (China) Company Limited. We also participate indirectly in mainland China through our associate, Bank of Communications.

Outside mainland China and Hong Kong, we conduct business in 18 countries and territories, with particularly strong coverage in Australia, India, Indonesia, Malaysia and Singapore.

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest income	<b>6,090</b>	5,519	5,913
Net fee income	<b>2,966</b>	3,090	2,846
Net trading income	<b>1,329</b>	918	1,108
Other income	<b>1,722</b>	3,764	1,274
<b>Net operating income</b> <sup>13</sup>	<b>12,107</b>	13,291	11,141
LICs <sup>53</sup>	<b>(216)</b>	(198)	(300)
<b>Net operating income</b>	<b>11,891</b>	13,093	10,841
Total operating expenses	<b>(5,009)</b>	(4,812)	(5,124)
<b>Operating profit</b>	<b>6,882</b>	8,281	5,717
Income from associates <sup>54</sup>	<b>1,012</b>	981	874
<b>Profit before tax</b>	<b>7,894</b>	9,262	6,591
Cost efficiency ratio	<b>41.4%</b>	36.2%	46.0%
RoRWA <sup>47</sup>	<b>3.4%</b>	4.6%	3.1%
Period-end staff numbers	<b>115,111</b>	113,631	113,701
	<b>64%</b>		

**increase in underlying profit before tax**

**in our mainland China operations**

*excluding associates*

**11%**

**growth in customer lending**

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*on a constant currency basis*

## **Best Bank in Asia**

*(Euromoney Awards for Excellence 2014)*

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise. Tables are on a reported basis.*

### **Economic background**

**Hong Kong**'s annual rate of real GDP growth slowed to 2.5% in the first quarter of 2014 from 2.9% at the end of 2013. The slowdown was broadly based, although there was a particularly sharp fall in the exports of goods. Private consumption held up relatively better, benefiting from a strong labour market as the headline rate of unemployment fell to the lowest level seen since the 1990s. In **mainland China**, economic activity slowed at the start of 2014. Real GDP grew by 7.4% in the first quarter of 2014 compared with a year ago, down from 7.7% in the fourth quarter of 2013 and slightly lower than the government's official target of 7.5% for 2014 as a whole. In response, the government announced a number of stimulus measures in early 2014 and the annual rate of GDP growth rose to 7.5% in the second quarter. Inflationary pressures remained subdued, with CPI inflation falling from 2.9% at the end of 2013 to 2.3% in June 2014. Producer prices continued their fall of the past two years.

Economic growth in **Japan** picked up sharply in the first quarter, thanks to a rise in spending in the run up to the 1 April 2014 increase in consumption tax, with strong consumer spending and robust business investment. Excluding the volatile fresh foods component and VAT increase, CPI inflation was 1.4% in June, in line with the Bank of Japan's forecasts. The central bank continued its purchases of 6-8 trillion yen a month as part of its monetary easing programme.

The region saw considerable political change in the first half of 2014. In **India**, the BJP-led NDA opposition won a decisive victory in the national elections, leading to hopes that the strong mandate will revive growth through structural reforms. In **Indonesia**, growth slowed in the first quarter of 2014 as previous rate rises restrained economic activity. Elsewhere, growth remained robust and central banks were increasingly concerned about rising inflationary pressure, while the central banks in **Malaysia** and **Singapore** indicated they may need to tighten monetary policy further.

### **Financial overview**

Our operations in Asia reported a pre-tax profit of US\$7.9bn compared with US\$9.3bn, a decrease of 15% or 14% on a constant currency basis. This was driven by the non-recurrence of the accounting gain of US\$1.1bn on the reclassification of Industrial Bank and the gain on disposal of our investment in Bao Viet Holdings of US\$104m.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management US\$m</b>	<b>Commercial Banking US\$m</b>	<b>Global Banking and Markets US\$m</b>	<b>Global Private Banking US\$m</b>	<b>Other US\$m</b>	<b>Total US\$m</b>
<b>Half-year to 30 June 2014</b>						
Hong Kong	1,928	1,125	977	99	419	4,548
Australia	49	62	92		(5)	198
India	6	59	243	5	67	380
Indonesia	2	43	62		6	113
Mainland China	140	797	515	(2)	94	1,544
Malaysia	90	54	90		12	246
Singapore	71	75	127	30	(7)	296
Taiwan	18	19	101		2	140
Other	35	138	208	1	47	429
	<b>2,339</b>	<b>2,372</b>	<b>2,415</b>	<b>133</b>	<b>635</b>	<b>7,894</b>
<b>Half-year to 30 June 2013</b>						
Hong Kong	1,867	1,083	1,078	137	40	4,205
Australia	51	45	108		29	233
India	(1)	74	255	4	82	414
Indonesia	18	46	63		14	141
Mainland China	106	763	423	(2)	1,645	2,935
Malaysia	78	60	149		(13)	274
Singapore	78	60	147	39	37	361
Taiwan	(5)	19	83		3	100
Other	106	160	300	(1)	34	599
	<b>2,298</b>	<b>2,310</b>	<b>2,606</b>	<b>177</b>	<b>1,871</b>	<b>9,262</b>
<b>Half-year to 31 December 2013</b>						
Hong Kong	1,875	1,027	893	71	18	3,884
Australia	49	86	81		(3)	213
India	(20)	39	163	3	54	239
Indonesia	(6)	60	63		22	139
Mainland China	117	773	419	(2)	(1)	1,306
Malaysia	70	45	87		38	240
Singapore	69	60	115	35	(15)	264
Taiwan	12	11	75		2	100
Other	(45)	47	173		31	206
	<b>2,121</b>	<b>2,148</b>	<b>2,069</b>	<b>107</b>	<b>146</b>	<b>6,591</b>

On an underlying basis, which excludes the gains noted above, profit before tax in the first half of 2014 was marginally lower. It included a gain of US\$428m in Hong Kong on the sale of our investment in Bank of Shanghai and an adverse DVA of US\$53m, which compared with a net gain of US\$553m on the completion of the sale of our investment in Ping An and a favourable DVA of US\$112m in the first half of 2013.

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Excluding these items, profit before tax increased, as higher net interest income in Hong Kong and mainland China was partly offset by higher operating expenses.

### Country business highlights

We continued to focus on our strategic priorities for Asia, using our international network to connect customers across borders. We progressed with the closure of non-core operations, completed the sale of our investment in Bank of Shanghai and implemented the Retail Banking Incentive

Framework that removes the formulaic link between product sales and remuneration.

In Hong Kong, we grew our average mortgage balances in RBWM by 2%, though activity levels in the property market were subdued, with average LTV ratios of 47% on new mortgage drawdowns and an estimated 32% on the portfolio as a whole. We saw continued adoption of our mobile banking applications, extended the contact-less payments system to Android phones and were awarded International Retail Bank of the Year by *Asian Banking and Finance* and Best Regional Retail Bank by *The Asian Banker*.

The collaboration between CMB and GB&M continued to benefit our clients, raising significant finance in Asia from debt capital markets. Our ongoing collaboration efforts were a key factor in being named as the Best Bank in Asia by *The Euromoney Awards for Excellence 2014*. In addition,



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Analysis of mainland China*

	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m	Total US\$m
<b>Half-year to 30 June 2014</b>						
Associates	127	704	147			978
Other mainland China	13	93	368	(2)	94	566
	<b>140</b>	<b>797</b>	<b>515</b>	<b>(2)</b>	<b>94</b>	<b>1,544</b>
<b>Half-year to 30 June 2013</b>						
Industrial Bank					1,089	1,089
Ping An					553	553
Other associates	124	681	142			947
Other mainland China	(18)	82	281	(2)	3	346
	106	763	423	(2)	1,645	2,935
<b>Half-year to 31 December 2013</b>						
Associates	123	679	142		(38)	906
Other mainland China	(6)	94	277	(2)	37	400
	117	773	419	(2)	(1)	1,306

we were awarded Best Trade Finance Bank in Hong Kong by both *The Asian Banker* and *The Corporate Treasurer*.

In GB&M, we maintained our market leadership in Hong Kong dollar bond issuance and also led the market in Asia ex-Japan G3 currency bonds and Asian local currency bonds, demonstrating the strength of our network and capabilities. We were involved in three of the five largest equity capital markets transactions in Hong Kong during the period.

We continued to lead the market in offshore renminbi ( RMB ) bond issuance in Hong Kong and were one of the first foreign banks to announce RMB cross-border pooling capability in the Shanghai Free Trade Zone. We completed Japan's first RMB-denominated import transaction, were the first foreign custodian bank in mainland China to service a Singaporean renminbi qualified foreign institutional investor and won Best Overall Offshore RMB Products and Services in the *AsiaMoney Offshore RMB Poll 2014*.

In mainland China, we continued to expand our branch network with 167 HSBC outlets, 24 HSBC rural bank outlets and 50 Hang Seng Bank outlets at the end of June. We streamlined the mortgage application process in mainland China and were awarded Best Foreign Retail Bank by *The Asian Banker* for the sixth consecutive year. In Payments and Cash Management, we launched the Global Payments System which supports all cross-border payments in and out of mainland China in all currencies, including RMB. In M&A, we were adviser to a number of state owned enterprises on significant overseas investments and acquisitions.

In India, we were adviser on two of the largest mergers and acquisitions transactions in the first half of 2014, assisting UK corporations investing in India, and in Wealth Management we launched Managed Solutions, a multi-asset fund series.

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In Australia, we were a mandated lead arranger for the largest mining project financing deal and we were awarded Best Project Finance House in Asia by *The Asset AAA Award 2013*.

### **Review of performance**

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

*Net interest income* rose by US\$675m, primarily in Hong Kong and mainland China from growth in Balance Sheet Management income, increased term lending and growth in customer deposits.

The rise in Balance Sheet Management income reflected portfolio growth and higher reinvestment rates. Average term lending balances increased in Asia, driven by strong loan growth to GB&M clients in Hong Kong and mainland China, and in CMB from property-related, commercial and industrial lending. The benefit of this growth was partly offset by lending spread compression compared with the first half of 2013, although spreads in CMB were broadly unchanged from the end of 2013.

Deposit balances increased in Payments and Cash Management in GB&M and CMB, notably in Hong Kong, as well as in Taiwan, mainland China and Singapore. Deposit balances in RBWM also increased, mainly in Hong Kong, in part from new Premier customers, while net interest income growth

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**Interim Management Report** (continued)

in mainland China reflected a widening of deposit spreads as market interest rates rose in the first half of 2014.

Additionally, in RBWM, higher net interest income reflected growth in the debt securities portfolio of our insurance operation in Hong Kong, reflecting a rise in premium income, while increased mortgage lending across the region was offset by asset spread compression.

*Net fee income* decreased by US\$74m, mainly in GB&M, due to a reduction in fees received from other regions reflecting lower activity in Markets. In addition, fees from debt under-writing and corporate finance activity decreased due to reduced issuance volumes and the non-recurrence of significant transaction fees in the first half of 2013. These factors were partly offset by higher equity underwriting fees in Hong Kong.

*Net trading income* was US\$454m higher due to the non-recurrence of adverse fair value movements on the Ping An contingent forward sale contract of US\$682m, partly offset by an adverse DVA compared with a favourable DVA in the first half of 2013. Excluding these items, net trading income fell, mainly on structured deposits in mainland China from both revaluation losses as yield curves fell and increased interest expense from volume growth where the related income is included in *Net interest income*.

*Net income from financial instruments designated at fair value* was US\$386m compared with a net loss of US\$260m a year earlier, primarily due to higher investment returns on assets held by the insurance business in Hong Kong reflecting improved equity market performance. To the extent that these investment returns were attributed to policyholders holding unit-linked insurance policies and insurance contracts with DPF, there was a corresponding movement in *Net insurance claims incurred and movement in liabilities to policyholders*.

*Gains less losses from financial investments* were US\$440m compared with US\$1.2bn, primarily reflecting the gain on disposal of our investment in Bank of Shanghai of US\$428m in the first half of 2014, and the gain on the sale of our investment in Ping An of US\$1.2bn in the first half of 2013.

*Net earned insurance premiums* grew by 7%, mainly in Hong Kong, due to increased new business from deferred annuity, universal life and endowment

contracts, coupled with higher renewals. This was partly offset by lower new business from unit-linked contracts. The growth in premiums resulted in a corresponding increase in *Net insurance claims incurred and movement in liabilities to policyholders*.

*Other operating income* decreased by US\$1.2bn, as the comparable period in 2013 included an accounting gain of US\$1.1bn on the reclassification of Industrial Bank as a financial investment and a gain on the disposal of our investment in Bao Viet Holdings of US\$104m. Excluding these items, other operating income was lower by US\$47m, mainly reflecting lower revaluation and disposal gains on investment properties, and a loss on the reclassification of our banking associate in Vietnam of US\$32m, partly offset by an increase in PVIF assets due to favourable market conditions and a rise in the value of new business.

*LICs* increased by US\$30m, primarily in CMB in Hong Kong due to a rise in individually assessed impairment charges and the non-recurrence of collective impairment releases. This was partly offset by lower collective impairment charges in RBWM in Malaysia reflecting reduced delinquencies, and the non-recurrence of individually assessed impairments on a few corporate exposures in Australia.

*Operating expenses* rose by US\$299m, reflecting investment in the region, notably in risk and compliance initiatives such as Global Standards. Staff costs rose from inflationary pressures and additional headcount, in Hong Kong to support business growth, and in mainland China and India from increased usage of our Global Service Centres. Higher costs also reflected a litigation provision release in the first half of 2013, higher property costs in Hong Kong from rent inflation and refurbishments, and ongoing branch expansion in mainland China. These factors were partly offset by the non-recurrence of a US\$72m write down of Hana HSBC Life Insurance in the first half of 2013. In addition, we achieved over US\$100m of sustainable cost savings in the period.

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*Share of profit from associates and joint ventures* rose, primarily from BoCom, reflecting higher fees and trade revenues, along with increased net interest income from balance sheet growth, partly offset by higher operating expenses and increased LICs.

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**Interim Management Report** (continued)*Profit before tax and balance sheet data Asia*

	Half-year to 30 June 2014						Total US\$m
	Retail				Inter-	elimination <sup>65</sup> US\$m	
	Banking and Wealth Management	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m		
	US\$m	US\$m	US\$m	US\$m	US\$m		
<i>Profit before tax</i>							
Net interest income/(expense)	2,466	1,639	1,844	86	(11)	66	6,090
Net fee income	1,368	785	679	129	5		2,966
Trading income excluding net interest income	107	211	664	79	16		1,077
Net interest income/(expense) on trading activities	(9)	(5)	327		5	(66)	252
Net trading income <sup>59</sup>	98	206	991	79	21	(66)	1,329
Changes in fair value of long-term debt issued and related derivatives					(4)		(4)
Net income/(expense) from other financial instruments designated at fair value	402	(17)	3		2		390
Net income/(expense) from financial instruments designated at fair value	402	(17)	3		(2)		386
Gains less losses from financial investments		4	6		430		440
Dividend income				1	20		21
Net earned insurance premiums	3,474	361					3,835
Other operating income	341	51	62	6	1,290	(562)	1,188
<b>Total operating income</b>	<b>8,149</b>	<b>3,029</b>	<b>3,585</b>	<b>301</b>	<b>1,753</b>	<b>(562)</b>	<b>16,255</b>
Net insurance claims <sup>66</sup>	(3,796)	(352)					(4,148)
<b>Net operating income<sup>13</sup></b>	<b>4,353</b>	<b>2,677</b>	<b>3,585</b>	<b>301</b>	<b>1,753</b>	<b>(562)</b>	<b>12,107</b>
Loan impairment (charges)/ recoveries and other credit risk provisions	(153)	(67)	4				(216)
<b>Net operating income</b>	<b>4,200</b>	<b>2,610</b>	<b>3,589</b>	<b>301</b>	<b>1,753</b>	<b>(562)</b>	<b>11,891</b>
Operating expenses	(2,018)	(942)	(1,323)	(168)	(1,120)	562	(5,009)
<b>Operating profit</b>	<b>2,182</b>	<b>1,668</b>	<b>2,266</b>	<b>133</b>	<b>633</b>		<b>6,882</b>
Share of profit in associates and joint ventures	157	704	149		2		1,012
<b>Profit before tax</b>	<b>2,339</b>	<b>2,372</b>	<b>2,415</b>	<b>133</b>	<b>635</b>		<b>7,894</b>

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	%	%	%	%	%	%
Share of HSBC's profit before tax	19.0	19.2	19.6	1.1	5.1	64.0
Cost efficiency ratio	46.4	35.2	36.9	55.8	63.9	41.4
<i>Balance sheet data</i> <sup>51</sup>						
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Loans and advances to customers (net) <sup>3</sup>	115,541	131,920	100,942	12,417	1,567	362,387
Total assets	165,254	157,401	549,935	14,521	76,008	874,334
Customer accounts <sup>3</sup>	283,734	149,148	106,935	30,139	265	570,221

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

	Half-year to 30 June 2013						
	Retail					Inter-segment	
	Banking and Wealth		Global Banking and Markets	Global Private Banking	Other	elimination <sup>65</sup>	Total
	Management	Commercial Banking	US\$m	US\$m	US\$m	US\$m	US\$m
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<i>Profit before tax</i>							
Net interest income/(expense)	2,424	1,503	1,584	109	(111)	10	5,519
Net fee income	1,417	780	767	124	2		3,090
Trading income/(expense) excluding net interest income	101	192	929	105	(720)		607
Net interest income/(expense) on trading activities	(11)	(4)	327		9	(10)	311
Net trading income/(expense) <sup>59</sup>	90	188	1,256	105	(711)	(10)	918
Changes in fair value of long-term debt issued and related derivatives					1		1
Net income/(expense) from other financial instruments designated at fair value	(245)	(12)	3		(7)		(261)
Net income/(expense) from financial instruments designated at fair value	(245)	(12)	3		(6)		(260)
Gains less losses from financial investments	1		21	1	1,204		1,227
Dividend income			3		14		17
Net earned insurance premiums	3,235	347			1		3,583
Other operating income	391	27	75	5	2,543	(588)	2,453
Total operating income	7,313	2,833	3,709	344	2,936	(588)	16,547
Net insurance claims <sup>66</sup>	(2,938)	(318)					(3,256)
Net operating income <sup>13</sup>	4,375	2,515	3,709	344	2,936	(588)	13,291
Loan impairment (charges)/recoveries and other credit risk provisions	(176)	(22)	1	(1)			(198)
Net operating income	4,199	2,493	3,710	343	2,936	(588)	13,093
Operating expenses	(2,055)	(865)	(1,249)	(166)	(1,065)	588	(4,812)
Operating profit	2,144	1,628	2,461	177	1,871		8,281
Share of profit in associates and joint ventures	154	682	145				981
Profit before tax	2,298	2,310	2,606	177	1,871		9,262
	%	%	%	%	%		%
Share of HSBC's profit before tax	16.3	16.4	18.5	1.3	13.3		65.8
Cost efficiency ratio	47.0	34.4	33.7	48.3	36.3		36.2
<i>Balance sheet data</i> <sup>51</sup>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	109,290	119,621	85,816	10,389	1,567		326,683

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Total assets	154,394	142,794	455,744	31,706	87,076	(71,872)	799,842
Customer accounts <sup>3</sup>	262,368	129,728	93,978	30,222	320		516,616



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit before tax and balance sheet data Asia (continued)*

	Half-year to 31 December 2013						Total US\$m
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter- segment elimination <sup>65</sup>	
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	
<i>Profit before tax</i>							
Net interest income/(expense)	2,471	1,600	1,661	96	(13)	98	5,913
Net fee income/(expense)	1,341	738	652	125	(10)		2,846
Trading income/(expense) excluding net interest income	137	185	554	70	(19)		927
Net interest income/(expense) on trading activities	(5)	(2)	281		5	(98)	181
Net trading income/(expense) <sup>59</sup>	132	183	835	70	(14)	(98)	1,108
Changes in fair value of long-term debt issued and related derivatives					(2)		(2)
Net income from other financial instruments designated at fair value	560	12	4				576
Net income/(expense) from financial instruments designated at fair value	560	12	4		(2)		574
Gains less losses on financial investments	(2)		37	13			48
Dividend income		1	3		131		135
Net earned insurance premiums	3,028	307	1		(1)		3,335
Other operating income	373	70	88	7	1,328	(644)	1,222
Total operating income	7,903	2,911	3,281	311	1,419	(644)	15,181
Net insurance claims <sup>66</sup>	(3,671)	(369)					(4,040)
Net operating income <sup>13</sup>	4,232	2,542	3,281	311	1,419	(644)	11,141
Loan impairment charges and other credit risk provisions	(171)	(122)	(4)	(3)			(300)
Net operating income	4,061	2,420	3,277	308	1,419	(644)	10,841
Operating expenses	(2,083)	(921)	(1,311)	(201)	(1,252)	644	(5,124)
Operating profit	1,978	1,499	1,966	107	167		5,717
Share of profit/(loss) in associates and joint ventures	143	649	103		(21)		874
Profit before tax	2,121	2,148	2,069	107	146		6,591
	%	%	%	%	%		%

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Share of HSBC's profit before tax	25.0	25.3	24.3	1.3	1.7		77.6
Cost efficiency ratio	49.2	36.2	40.0	64.6	88.2		46.0

*Balance sheet data*<sup>51</sup>

	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	111,769	122,882	89,722	10,904	1,620		336,897
Total assets	158,456	146,898	515,023	12,994	82,453	(84,033)	831,791
Customer accounts <sup>3</sup>	278,392	141,958	96,546	31,250	337		548,483

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Middle East and North Africa**

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

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest income	736	746	740
Net fee income	335	311	311
Net trading income	193	203	154
Other income/(expense)	30	(7)	45
<b>Net operating income<sup>13</sup></b>	<b>1,294</b>	1,253	1,250
LICs <sup>53</sup>	50	47	(5)
<b>Net operating income</b>	<b>1,344</b>	1,300	1,245
Total operating expenses	(614)	(616)	(673)
<b>Operating profit</b>	<b>730</b>	684	572
Income from associates <sup>54</sup>	259	225	213
<b>Profit before tax</b>	<b>989</b>	909	785
Cost efficiency ratio	47.4%	49.2%	53.8%
RoRWA <sup>47</sup>	3.2%	2.9%	2.4%
Period-end staff numbers	8,530	8,667	8,618

**Strong GB&M performance driven**

**by robust risk management**

**Completed disposal of our operations in Jordan and  
announced the sale of our operations in Pakistan in  
line with the Group's six filters investment criteria**

**Best Wealth Management**

**in the Middle East**

**Best Project Finance**

**Advisor in the**

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*(The Asian Banker)*

**Middle East**

*(EMEA Finance Project*

*Finance Awards 2013)*

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise. Tables are on a reported basis.*

## **Economic background**

Economic performance remained uneven in the Middle East and North Africa during the first half of 2014. In the Gulf Cooperation Council, the region's commodity exporters experienced strong growth supported by oil prices that remained comfortably over US\$100 per barrel. The high level of receipts boosted sentiment and allowed governments to maintain their expansionary fiscal stance. Low interest rates, a reflection of the US dollar-pegged currency regimes, also supported the pace of growth. **Qatar** continued to be the fastest growing of the region's oil exporting states, and **Saudi Arabia** remained the largest, but the **UAE** showed the most improvement in momentum led by Dubai's export-orientated service sector and a recovery in its real estate market. Despite strong demand and loose fiscal policy, CPI inflation remained subdued across the region.

The economic environment for the region's non-commodity exporters remained much more challenging, however, particularly for those states where political uncertainty was high. In **Egypt**, financial support from overseas allies eased pressure on public finances and on the country's external accounts, allowing government foreign currency reserves to stabilise. However, the public budget continued to generate a deficit equivalent to more than 10% of GDP, and foreign currency was controlled. Growth also remained weak, held back by low levels of investment, consumption and exports. Inflation, though easing, remained high.

## **Financial overview**

Our operations in the Middle East and North Africa reported a profit before tax of US\$1.0bn, an increase of 9% on both reported and constant currency bases.

On an underlying basis, profit before tax increased by US\$93m, mainly due to higher revenue and increased income from our associate, The Saudi British Bank.

## **Country business highlights**

In the UAE, we made good progress in executing the strategic plan we announced in 2013. In RBWM, we continued to focus on the Wealth Management business through investment in innovative platforms, tablet solutions and an expanded range of products and were awarded Best Wealth Management in the Middle East by *The Asian Banker*. We launched an enhanced personal banking proposition, including

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management</b>	<b>Commercial Banking</b>	<b>Global Banking and Markets</b>	<b>Global Private Banking</b>	<b>Other</b>	<b>Total</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Half-year to 30 June 2014</b>						
Egypt	33	46	71		(1)	149
Qatar	9	22	35			66
United Arab Emirates	82	133	203		(35)	383
Other	3	61	69			133
<b>MENA (excluding Saudi Arabia)</b>	<b>127</b>	<b>262</b>	<b>378</b>	<b>9</b>	<b>(36)</b>	<b>731</b>
Saudi Arabia	55	94	99	9	1	258
	<b>182</b>	<b>356</b>	<b>477</b>	<b>9</b>	<b>(35)</b>	<b>989</b>
<b>Half-year to 30 June 2013</b>						
Egypt	27	34	72		(16)	117
Qatar	7	20	33			60
United Arab Emirates	97	146	119	1	(26)	337
Other	6	74	89		1	170
<b>MENA (excluding Saudi Arabia)</b>	<b>137</b>	<b>274</b>	<b>313</b>	<b>1</b>	<b>(41)</b>	<b>684</b>
Saudi Arabia	43	77	98	6	1	225
	<b>180</b>	<b>351</b>	<b>411</b>	<b>7</b>	<b>(40)</b>	<b>909</b>
<b>Half-year to 31 December 2013</b>						
Egypt	4	3	94		(13)	88
Qatar	3	17	29			49
United Arab Emirates	45	144	156		(46)	299
Other	(13)	61	89		(1)	136
<b>MENA (excluding Saudi Arabia)</b>	<b>39</b>	<b>225</b>	<b>368</b>	<b></b>	<b>(60)</b>	<b>572</b>
Saudi Arabia	39	69	90	9	6	213
	<b>78</b>	<b>294</b>	<b>458</b>	<b>9</b>	<b>(54)</b>	<b>785</b>

additional competitive features on personal loans, which was extended to Egypt and Qatar.

In CMB, key appointments were made in line with the global strategy to focus the business on client segments and drive intra-regional and global client revenue, and we implemented an internal framework to increase relationship managers' time with customers.

We were awarded the Best International Trade Finance Bank in a number of countries including the UAE and Egypt by the *Global Trade Review Magazine*. Our Payments and Cash Management business continued to invest in new products and resources across the region.

In GB&M, we utilised our distinctive geographic network to help clients meet their financing requirements. For example, we acted as a coordinator, book runner and joint lead manager for a number of issuances in the UAE and other countries, allowing our clients to access our

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global investor base. We won awards for Best Project Finance Advisor in the Middle East , Best Power Deal in the Middle East and Best Water Deal in EMEA at the *EMEA*

*Finance Project Finance Awards 2013*, demonstrating our excellence in this area.

In Egypt, we continued to manage risk in an uncertain political and economic environment. During the period, the Central Bank of Egypt resumed interest payments on overnight placements. In RBWM, we were ranked number one in the Customer Recommendation Index and we continued to invest in our personal internet banking platform. In GB&M, we acted as a mandated lead arranger of an EGP2.3bn (US\$330m) syndicated term loan facility, demonstrating our ability to deliver large and complex transactions.

In Saudi Arabia, our associate, The Saudi British Bank, won *The Global Finance Magazine*'s award of The Best Trade Finance Provider in Saudi Arabia, 2014 .

In line with our six filters investment criteria, we completed the disposal of our operation in Jordan and entered into an agreement to sell our operation in Pakistan. This transaction is expected to complete during the second half of 2014.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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**Review of performance**

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

*Net interest income* was broadly unchanged. Increases in the UAE, primarily in RBWM due to an increase in residential mortgage balances, reflected growth in the property market and improved deposit spreads as a result of re-pricing initiatives. This was partly offset by reduced revenue from lower lending balances and spreads in CMB, reflecting a highly liquid and competitive market. In addition, income increased in Kuwait due to the restructuring of a small number of specific customer loans. These factors were broadly offset by a decrease in Egypt, primarily in CMB from lower customer deposit and lending balances, and in GB&M from declining spreads and lower balances on the available-for-sale portfolio, offset in part by the resumption of interest on overnight placements with the Central Bank of Egypt. In Jordan, net interest income decreased following the announcement to dispose of the business.

*Net fee income* increased by 8%, primarily in the UAE. In GB&M, net fee income was higher, driven by increased flows in our Equities business which in part reflected the upgrade of the UAE to Emerging Markets status in the MSCI index. In addition, there was an increase in advisory mandates in Project and Export Finance in Capital Financing. This was partially offset by lower fees in RBWM relating to our Insurance and Wealth Management businesses following various repositioning initiatives.

*Net trading income* decreased by 5%, primarily in Algeria following regulatory restrictions on foreign exchange spreads charged on corporate customer transactions. This was coupled with a decrease in Qatar from lower foreign exchange revenues reflecting a reduction in trading volumes from GB&M customers. These factors were partly offset by increased net trading income in the UAE due to higher CVA releases on trading positions relating to a small number of exposures in GB&M.

*Gains less losses from financial investments* increased by US\$21m, mainly in Egypt, due to the non-recurrence of the loss on disposal of available-for-sale debt securities in the first half of 2013.

*Net loan impairment releases* were higher by US\$3m, primarily in the UAE driven by net releases of individually assessed allowances in GB&M. However, this was offset in part by lower impairment releases for a small number of UAE-related exposures.

*Operating expenses* were broadly unchanged. In Egypt, expenses decreased due to the non-recurrence of charges relating to changes in the interpretation of tax regulations. This was partly offset by increased expenses in the UAE, driven by wage inflation, investment in the Risk and Compliance functions, higher customer facing staff in RBWM and increased service and product support staff in CMB. In addition, expenses increased in Qatar due to wage inflation.

*Share of profits from associates and joint ventures* increased by 15%, mainly from The Saudi British Bank. This was driven by higher revenue resulting from strong balance sheet growth, and the management of costs and risks.

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HSBC HOLDINGS PLC

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

	Half-year to 30 June 2014					Inter-segment elimination <sup>65</sup> US\$m	Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m		
<i>Profit before tax</i>							
Net interest income	311	228	182		2	13	736
Net fee income/(expense)	74	137	127		(3)		335
Trading income/(expense) excluding net interest income	30	35	139		(4)		200
Net interest income on trading activities			6			(13)	(7)
Net trading income/(expense) <sup>59</sup>	30	35	145		(4)	(13)	193
Net expense from financial instruments designated at fair value					(5)		(5)
Gains less losses from financial investments			2	1			3
Dividend income	1	1	7				9
Other operating income	8	7	8		53	(53)	23
<b>Total operating income</b>	<b>424</b>	<b>408</b>	<b>471</b>	<b>1</b>	<b>43</b>	<b>(53)</b>	<b>1,294</b>
Net insurance claims <sup>66</sup>							
<b>Net operating income<sup>13</sup></b>	<b>424</b>	<b>408</b>	<b>471</b>	<b>1</b>	<b>43</b>	<b>(53)</b>	<b>1,294</b>
Loan impairment (charges)/recoveries and other credit risk provisions	(14)	30	34				50
<b>Net operating income</b>	<b>410</b>	<b>438</b>	<b>505</b>	<b>1</b>	<b>43</b>	<b>(53)</b>	<b>1,344</b>
Operating expenses	(284)	(176)	(128)		(79)	53	(614)
<b>Operating profit/(loss)</b>	<b>126</b>	<b>262</b>	<b>377</b>	<b>1</b>	<b>(36)</b>		<b>730</b>
Share of profit in associates and joint ventures	56	94	100	8	1		259
<b>Profit/(loss) before tax</b>	<b>182</b>	<b>356</b>	<b>477</b>	<b>9</b>	<b>(35)</b>		<b>989</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	1.5	2.9	3.9		(0.3)		8.0
Cost efficiency ratio	67.0	43.1	27.2		183.7		47.4
<i>Balance sheet data<sup>51</sup></i>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	6,230	13,126	9,554				28,910
Total assets	6,968	14,830	38,358	71	3,566	(2,504)	61,289
Customer accounts <sup>3</sup>	19,051	11,967	8,802		262		40,082





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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

	Half-year to 30 June 2013					Inter-segment elimination <sup>65</sup> US\$m	Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m		
<i>Profit before tax</i>							
Net interest income	295	246	194		2	9	746
Net fee income/(expense)	88	137	88		(2)		311
Trading income excluding net interest income	32	47	125				204
Net interest income/(expense) on trading activities			9		(1)	(9)	(1)
Net trading income/(expense) <sup>59</sup>	32	47	134		(1)	(9)	203
Net expense from financial instruments designated at fair value					(1)		(1)
Gains less losses from financial investments			(18)				(18)
Dividend income			4				4
Other operating income	12	2	8		49	(63)	8
Total operating income	427	432	410		47	(63)	1,253
Net insurance claims <sup>66</sup>							
Net operating income <sup>13</sup>	427	432	410		47	(63)	1,253
Loan impairment (charges)/recoveries and other credit risk provisions	(14)	16	44	1			47
Net operating income	413	448	454	1	47	(63)	1,300
Operating expenses	(276)	(174)	(141)		(88)	63	(616)
Operating profit/(loss)	137	274	313	1	(41)		684
Share of profit in associates and joint ventures	43	77	98	6	1		225
Profit/(loss) before tax	180	351	411	7	(40)		909
	%	%	%	%	%		%
Share of HSBC's profit before tax	1.3	2.5	2.9		(0.2)		6.5
Cost efficiency ratio	64.6	40.3	34.4		187.2		49.2
<i>Balance sheet data</i> <sup>51</sup>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	6,018	13,048	8,868				27,934
Total assets	6,742	14,995	41,041	55	3,319	(2,860)	63,292
Customer accounts <sup>3</sup>	19,594	13,652	7,816	1	79		41,142

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HSBC HOLDINGS PLC

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

	Half-year to 31 December 2013						Total US\$m
	Retail	Global			Inter- segment elimination <sup>65</sup>		
	Banking and Wealth Management	Commercial Banking	Markets	Global Private Banking			
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	
<i>Profit/(loss) before tax</i>							
Net interest income	290	240	196		2	12	740
Net fee income/(expense)	73	132	109		(3)		311
Trading income excluding net interest income	27	38	95				160
Net interest income on trading activities			5		1	(12)	(6)
Net trading income <sup>59</sup>	27	38	100		1	(12)	154
Net expense from financial instruments designated at fair value						(1)	(1)
Gains less losses from financial investments							
Dividend income			5				5
Other operating income	13	28	7		50	(57)	41
Total operating income	403	438	417		49	(57)	1,250
Net insurance claims <sup>66</sup>							
Net operating income <sup>13</sup>	403	438	417		49	(57)	1,250
Loan impairment (charges)/recoveries and other credit risk provisions	(35)	(36)	66				(5)
Net operating income	368	402	483		49	(57)	1,245
Operating expenses	(330)	(176)	(115)		(109)	57	(673)
Operating profit/(loss)	38	226	368		(60)		572
Share of profit in associates and joint ventures	40	68	90	9	6		213
Profit/(loss) before tax	78	294	458	9	(54)		785
	%	%	%	%	%		%
Share of HSBC's profit before tax	0.9	3.4	5.4	0.1	(0.6)		9.2
Cost efficiency ratio	81.9	40.2	27.6		222.4		53.8
<i>Balance sheet data<sup>51</sup></i>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	6,152	11,814	9,241		4		27,211
Total assets	7,016	13,776	39,302	64	3,340	(2,688)	60,810
Customer accounts <sup>3</sup>	18,771	12,402	7,432	1	77		38,683

*For footnotes, see page 96.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**North America**

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

	<b>30 Jun 2014 US\$m</b>	Half-year to 30 Jun 2013 US\$m	31 Dec 2013 US\$m
Net interest income	2,635	3,030	2,712
Net fee income	991	1,138	1,005
Net trading income	228	505	443
Other income/(expense)	213	(41)	11
<b>Net operating income</b> <sup>13</sup>	<b>4,067</b>	4,632	4,171
LICs <sup>53</sup>	(411)	(696)	(501)
<b>Net operating income</b>	<b>3,656</b>	3,936	3,670
Total operating expenses	(2,837)	(3,276)	(3,140)
<b>Operating profit</b>	<b>819</b>	660	530
Income from associates <sup>54</sup>	6	6	25
<b>Profit before tax</b>	<b>825</b>	666	555
Cost efficiency ratio	69.8%	70.7%	75.3%
RoRWA <sup>47</sup>	0.7%	0.5%	0.5%
Period-end staff numbers	20,649	21,454	20,871

10%

**growth in CMB lending balances****since 31 December 2013***on a constant currency basis***Gross balances in the CML portfolio,****including loans held for sale, down****since 31 December 2013 by****US\$2.9bn to US\$27.5bn**

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## Global Lender of the Year

*(awarded to GB&M by the*

*Export-Import Bank of the United States)*

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise. Tables are on a reported basis.*

### **Economic background**

In the **US**, severe winter weather, a drop in net exports and a slowdown in inventory investment led to a 2.1% (annualised) decline in real GDP in the first half of 2014. However, a number of monthly economic indicators suggested that overall economic activity rebounded during the second quarter. Higher mortgage rates and stricter regulations regarding mortgage credit restricted the growth of housing construction in early 2014. Government fiscal contraction, which had been a major drag on activity throughout 2013, was eased in the first half of 2014 and should allow the economy to grow at a faster pace. CPI inflation remained benign as subdued growth in hourly wages continued to restrain labour costs. The Federal Reserve began to scale back its programme of quantitative easing at the start of 2014 and is on course to gradually eliminate the asset purchase programme by the fourth quarter of the year. The Federal Open Market Committee has, however, kept the federal funds rate in the range of 0.0% and 0.25%, and has indicated that this will probably be warranted for a considerable time after the purchase programme ends in late 2014.

The **Canadian** economy grew by 2.2% in the first quarter of 2014. Consumption and net exports were the main contributors to growth. Gross fixed capital formation weighed on the economy as both residential investment and business investment contracted. Lifted by rising energy costs and a weaker Canadian dollar, the rate of CPI inflation rose to 2.4% in June, above the Bank of Canada's target rate. Its policy rate remained unchanged at 1.0%, a level it has been at since September 2010.

### **Financial overview**

North America's reported profit before tax of US\$825m was US\$159m higher, and US\$192m higher on a constant currency basis.

On an underlying basis, profit before tax of US\$870m was US\$95m higher, reflecting lower operating expenses as the first half of 2013 included US\$100m in customer remediation provisions related to enhancement services products sold by our former CRS business, and lower loan impairment charges in the US, primarily in the CML portfolio due to reduced levels of new impaired loans and delinquency. These were partly offset by lower revenue, mainly reflecting adverse movements on non-qualifying hedges, lower average balances from CML run-off and lower net trading income in GB&M.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management</b>	<b>Commercial Banking</b>	<b>Global Banking and Markets</b>	<b>Global Private Banking</b>	<b>Other</b>	<b>Total</b>
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Half-year to 30 June 2014</b>						
US	80	110	162	50	(50)	352
Canada	35	280	130		(6)	439
Bermuda	15	(4)	22	1		34
	<b>130</b>	<b>386</b>	<b>314</b>	<b>51</b>	<b>(56)</b>	<b>825</b>
<b>Half-year to 30 June 2013</b>						
US	(267)	144	500	31	(217)	191
Canada	90	194	169		(4)	449
Bermuda	7	(21)	26	1	14	27
Other			(1)			(1)
	(170)	317	694	32	(207)	666
<b>Half-year to 31 December 2013</b>						
US	(91)	152	133	22	(133)	83
Canada	41	312	111		1	465
Bermuda	13	5	(10)	3	(5)	6
Other			1			1
	(37)	469	235	25	(137)	555

In Canada, underlying profit before tax increased due to a decline in CMB individually assessed loan impairment charges, and an increase in other income due to a reduction in the fair value of an investment property held for sale recognised in the second half of 2013. This was partly offset by lower revenue, reflecting the run-off of the Canadian consumer finance business, a fall in trading income from foreign exchange, and higher operating expenses, primarily from our continued investment in Global Standards and the Risk and Compliance functions.

**Country business highlights**

In the US we made further progress on executing our key priorities. In RBWM, we continued to focus on meeting the evolving needs of our customers. We have added approximately 11,000 new Premier customers since December 2013, an increase of 24% compared with the first half of 2013, driven by the re-launch of our Global Premier programme along with other Premier campaigns. In addition, the focus on growing high quality customer relationships led to an improvement in the credit quality of our customer base. In the first quarter, CMB launched another US\$1.0bn SME fund, doubling the loan programme, to support those businesses that trade or aspire to trade internationally. Loan balances and revenue growth in expansion markets continued, most notably in the Midwest and Southeast, where corporate loans grew by 44% and 15%, respectively in the first half of 2014. Despite lower

revenue in GB&M, further progress on executing against strategy led to market share gains in several product categories, including equity and debt capital markets and lending, while revenue from CMB clients was up by 38%.

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In Canada, our focus in RBWM continued to be on developing the Premier customer base and we grew assets under management by US\$1.3bn in the period. In CMB, we continued to focus on Payments and Cash Management, where we took part in a pilot launch of Global Liquidity Solutions, a service that enables our clients to manage their liquidity globally. In our international trade business, we earmarked an additional US\$1.0bn for our SME fund, bringing the total offered to US\$2.0bn, to support businesses with their international expansion. GB&M focused on increasing its multinationals client base and, with the Project and Export Finance business, closed three arranging mandates with two ongoing advisory mandates since the business was established in Canada.

We continued to make progress in our strategy to accelerate the run-off and sales of our CML portfolio. On 1 May 2014 we completed the sale of a tranche of CML real estate secured loans with an unpaid principal balance of US\$1.3bn and recognised a gain on sale of US\$15m, in addition to a further sale on 1 July 2014 with an unpaid principal balance of US\$289m, for which we expect to recognise a gain on sale of US\$94m.



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

We identified real estate secured loan balances with unpaid principal of US\$2.4bn that we plan to actively market in multiple transactions over the next 15 months. The estimated fair value of these loans was approximately US\$5m greater than their carrying value at 30 June 2014. During July 2014, we commenced active marketing to sell a portion of our real estate secured loans with an unpaid principal balance of US\$1.1bn, and expect to complete the sale of these loans in the fourth quarter of 2014.

**Review of performance**

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

*Net interest income* decreased by 12% to US\$2.6bn, reflecting portfolio disposals including the sale of the CML non-real estate personal loan portfolio in April 2013, and lower average lending balances from the continued run-off of the CML portfolio and the Consumer Finance business in Canada. This was partly offset by a release of accrued interest associated with uncertain tax positions, and growth in CMB driven by increased lending balances in expansion markets.

*Net fee income* decreased by 11% to US\$1.0bn, primarily due to adverse adjustments to mortgage servicing rights valuations due to mortgage interest rate decreases compared with increases in the same period in 2013, and the expiry of the Transition Servicing Agreements with the buyer of the CRS business.

*Net trading income* was US\$270m or 54% lower, primarily due to adverse fair value movements on non-qualifying hedges in HSBC Finance of US\$188m following a decrease in long-term interest rates, compared with favourable movements of US\$263m in the first half of 2013. The decrease was partly offset by the non-recurrence of a loss of US\$199m in the first half of 2013 related to the early termination of qualifying accounting hedges as a result of changes in funding, and lower provisions for mortgage loan repurchase obligations related to loans previously sold.

Net trading income decreased in GB&M as a result of unfavourable fair value movements on structured liabilities, lower foreign exchange and metals revenue as a result of reduced trading volume and low volatility, a fall in Credit trading revenue driven by lower monoline reserve releases in the legacy portfolio, and the non-recurrence of revaluation gains on securities in the first half of

2013. Net trading income was also negatively affected by the performance of economic hedges used to manage interest rate risk, reflecting unfavourable interest rate movements.

*Gains less losses from financial investments* were US\$118m, a decrease of 46% as Balance Sheet Management reported lower gains on sales of available-for-sale debt securities as a result of our ongoing portfolio repositioning for risk management purposes. This was partly offset by gains on the sale of private equity investments.

*Other operating income* was US\$170m compared with an expense of US\$224m in the first half of 2013. The movement reflected the non-recurrence of the US\$370m loss on sales of the CML non-real estate personal loan portfolio and our US insurance business in the first half of 2013.

LICs decreased by US\$275m to US\$411m, mainly in the US, due to reduced levels of delinquency and new impaired loans in the CML portfolio and a fall in lending balances from continued run-off and loan sales, partly offset by lower favourable market value adjustments of underlying properties as improvements in housing market conditions were less pronounced in the first half of 2014. In Canada, loan impairment charges decreased by US\$80m, mainly in CMB reflecting lower individually assessed charges. These factors were partly offset by an increase in the US of US\$93m, including US\$72m in CMB and US\$20m in GB&M, as we revised certain estimates used in our corporate loan impairment calculation. In addition, GB&M recorded a rise in loan impairment charges due to higher individually assessed charges on a specific exposure reflecting a deterioration in the underlying asset values and, to a lesser extent, the revaluation of a loan held for sale.

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*Operating expenses* decreased by 12% to US\$2.8bn, reflecting the non-recurrence of US\$100m in customer remediation provisions in the first half of 2013 related to enhancement services products sold by our former CRS business, reduced average staff numbers and costs resulting from the continued run-off and sales of our CML portfolio, and lower divestiture costs related to the sale in 2012 of our CRS business. Costs also declined as the former Cards business reached the end of the Transition Servicing Agreements, and mortgage foreclosure remediation costs reduced following the 2013 Independent Foreclosure Review Settlement Agreement. We also achieved over US\$90m of sustainable cost savings, primarily reflecting organisational effectiveness initiatives.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax and balance sheet data North America*

	Half-year to 30 June 2014						Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m	Inter- segment elimination <sup>65</sup> US\$m	
<i>Profit/(loss) before tax</i>							
Net interest income	1,385	724	307	107	134	(22)	2,635
Net fee income/(expense)	243	281	408	63	(4)		991
Trading income/(expense) excluding net interest income	(103)	17	227	8	(10)		139
Net interest income on trading activities	3		62		1	23	89
Net trading income/(expense) <sup>59</sup>	(100)	17	289	8	(9)	23	228
Changes in fair value of long-term debt issued and related derivatives					(99)		(99)
Net expense from other financial instruments designated at fair value							
Net expense from financial instruments designated at fair value					(99)		(99)
Gains less losses from financial investments		15	101		2		118
Dividend income	7	4	9	1	3		24
Net earned insurance premiums							
Other operating income/(expense)	37	17	53	1	883	(821)	170
<b>Total operating income</b>	<b>1,572</b>	<b>1,058</b>	<b>1,167</b>	<b>180</b>	<b>910</b>	<b>(820)</b>	<b>4,067</b>
Net insurance claims <sup>66</sup>							
<b>Net operating income<sup>13</sup></b>	<b>1,572</b>	<b>1,058</b>	<b>1,167</b>	<b>180</b>	<b>910</b>	<b>(820)</b>	<b>4,067</b>
Loan impairment (charges)/recoveries and other credit risk provisions	(226)	(136)	(54)	5			(411)
<b>Net operating income</b>	<b>1,346</b>	<b>922</b>	<b>1,113</b>	<b>185</b>	<b>910</b>	<b>(820)</b>	<b>3,656</b>
Operating expenses	(1,216)	(542)	(799)	(134)	(966)	820	(2,837)
<b>Operating profit/(loss)</b>	<b>130</b>	<b>380</b>	<b>314</b>	<b>51</b>	<b>(56)</b>		<b>819</b>
Share of profit in associates and joint ventures		6					6
<b>Profit/(loss) before tax</b>	<b>130</b>	<b>386</b>	<b>314</b>	<b>51</b>	<b>(56)</b>		<b>825</b>
	%	%	%	%	%		%

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Share of HSBC's profit before tax	1.1	3.1	2.5	0.4	(0.4)	6.7
Cost efficiency ratio	77.4	51.2	68.5	74.4	106.2	69.8
<i>Balance sheet data</i> <sup>51</sup>						
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Loans and advances to customers (net) <sup>3</sup>	63,733	41,454	18,566	5,867		129,620
Total assets	77,978	49,263	314,397	8,461	14,949	(27,342)
Customer accounts <sup>3</sup>	53,055	47,475	23,044	13,200		136,774

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

	Half-year to 30 June 2013							
	Retail		Global				Inter-segment elimination <sup>65</sup>	Total US\$m
	Banking	Commercial	Banking	and	Global	Other		
	and Wealth Management	Banking	Markets	Private Banking	US\$m	US\$m	US\$m	
US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m		
<i>Profit/(loss) before tax</i>								
Net interest income	1,888	706	321	97	49	(31)	3,030	
Net fee income	335	288	384	63	68		1,138	
Trading income/(expense) excluding net interest income	(18)	23	375	11	(6)		385	
Net interest income on trading activities	8		81			31	120	
Net trading income/(expense) <sup>59</sup>	(10)	23	456	11	(6)	31	505	
Changes in fair value of long- term debt issued and related derivatives					(72)		(72)	
Net expense from other financial instruments designated at fair value								
Net expense from financial instruments designated at fair value					(72)		(72)	
Gains less losses from financial investments	4		212		7		223	
Dividend income	7	5	25	2	2		41	
Net earned insurance premiums	34						34	
Other operating income/(expense)	(352)	(16)	122	2	847	(831)	(228)	
Total operating income	1,906	1,006	1,520	175	895	(831)	4,671	
Net insurance claims <sup>66</sup>	(39)						(39)	
Net operating income <sup>13</sup>	1,867	1,006	1,520	175	895	(831)	4,632	
Loan impairment charges and other credit risk provisions	(532)	(155)	(8)	(1)			(696)	
Net operating income	1,335	851	1,512	174	895	(831)	3,936	
Operating expenses	(1,504)	(540)	(818)	(143)	(1,102)	831	(3,276)	
Operating profit/(loss)	(169)	311	694	31	(207)		660	
Share of profit/(loss) in associates and joint ventures	(1)	6		1			6	
Profit/(loss) before tax	(170)	317	694	32	(207)		666	
	%	%	%	%	%		%	
Share of HSBC's profit before tax	(1.2)	2.3	4.9	0.2	(1.5)		4.7	
Cost efficiency ratio	80.6	53.7	53.8	81.7	123.1		70.7	
<i>Balance sheet data</i> <sup>51</sup>								
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m	

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Loans and advances to customers (net) <sup>3</sup>	71,547	35,367	17,323	5,624			129,861
Total assets	88,313	42,820	350,497	7,715	15,269	(31,396)	473,218
Customer accounts <sup>3</sup>	54,159	46,455	22,582	13,432	65		136,693

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax and balance sheet data North America (continued)*

	Half-year to 31 December 2013						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter- segment elimination <sup>65</sup>	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<i>Profit/(loss) before tax</i>							
Net interest income	1,595	724	261	98	40	(6)	2,712
Net fee income	270	305	357	62	11		1,005
Trading income excluding net interest income	66	17	238	8	13		342
Net interest income on trading activities	3	1	91			6	101
Net trading income <sup>59</sup>	69	18	329	8	13	6	443
Changes in fair value of long-term debt issued and related derivatives						(216)	(216)
Net income from other financial instruments designated at fair value							
Net expense from financial instruments designated at fair value					(216)		(216)
Gains less losses from financial investments			70		1		71
Dividend income	5	4	23	2	2		36
Net earned insurance premiums							
Other operating income/(expense)	(102)	16	107	(1)	982	(882)	120
Total operating income	1,837	1,067	1,147	169	833	(882)	4,171
Net insurance claims <sup>66</sup>							
Net operating income <sup>13</sup>	1,837	1,067	1,147	169	833	(882)	4,171
Loan impairment charges and other credit risk provisions	(418)	(68)	(12)	(3)			(501)
Net operating income	1,419	999	1,135	166	833	(882)	3,670
Operating expenses	(1,456)	(556)	(900)	(140)	(970)	882	(3,140)
Operating profit/(loss)	(37)	443	235	26	(137)		530
Share of profit/(loss) in associates and joint ventures		26		(1)			25
Profit/(loss) before tax	(37)	469	235	25	(137)		555
	%	%	%	%	%		%
Share of HSBC's profit before tax	(0.5)	5.5	2.8	0.3	(1.6)		6.5

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Cost efficiency ratio	79.3	52.1	78.5	82.8	116.4		75.3
<i>Balance sheet data</i> <sup>51</sup>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	66,192	37,735	18,070	5,956			127,953
Total assets	82,530	45,706	313,701	8,542	13,211	(31,655)	432,035
Customer accounts <sup>3</sup>	53,600	49,225	24,113	13,871			140,809
<i>For footnotes, see page 96.</i>							



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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Latin America**

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

	<b>30 Jun 2014 US\$m</b>	<b>Half-year to 30 Jun 2013 US\$m</b>	<b>31 Dec 2013 US\$m</b>
Net interest income	2,700	3,274	2,912
Net fee income	697	896	805
Net trading income	543	397	539
Other income	325	391	1,354
<b>Net operating income</b> <sup>13</sup>	<b>4,265</b>	4,958	5,610
LICs <sup>53</sup>	(998)	(1,423)	(1,243)
<b>Net operating income</b>	<b>3,267</b>	3,535	4,367
Total operating expenses	(2,893)	(3,069)	(2,861)
<b>Operating profit</b>	<b>374</b>	466	1,506
Income from associates <sup>54</sup>			
Profit before tax	374	466	1,506
Cost efficiency ratio	67.8%	61.9%	51.0%
RoRWA <sup>47</sup>	0.8%	1.0%	3.2%
Period-end staff numbers	42,157	46,046	42,542

**Corporate lending balances**

grew by

11%

*on a constant currency basis***Latin America Derivatives****House of the Year***(Global Capital, 2014)***Launched a US\$2bn joint Energy fund**

**in Mexico for CMB customers**

**in the energy sector**

*For footnotes, see page 96.*

*The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise. Tables are on a reported basis.*

**Economic background**

Economic activity in Latin America was subdued in early 2014, pointing to annualised growth below even the 2.4% achieved in 2013. GDP growth in **Brazil** grew by just 0.2% in the first quarter of the year and indicators suggest activity remained lacklustre in the second quarter. Inflation rose through the first half of 2014 due to rising food prices and the cost of tourism and other goods and services, where demand was boosted by visitors for the FIFA World Cup. The central bank raised the Selic rate to 11% in April 2014, up from 7.25% a year ago.

The weak growth experienced by **Mexico** in 2013 extended to the first quarter of 2014. This was in large part because of the rise in VAT (part of the fiscal reform approved in 2013) which depressed consumer spending. In addition, exports to the US remained weak and planned fiscal spending has yet to materialise. In the second quarter, there was a recovery in exports, though domestic demand struggled to grow. Inflation remained subdued, which prompted the central bank to cut the monetary policy rate by 50bp to 3% in the first half of 2014.

The **Argentine** economy appeared to have contracted in the first quarter of the year. The weakness of growth observed since the end of 2013 was aggravated by the effects of a strong depreciation of the peso in January. This should help restore competitiveness in the country's export sector and ease pressure on currency reserves. However, in the near term it put further upward pressure on inflation, which accelerated significantly in the first half of 2014. This prompted a gradual increase in the deposit rate by the central bank during the period.

**Financial overview**

In Latin America, profit before tax of US\$374m was US\$92m lower on a reported basis, although on a constant currency basis, it increased by US\$9m.

Excluding the effect of non-strategic business disposals, including our operations in Panama, Paraguay and Peru and our general insurance business in Mexico in 2013 and the sale of our operations in Colombia in 2014, underlying profit before tax increased by US\$53m. This was driven by lower LICs and higher revenue partly offset by increased operating expenses.

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**Interim Management Report** (continued)*Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management</b>	<b>Commercial Banking</b>	<b>Global Banking and Markets</b>	<b>Global Private Banking</b>	<b>Other</b>	<b>Total</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Half-year to 30 June 2014</b>						
Argentina	33	72	137		(1)	241
Brazil	(129)	22	175	(6)	(7)	55
Mexico	(2)	(4)	73	(1)	(7)	59
Other	12	16	17	2	(28)	19
	<b>(86)</b>	<b>106</b>	<b>402</b>	<b>(5)</b>	<b>(43)</b>	<b>374</b>
<b>Half-year to 30 June 2013</b>						
Argentina	44	69	67			180
Brazil	(117)	(19)	290	4	(5)	153
Mexico	85	(15)	55	1	(9)	117
Panama	18	29	29	1	(24)	53
Other	(27)	5	3		(18)	(37)
	<b>3</b>	<b>69</b>	<b>444</b>	<b>6</b>	<b>(56)</b>	<b>466</b>
<b>Half-year to 31 December 2013</b>						
Argentina	53	73	103		(1)	228
Brazil	3	(24)	224	1	(6)	198
Mexico	69	(145)	60	(4)	20	
Panama	317	493	333	1	(13)	1,131
Other	(19)	(2)	3	(3)	(30)	(51)
	<b>423</b>	<b>395</b>	<b>723</b>	<b>(5)</b>	<b>(30)</b>	<b>1,506</b>

**Country business highlights**

We continued to make progress with the implementation of our strategy in the region. In the first half of 2014 we completed the disposal of our operations in Colombia, and are assessing options for the sale of our banking business in Uruguay.

We remain focused on our priority growth markets of Brazil, Mexico and Argentina, where we continue to face slower economic and lending growth and inflationary pressures on our cost base. Revenue growth in RBWM has been affected by the continued shift towards more secured lending, notably in Brazil, and the introduction of a new incentive framework for our front line staff, as part of our wider strategy to improve the quality of revenue. In CMB, while lending volumes increased, revenues remained subdued as we continued to reposition the business. In GB&M, we increased our market share in equity and debt capital markets.

In Brazil, we implemented several initiatives to regain revenue momentum and grow high quality business in RBWM, including moving towards secured and relationship-based lending. Secured lending was 29% of our loan book at 30 June 2014, compared with 22% a year earlier. We

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launched the MasterCard Black credit card for Premier customers and improved features of our personal loan offering. We continued to invest in improving our credit processes, including recruiting specialists and

enhancing credit underwriting models and processes. We also made progress in optimising our branch network by investing in Client Service Units focused on sales and automated transactions, and exited certain underperforming locations. In CMB we accelerated penetration in the MME market and created a middle office function enabling relationship managers to spend more time with clients.

In Mexico, we continued to reposition our portfolio, in particular in Business Banking, and further strengthened our account opening and transaction monitoring processes. In RBWM, we re-launched our mortgage campaign with strong results, introduced balance transfers for credit cards and increased sales of personal loans through the call centre. In CMB, we worked with our colleagues in the US to grow our market share in the North American Free Trade Agreement corridor and launched a US\$2bn joint Energy fund with Nacional Financiera, a local development banking institution, in order to capture opportunities arising from energy reform. In GB&M we achieved a top three ranking in debt capital markets.

In Argentina, we continued to manage our business conservatively as the economic environment remained challenging. We focused our growth on GB&M and corporate CMB customers, and continued to follow cautious lending policies in RBWM and Business Banking.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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**Review of performance**

The following commentary is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

*Net interest income* decreased by US\$206m, driven by the effect of the disposals of non-strategic businesses completed during 2013 and reductions in Brazil and Mexico, partly offset by growth in Argentina.

In Brazil, the reduction was mainly in GB&M, driven by increased costs of funding in Balance Sheet Management due to higher interest rates. In CMB and RBWM, net interest income also decreased, reflecting lower revenue from Business Banking and a move towards lower yielding MMEs in CMB, and a change in the product mix towards lower yielding, more secured lending in RBWM.

In Mexico, net interest income decreased in CMB due to a reduction in average lending balances, notably in Business Banking as we continued to reposition the business and in relation to homebuilders following the impairment of some of these loans, coupled with narrower deposit spreads following a decrease in interest rates. In RBWM, net interest income improved, reflecting growth in average lending balances, though this was partly offset by spread compression on deposits.

Net interest income in Argentina increased due to higher average lending and deposit balances across all global businesses and wider spreads due to an increase in interest rates.

*Net fee income* decreased by 12%. In Brazil fee income was lower in RBWM across a number of products, in part reflecting a change in mix and strong market competition. In Mexico, fees were lower in both RBWM and CMB as a result of lower Account Services and Payments and Cash Management ( PCM ) fees reflecting fewer customers, as we continued to reposition the business. The reduction in net fee income was also affected by the sale of our non-strategic businesses. These factors were partly offset by an increase in PCM, deposits and trade services-related fees in Argentina following business growth.

*Net trading income* increased by US\$201m, primarily reflecting favourable results in GB&M in Argentina, as well as higher Rates revenue in Brazil, in part reflecting increased client activity, and in Mexico.

*Net income from financial instruments designated at fair value* increased by US\$295m, notably in Brazil, as a result of higher net income on the bonds portfolio held by the insurance business. To the extent that these investment gains were attributed to policyholders there was a corresponding movement in *Net insurance claims incurred and movement in liabilities to policyholders*.

*Net earned insurance premiums* decreased by 4%, driven by the disposal of our operations in Panama and the sale of our general insurance business in Mexico, coupled with lower sales of life products in Mexico. The reduction in net earned insurance premiums resulted in a corresponding decrease in *Net insurance claims incurred and movement in liabilities to policyholders*.

*Other operating income* increased by US\$79m, mainly driven by minimal movements in the PVIF asset in the first half of 2014, compared with a significant reduction a year ago which reflected adverse lapse experience and interest rate movements. Other operating income also increased due to the net favourable effect of disposals of our non-strategic businesses.

*LICs* decreased by US\$298m, primarily in Brazil. This was driven by changes to the impairment model and assumption revisions for restructured loan account portfolios which occurred in 2013 in both RBWM and CMB. This was partly offset by refinements to the impairment model for non-restructured loans, notably in RBWM, during the first half of 2014. In addition, Business Banking provisions reduced, reflecting improved delinquency rates.

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In Mexico, LICs improved due to lower individually assessed charges in CMB, in particular relating to homebuilders, and in GB&M. In RBWM, LICs increased due to higher credit card, mortgages and personal lending balances.

LICs were also positively affected by the disposals of non-strategic businesses in the region.

*Operating expenses* increased by US\$157m, primarily in Brazil and Argentina, due to union-agreed salary increases, inflationary pressures and an accelerated depreciation charge in Brazil. The increase was partly offset by the effect of disposals of non-strategic businesses along with continued strict cost control and progress with our strategic focus on streamlining, which resulted in sustainable cost savings of US\$66m.

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**Interim Management Report** (continued)*Profit/(loss) before tax and balance sheet data Latin America*

	Half-year to 30 June 2014					Inter-	Total
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m	segment elimination <sup>65</sup> US\$m	
<i>Profit/(loss) before tax</i>							
Net interest income	1,698	787	249	9	6	(49)	2,700
Net fee income/(expense)	381	232	72	15	(3)		697
Trading income/(expense) excluding net interest income	86	57	288	2	(5)		428
Net interest income on trading activities			66			49	115
Net trading income/(expense) <sup>59</sup>	86	57	354	2	(5)	49	543
Net income from financial instruments designated at fair value	268	94					362
Gains less losses from financial investments			49				49
Dividend income	3	2	1				6
Net earned insurance premiums	577	150	2		(1)		728
Other operating income	43	13	9	1	88	(80)	74
<b>Total operating income</b>	<b>3,056</b>	<b>1,335</b>	<b>736</b>	<b>27</b>	<b>85</b>	<b>(80)</b>	<b>5,159</b>
Net insurance claims <sup>66</sup>	(700)	(193)	(1)				(894)
<b>Net operating income<sup>13</sup></b>	<b>2,356</b>	<b>1,142</b>	<b>735</b>	<b>27</b>	<b>85</b>	<b>(80)</b>	<b>4,265</b>
Loan impairment charges and other credit risk provisions	(701)	(261)	(29)	(7)			(998)
<b>Net operating income</b>	<b>1,655</b>	<b>881</b>	<b>706</b>	<b>20</b>	<b>85</b>	<b>(80)</b>	<b>3,267</b>
Operating expenses	(1,741)	(775)	(304)	(25)	(128)	80	(2,893)
<b>Operating profit/(loss)</b>	<b>(86)</b>	<b>106</b>	<b>402</b>	<b>(5)</b>	<b>(43)</b>		<b>374</b>
Share of profit in associates and joint ventures							
<b>Profit/(loss) before tax</b>	<b>(86)</b>	<b>106</b>	<b>402</b>	<b>(5)</b>	<b>(43)</b>		<b>374</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	(0.7)	0.8	3.2		(0.3)		3.0
Cost efficiency ratio	73.9	67.9	41.4	92.6	150.6		67.8
<i>Balance sheet data<sup>51</sup></i>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	13,637	21,528	11,410	79			46,654
Total assets	31,651	32,248	61,007	320	876	(472)	125,630
Customer accounts <sup>3</sup>	24,794	17,538	9,394	2,126			53,852





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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

	Half-year to 30 June 2013					Inter-segment elimination <sup>65</sup>	Total US\$m
	Retail Banking and Wealth Management US\$m	Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Other US\$m		
<i>Profit/(loss) before tax</i>							
Net interest income/ (expense)	1,952	957	436	12	(6)	(77)	3,274
Net fee income	500	288	90	18			896
Trading income/(expense) excluding net interest income	58	55	190	2	(3)		302
Net interest income on trading activities			18			77	95
Net trading income/(expense) <sup>59</sup>	58	55	208	2	(3)	77	397
Net income from financial instruments designated at fair value	71	13	1				85
Gains less losses from financial investments		1	50				51
Dividend income	2	2	1				5
Net earned insurance premiums	681	179	3				863
Other operating income/(expense)	6	(11)	5		84	(85)	(1)
Total operating income	3,270	1,484	794	32	75	(85)	5,570
Net insurance claims <sup>66</sup>	(505)	(106)	(1)				(612)
Net operating income <sup>13</sup>	2,765	1,378	793	32	75	(85)	4,958
Loan impairment charges and other credit risk provisions	(877)	(501)	(45)				(1,423)
Net operating income	1,888	877	748	32	75	(85)	3,535
Operating expenses	(1,885)	(808)	(304)	(26)	(131)	85	(3,069)
Operating profit/(loss)	3	69	444	6	(56)		466
Share of profit in associates and joint ventures							
Profit/(loss) before tax	3	69	444	6	(56)		466
	%	%	%	%	%		%
Share of HSBC's profit before tax		0.5	3.2		(0.4)		3.3
Cost efficiency ratio	68.2	58.6	38.3	81.3	174.7		61.9
<i>Balance sheet data</i> <sup>51</sup>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	13,996	20,689	9,807	53			44,545
Total assets	34,497	34,075	53,864	490	448	(342)	123,032
Customer accounts <sup>3</sup>	23,294	16,443	8,978	2,755			51,470

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Profit/(loss) before tax and balance sheet data Latin America (continued)*

	Half-year to 31 December 2013						Total US\$m
	Retail Banking	Commercial Banking US\$m	Global Banking	Global Private Banking US\$m	Other US\$m	Inter- segment elimination <sup>65</sup> US\$m	
	and Wealth Management		and Markets US\$m				
	US\$m		US\$m				
<i>Profit/(loss) before tax</i>							
Net interest income/(expense)	1,824	871	339	12	(6)	(128)	2,912
Net fee income	452	260	78	14	1		805
Trading income/(expense) excluding net interest income	80	62	266	2	(1)		409
Net interest income on trading activities			2			128	130
Net trading income/(expense) <sup>59</sup>	80	62	268	2	(1)	128	539
Net income from financial instruments designated at fair value	193	48					241
Gains less losses from financial investments			31				31
Dividend income	3	1					4
Net earned insurance premiums	783	181	3				967
Other operating income	306	496	305	1	112	(104)	1,116
Total operating income	3,641	1,919	1,024	29	106	(104)	6,615
Net insurance claims <sup>66</sup>	(818)	(185)	(2)				(1,005)
Net operating income <sup>13</sup>	2,823	1,734	1,022	29	106	(104)	5,610
Loan impairment charges and other credit risk provisions	(675)	(561)	(7)				(1,243)
Net operating income	2,148	1,173	1,015	29	106	(104)	4,367
Operating expenses	(1,725)	(778)	(292)	(34)	(136)	104	(2,861)
Operating profit/(loss)	423	395	723	(5)	(30)		1,506
Share of loss in associates and joint ventures							
Profit/(loss) before tax	423	395	723	(5)	(30)		1,506
	%	%	%	%	%		%
Share of HSBC's profit before tax	5.0	4.7	8.5	(0.1)	(0.4)		17.7
Cost efficiency ratio	61.1	44.9	28.6	117.2	128.3		51.0
<i>Balance sheet data</i> <sup>51</sup>							
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Loans and advances to customers (net) <sup>3</sup>	13,616	19,923	10,304	75			43,918
Total assets	30,584	30,001	52,977	337	634	(534)	113,999

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Customer accounts <sup>3</sup> <i>For footnotes, see page 96.</i>	23,943	16,593	8,994	1,859	51,389
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**Interim Management Report** (continued)**Reconciliation of reported and constant currency profit/(loss) before tax****Europe***30 June 2014 compared with 30 June 2013*

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	1H13 as reported US\$m	Currency	at 1H14	1H14 as reported US\$m	Reported	Constant
		translation	exchange		Change <sup>23</sup>	currency
		adjustment <sup>22</sup>	rates		%	change <sup>23</sup>
	US\$m	US\$m		%	%	
Net interest income	5,250	292	5,542	5,244		(5)
Net fee income	2,969	128	3,097	3,188	7	3
Net trading income	4,339	247	4,586	982	(77)	(79)
Own credit spread <sup>24</sup>	3	4	7	(159)		
Other income/(expense) from financial instruments designated at fair value	(952)	(60)	(1,012)	1,175		
Net income/(expense) from financial instruments designated at fair value	(949)	(56)	(1,005)	1,016		
Gains less losses from financial investments	373	24	397	336	(10)	(15)
Net earned insurance premiums	1,746	91	1,837	1,574	(10)	(14)
Other operating income/(expense) (including dividend income)	(10)	(10)	(20)	550		
<b>Total operating income</b>	<b>13,718</b>	<b>716</b>	<b>14,434</b>	<b>12,890</b>	<b>(6)</b>	<b>(11)</b>
Net insurance claims incurred and movement in liabilities to policyholders	(2,244)	(114)	(2,358)	(2,017)	10	14
<b>Net operating income<sup>13</sup></b>	<b>11,474</b>	<b>602</b>	<b>12,076</b>	<b>10,873</b>	<b>(5)</b>	<b>(10)</b>
LICs <sup>53</sup>	(846)	(43)	(889)	(266)	69	70
<b>Net operating income</b>	<b>10,628</b>	<b>559</b>	<b>11,187</b>	<b>10,607</b>		<b>(5)</b>
Operating expenses	(7,862)	(340)	(8,202)	(8,352)	(6)	(2)
<b>Operating profit</b>	<b>2,766</b>	<b>219</b>	<b>2,985</b>	<b>2,255</b>	<b>(18)</b>	<b>(24)</b>
Income from associates <sup>54</sup>	2	8	10	3	50	(70)
<b>Profit before tax</b>	<b>2,768</b>	<b>227</b>	<b>2,995</b>	<b>2,258</b>	<b>(18)</b>	<b>(25)</b>

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )  
2H13

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported Change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	5,443	212	5,655	5,244	(4)	(7)
Net fee income	3,063	91	3,154	3,188	4	1
Net trading income	84	(39)	45	982	1,069	
Own credit spread <sup>24</sup>	(1,018)	(13)	(1,031)	(159)	84	85
Other income from financial instruments designated at fair value	2,385	122	2,507	1,175	(51)	(53)
Net income from financial instruments designated at fair value	1,367	109	1,476	1,016	(26)	(31)
Gains less losses from financial investments	6		6	336		
Net earned insurance premiums	1,412	36	1,448	1,574	11	9
Other operating income (including dividend income)	614	5	619	550	(10)	(11)
Total operating income	11,989	414	12,403	12,890	8	4
Net insurance claims incurred and movement in liabilities to policyholders	(2,496)	(67)	(2,563)	(2,017)	19	21
Net operating income <sup>13</sup>	9,493	347	9,840	10,873	15	10
LICs <sup>53</sup>	(684)	(20)	(704)	(266)	61	62
Net operating income	8,809	327	9,136	10,607	20	16
Operating expenses	(9,751)	(266)	(10,017)	(8,352)	14	17
Operating profit/(loss)	(942)	61	(881)	2,255		
Income/(loss) from associates <sup>54</sup>	(1)		(1)	3		
Profit/(loss) before tax	(943)	61	(882)	2,258		

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Asia**

30 June 2014 compared with 30 June 2013

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	1H13			1H14		
		Currency translation adjustment <sup>22</sup>	at 1H14 exchange rates	1H14 as reported	Reported change <sup>23</sup>	Constant currency change <sup>23</sup>
	1H13 as reported US\$m	US\$m	US\$m	US\$m	%	%
Net interest income	5,519	(104)	5,415	6,090	10	12
Net fee income	3,090	(50)	3,040	2,966	(4)	(2)
Net trading income	918	(43)	875	1,329	45	52
Own credit spread <sup>24</sup>	1		1	(5)		
Other income/(expense) from financial instruments designated at fair value	(261)		(261)	391		
Net income/(expense) from financial instruments designated at fair value	(260)		(260)	386		
Gains less losses from financial investments	1,227	(1)	1,226	440	(64)	(64)
Net earned insurance premiums	3,583	(4)	3,579	3,835	7	7
Other operating income (including dividend income)	2,470	(29)	2,441	1,209	(51)	(50)
<b>Total operating income</b>	<b>16,547</b>	<b>(231)</b>	<b>16,316</b>	<b>16,255</b>	<b>(2)</b>	<b>(5)</b>
Net insurance claims incurred and movement in liabilities to policyholders	(3,256)	4	(3,252)	(4,148)	(27)	(28)
<b>Net operating income</b> <sup>13</sup>	<b>13,291</b>	<b>(227)</b>	<b>13,064</b>	<b>12,107</b>	<b>(9)</b>	<b>(7)</b>
LICs <sup>53</sup>	(198)	12	(186)	(216)	(9)	(16)
<b>Net operating income</b>	<b>13,093</b>	<b>(215)</b>	<b>12,878</b>	<b>11,891</b>	<b>(9)</b>	<b>(8)</b>
Operating expenses	(4,812)	102	(4,710)	(5,009)	(4)	(6)
<b>Operating profit</b>	<b>8,281</b>	<b>(113)</b>	<b>8,168</b>	<b>6,882</b>	<b>(17)</b>	<b>(16)</b>
Income from associates <sup>54</sup>	981	15	996	1,012	3	2
<b>Profit before tax</b>	<b>9,262</b>	<b>(98)</b>	<b>9,164</b>	<b>7,894</b>	<b>(15)</b>	<b>(14)</b>

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**Interim Management Report** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	5,913	(15)	5,898	6,090	3	3
Net fee income	2,846	(6)	2,840	2,966	4	4
Net trading income	1,108	1	1,109	1,329	20	20
Own credit spread <sup>24</sup>	(3)		(3)	(5)	(67)	(67)
Other income from financial instruments designated at fair value	577		577	391	(32)	(32)
Net income from financial instruments designated at fair value	574		574	386	(33)	(33)
Gains less losses from financial investments	48		48	440	817	817
Net earned insurance premiums	3,335	(2)	3,333	3,835	15	15
Other operating income (including dividend income)	1,357	6	1,363	1,209	(11)	(11)
Total operating income	15,181	(16)	15,165	16,255	7	7
Net insurance claims incurred and movement in liabilities to policyholders	(4,040)	1	(4,039)	(4,148)	(3)	(3)
Net operating income <sup>13</sup>	11,141	(15)	11,126	12,107	9	9
LICs <sup>53</sup>	(300)		(300)	(216)	28	28
Net operating income	10,841	(15)	10,826	11,891	10	10
Operating expenses	(5,124)	3	(5,121)	(5,009)	2	2
Operating profit	5,717	(12)	5,705	6,882	20	21
Income from associates <sup>54</sup>	874	2	876	1,012	16	16
Profit before tax	6,591	(10)	6,581	7,894	20	20

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Middle East and North Africa**

30 June 2014 compared with 30 June 2013

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	Currency		at 1H14		Constant	
	translation	exchange	1H14 as	Reported	currency	
	adjustment <sup>22</sup>	rates	reported	change <sup>23</sup>	change <sup>23</sup>	
1H13 as reported US\$m	US\$m	US\$m	US\$m	%	%	
Net interest income	746	(6)	740	736	(1)	(1)
Net fee income	311		311	335	8	8
Net trading income	203		203	193	(5)	(5)
Own credit spread <sup>24</sup>	(1)		(1)	(6)		
Other income from financial instruments designated at fair value				1		
Net expense from financial instruments designated at fair value	(1)		(1)	(5)		
Gains less losses from financial investments	(18)		(18)	3		
Net earned insurance premiums						
Other operating income/(expense) (including dividend income)	12		12	32	167	167
<b>Total operating income</b>	<b>1,253</b>	<b>(6)</b>	<b>1,247</b>	<b>1,294</b>	<b>3</b>	<b>4</b>
Net insurance claims incurred and movement in liabilities to policyholders						
<b>Net operating income<sup>13</sup></b>	<b>1,253</b>	<b>(6)</b>	<b>1,247</b>	<b>1,294</b>	<b>3</b>	<b>4</b>
LICs <sup>53</sup>	47		47	50	(6)	(6)
<b>Net operating income</b>	<b>1,300</b>	<b>(6)</b>	<b>1,294</b>	<b>1,344</b>	<b>3</b>	<b>4</b>
Operating expenses	(616)	3	(613)	(614)		
<b>Operating profit</b>	<b>684</b>	<b>(3)</b>	<b>681</b>	<b>730</b>	<b>7</b>	<b>7</b>
Income from associates <sup>54</sup>	225		225	259	15	15
<b>Profit before tax</b>	<b>909</b>	<b>(3)</b>	<b>906</b>	<b>989</b>	<b>9</b>	<b>9</b>



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**Interim Management Report** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )  
2H13

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	740	(1)	739	736	(1)	
Net fee income	311		311	335	8	8
Net trading income	154	1	155	193	25	25
Own credit spread <sup>24</sup>	(3)		(3)	(6)	(100)	(100)
Other income from financial instruments designated at fair value	2		2	1	(50)	(50)
Net expense from financial instruments designated at fair value	(1)		(1)	(5)		
Gains less losses from financial investments				3		
Net earned insurance premiums						
Other operating income/(expense) (including dividend income)	46	(2)	44	32	(30)	(27)
Total operating income	1,250	(2)	1,248	1,294	4	4
Net insurance claims incurred and movement in liabilities to policyholders						
Net operating income <sup>13</sup>	1,250	(2)	1,248	1,294	4	4
LICs <sup>53</sup>	(5)		(5)	50		
Net operating income	1,245	(2)	1,243	1,344	8	8
Operating expenses	(673)		(673)	(614)	9	9
Operating profit	572	(2)	570	730	28	28
Income from associates <sup>54</sup>	213	(1)	212	259	22	22
Profit before tax	785	(3)	782	989	26	26

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**North America**

30 June 2014 compared with 30 June 2013

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
			at 1H14		Constant	
		Currency	exchange	1H14 as	Reported	currency
	1H13 as reported	translation	rates	reported	change <sup>23</sup>	change <sup>23</sup>
US\$m	adjustment <sup>22</sup>	US\$m	US\$m	%	%	
Net interest income	3,030	(49)	2,981	2,635	(13)	(12)
Net fee income	1,138	(22)	1,116	991	(13)	(11)
Net trading income	505	(7)	498	228	(55)	(54)
Own credit spread <sup>24</sup>	(22)		(22)	(45)	(105)	(105)
Other expense from financial instruments designated at fair value	(50)		(50)	(54)	(8)	(8)
Net expense from financial instruments designated at fair value	(72)		(72)	(99)	(38)	(38)
Gains less losses from financial investments	223	(4)	219	118	(47)	(46)
Net earned insurance premiums	34		34		(100)	(100)
Other operating income/(expense) (including dividend income)	(187)	4	(183)	194		
<b>Total operating income</b>	<b>4,671</b>	<b>(78)</b>	<b>4,593</b>	<b>4,067</b>	<b>(13)</b>	<b>(11)</b>
Net insurance claims incurred and movement in liabilities to policyholders	(39)		(39)		100	100
<b>Net operating income<sup>13</sup></b>	<b>4,632</b>	<b>(78)</b>	<b>4,554</b>	<b>4,067</b>	<b>(12)</b>	<b>(11)</b>
LICs <sup>53</sup>	(696)	10	(686)	(411)	41	40
<b>Net operating income</b>	<b>3,936</b>	<b>(68)</b>	<b>3,868</b>	<b>3,656</b>	<b>(7)</b>	<b>(5)</b>
Operating expenses	(3,276)	36	(3,240)	(2,837)	13	12
<b>Operating profit</b>	<b>660</b>	<b>(32)</b>	<b>628</b>	<b>819</b>	<b>24</b>	<b>30</b>
Income from associates <sup>54</sup>	6	(1)	5	6		20
<b>Profit before tax</b>	<b>666</b>	<b>(33)</b>	<b>633</b>	<b>825</b>	<b>24</b>	<b>30</b>

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	2,712	(30)	2,682	2,635	(3)	(2)
Net fee income	1,005	(14)	991	991	(1)	
Net trading income	443	(4)	439	228	(49)	(48)
Own credit spread <sup>24</sup>	(203)		(203)	(45)	78	78
Other expense from financial instruments designated at fair value	(13)		(13)	(54)		
Net income/(expense) from financial instruments designated at fair value	(216)		(216)	(99)	54	54
Gains less losses from financial investments	71		71	118	66	66
Net earned insurance premiums						
Other operating income (including dividend income)	156	1	157	194	24	24
Total operating income	4,171	(47)	4,124	4,067	(2)	(1)
Net insurance claims incurred and movement in liabilities to policyholders						
Net operating income <sup>13</sup>	4,171	(47)	4,124	4,067	(2)	(1)
LICs <sup>53</sup>	(501)	1	(500)	(411)	18	18
Net operating income	3,670	(46)	3,624	3,656		1
Operating expenses	(3,140)	23	(3,117)	(2,837)	10	9
Operating profit	530	(23)	507	819	55	62
Income from associates <sup>54</sup>	25	(1)	24	6	(76)	(75)
Profit before tax	555	(24)	531	825	49	55

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**Interim Management Report** (continued)**Latin America**

30 June 2014 compared with 30 June 2013

	Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 30 June 2013 ( 1H13 )					
	1H13 as reported US\$m	Currency translation adjustment <sup>22</sup>		Constant currency		
		Currency translation adjustment <sup>22</sup>	at 1H14	1H14 as reported	Reported change <sup>23</sup>	change <sup>23</sup>
		US\$m	US\$m	US\$m	%	%
Net interest income	3,274	(368)	2,906	2,700	(18)	(7)
Net fee income	896	(100)	796	697	(22)	(12)
Net trading income	397	(55)	342	543	37	59
Own credit spread <sup>24</sup>						
Other income from financial instruments designated at fair value	85	(18)	67	362		440
Net income/(expense) from financial instruments designated at fair value	85	(18)	67	362		
Gains less losses from financial investments	51	(3)	48	49	(4)	2
Net earned insurance premiums	863	(104)	759	728	(16)	(4)
Other operating income (including dividend income)	4	(4)		80		
<b>Total operating income</b>	<b>5,570</b>	<b>(652)</b>	<b>4,918</b>	<b>5,159</b>	<b>(7)</b>	<b>5</b>
Net insurance claims incurred and movement in liabilities to policyholders	(612)	91	(521)	(894)	(46)	(72)
<b>Net operating income</b> <sup>13</sup>	<b>4,958</b>	<b>(561)</b>	<b>4,397</b>	<b>4,265</b>	<b>(14)</b>	<b>(3)</b>
LICs <sup>53</sup>	(1,423)	127	(1,296)	(998)	30	23
<b>Net operating income</b>	<b>3,535</b>	<b>(434)</b>	<b>3,101</b>	<b>3,267</b>	<b>(8)</b>	<b>5</b>
Operating expenses	(3,069)	333	(2,736)	(2,893)	6	(6)
<b>Operating profit</b>	<b>466</b>	<b>(101)</b>	<b>365</b>	<b>374</b>	<b>(20)</b>	<b>2</b>
Income from associates <sup>54</sup>						
<b>Profit before tax</b>	<b>466</b>	<b>(101)</b>	<b>365</b>	<b>374</b>	<b>(20)</b>	<b>2</b>

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

30 June 2014 compared with 31 December 2013

Half-year to 30 June 2014 ( 1H14 ) compared with half-year to 31 December 2013 ( 2H13 )  
2H13

	2H13 as reported US\$m	Currency translation adjustment <sup>22</sup> US\$m	at 1H14 exchange rates US\$m	1H14 as reported US\$m	Reported change <sup>23</sup> %	Constant currency change <sup>23</sup> %
Net interest income	2,912	(100)	2,812	2,700	(7)	(4)
Net fee income	805	(32)	773	697	(13)	(10)
Net trading income	539	(46)	493	543	1	10
Own credit spread <sup>24</sup>						
Other income from financial instruments designated at fair value	241	(13)	228	362	50	59
Net income/(expense) from financial instruments designated at fair value	241	(13)	228	362	50	59
Gains less losses from financial investments	31		31	49	58	58
Net earned insurance premiums	967	(22)	945	728	(25)	(23)
Other operating income (including dividend income)	1,120	(5)	1,115	80	(93)	(93)
Total operating income	6,615	(218)	6,397	5,159	(22)	(19)
Net insurance claims incurred and movement in liabilities to policyholders	(1,005)	43	(962)	(894)	11	7
Net operating income <sup>13</sup>	5,610	(175)	5,435	4,265	(24)	(22)
LICs <sup>53</sup>	(1,243)	16	(1,227)	(998)	20	19
Net operating income	4,367	(159)	4,208	3,267	(25)	(22)
Operating expenses	(2,861)	95	(2,766)	(2,893)	(1)	(5)
Operating profit	1,506	(64)	1,442	374	(75)	(74)
Income from associates <sup>54</sup>						
Profit before tax	1,506	(64)	1,442	374	(75)	(74)

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**Interim Management Report** (continued)**Reconciliation of reported and underlying items****Europe**

	30 June	30 June		Half-year to	31 December	
	2014	2013	Change <sup>23</sup>	30 June	2013	Change <sup>23</sup>
	US\$m	US\$m	%	2014	US\$m	%
				US\$m		
<b>Net interest income</b>						
Reported	5,244	5,250		5,244	5,443	(4)
Currency translation adjustment <sup>22</sup>		292			212	
Acquisitions, disposals and dilutions		13			5	
Underlying	5,244	5,555	(6)	5,244	5,660	(7)
<b>Other operating income</b>						
Reported	522	(50)		522	579	(10)
Currency translation adjustment <sup>22</sup>		(12)			5	
Acquisitions, disposals and dilutions		(7)			(62)	
Underlying	522	(69)		522	522	
<b>Revenue<sup>13</sup></b>						
Reported	10,873	11,474	(5)	10,873	9,493	15
Currency translation adjustment <sup>22</sup>		598			360	
Own credit spread <sup>24</sup>	159	(3)		159	1,018	
Acquisitions, disposals and dilutions		6			(57)	
Underlying	11,032	12,075	(9)	11,032	10,814	2
<b>LICS<sup>53</sup></b>						
Reported	(266)	(846)	69	(266)	(684)	61
Currency translation adjustment <sup>22</sup>		(43)			(20)	
Acquisitions, disposals and dilutions						
Underlying	(266)	(889)	70	(266)	(704)	62
<b>Operating expenses</b>						
Reported	(8,352)	(7,862)	(6)	(8,352)	(9,751)	14
Currency translation adjustment <sup>22</sup>		(340)			(266)	
Acquisitions, disposals and dilutions		16			12	
Underlying	(8,352)	(8,186)	(2)	(8,352)	(10,005)	17
Underlying cost efficiency ratio	75.7%	67.8%		75.7%	92.5%	
<b>Profit/(loss) before tax</b>						
Reported	2,258	2,768	(18)	2,258	(943)	
Currency translation adjustment <sup>22</sup>		223			74	
Own credit spread <sup>24</sup>	159	(3)		159	1,018	
Acquisitions, disposals and dilutions		23			(40)	
Underlying	2,417	3,011	(20)	2,417	109	

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Asia**

	30 June	30 June		Half-year to	31 December	
	2014	2013	Change <sup>23</sup>	30 June	2013	Change <sup>23</sup>
	US\$m	US\$m	%	2014	US\$m	%
				US\$m		
<b>Net interest income</b>						
Reported	6,090	5,519	10	6,090	5,913	3
Currency translation adjustment <sup>22</sup>		(104)			(15)	
Acquisitions, disposals and dilutions						
Underlying	6,090	5,415	12	6,090	5,898	3
<b>Other operating income</b>						
Reported	1,188	2,453	(52)	1,188	1,222	(3)
Currency translation adjustment <sup>22</sup>		(25)			5	
Acquisitions, disposals and dilutions	32	(1,185)		32	46	
Underlying	1,220	1,243	(2)	1,220	1,273	(4)
<b>Revenue<sup>13</sup></b>						
Reported	12,107	13,291	(9)	12,107	11,141	9
Currency translation adjustment <sup>22</sup>		(227)			(15)	
Own credit spread <sup>24</sup>	5	(1)		5	3	
Acquisitions, disposals and dilutions	32	(1,185)		32	46	
Underlying	12,144	11,878	2	12,144	11,175	9
<b>LICS<sup>53</sup></b>						
Reported	(216)	(198)	(9)	(216)	(300)	28
Currency translation adjustment <sup>22</sup>		12				
Acquisitions, disposals and dilutions						
Underlying	(216)	(186)	(16)	(216)	(300)	28
<b>Operating expenses</b>						
Reported	(5,009)	(4,812)	(4)	(5,009)	(5,124)	2
Currency translation adjustment <sup>22</sup>		102			3	
Acquisitions, disposals and dilutions		72				
Underlying	(5,009)	(4,638)	(8)	(5,009)	(5,121)	2
Underlying cost efficiency ratio	41.2%	39.0%		41.2%	45.8%	
<b>Share of profit in associates and joint ventures</b>						
Reported	1,012	981	3	1,012	874	16
Currency translation adjustment <sup>22</sup>		15			2	
Acquisitions, disposals and dilutions		(15)			97	
Underlying	1,012	981	3	1,012	973	4
<b>Profit before tax</b>						
Reported	7,894	9,262	(15)	7,894	6,591	20
Currency translation adjustment <sup>22</sup>		(98)			(10)	
Own credit spread <sup>24</sup>	5	(1)		5	3	
Acquisitions, disposals and dilutions	32	(1,128)		32	143	



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Underlying

*For footnotes, see page 96.*

**7,931**

8,035

(1)

**7,931**

6,727

18

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Middle East and North Africa**

	30 June	30 June		Half-year to	31 December	
	2014	2013	Change <sup>23</sup>	30 June	2013	Change <sup>23</sup>
	US\$m	US\$m	%	2014	US\$m	%
				US\$m		
<b>Net interest income</b>						
Reported	736	746	(1)	736	740	(1)
Currency translation adjustment <sup>22</sup>		(6)			(1)	
Acquisitions, disposals and dilutions	(20)	(25)		(20)	(25)	
Underlying	716	715		716	714	
<b>Other operating income</b>						
Reported	23	8	188	23	41	(44)
Currency translation adjustment <sup>22</sup>					(2)	
Acquisitions, disposals and dilutions						
Underlying	23	8	188	23	39	(41)
<b>Revenue<sup>13</sup></b>						
Reported	1,294	1,253	3	1,294	1,250	4
Currency translation adjustment <sup>22</sup>		(6)			(2)	
Own credit spread <sup>24</sup>	6	1		6	3	
Acquisitions, disposals and dilutions	(28)	(38)		(28)	(33)	
Underlying	1,272	1,210	5	1,272	1,218	4
<b>LICS<sup>53</sup></b>						
Reported	50	47	(6)	50	(5)	
Currency translation adjustment <sup>22</sup>						
Acquisitions, disposals and dilutions		3			(3)	
Underlying	50	50		50	(8)	
<b>Operating expenses</b>						
Reported	(614)	(616)		(614)	(673)	9
Currency translation adjustment <sup>22</sup>		3				
Acquisitions, disposals and dilutions	17	19		17	19	
Underlying	(597)	(594)	(1)	(597)	(654)	9
Underlying cost efficiency ratio	46.9%	49.1%		46.9%	53.7%	
<b>Profit before tax</b>						
Reported	989	909	9	989	785	26
Currency translation adjustment <sup>22</sup>		(3)			(3)	
Own credit spread <sup>24</sup>	6	1		6	3	
Acquisitions, disposals and dilutions	(11)	(16)		(11)	(17)	
Underlying	984	891	10	984	768	28

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**North America**

	30 June	30 June		Half-year to 30 June	31 December	
	2014 US\$m	2013 US\$m	Change <sup>23</sup> %	2014 US\$m	2013 US\$m	Change <sup>23</sup> %
<b>Net interest income</b>						
Reported	2,635	3,030	(13)	2,635	2,712	(3)
Currency translation adjustment <sup>22</sup>		(49)			(30)	
Acquisitions, disposals and dilutions		(14)				
Underlying	2,635	2,967	(11)	2,635	2,682	(2)
<b>Other operating income</b>						
Reported	170	(228)		170	120	42
Currency translation adjustment <sup>22</sup>		4			1	
Acquisitions, disposals and dilutions		114			(17)	
Underlying	170	(110)		170	104	63
<b>Revenue<sup>13</sup></b>						
Reported	4,067	4,632	(12)	4,067	4,171	(2)
Currency translation adjustment <sup>22</sup>		(78)			(47)	
Own credit spread <sup>24</sup>	45	22		45	203	
Acquisitions, disposals and dilutions		105			(16)	
Underlying	4,112	4,681	(12)	4,112	4,311	(5)
<b>LICS<sup>53</sup></b>						
Reported	(411)	(696)	41	(411)	(501)	18
Currency translation adjustment <sup>22</sup>		10			1	
Acquisitions, disposals and dilutions		1			(1)	
Underlying	(411)	(685)	40	(411)	(501)	18
<b>Operating expenses</b>						
Reported	(2,837)	(3,276)	13	(2,837)	(3,140)	10
Currency translation adjustment <sup>22</sup>		36			23	
Acquisitions, disposals and dilutions		14				
Underlying	(2,837)	(3,226)	12	(2,837)	(3,117)	9
Underlying cost efficiency ratio	69.0%	68.9%		69.0%	72.3%	
<b>Profit before tax</b>						
Reported	825	666	24	825	555	49
Currency translation adjustment <sup>22</sup>		(33)			(24)	
Own credit spread <sup>24</sup>	45	22		45	203	
Acquisitions, disposals and dilutions		120			(17)	
Underlying	870	775	12	870	717	21

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Latin America**

	30 June	30 June		Half-year to 30 June	31 December	
	2014 US\$m	2013 US\$m	Change <sup>23</sup> %	2014 US\$m	2013 US\$m	Change <sup>23</sup> %
<b>Net interest income</b>						
Reported net interest income	2,700	3,274	(18)	2,700	2,912	(7)
Currency translation adjustment <sup>22</sup>		(368)			(100)	
Acquisitions, disposals and dilutions	(7)	(197)		(7)	(130)	
Underlying net interest income	2,693	2,709	(1)	2,693	2,682	
<b>Other operating income</b>						
Reported other operating income	74	(1)		74	1,116	(93)
Currency translation adjustment <sup>22</sup>		(4)			(4)	
Acquisitions, disposals and dilutions	(18)	(29)		(18)	(1,099)	
Underlying other operating income	56	(34)		56	13	331
<b>Revenue<sup>13</sup></b>						
Reported revenue	4,265	4,958	(14)	4,265	5,610	(24)
Currency translation adjustment <sup>22</sup>		(561)			(175)	
Acquisitions, disposals and dilutions	(27)	(294)		(27)	(1,272)	
Underlying revenue	4,238	4,103	3	4,238	4,163	2
<b>LICS<sup>53</sup></b>						
Reported	(998)	(1,423)	30	(998)	(1,243)	20
Currency translation adjustment <sup>22</sup>		127			16	
Acquisitions, disposals and dilutions	2	40		2	21	
Underlying	(996)	(1,256)	21	(996)	(1,206)	17
<b>Operating expenses</b>						
Reported	(2,893)	(3,069)	6	(2,893)	(2,861)	(1)
Currency translation adjustment <sup>22</sup>		333			95	
Acquisitions, disposals and dilutions	9	194		9	115	
Underlying	(2,884)	(2,542)	(13)	(2,884)	(2,651)	(9)
Underlying cost efficiency ratio	68.1%	62.0%		68.1%	63.7%	
<b>Profit before tax</b>						
Reported	374	466	(20)	374	1,506	(75)
Currency translation adjustment <sup>22</sup>		(101)			(64)	
Acquisitions, disposals and dilutions	(16)	(60)		(16)	(1,136)	
Underlying	358	305	17	358	306	17

For footnotes, see page 96.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)**Other information****Funds under management and assets held in custody**

	<b>30 June 2014 US\$bn</b>	Half-year to 30 June 2013 US\$bn	31 December 2013 US\$bn
<b>Funds under management</b>			
At beginning of period	921	910	902
Net new money	18	(2)	(16)
Value change	21	15	19
Exchange and other	4	(21)	16
At end of period	964	902	921
<b>Funds under management by business</b>			
HSBC Global Asset Management	465	409	420
Global Private Banking	286	281	282
Affiliates	6	4	5
Other	207	208	214
	964	902	921

Comparisons are with 31 December 2013 unless stated otherwise.

Funds under management ( FuM ) at 30 June 2014 amounted to US\$964bn, an increase of 5%, primarily due to favourable market movements and net inflows in the first half of the year.

Global Asset Management FuM increased by 11% to US\$465bn due to strong inflows, notably in fixed income products from our customers in Europe and Asia, net inflows from liquidity funds in Europe and North America and the transfer of FuM from other parts of the Group, which had previously been reported within Other FuM. In addition, FuM benefitted from favourable movements in bond and equity markets.

GPB FuM were broadly unchanged as favourable market and foreign exchange movements were largely offset by negative net new money in Europe as we continued to reposition our client base and disposed of our HSBC Trinkaus & Burkhardt AG business in Luxembourg. In the first half of 2014, we agreed to sell a portfolio of private banking assets in Switzerland to LGT Bank (Switzerland) Ltd. The portfolio had FuM of US\$8.5bn at 31 December 2013 and the transaction is expected to complete in the second half of 2014.

Other FuM decreased by 3% to US\$207bn, primarily due to the transfer of FuM into Global Asset Management noted above.

Assets held in custody and under administration

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Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 30 June 2014, we held assets as custodian of US\$6.6 trillion, 6% higher than the US\$6.2 trillion held at 31 December 2013. This was mainly driven by new business in the UK, Australia and Hong Kong coupled with favourable foreign exchange movements.

Our assets under administration business, which includes the provision of bond and loan administration services and the valuation of portfolios of securities and other financial assets on behalf of clients, complements the custody business. At 30 June 2014, the value of assets held under administration by the Group amounted to US\$3.2 trillion, which was 3% higher than at 31 December 2013. This was mainly driven by new business in the UK and Hong Kong and favourable foreign exchange movements.

### Review of transactions with related parties

The FCA's Disclosure Rules and Transparency Rules require the disclosure of related party transactions that have taken place in the first six months of the current financial year and any changes in the related party transactions described in the *Annual Report and Accounts 2013* that have or could have materially affected the financial position or performance of HSBC. A review has been undertaken and any such related party transactions have been disclosed in the Interim Report 2014.



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**Interim Management Report** (continued)

Footnotes to pages 2 to 95

**Financial highlights**

- 1 *Dividends recognised in the financial statements are dividends per ordinary share declared in the period and are not dividends in respect of, or for, the period.*
- 2 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*
- 3 *From 1 January 2014, non-trading reverse repos and repos are presented as separate lines in the balance sheet. Previously, non-trading reverse repos were included within Loans and advances to banks and Loans and advances to customers and non-trading repos were included within Deposits by banks and Customer accounts. Comparative data have been re-presented accordingly. Non-trading reverse repos and repos have been presented as separate lines in the balance sheet to align disclosure with market practice and provide more meaningful information in relation to loans and advances. The extent to which reverse repos and repos represent loans to/from customers and banks is set out in Note 11 on the Financial Statements.*
- 4 *The return on average ordinary shareholders' equity is defined as profit attributable to shareholders of the parent company divided by average ordinary shareholders' equity.*
- 5 *On 1 January 2014, CRD IV came into force and capital and RWAs at 30 June 2014 are calculated and presented on this basis. Prior to this date, capital and RWAs were calculated and presented on a Basel 2.5 basis. In addition, capital and RWAs at 31 December 2013 were also estimated based on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA.*
- 6 *Pre-tax return on average risk-weighted assets (RWAs) is calculated using average RWAs based on a Basel 2.5 basis for all periods up to and including 31 December 2013 and on a CRD IV end point basis for 31 March 2014 and 30 June 2014.*
- 7 *The basis of calculation of the June 2014 leverage ratio has changed from previous disclosures based on the approach prescribed by the PRA. For further details of the leverage ratio, see page 186.*
- 8 *Each ADS represents five ordinary shares.*
- 9 *Total shareholder return is defined as the growth in share value and declared dividend income during the relevant period.*
- 10 *The Morgan Stanley Capital International World Banks Index.*

**Business and operating models**

- 11 *From 1 January 2014, the geographical region Asia replaced the geographical regions previously reported as Hong Kong and Rest of Asia-Pacific (see Note 23 on the Financial Statements for further details). Comparative data have been re-presented to reflect this change.*
- 12 *The reporting structure of Hong Kong and the rest of Asia is aligned to the regional Asia management structure.*
- 13 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*
- 14 *Intermediation of securities, funds and insurance products, including Securities Services in GB&M.*
- 15 *Merger and acquisition, event and project financing, and co-investments in GPB.*
- 16 *Including Foreign Exchange, Rates, Credit and Equities.*
- 17 *Including portfolio management.*
- 18 *Including private trust and estate planning (for financial and non-financial assets).*
- 19 *Including hedge funds, real estate and private equity.*
- 20 *The sum of balances presented does not agree to consolidated amounts because inter-company eliminations are not presented here.*
- 21 *Targets for 2014-16 were announced at our Investor Update in May 2013.*

**Reconciliations of constant currency profit before tax**

- 22 *Currency translation adjustment is the effect of translating the results of subsidiaries and associates for the previous half-years at the average rates of exchange applicable in the current half-year.*
- 23 *Positive numbers are favourable; negative numbers are unfavourable.*

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- 24 *Changes in fair value due to movements in own credit spread on long-term debt issued. This does not include the fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities.*
- 25 *The operating results of these disposals were removed from underlying results in addition to disposal gains and losses.*
- 26 *The operating results of these disposals were not removed from underlying results as they were not significant.*
- 27 *Other income in this context comprises net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net earned insurance premiums and other operating income less net insurance claims incurred and movement in liabilities to policyholders.*
- 28 *Excludes items where there are substantial offsets in the income statement for the same period.*

### **Financial summary**

- 29 *Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within Global Banking and Markets net trading income as an interest expense.*
- 30 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ( AIEA ).*
- 31 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds. Net interest margin is net interest income expressed as an annualised percentage of AIEA.*
- 32 *The accounting for the disposal of our interest in Ping An is described on page 521 of the Annual Report and Accounts 2013. In the first half of 2013, we recognised a net gain on the completion of the Ping An disposal of US\$553m which offset the US\$553m loss on the contingent forward sale contract recognised in the second half of 2012. The gain of US\$553m represented the net effect of the US\$1,235m gain on derecognition of the Ping An equity securities classified as available-for-sale investments and recorded in Gains less losses from financial investments , offset by the US\$682m adverse change in fair value of the contingent forward sale contract in the period to the point of delivery of the equity securities recorded in Net trading income .*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

- 33 *The cost of internal funding of trading assets was US\$123m (first half of 2013: US\$74m; second half of 2013: US\$101m) and is excluded from the reported Net trading income line and included in Net interest income. However, this cost is reinstated in Net trading income in our global business reporting.*
- 34 *Net trading income includes an unfavourable movement of US\$28m (first half of 2013: favourable movement of US\$4m; second half of 2013: unfavourable movement of US\$70m) associated with changes in the fair value of issued structured notes and other hybrid instrument liabilities derived from movements in HSBC issuance spreads.*
- 35 *The change in fair value related to movements in the Group's credit spread on long-term debt resulted in an expense of US\$215m in the first half of 2014 (first half of 2013: expense of US\$19m; second half of 2013: expense of US\$1.2bn).*
- 36 *Other changes in fair value include gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with HSBC's long-term debt issued.*
- 37 *Discretionary participation features.*
- 38 *Net insurance claims incurred and movement in liabilities to policyholders arise from both life and non-life insurance business. For non-life business, amounts reported represent the cost of claims paid during the year and the estimated cost of incurred claims. For life business, the main element of claims is the liability to policyholders created on the initial underwriting of the policy and any subsequent movement in the liability that arises, primarily from the attribution of investment performance to savings-related policies. Consequently, claims rise in line with increases in sales of savings-related business and with investment market growth.*

**Consolidated balance sheet**

- 39 *Net of impairment allowances.*
- 40 *On 1 January 2014, CRD IV came into force and capital resources at 30 June 2014 are calculated and presented on this basis. Prior to this date, capital resources were calculated and presented on a Basel 2.5 basis.*
- 41 *Capital resources are total regulatory capital, the calculation of which is set out on page 186.*
- 42 *Includes perpetual preferred securities.*
- 43 *The definition of net asset value per share is total shareholders' equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue.*
- 44 *Currency translation is the effect of translating the assets and liabilities of subsidiaries and associates for the previous year-end at the rates of exchange applicable at the current period-end.*
- 45 *See Note 13 on the Financial Statements.*
- 46 *France primarily comprises the domestic operations of HSBC France, HSBC Assurances Vie and the Paris branch of HSBC Bank plc.*

**Reconciliation of RoRWA measures**

- 47 *Risk-weighted assets ( RWAs ) and pre-tax return on average risk-weighted assets ( RoRWA ).*
- 48 *Underlying RoRWA is calculated using underlying pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals.*
- 49 *Other includes treasury services related to the US Consumer Mortgage Lending business and commercial operations in run-off. US CML includes loan portfolios within the run-off business that are designated held for sale.*

**Analyses by global business and by geographical region**

- 50 *The main items reported under Other are the results of HSBC's holding company and financing operations, which includes net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, along with the costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries. The results also include fines and penalties as part of the settlement of investigations into past inadequate compliance with anti-money laundering and sanctions laws, the UK bank levy together with unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates and joint ventures and certain property transactions. In addition, Other also includes part of the movement in the fair value of long-term debt designated at fair value (the remainder of the Group's movement on own debt is included in GB&M).*

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*Assets by geographical region and global business include intra-HSBC items. These items are eliminated, where appropriate, under the headings Intra-HSBC items or Inter-segment elimination .*

52 *For divested businesses, this includes the gain or loss on disposal and material results of operations as described on page 22.*

53 *Loan impairment charges and other credit risk provisions.*

54 *Share of profit in associates and joint ventures.*

55 *The Principal RBWM business measure excludes the effects of the US run-off portfolio and the disposed-of US CRS business. Concentrating on the Principal RBWM business allows management to identify material changes in the ongoing business and assess the factors and trends which are expected to have a material effect on it in future years. Tables which reconcile reported RBWM financial measures to Principal RBWM financial measures are provided in the Form 6-K filed with the SEC, which is available on [www.hsbc.com](http://www.hsbc.com).*

56 *Investment distribution includes Investments, which comprises mutual funds (HSBC manufactured and third party), structured products and securities trading, and Wealth Insurance distribution, consisting of HSBC manufactured and third-party life, pension and investment insurance products.*

57 *Other personal lending includes personal non-residential closed-end loans and personal overdrafts.*

58 *Other includes the distribution and manufacturing (where applicable) of retail and credit protection insurance, any gains or losses on business disposals, movements in non-qualifying hedges, losses arising from a review of compliance with the Consumer Credit Act in the UK in 2014 and loss on disposal of HFC UK Bank secured lending portfolio in 2013.*

59 *In the analysis of global businesses, net trading income/(expense) comprises all gains and losses from changes in the fair value of financial assets and financial liabilities classified as held for trading, related external and internal interest income and interest expense, and dividends received; in the statutory presentation internal interest income and expense are eliminated.*

60 *The management view of income reflects the new management structure of GB&M which has been in place since 12 August 2013. Comparatives have been re-presented for this change.*

61 *Figures on a reported basis, unless otherwise stated.*

62 *In the first half of 2014, Markets included an unfavourable value movement of US\$28m on structured liabilities (first half of 2013: favourable fair value movement of US\$4m; second half of 2013: adverse fair value movement of US\$70m).*

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HSBC HOLDINGS PLC

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- 63 *Other* in GB&M includes net interest earned on free capital held in the global business not assigned to products, gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offset to these tax credits are included within *Other*.
- 64 *Client assets* are translated at the rates of exchange applicable for their respective period-ends, with the effects of currency translation reported separately. The main components of client assets are funds under management, which are not reported on the Group's balance sheet, and customer deposits, which are reported on the Group's balance sheet. Client assets at 30 June 2014 included US\$12bn (31 December 2013: US\$12.5bn) of client assets held for sale.
- 65 Inter-segment elimination comprises (i) the costs of shared services and Group Service Centres included within *Other* which are recovered from global businesses, and (ii) the intra-segment funding costs of trading activities undertaken within GB&M. HSBC's Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M's net trading income on a fully funded basis, *Net interest income/(expense)* and *Net interest income/(expense) on trading activities* are grossed up to reflect internal funding transactions prior to their elimination in the inter-segment column.
- 66 *Net insurance claims incurred and movement in liabilities to policyholders*.
- 67 *Employee expenses* comprises costs directly incurred by each global business. The reallocation and recharging of employee and other expenses directly incurred in the *Other* category is shown in *Other operating expenses*.
- 68 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.

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**Interim Management Report** (continued)**Risk**

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There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2013* except that new enhanced global AML and sanctions policies and a globally consistent approach to the risk management of conduct were approved by the Board in the first half of 2014 as described in Compliance risk on page 166. In addition, the Financial Intelligence Unit was established in the Security and Fraud Risk and Financial Crime Compliance functions as described under Operational risk on page 165.

A description of the principal risks and uncertainties for the remaining six months of the financial year is on page 100.

## **Risk profile**

### **Managing our risk profile**

A strong balance sheet is core to our philosophy.

Our portfolios remain aligned to our risk appetite and strategy.

Our risk management framework is supported by robust forward-looking risk identification.

### **Maintaining capital strength and strong liquidity position**

Our common equity end point tier 1 capital ratio remains strong at 11.3%.

We have sustained our strong liquidity position throughout the first half of 2014.

The ratio of customer advances to deposits remains significantly below 90%.

### **Strong governance**

Robust risk governance and accountability is embedded across the Group.

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

Our Regulatory Compliance and Financial Crime Compliance functions provide intense focus on these areas.

Our global risk operating model supports adherence to globally consistent standards and risk management policies across the Group.

### **Our top and emerging risks**

Macroeconomic and geopolitical risk.

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

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





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HSBC HOLDINGS PLC

## **Interim Management Report** (continued)

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### **Managing risk**

Robust risk governance and accountability are embedded throughout the Group, fostering a continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

Our risk governance framework ensures the appropriate oversight of and accountability for the effective management of risk, including financial crime risk, at Group, regional and global business levels.

Our risk profile is underpinned by our core philosophy of maintaining a strong balance sheet and liquidity position, and capital strength. We continued to sustain a conservative risk profile during the first half of 2014 by managing and, where appropriate, reducing exposure to the most likely areas of stress:

we managed selectively our exposure to sovereign debt and bank counterparties to ensure that the overall quality of the portfolio remained strong;

we regularly assessed higher-risk countries and adjusted our risk appetite and exposures accordingly;

we repositioned certain portfolios through our six filters process (see page 13) and our focus on selected products or customer segments;

we made our client selection filters more robust in managing the risk of financial crime; and

we mitigated risks, for example reputational and operational, when they were forecast to exceed our risk appetite. The diversification of our lending portfolio across global businesses and regions, together with our broad range of products, ensured that we were not overly dependent on a limited number of countries or markets to generate income and growth.

### **Top and emerging risks**

During the first half of 2014, senior management paid particular attention to a number of top and emerging risks.

Our approach to identifying and monitoring top and emerging risks is described on page 17. Our current ones are as follows:

#### **Macroeconomic and geopolitical risk**

Emerging markets slowdown

Increased geopolitical risk

Emerging markets slowdown

Economic growth in emerging markets remained weak in the first half of 2014. Monetary policy in a number of emerging markets was restrictive to counter the risk of capital outflows which could have had negative effects on economic growth. Political tensions in certain countries, including Syria, Ukraine and Thailand, deterred investors and increased the risk that they would fail to meet financing requirements. Forthcoming elections in a number of countries may increase instability and put pressure on currencies.

In mainland China, whilst the absolute level of GDP growth remained relatively high, the rate of growth declined more sharply than expected as a result of tighter central government controls over local government finances and the shadow banking sector. The economic situation in Argentina remained challenging following the devaluation of the peso in early 2014, the US Supreme Court's decision to oblige Argentina to repay hold-out debt holders and the subsequent technical default by the country.

#### **Potential impact on HSBC**

We earn a significant proportion of our profits from our operations in emerging markets. HSBC's results could be adversely affected by a prolonged slowdown in emerging market growth.

Global trade and capital flows may contract as a result of weaker economic growth in emerging markets, the introduction of protectionist measures, the emergence of geopolitical risks or increasing redenomination risk. This may also curtail our profitability.

#### **Mitigating actions**

We closely monitor developments in emerging markets to ensure trends are identified, the implications for specific customers or customer segments are assessed and appropriate action is taken as circumstances evolve.

We have conducted a number of stress tests to assess the effect of changes in economic conditions in Asia, and particularly in mainland China, on our operations. These factored in a China hard landing scenario (see page 139 of

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**Interim Management Report** (continued)

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the *Annual Report and Accounts 2013*). In the first half of 2014, we ran a further stress test which assumed a significant deceleration of growth in mainland China and a sharp contraction in Hong Kong (see page 108).

**Increased geopolitical risk**

Our operations are exposed to risks arising from political instability and civil unrest in a number of countries, which may have a wider effect on regional stability and regional and global economies.

Geopolitical risk rose in the first half of 2014 as a result of the crisis in Ukraine and the possibility of military escalation and/or civil war. Further sanctions against the Russian government remain a possibility, which could affect foreign investment in Russia.

Geopolitical risk remained high in the Middle East with the crisis between Israel and Palestine, unrest in Egypt, the civil war in Syria and the conflict in Iraq. Negotiations continued on restricting the scope of Iranian nuclear activities, which add to the risks in the region.

In Asia, there was no easing in the maritime sovereignty disputes involving mainland China and Japan as the Chinese government sought to extend its influence over the South and East China Seas.

In Turkey, the continued political uncertainty led to market volatility and placed the currency under pressure.

**Potential impact on HSBC**

Our results are subject to the risk of loss from unfavourable political developments, currency fluctuations, social instability and changes in government policies on matters such as expropriation, authorisations, international ownership, interest-rate caps, foreign exchange transferability and tax in the jurisdictions in which we operate. Actual conflict could put our staff in danger and bring physical damage to our assets.

**Mitigating actions**

We monitor the geopolitical and economic outlook, in particular in countries where we have material exposures and a physical presence. Our internal credit risk rating of sovereign counterparties takes these factors into account and drives our appetite for conducting business in those countries. Where necessary, we adjust our country limits and exposures to reflect our appetite and mitigate risks as appropriate.

Our sanctions screening processes and governance have been strengthened through our Global Standards programme.

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

Regulatory developments affecting our business model and Group profitability

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

Dispute risk

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions, together with measures to reduce systemic risk, may significantly alter the competitive landscape locally, regionally and/or globally for some or all of the Group's businesses. These measures may be introduced as formal requirements in a super-equivalent manner and to differing timetables by regulatory regimes.

Regulatory developments affecting our business model and Group profitability

Several regulatory changes are likely to affect the activities both of the Group as a whole and of some or all of our principal subsidiaries. These changes include:

the UK's Financial Services (Banking Reform) Act 2013 which gave effect to the recommendations of the Independent Commission on Banking (ICB) in relation to the ring-fencing of our UK retail banking activities from wholesale banking, together with the structural separation of other activities as envisaged in the legislation and rules adopted in the US (including the Volcker Rule adopted in December 2013 under the Dodd-Frank Act) and potential changes across the EU (including a proposed Regulation on structural measures for EU credit institutions);

requirements flowing from arrangements for the recovery and resolution of the Group and its individual operating entities, which may have different effects in different countries;

the implementation of extra-territorial laws,

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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including the Foreign Account Tax Compliance Act ( FATCA ) and other related initiatives to share tax information such as those pursued by the OECD;

changes in the regime for the operation of capital markets, notably mandatory central clearing of over the counter ( OTC ) derivatives, including under the Dodd-Frank Act and the EU s European Market Infrastructure Regulation ( EMIR );

changes arising from the increasing focus by regulators on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers (including the recently announced proposals for an investigation by the UK Competition and Markets Authority on the personal current account and SME banking market in the UK) and ensuring the orderly and transparent operation of global financial markets. Focus also increases on remuneration and on increasing management accountability, the latter to meet requirements under CRD IV and the UK Banking Reform Act;

the implementation of significant parts of CRD IV which are yet to be finalised and applied, notably the UK application of the capital buffer framework and its interaction with Pillar 2 and the Financial Policy Committee s ( FPC s) July 2014 consultation on proposals for the development of a UK leverage ratio;

the ECB Asset Quality Review ( AQR ), which may require a substantial recapitalisation among eurozone banks;

the tightening by regulators in a number of countries of credit controls on mortgage lending and unsecured portfolios; and

the continued risk of further changes to regulation relating to taxes affecting financial service providers, including financial transaction taxes.

**Potential impact on HSBC**

Proposed changes in and/or the implementation of regulations including mandatory central clearing of OTC derivatives, EMIR, ring-fencing and similar requirements, the Volcker Rule, recovery and resolution plans, FATCA and findings from competition orientated enquiries and investigations may affect the manner in which we conduct our activities and how the Group is structured. These measures have the potential to increase our cost of doing business and curtail the types of business we can carry out, with the consequent risk of decreased profitability.

Mandatory central clearing of OTC derivatives also brings new risks to HSBC in our role as a clearing member, as we will be required to underwrite losses incurred by central clearing counterparties from the default of other clearing members and their clients. Hence central clearing brings with it a new element of interconnectedness between clearing members and clients which we believe may increase rather than reduce our exposure to systemic risk.

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Increased regulation of conduct of business (including incentive structures and remuneration) and management accountability may affect the industry in areas such as employee recruitment and retention, product pricing and profitability in both retail and wholesale markets. HSBC's businesses may be affected by these developments.

Potential market disruption from the AQR, including the possible re-emergence of concerns over the eurozone, may affect us directly through our exposure to eurozone banks and sovereigns, and indirectly should there be any diminution in economic activity in the eurozone.

### **Mitigating actions**

We are engaged closely with governments and regulators in the countries in which we operate to help ensure that the new requirements are considered properly and can be implemented in an effective manner.

We are focused on developing a global approach to the risk management of conduct and have established a Conduct & Values Committee as a sub-committee of the Board to oversee the framework and its implementation across the Group.

We have enhanced our governance around central clearing counterparties and appointed specialists to manage the associated liquidity and collateral risks.

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

Financial service providers are at risk of regulatory sanctions or fines related to conduct of business and financial crime. The incidence of regulatory

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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proceedings and other adversarial proceedings against financial service firms is increasing.

Regulatory commitments and consent orders

In December 2012, HSBC Holdings, HSBC North America Holdings Inc. ( HNAH ), and HSBC Bank USA, N.A. ( HSBC Bank USA ) entered into agreements with US and UK authorities in relation to investigations regarding past inadequate compliance with AML and sanctions laws. Among other agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement ( US DPA ) with the US Department of Justice ( DoJ ) and HSBC Holdings entered into a two-year DPA with the District Attorney of New York County (the DANY DPA ). HSBC Holdings also entered into an undertaking with the FSA (revised as the FCA Direction following the UK regulatory restructuring in April 2013) to comply with certain forward-looking obligations with respect to AML and sanctions requirements. In addition, HSBC Holdings entered into a cease and desist order with the US Federal Reserve Board ( FRB ) with respect to compliance with US AML and sanctions requirements.

The agreements with the DoJ and the FRB and the FCA Direction require us to retain an independent monitor to evaluate our progress in fully implementing our obligations and produce regular assessments of the effectiveness of our Financial Crime Compliance function. The Monitor is discussed on page 15.

HSBC Bank USA is also subject to an agreement entered into with the Office of the Comptroller of the Currency ( OCC ) in December 2012, the Gramm-Leach-Bliley Act Agreement ( GLBA Agreement ). See pages 144 and 556 of the *Annual Report and Accounts 2013* for further information on the GLBA Agreement and other consent orders, respectively.

**Potential impact on HSBC**

It is difficult to predict the outcome of the regulatory proceedings involving our businesses. Unfavourable outcomes may have a material adverse effect on our reputation, brand and results, including loss of business and withdrawal of funding.

Our significant involvement in facilitating international capital flows and trade exposes the Group to the risk of financial crime or inadvertently breaching restrictions and sanctions imposed by the Office of Foreign Assets Control ( OFAC ) and other regulators. Breach of the US DPA at any time during its term may allow the DoJ to prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA. Breach of the DANY DPA may allow the District Attorney of New York County to prosecute HSBC Holdings in relation to the matters which are the subject of that DPA.

Failure to comply with the requirements of consent orders or the GLBA within the time periods specified in them or otherwise as may be extended, could result in supervisory action (see page 145 of the *Annual Report and Accounts 2013* for more information about the consequences of not complying with the GLBA) Any such action could have a material adverse effect on the consolidated results and operation of HSBC.

**Mitigating actions**

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Steps to address many of the requirements of the DPAs, the FCA Direction, the GLBA Agreement and associated regulatory agreements have either already been taken or are under way in consultation with the relevant regulatory agencies. These include simplifying the Group's control structure, strengthening the governance structure with new leadership appointments, revising key policies and implementing consistent procedures and controls shaped by the highest or most effective standards available in any location where the Group operates to detect, deter and protect against financial crime through our Global Standards programme. In addition, we have substantially increased spending and staffing in the Financial Crime Compliance and Regulatory Compliance functions in the past few years.

There can be no assurance that these remedial measures taken to date will be effective or that we will not have to take additional remedial measures in the future to comply with the terms of the DPAs, the FCA Direction or the GLBA Agreement.

### Conduct of business

Regulators in the UK and other countries have continued to increase their focus on conduct matters including sales processes and incentives (including remuneration practices), product and investment suitability and more general conduct of business and market conduct concerns.



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In the UK, the FCA are making increasing use of existing and new powers of intervention and enforcement, including powers to consider past business undertaken and implement customer compensation and redress schemes or other, potentially significant, remedial work. They are also regulating areas of activity not previously regulated by them, such as consumer credit, and considering competition issues in the markets they regulate. Additionally, the FCA and other regulators increasingly take actions in response to customer complaints or where they see poor customer outcomes, either specific to an institution or more generally in relation to a particular product. There have been recent examples of this approach by regulators in the context of the possible mis-selling of PPI, of interest rate hedging products for SMEs and of wealth management products.

The Group also continues to be subject to a number of other regulatory proceedings, including investigations and reviews by various national regulatory, competition and enforcement authorities related to certain past submissions made by panel banks and the process for making submissions in connection with the setting of Libor, Euribor and other benchmark interest rates. There are also investigations into currency benchmarks and credit default swaps.

**Potential impact on HSBC**

Regulators in the UK and other countries may identify future industry-wide mis-selling, market conduct or other issues that could affect the Group. This may lead from time to time to significant direct costs or liabilities and/or changes in the practices of such businesses. Also, decisions taken by bodies such as the Financial Ombudsman Service in the UK (or similar overseas bodies) in relation to customer complaints could, if applied to a wider class or grouping of customers, have a material adverse effect on the operating results, financial condition and prospects of the Group.

**Mitigating actions**

Programmes to actively manage and mitigate conduct risk have been initiated in all global businesses and functions.

Incentive plans introduced in RBWM in 2013 and 2014 have removed the formulaic link between product sales and variable pay, focusing instead on relationship management activities that support meeting customer needs, improving customer outcomes and sales quality. HSBC and its subsidiaries are cooperating fully with all regulatory investigations and reviews.

Dispute risk

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Further details are provided in Note 25 on the Financial Statements.

**Potential impact on HSBC**

Dispute risk gives rise to potential financial loss and significant reputational damage which could adversely affect customer and investor confidence.

**Mitigating actions**

We continue to focus on identifying emerging regulatory and judicial trends in order to limit exposure to litigation or regulatory enforcement action in the future.

We are enhancing our financial crime and regulatory compliance controls and resources.

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

Heightened execution risk

People risk

Stress test impact risk

Social media risk

Internet crime and fraud

Information security risk

Data management

Model risk

Heightened execution risk

HSBC is facing heightened execution risk due to a number of factors including the volume and complexity of projects needed to meet regulatory requirements and support business initiatives which are moving into implementation phases in 2014; the degree of organisational change, including the restructuring of our Compliance function into two distinct sub-functions, Financial Crime Compliance and Regulatory Compliance; and external factors, including the challenging macroeconomic environment and the extent and pace of regulatory change. In addition, the implementation of our strategy to simplify our business, which involves withdrawing from certain markets, presents disposal risks.

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**Potential impact on HSBC**

These factors may affect the successful delivery of our strategic priorities.

The potential risks of disposals include regulatory breaches, industrial action, loss of key personnel and interruption to systems and processes during business transformation. They can have both financial and reputational implications.

**Mitigating actions**

We have strengthened our prioritisation and governance processes for significant projects and have invested in our project implementation and IT capabilities.

Risks related to organisational change and disposals are subject to close management oversight.

Our planning and stress testing processes consider the effect of potential internal risks or risks arising from the external environment on our earnings and capital position and actions by management to mitigate them.

**People risk**

The demands being placed on the human capital of the Group are unprecedented. The cumulative workload arising from a regulatory reform programme that is often extra-territorial and still evolving is hugely consumptive of human resources, placing increasingly complex and conflicting demands on a workforce where the expert capability set is in short supply and globally mobile.

**Potential impact on HSBC**

Changes in remuneration policy and practice resulting from the new regulations under CRD IV apply globally to all employees of EU headquartered banks. The key change is the application of a cap on variable pay that can be paid to any material risk-taker (being employees who have been identified as having a material impact on the institution's risk profile). This presents significant challenges for HSBC given the fact that as a worldwide business, a significant number of our material risk takers are based outside the EU.

The proposals for a senior persons regime are being made to set clearer expectations of the behaviour of both senior and more junior employees.

The PRA consultation on clawback proposes extending the Remuneration Code to require all PRA-authorized firms to amend employment contracts to be able to apply clawback to vested variable remuneration on a Group-wide basis.

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Implementing organisational changes to support the Group's strategy has the potential to lead to increased staff turnover.

### **Mitigating actions**

The changes in remuneration under the new CRD IV regulations has necessitated a review of our remuneration policy, especially the balance between fixed and variable pay, to ensure we can remain competitive on a total compensation basis and retain our key talent.

Risks related to organisational change and disposals are subject to close management oversight.

We continue to increase the level of specialist resources within Financial Crime Compliance, Regulatory Compliance and stress testing.

### Stress test impact risk

The quantity, granularity and timelines of major regulatory stress test programmes give rise to a range of risks including:

governance, organisation and people risk, due to the concurrent nature of the stress test exercises;

data risk, arising from the unprecedented volume and granularity of data requested as part of these programmes;

model risk, due to the significant increase in the number of models used by the Group, the speed with which they have been introduced and the extended use of models in new areas;

regulatory and consent order risk, which may arise should regulators identify deficiencies in our stress test results and processes;

capital planning risk, should regulators' assessment of stress test results lead to them objecting to planned capital actions, including the payment of dividends;

execution risk, due to the number and complexity of stress tests under way at the same time;

disclosure risk, as the publication of stress test results by regulators may have an unexpected effect on a bank's business and/or reputation;  
and

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## **Interim Management Report** (continued)

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counterparty and market disruption risk, which could arise should a number of banks fail the stress test exercises.

### **Potential impact on HSBC**

Banks will be assessed against qualitative as well as quantitative standards and may be judged to fall short against either. If such an event were to arise for HSBC or one of its regulated entities, regulators have a number of options to remedy or mitigate the perceived failing.

HNAH is required to re-submit its capital plan and make improvements to its stress testing processes following the FRB's objection to its capital plan on qualitative grounds (see page 108).

### **Mitigating actions**

We created a Stress Testing Management Board with appropriate subordinate Steering Committees in early 2014, chaired by the Group Finance Director, to ensure appropriate senior management oversight and governance of the stress test programmes. Updates are provided at each meeting of the Risk Management Meeting of the GMB and the Group Risk Committee.

#### Social media risk

The rapid growth of social media increases the risk that speculation about HSBC or customer complaints, either specific to HSBC or more generally in relation to a particular product, may be spread through the use of these channels.

### **Potential impact on HSBC**

This could have an adverse effect on our reputation and brand and potentially our share price.

### **Mitigating actions**

We monitor social media activity globally, using a dedicated software platform. This enables us to identify, manage and respond to issues where required.

#### Internet crime and fraud

With the ever-growing acceptance of, and demand for, internet and mobile services by customers, HSBC is increasingly exposed to fraudulent and criminal activities via these channels. We also face the risk of breakdowns in processes or procedures

and systems failure or unavailability, and our business is subject to disruption from events that are wholly or partially beyond our control, such as internet crime and acts of terrorism.

**Potential impact on HSBC**

Internet crime and fraud could result in financial loss and/or customer data and sensitive information being compromised. They may also give rise to losses in service to customers. The same threats apply equally when we rely on external suppliers or vendors to provide services to us and our customers.

**Mitigating actions**

We continually assess these threats as they evolve and adapt our controls to mitigate them.

We have increased our defences through enhanced monitoring and have implemented additional controls, such as two-factor authentication, to reduce the possibility of losses from fraud.

**Information security risk**

The security of our information and technology infrastructure is crucial for maintaining our banking applications and processes while protecting our customers and the HSBC reputation and brand. HSBC and other multinational organisations continue to be the targets of cyber-attacks, which may disrupt services including the availability of our external facing websites, compromise organisational and customer information or expose security weaknesses.

**Potential impact on HSBC**

Information security risk gives rise to potential financial loss and reputational damage which could adversely affect customer and investor confidence. Loss of customer data would also result in regulatory breaches which could result in fines and penalties being incurred.

**Mitigating actions**

We have invested significantly in addressing this risk through increased training to raise staff awareness of the requirements, enhanced multi-layered controls protecting our information and technical infrastructure, and heightened monitoring and management of potential cyber-attacks.

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Data management

HSBC must have a clear data strategy to meet the volume, granularity, frequency and scale of regulatory and other reporting requirements as well as to comply with the principles for effective risk data aggregation and risk reporting as set out by the Basel Committee on Banking Supervision ( the Basel Committee ) in its paper.

**Potential impact on HSBC**

Ineffective data management could adversely affect our ability to aggregate and report complete, accurate and consistent data to regulators, investors and senior management on a timely basis.

Financial institutions that fail to meet their Basel Committee data obligations by the end of 2015 may face supervisory measures.

**Mitigating actions**

Since the Data Strategy Board was established in 2012, we have set the data strategy for the Group and defined Group-level principles, standards and policies to enable consistent data aggregation, reporting and management.

Key initiatives and projects to deliver our data strategy and work towards meeting our Basel Committee data obligations are in progress.

Model risk

HSBC uses models for a range of purposes in managing its business, including regulatory and economic capital calculations, stress testing, granting credit, pricing and financial reporting. Model risk is the potential for adverse consequences as a result of decisions based on incorrect model outputs and reports or the use of such information for purposes for which it was not designed. Model risk could arise from models that are poorly developed, implemented or used, or from the modelled outcome being misunderstood and acted upon inappropriately by management. The regulatory environment and supervisory concerns over banks' use of internal models to determine regulatory capital further contribute to model risk.

**Potential impact on HSBC**

HSBC could incur losses or be required to hold additional capital as a result of model limitations or failure.

Supervisory concerns over the internal models and assumptions used by banks in the calculation of regulatory capital have led to the imposition of risk weight and loss given default floors. Such changes have the potential to increase our capital requirement and/or make it more volatile.

**Mitigating actions**

We mitigate model risk through appropriate governance over model development, usage and validation, together with independent review, monitoring and feedback to ensure our models remain fit for purpose and compliant, where relevant, with regulatory expectations.

### **Areas of special interest**

During the first half of 2014, there were a number of particular areas of focus as a result of the effect they have on the Group. Whilst these areas may already have been identified in Top and Emerging risks, further details of the actions taken in the last six months is provided below.

#### **Financial crime compliance and regulatory compliance**

In recent years, we have experienced increasing levels of compliance risk as regulators and other agencies pursued investigations into historical activities, and we continue to work with them in relation to existing issues. This has included the matters giving rise to the DPAs reached with US authorities in relation to investigations regarding inadequate compliance with AML and sanctions law, and the related undertaking with the FCA (the FCA Direction ). The work of the Monitor, who has been appointed to assess our progress against our various obligations, including the DPAs, is discussed on page 15.

We have also responded to a number of investigations by the FCA into the mis-selling in the UK of certain products, including sales of PPI and of interest rate hedging products to SMEs. In addition, we have been involved in investigations and reviews by various regulators and competition enforcement authorities related to certain past submissions made by panel banks and the process for making submissions in connection with the setting of Libor, Euribor and other benchmark interest rates, along with investigations into currency benchmarks and credit default swaps.

It is clear from both our own and wider industry experience that the level of activity among regulators and law enforcement agencies in investigating possible breaches of regulations has increased, and



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**Interim Management Report** (continued)

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that the direct and indirect costs of such breaches can be significant. Coupled with a substantial rise in the volume of new regulation, much of which has some element of extra-territorial reach, and the geographical spread of our businesses, we believe that the level of inherent compliance risk that we face as a Group will continue to remain high for the foreseeable future.

Further information about our compliance risk management and the changes being made may be found on page 166.

**Regulatory stress tests**

We are subject to regulatory stress testing in many jurisdictions, which have increased both in frequency and in the granularity of information required by supervisors. These exercises are designed to assess the resilience of banks to adverse market developments and ensure that they have robust, forward-looking capital planning processes that account for their unique risks and include among others, the programmes of the FRB, the European Banking Authority (EBA), the ECB, the PRA, and the HKMA.

HNAH participated in the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Stress Testing (DFAST) programmes of the FRB and HSBC Bank USA in the OCC's DFAST programme. HNAH and HSBC Bank USA made submissions under these programmes on 6 January 2014. On 26 March 2014, the FRB informed HNAH that it objected to HNAH's capital plan on qualitative grounds and a resubmission of its capital plan is required by 5 January 2015 together with improvements to its stress testing processes. However, the FRB approved the capital actions included in HNAH's CCAR submission and HNAH may proceed with the payment of dividends on the outstanding preferred shares and trust preferred securities of HNAH and its subsidiaries. HNAH also made its mid-cycle DFAST submission in July 2014.

The Group is taking part in the PRA concurrent stress test programme involving all major UK banks. This exercise comprised the EBA base scenario and a stress scenario reflecting the vulnerabilities facing the UK banking system, including significant declines in the value of sterling, residential and commercial property prices and bond and equity

prices, along with a downturn in economic activity and rising unemployment. We made our submission to the PRA at the end of June 2014. The Group also participates in the complementary programme of regular data provision to the Bank of England under its Firm Data Submission Framework.

In addition, we are taking part in the stress test exercise run by the EBA. The base scenario covers a wide range of risks including credit, market, securitisation, sovereign and funding risks. The adverse macro-economic scenario includes country-specific shocks to sovereign bond spreads, short-term interest rates and residential property prices together with a decline in world trade, currency depreciation in Central and Eastern Europe and slow-downs or contractions in GDP growth around the world.

HSBC France and HSBC Malta are participating in the AQR, run as part of the ECB's comprehensive assessment prior to inception of the Single Supervisory Mechanism. The AQR involved the submission of loan tapes and a detailed file review. HSBC France and HSBC Malta are now subject to the ECB's stress testing process, which is currently under way using the EBA scenarios.

The Hongkong and Shanghai Banking Corporation participated in the HKMA stress test exercise in the first half of 2014. The HKMA stress scenario envisaged a significant deceleration of growth in mainland China and a sharper contraction in Hong Kong.

Disclosures by regulators of their evaluation of these exercises are expected to be announced later in the year and we expect to be assessed on both a quantitative and qualitative basis, the latter focusing on our portfolio quality, data provision, stress testing capability and internal management processes.

Stress testing is an increasingly important tool for regulators to assess vulnerabilities in the banking sector and in individual banks, the results of which could have a significant effect on minimum capital requirements, risk and capital management practices and planned capital actions

including the payment of dividends going forward.

*A summary of our stress testing and scenario analysis programme is provided on page 139 of the Annual Report and Accounts 2013.*

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Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

There have been no material changes to our policies and practices for the management of credit risk as described in the *Annual Report and Accounts 2013*. Following the change in balance sheet presentation explained on page 41, non-trading reverse repos are shown separately on the face of the balance sheet and are no longer included in Loans and advances to customers and Loans and advances to banks. Comparative data have been re-presented accordingly. As a result, any analysis that references loans and advances to customers or banks excludes non-trading reverse repos to customers or banks, respectively. The amount of the non-trading reverse repos to customers and banks is set out on page 121.

*A summary of our current policies and practices regarding credit risk is provided in the Appendix to Risk on page 266 of the Annual Report and Accounts 2013.*

**Credit risk in the first half of 2014**

Total exposure to credit risk increased in the first half of 2014 with gross loans and advances of US\$1,189bn recorded at 30 June 2014, compared with US\$1,127bn at 31 December 2013.

During the first half of 2014, there was an overall increase in loans and advances of US\$61bn which was accompanied by an overall decrease in impairment allowances of US\$1.2bn, principally reflecting run-off of the CML portfolios within North America.

The following commentary is on a constant currency basis.

Total personal lending of US\$416bn at 30 June 2014, was broadly unchanged from 31 December 2013. Decreases in lending balances in North America due to the continued run-off of the CML portfolio were partly offset by increases in residential mortgage balances in Asia and Latin America.

Total wholesale lending increased to US\$773bn at 30 June 2014 from US\$725bn at the end of 2013, due to increases in Asia and Europe. In Asia, lending grew across a number of sectors reflecting continued buoyancy in credit market activity. In Europe, the increases were principally driven by a rise in

*Loans and advances excluding held for sale: total exposure, impairment allowances and charges*

	<b>30 Jun 2014 US\$bn</b>	30 Jun 2013 US\$bn	31 Dec 2013 US\$bn
<b>At end of period:</b>			
Gross loans and advances			
personal lending (A)	415.8	394.5	410.7
wholesale lending (B)	772.9	687.2	716.6
Total (C) <sup>1</sup>	1,188.7	1,081.7	1,127.3
Impairment allowances			
personal lending (a)	5.9	7.4	6.6

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wholesale lending (b)	8.1	8.2	8.6
Total (c) <sup>1</sup>	14.0	15.6	15.2
(a) as a percentage of (A) <sup>1</sup>	1.42	1.88	1.61
(b) as a percentage of (B) <sup>1</sup>	1.05	1.19	1.20
(c) as a percentage of (C) <sup>1</sup>	1.18	1.44	1.35
Loans and advances net of impairment allowances <sup>1</sup>	1,174.7	1,066.1	1,112.1
<b>For half-year ended:</b>			
Impairment charges			
personal lending	1.2	1.8	1.4
wholesale lending	0.8	1.4	1.4
Total	2.0	3.2	2.8

For footnote, see page 172.

corporate overdraft balances, mainly in GB&M, in accounts which are structured to allow customer corporate treasury functions to benefit from net interest arrangements but where net settlement is not intended to occur, together with a corresponding rise in current accounts.

Impairment allowances fell from US\$15.4bn at the end of 2013 to US\$14bn at 30 June 2014. In personal lending, impairment allowances decreased by US\$0.8bn, principally due to the run-off of the CML portfolio within North America. In wholesale lending, impairment allowances decreased by US\$0.6bn, mainly in Europe, due to amounts written off and a reduction in new impairment allowances reflecting an improved economic environment.

Loan impairment charges in the first half of 2014 decreased to US\$2.0bn from US\$3.1bn in the first half of 2013. In personal lending, loan impairment charges decreased by US\$0.5bn, mainly in North America and Latin America.

In wholesale lending, loan impairment charges reduced by US\$0.6bn, mainly driven by lower individually assessed impairment charges. However, during the first half of 2014, in North America, we revised certain estimates used in our corporate loan collective impairment calculation to better reflect inherent losses in a growing loan portfolio. This resulted in an increase to our allowance for credit losses of approximately US\$93m for these loans.

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### **Interim Management Report** (continued)

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We are continuing to refine aspects of our loan allowance calculation and, as a result, there could be further adjustments to our credit loss estimates for corporate loans in future periods.

#### **Credit exposure**

Maximum exposure to credit risk

The following commentary is on a reported basis.

The table on page 112 provides information on balance sheet items, offsets and loan and other credit-related commitments. Commentary on the balance sheet movements is provided on page 39.

#### **Maximum exposure to credit risk table (page 112)**

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

#### **Loans and advances**

The loans and advances offset in the table on page 112 relates to customer loans and deposits and balances where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

#### **Derivatives**

The derivatives offset amount in the table below relates to exposures where the counterparty has an offsetting derivative exposure with HSBC, a master netting arrangement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash.

At 30 June 2014, the total amount of such offsets was US\$251bn (31 December 2013: US\$252bn), of which US\$212bn (31 December 2013: US\$209bn) were offsets under a master

netting arrangement, US\$32bn (31 December 2013: US\$36bn) was collateral received in cash and US\$7bn (31 December 2013: US\$7bn) was other collateral. Whilst the derivative balances have reduced by US\$12.4bn over the last six months, the offsets have remained broadly consistent. These amounts do not qualify for offset for accounting purposes as settlement is not intended to be made on a net basis.

**Reverse repurchase agreements non-trading**

The reverse repurchase agreements non-trading offset in the table on page 112 relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. The effects of collateral held are not taken into account.

**Loan and other credit-related commitments**

Loan and other credit-related commitments largely consist of corporate and commercial off-balance sheet commitments, including term and trade-related lending balances and overdrafts, retail off-balance sheet commitments including overdrafts, residential mortgages and personal loans and credit card balances.

As at 30 June 2014, loan and other credit-related commitments increased by US\$54bn over the last six months to US\$642bn. This was primarily due to corporate loan facilities and undrawn credit card commitments in Asia, undrawn facilities in Europe and increased lending activity with our corporate customers in North America, reflecting our focus on growing in target commercial segments in the US.

**Other credit risk mitigants**

While not disclosed as an offset in the maximum exposure to credit risk table, other arrangements are in place which reduce our maximum exposure to credit risk. These include short positions in securities and financial assets held as part of linked insurance/ investment contracts where the risk is predominantly borne by the policyholder. In addition, we hold collateral in the form of financial instruments that are not recognised on the balance sheet.



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**Interim Management Report** (continued)*Maximum exposure to credit risk*

	At 30 June 2014			At 30 June 2013			At 31 December 2013		
	Maximum exposure US\$m	Offset US\$m	Exposure to credit risk (net) US\$m	Maximum exposure US\$m	Offset US\$m	Exposure to credit risk (net) US\$m	Maximum exposure US\$m	Offset US\$m	Exposure to credit risk (net) US\$m
Cash and balances at central banks	132,137		132,137	148,285		148,285	166,599		166,599
Items in the course of collection from other banks	8,144		8,144	8,416		8,416	6,021		6,021
Hong Kong Government certificates of indebtedness	26,640		26,640	24,275		24,275	25,220		25,220
Trading assets	273,251	(3)	273,248	381,124	(8,557)	372,567	239,301	(1,777)	237,524
Treasury and other eligible bills	17,678		17,678	19,188		19,188	21,584		21,584
Debt securities	155,522		155,522	147,568		147,568	141,644		141,644
Loans and advances:									
to banks	41,048		41,048	96,748		96,748	27,885		27,885
to customers	59,003	(3)	59,000	117,620	(8,557)	109,063	48,188	(1,777)	46,411
Financial assets designated at fair value	9,937		9,937	12,548		12,548	12,719		12,719
Treasury and other eligible bills	27		27	99		99	50		50
Debt securities	9,870		9,870	12,392		12,392	12,589		12,589
Loans and advances:									
to banks	39		39	25		25	76		76
to customers	1		1	32		32	4		4
Derivatives	269,839	(250,731)	19,108	299,213	(254,077)	45,136	282,265	(252,344)	29,921
Loans and advances to customers held at amortised cost <sup>1,2</sup>	1,047,241	(110,782)	936,459	938,294	(79,649)	858,645	992,089	(96,726)	895,363
personal	409,846	(1,605)	408,241	387,125	(1,317)	385,808	404,126	(1,348)	402,778
corporate and commercial financial (non-bank financial institutions)	584,265	(103,289)	480,976	505,535	(73,456)	432,079	537,922	(90,215)	447,707
financial institutions)	53,130	(5,888)	47,242	45,634	(4,876)	40,758	50,041	(5,163)	44,878
Loans and advances to banks held at amortised cost <sup>1</sup>	127,387	(662)	126,725	127,810	(766)	127,044	120,046	(587)	119,459
Reverse repurchase agreements non-trading	198,301	(28,982)	169,319	88,400	(14,255)	74,145	179,690	(22,267)	157,423
Financial investments	414,984		414,984	394,846		394,846	416,785		416,785
Treasury and other similar bills	78,177		78,177	79,005		79,005	78,111		78,111
Debt securities	336,807		336,807	315,841		315,841	338,674		338,674

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Assets held for sale	<b>3,081</b>		<b>3,081</b>	18,690	(572)	18,118	3,306	(22)	3,284
disposal groups	<b>2,794</b>		<b>2,794</b>	17,756	(572)	17,184	2,647	(22)	2,625
non-current assets held for sale	<b>287</b>		<b>287</b>	934		934	659		659
Other assets	<b>35,212</b>		<b>35,212</b>	32,470		32,470	34,018		34,018
Endorsements and acceptances	<b>12,511</b>		<b>12,511</b>	11,329		11,329	11,624		11,624
Other	<b>22,701</b>		<b>22,701</b>	21,141		21,141	22,394		22,394
Financial guarantees and similar contracts	<b>45,817</b>		<b>45,817</b>	43,783		43,783	46,300		46,300
Loan and other credit-related commitments <sup>3</sup>	<b>642,068</b>		<b>642,068</b>	587,946		587,946	587,603		587,603
	<b>3,234,039</b>	<b>(391,160)</b>	<b>2,842,879</b>	3,106,100	(357,876)	2,748,224	3,111,962	(373,723)	2,738,239

For footnotes, see page 172.

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**Interim Management Report** (continued)**Total personal lending**

The following commentary is on a constant currency basis.

Total personal lending of US\$416bn at 30 June 2014 was broadly unchanged from 31 December 2013.

**Mortgage lending**

Total mortgage lending was US\$310bn at 30 June 2014. Mortgage balances decreased by US\$2.7bn in the US from the continued run-off and loan sales in our CML portfolio. This was partly offset by increased mortgage lending, particularly in Hong Kong, mainland China and Taiwan due to strong demand.

**Other personal lending****Credit cards**

Total credit card lending of US\$29bn at 30 June 2014 was 5% lower than at the end of 2013. The decline was predominantly in Europe and Asia as a result of consumer de-leveraging following a seasonal high point in December 2013, and the sale of a credit card portfolio in Australia.

**Other personal non credit card lending**

Other personal non-credit card lending balances remained broadly in line with December 2013 at US\$81bn at 30 June 2014. There were increases in term lending in Hong Kong to our private banking customers and in personal loans in Singapore in line with our growth strategy.

These increases were offset by reductions in the US second lien mortgages. In Latin America, personal and payroll loan balances contracted due to more restrictive lending criteria.

*Total personal lending*

	Rest of UK US\$m	Europe US\$m	Hong Kong US\$m	Rest of Asia US\$m	US <sup>4</sup> US\$m	Rest of North America US\$m	Other regions <sup>4</sup> US\$m	Total US\$m
<b>At 30 June 2014</b>								
First lien residential mortgages (A)	135,701	8,524	54,988	40,501	39,939	18,738	7,044	305,435
Other personal lending (B)	22,121	28,552	21,777	12,414	5,842	5,054	14,557	110,317
motor vehicle finance		9		407		28	1,947	2,391
credit cards	11,276	2,743	6,233	3,448	681	403	4,420	29,204
second lien residential mortgages				80	4,685	194	3	4,962
other	10,845	25,800	15,544	8,479	476	4,429	8,187	73,760

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Total personal lending (C)	157,822	37,076	76,765	52,915	45,781	23,792	21,601	415,752
Impairment allowances on personal lending								
First lien residential mortgages (a)	327	71		52	2,195	59	149	2,853
Other personal lending (b)	376	549	81	137	374	60	1,476	3,053
motor vehicle finance		4		2			111	117
credit cards	118	299	43	82	29	8	359	938
second lien residential mortgages					339	6		345
other	258	246	38	53	6	46	1,006	1,653
Total (c)	703	620	81	189	2,569	119	1,625	5,906
(a) as a percentage of (A)	0.2	0.8		0.1	5.5	0.3	2.1	0.9
(b) as a percentage of (B)	1.7	1.9	0.4	1.1	6.4	1.2	10.1	2.8
(c) as a percentage of (C)	0.4	1.7	0.1	0.4	5.6	0.5	7.5	1.4

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**Interim Management Report** (continued)

	UK US\$m	Rest of Europe US\$m	Hong Kong US\$m	Rest of Asia US\$m	US <sup>4</sup> US\$m	Rest of North America US\$m	Other regions <sup>4</sup> US\$m	Total US\$m
At 30 June 2013								
First lien residential mortgages (D)	120,740	6,694	53,475	36,605	47,186	19,091	5,857	289,648
Other personal lending (E)	20,395	25,441	18,813	11,929	6,805	5,877	15,601	104,861
motor vehicle finance		16		490		22	2,560	3,088
credit cards	10,421	3,042	5,738	3,927	742	567	4,168	28,605
second lien residential mortgages				103	5,483	295		5,881
other	9,974	22,383	13,075	7,409	580	4,993	8,873	67,287
<b>Total personal lending (F)</b>	<b>141,135</b>	<b>32,135</b>	<b>72,288</b>	<b>48,534</b>	<b>53,991</b>	<b>24,968</b>	<b>21,458</b>	<b>394,509</b>
Impairment allowances on personal lending								
First lien residential mortgages (d)	337	65		63	3,504	39	155	4,163
Other personal lending (e)	488	474	76	128	554	75	1,426	3,221
motor vehicle finance		4		2		1	94	101
credit cards	136	232	43	79	35	10	275	810
second lien residential mortgages					512	5		517
other	352	238	33	47	7	59	1,057	1,793
<b>Total (f)</b>	<b>825</b>	<b>539</b>	<b>76</b>	<b>191</b>	<b>4,058</b>	<b>114</b>	<b>1,581</b>	<b>7,384</b>
(d) as a percentage of (D)	0.3	1.0		0.2	7.4	0.2	2.6	1.4
(e) as a percentage of (E)	2.4	1.9	0.4	1.1	8.1	1.3	9.1	3.1
(f) as a percentage of (F)	0.6	1.7	0.1	0.4	7.5	0.5	7.4	1.9
At 31 December 2013								
First lien residential mortgages (G)	132,174	8,300	53,762	38,285	42,317	18,638	6,399	299,875
Other personal lending (H)	22,913	28,720	19,794	12,688	6,257	5,478	15,003	110,853
motor vehicle finance		11		481		20	2,181	2,693
credit cards	11,480	3,016	6,428	3,846	734	411	4,441	30,356
second lien residential mortgages				91	5,010	251	2	5,354
other	11,433	25,693	13,366	8,270	513	4,796	8,379	72,450
<b>Total personal lending (I)</b>	<b>155,087</b>	<b>37,020</b>	<b>73,556</b>	<b>50,973</b>	<b>48,574</b>	<b>24,116</b>	<b>21,402</b>	<b>410,728</b>
Impairment allowances on personal lending								
First lien residential mortgages (g)	368	71		57	2,834	52	156	3,538
Other personal lending (h)	450	509	78	144	470	62	1,351	3,064
motor vehicle finance		3		2			88	93
credit cards	132	271	40	87	39	8	278	855
second lien residential mortgages					421	5		426
other	318	235	38	55	10	49	985	1,690
<b>Total (i)</b>	<b>818</b>	<b>580</b>	<b>78</b>	<b>201</b>	<b>3,304</b>	<b>114</b>	<b>1,507</b>	<b>6,602</b>

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(g) as a percentage of (G)	0.3	0.9		0.1	6.7	0.3	2.4	1.2
(h) as a percentage of (H)	2.0	1.8	0.4	1.1	7.5	1.1	9.0	2.8
(i) as a percentage of (I)	0.5	1.6	0.1	0.4	6.8	0.5	7.0	1.6

*For footnote, see page 172.*

### Non-US mortgage lending

The commentary that follows is on a constant currency basis.

Total non-US mortgage lending was US\$266bn at 30 June 2014, an increase of US\$2.8bn compared with December 2013. Our most significant concentrations of mortgage lending remained in the UK and Hong Kong.

In the UK, on a constant currency basis, mortgage lending was US\$136bn at 30 June 2014, a

marginal decline of US\$0.7bn compared with 31 December 2013 as result of prepayments, mainly on the interest only mortgage portfolio. However, on a reported basis there was an increase of US\$3.5bn. The currency effect was US\$4.2bn. Interest only products made up US\$51bn of total UK mortgage lending including US\$22bn of offset mortgages in First Direct.

The credit quality of our UK mortgage portfolio remained high and loan impairment charges and delinquency levels declined in the first half of 2014.

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

Impairment allowances were 0.2% of total gross mortgages as the business continued to benefit from initiatives taken in previous years, the buoyant housing market, low interest rates and improved economic conditions. The majority of our mortgage lending in the UK continued to be to existing customers and for owner occupied properties. During the first half of 2014, the average LTV ratio for new business was 60% compared with 47% for the whole portfolio.

Mortgage lending in Asia was US\$96bn, an increase of 3% on the end of 2013 reflecting continued growth, primarily in Hong Kong, mainland China and Taiwan. The quality of our Asian mortgage book remained high with negligible impairment allowances. The average LTV ratio on new mortgage lending in Hong Kong was 47% compared with an estimated 32% for the overall portfolio.

Mortgage lending in other regions remained broadly in line with that at the end of 2013.

*Mortgage lending products*

	UK US\$m	Rest of Europe US\$m	Hong Kong US\$m	Rest of Asia US\$m	US <sup>4</sup> US\$m	Rest of North America US\$m	Other regions <sup>4</sup> US\$m	Total US\$m
<b>At 30 June 2014</b>								
First lien residential mortgages <sup>5</sup>	135,701	8,524	54,988	40,501	39,939	18,738	7,044	305,435
Second lien residential mortgages				80	4,685	194	3	4,962
Total mortgage lending (A)	135,701	8,524	54,988	40,581	44,624	18,932	7,047	310,397
Second lien as percentage of (A)				0.2	10.5	1.0		1.6
Impairment allowances on mortgage lending	327	71		52	2,534	65	149	3,198
First lien residential mortgages	327	71		52	2,195	59	149	2,853
Second lien residential mortgages					339	6		345
Interest-only (including offset) mortgages	49,749	590		1,138		332	18	51,827
Affordability mortgages, including adjustable-rate mortgages ( ARM s)	1	349	10	5,521	15,950		1	21,832
Other	92			131			10	233
Total interest-only, affordability mortgages and other as a percentage of (A)	49,842	939	10	6,790	15,950	332	29	73,892
	36.7	11.0		16.7	35.7	1.8	0.4	23.8
<b>At 30 June 2013</b>								
First lien residential mortgages <sup>5</sup>	120,740	6,694	53,475	36,605	47,186	19,091	5,857	289,648
Second lien residential mortgages				103	5,483	295		5,881
Total mortgage lending (B)	120,740	6,694	53,475	36,708	52,669	19,386	5,857	295,529
Second lien as percentage of (B)				0.3	10.4	1.5		2.0
Impairment allowances on mortgage lending	337	65		63	4,016	44	155	4,680
First lien residential mortgages	337	65		63	3,504	39	155	4,163

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Second lien residential mortgages					512	5		517
Interest-only (including offset) mortgages	46,301	140	29	1,116		445		48,031
Affordability mortgages, including ARMs	2	453	17	5,534	18,007		1	24,014
Other	89			156			19	264
Total interest-only, affordability mortgages and other	46,392	593	46	6,806	18,007	445	20	72,309
as a percentage of (B)	38.4	8.9	0.1	18.5	34.2	2.3	0.3	24.5

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**Interim Management Report** (continued)*Mortgage lending products (continued)*

	UK US\$m	Rest of Europe US\$m	Hong Kong US\$m	Rest of Asia US\$m	US <sup>4</sup> US\$m	Rest of North America US\$m	Other regions <sup>4</sup> US\$m	Total US\$m
At 31 December 2013								
First lien residential mortgages <sup>5</sup>	132,174	8,300	53,762	38,285	42,317	18,638	6,399	299,875
Second lien residential mortgages				91	5,010	251	2	5,354
Total mortgage lending (C)	132,174	8,300	53,762	38,376	47,327	18,889	6,401	305,229
Second lien as percentage of (C)				0.2	10.6	1.3		1.8
Impairment allowances on mortgage lending	368	71		57	3,255	57	156	3,964
First lien residential mortgages	368	71		57	2,834	52	156	3,538
Second lien residential mortgages					421	5		426
Interest-only (including offset) mortgages	48,907	553	6	1,109		352		50,927
Affordability mortgages, including ARMs	2	506	12	5,581	16,274			22,375
Other	95			141			18	254
Total interest-only, affordability mortgages and other	49,004	1,059	18	6,831	16,274	352	18	73,556
as a percentage of (C)	37.1	12.8		17.8	34.4	1.9	0.3	24.1

*For footnotes, see page 172.***Mortgage lending in the US**

In the US, total mortgage lending balances were US\$45bn at 30 June 2014, a decrease of 6% compared with the end of 2013. Overall, US mortgage lending represented 11% of our total personal lending and 14% of our total mortgage lending.

Mortgage lending balances at 30 June 2014 in HSBC Finance were US\$27bn, a decrease of 10% compared with the end of 2013 due to the continued run-off and loan sales in the CML portfolio.

*HSBC Finance US Consumer and Mortgage Lending<sup>6</sup> residential mortgages*

	At 30 Jun 2014 US\$m	At 30 Jun 2013 US\$m	At 31 Dec 2013 US\$m
<b>Residential mortgages</b>			

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First lien	24,490	32,271	27,305
Second lien	2,784	3,328	3,014
Total (A)	27,274	35,599	30,319
Impairment allowances	2,338	3,789	3,028
as a percentage of (A)	8.6	10.6	10.0

*For footnote, see page 172.*

For first lien residential mortgages in our CML portfolio, two months and over delinquent balances were US\$3.1bn at 30 June 2014 compared with US\$4.6bn at 31 December 2013. The decline mainly reflected the continued run-off and loan sales in the CML portfolio.

In HSBC Bank USA, two months and over delinquent balances were broadly in line with the end of 2013, at US\$1.1bn.

### Second lien mortgages in the US

The majority of second lien residential mortgages are taken up by customers who hold a first lien mortgage issued by a third party. Second lien residential mortgage loans have a risk profile characterised by higher loan-to-value ratios, because in the majority of cases the loans were taken out to complete the refinancing of properties. Loss severity on default of second liens has typically approached 100% of the amount outstanding, as any equity in the property is consumed through the repayment of the first lien loan.

Impairment allowances for these loans are determined by applying a roll-rate migration analysis which captures the propensity of these loans to default based on past experience. Once we believe that a second lien residential mortgage loan is likely to progress to write-off, the loss severity assumed in establishing our impairment allowance is close to 100% in the CML portfolios, and more than 80% in HSBC Bank USA.

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**Interim Management Report** (continued)*HSBC Finance: foreclosed properties in the US*

	<b>30 June 2014</b>	Half-year to	
		30 June 2013	31 December 2013
Number of foreclosed properties at end of period	<b>2,320</b>	4,068	4,254
Number of properties added to foreclosed inventory in the half-year	<b>2,243</b>	4,902	4,850
Average (gain)/loss on sale of foreclosed properties <sup>7</sup>	<b>(1%)</b>	2%	
Average total loss on foreclosed properties <sup>8</sup>	<b>50%</b>	51%	51%
Average time to sell foreclosed properties (days)	<b>161</b>	155	154

*For footnotes, see page 172.*

We have resumed processing suspended foreclosure actions in all states and have referred the majority of the backlog of loans for foreclosure. We also began initiating new foreclosure activities in all states. The number of foreclosed properties at HSBC Finance at 30 June 2014 decreased compared with the end of December 2013 as we sold more properties than we added to inventory. The decrease in the number of properties added to the inventory during the second quarter of 2014 resulted from the sale of many of the receivables for which the underlying properties had previously been in the process of foreclosure.

The average total gain on foreclosed properties was 1%, reflecting improvements in home prices.

**Valuation of foreclosed properties in the US**

We obtain real estate by foreclosing on the collateral pledged as security for residential mortgages. Prior to foreclosure, carrying amounts of the loans in excess of fair value less costs to obtain and sell are written down to the discounted cash flows expected to be recovered, including from the sale of the property. Broker price opinions are obtained and updated every 180 days and real estate price trends are reviewed quarterly to reflect any improvement or additional deterioration. Our methodology is regularly validated by comparing the discounted cash flows expected to be recovered based on current market conditions (including estimated cash flows from the sale of the property) to the updated broker price opinion, adjusted for the estimated historical difference between interior and exterior appraisals. The fair values of foreclosed properties are initially determined based on broker price opinions. Within 90 days of foreclosure, a more detailed property valuation is performed reflecting information obtained from a physical interior inspection of the property and additional allowances or write-downs are recorded as appropriate. Updates to the valuation are performed no less than once every 45 days until the property is sold, with declines or increases recognised through changes to allowances.

*Trends in two months and over contractual delinquency in the US*

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	At 30 June 2014 US\$m	At 30 June 2013 US\$m	At 31 December 2013 US\$m
<b>In personal lending in the US</b>			
First lien residential mortgages	4,169	8,378	5,931
Consumer and Mortgage Lending	3,062	7,114	4,595
Other mortgage lending	1,107	1,264	1,336
Second lien residential mortgages	216	401	406
Consumer and Mortgage Lending	161	274	276
Other mortgage lending	55	127	130
Credit card	17	19	25
Personal non-credit card	8	24	25
Total	4,410	8,822	6,387
	%	%	%
<b>As a percentage of the equivalent loans and receivables balances</b>			
First lien residential mortgages	10.4	17.6	14.0
Second lien residential mortgages	4.6	7.3	8.1
Credit card	2.5	2.5	3.4
Personal non-credit card	1.7	4.1	4.9
Total	9.6	16.2	13.1

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**Interim Management Report** (continued)**Wholesale lending**

Wholesale lending covers the range of credit facilities granted to sovereign borrowers, banks, non-bank financial institutions, corporate entities and commercial borrowers. Our wholesale portfolios are well diversified across geographical and industry sectors, with certain exposures subject to specific portfolio controls.

*Total wholesale lending<sup>1</sup>*

	Europe US\$m	Asia <sup>9</sup> US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
<b>At 30 June 2014</b>						
Corporate and commercial (A)	257,715	221,852	20,983	55,916	32,965	589,431
manufacturing	65,374	35,210	2,445	12,941	14,196	130,166
international trade and services	79,981	80,574	10,072	13,087	8,534	192,248
commercial real estate	30,935	34,727	434	6,677	2,492	75,265
other property-related	7,444	32,730	1,593	8,644	348	50,759
government	2,404	1,082	1,696	568	1,007	6,757
other commercial <sup>†</sup>	71,577	37,529	4,743	13,999	6,388	134,236
Financial (non-bank financial institutions) (B)	29,603	12,091	2,838	7,579	1,397	53,508
Asset-backed securities reclassified	2,382			138		2,520
Loans and advances to banks (C)	27,763	72,222	8,644	6,252	12,569	127,450
Total wholesale lending (D)	317,463	306,165	32,465	69,885	46,931	772,909
Impairment allowances on wholesale lending						
Corporate and commercial (a)	3,355	951	1,161	817	1,402	7,686
manufacturing	526	252	162	148	372	1,460
international trade and services	961	458	490	187	257	2,353
commercial real estate	1,062	19	147	178	454	1,860
other property-related	257	99	239	89	7	691
government	3		4	1		8
other commercial	546	123	119	214	312	1,314
Financial (non-bank financial institutions) (b)	250	15	30	81	2	378
Loans and advances to banks (c)	45		18			63
Total (d)	3,650	966	1,209	898	1,404	8,127
(a) as a percentage of (A)	1.30	0.43	5.53	1.46	4.25	1.30
(b) as a percentage of (B)	0.84	0.12	1.06	1.07	0.14	0.71
(c) as a percentage of (C)	0.16		0.21			0.05
(d) as a percentage of (D)	1.15	0.32	3.72	1.28	2.99	1.05

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**Interim Management Report** (continued)

	Europe	Asia <sup>9</sup>	MENA	North America	Latin America	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>At 30 June 2013</b>						
Corporate and commercial (E)	211,128	198,457	21,416	48,327	30,451	509,779
manufacturing	46,202	30,244	3,409	9,609	12,128	101,592
international trade and services	66,317	77,798	9,458	13,082	7,771	174,426
commercial real estate	30,764	33,416	898	6,064	2,328	73,470
other property-related	7,403	23,715	1,526	7,725	285	40,654
government	1,834	3,220	1,664	348	1,431	8,497
other commercial <sup>P</sup>	58,608	30,064	4,461	11,499	6,508	111,140
Financial (non-bank financial institutions) (F)	26,895	8,549	1,822	7,470	1,365	46,101
Asset-backed securities reclassified	3,319			147		3,466
Loans and advances to banks (G)	26,741	72,483	9,054	8,614	10,968	127,860
<b>Total wholesale lending (H)</b>	<b>268,083</b>	<b>279,489</b>	<b>32,292</b>	<b>64,558</b>	<b>42,784</b>	<b>687,206</b>
<b>Impairment allowances on wholesale lending</b>						
Corporate and commercial (e)	3,708	840	1,264	827	1,071	7,710
manufacturing	570	211	199	88	325	1,393
international trade and services	1,116	381	523	207	346	2,573
commercial real estate	1,036	28	158	156	231	1,609
other property-related	213	98	241	139	13	704
government	2		31	2		35
other commercial	771	122	112	235	156	1,396
Financial (non-bank financial institutions) (f)	270	35	118	43	1	467
Loans and advances to banks (g)	33		17			50
<b>Total (h)</b>	<b>4,011</b>	<b>875</b>	<b>1,399</b>	<b>870</b>	<b>1,072</b>	<b>8,227</b>
(e) as a percentage of (E)	1.76	0.42	5.90	1.71	3.52	1.51
(f) as a percentage of (F)	1.00	0.41	6.48	0.58	0.07	1.01
(g) as a percentage of (G)	0.12		0.19			0.04
(h) as a percentage of (H)	1.50	0.31	4.33	1.35	2.51	1.20
<b>At 31 December 2013</b>						
Corporate and commercial (I)	239,116	203,894	19,760	50,307	30,188	543,265
manufacturing	55,920	30,758	3,180	11,778	12,214	113,850
international trade and services	76,700	79,368	8,629	11,676	8,295	184,668
commercial real estate	31,326	34,560	639	5,900	2,421	74,846
other property-related	7,308	27,147	1,333	8,716	328	44,832
government	3,340	1,021	1,443	499	974	7,277
other commercial <sup>P</sup>	64,522	31,040	4,536	11,738	5,956	117,792
Financial (non-bank financial institutions) (J)	27,872	9,688	2,532	9,055	1,376	50,523
Asset-backed securities reclassified	2,578			138		2,716
Loans and advances to banks (K)	24,273	72,814	6,419	6,420	10,178	120,104
<b>Total wholesale lending (L)</b>	<b>293,839</b>	<b>286,396</b>	<b>28,711</b>	<b>65,920</b>	<b>41,742</b>	<b>716,608</b>
<b>Impairment allowances on wholesale lending</b>						
Corporate and commercial (i)	3,821	918	1,212	769	1,339	8,059
manufacturing	618	246	182	89	384	1,519
international trade and services	1,216	428	502	188	349	2,683
commercial real estate	1,116	22	153	202	396	1,889

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other property-related	269	102	236	93	8	708
government	3		10	1		14
other commercial	599	120	129	196	202	1,246
Financial (non-bank financial institutions) (j)	344	17	60	50	11	482
Loans and advances to banks (k)	35		18	5		58
Total (l)	4,200	935	1,290	824	1,350	8,599
(i) as a percentage of (I)	1.60	0.45	6.13	1.53	4.44	1.48
(j) as a percentage of (J)	1.23	0.18	2.37	0.55	0.80	0.95
(k) as a percentage of (K)	0.14		0.28	0.08		0.05
(l) as a percentage of (L)	1.43	0.33	4.49	1.25	3.23	1.20

*For footnotes, see page 172.*

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HSBC HOLDINGS PLC

**Interim Management Report** (continued)

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The commentary that follows is on a constant currency basis.

Corporate and commercial

Corporate and commercial lending, excluding commercial real estate and other property-related lending, represented 44% of total gross loans and advances to customers compared with 42% at 31 December 2013. The increase of US\$34bn was driven by lending within manufacturing, transport and other subsectors within Asia and increases in manufacturing and other commercial portfolios within Europe, where this was principally driven by a rise in corporate overdraft balances, mainly in GB&M, in accounts which are structured to allow customer corporate treasury functions to benefit from net interest arrangements but where net settlement is not intended to occur, together with a corresponding rise in current accounts.

The aggregate of our commercial real estate and other property-related lending was US\$126bn at 30 June 2014, an increase of US\$5.3bn relative to 31 December 2013, but still representing an overall 12% of total loans and advances to customers.

**Commercial real estate**

Our exposure to commercial real estate lending continued to be concentrated in Asia, the UK and North America. The improvements in commercial real estate markets noted in 2013 continued into 2014.

*Refinance risk in commercial real estate*

Refinance risk is described on page 272 of the *Annual Report and Accounts 2013*. This risk is

subject to close scrutiny in key commercial real estate markets.

Liquidity continued to improve further in 2014, as a wider range of funding sources returned to the market. There are now many refinancing opportunities with evidence of pressure on pricing.

On a reported basis, at 31 June 2014, we had US\$22bn (31 December 2013: US\$22bn) of commercial real estate loans in the UK of which US\$5.8bn (31 December 2013: US\$6.8bn) were due to be refinanced within the next 12 months. Of these balances, cases subject to close monitoring in our Loan Management unit amounted to US\$2.0bn (31 December 2013: US\$2.4bn). US\$1.6bn (31 December 2013: US\$1.6bn) were disclosed as impaired with impairment allowances of US\$0.7bn (31 December 2013: US\$0.6bn). Where these loans are not considered impaired it is because there is sufficient evidence to indicate that the associated contractual cash flows will be recovered or that the loans will not need to be refinanced on terms we would consider below market norms.

**Credit quality of financial instruments**

We assess credit quality on all financial instruments which bear credit risk. The distribution of financial instruments by credit quality is tabulated below. The five classifications describing the credit quality of our lending, debt securities portfolios and derivatives are set out in the Appendix to Risk on page 267 of the *Annual Report and Accounts 2013*. Additional credit quality information in respect of our consolidated holdings of ABSs is provided on page 143.







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HSBC HOLDINGS PLC

**Interim Management Report** (continued)*Distribution of financial instruments by credit quality (continued)*

	Neither past due nor impaired				Past due but not impaired <sup>11</sup>	Impaired allowances <sup>12</sup>	Total
	Strong US\$m	Good US\$m	Satisfactory US\$m	Sub-standard US\$m			
At 30 June 2013							
Cash and balances at central banks	145,666	2,084	156	379			148,285
Items in the course of collection from other banks	7,992	117	215	92			8,416
Hong Kong Government certificates of indebtedness	24,275						24,275
Trading assets <sup>13</sup>	238,433	60,246	77,818	4,627			381,124
treasury and other eligible bills	14,827	3,569	758	34			19,188
debt securities	115,007	15,430	16,333	798			147,568
loans and advances:							
to banks	59,115	22,581	13,076	1,976			96,748
to customers	49,484	18,666	47,651	1,819			117,620
Financial assets designated at fair value <sup>13</sup>	6,016	5,417	1,024	91			12,548
treasury and other eligible bills	99						