HSBC HOLDINGS PLC
Form 6-K
October 09, 2009

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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 October 2009
HSBC Holdings plc

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

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

Form 20-F þ Form 40-F o

(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 o No þ

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2009 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 and 333-158065.

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HSBC HOLDINGS PLC
Interim Report 2009

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,500 offices in 86 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East, including Africa; North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 119 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Shares.

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

Certain defined terms

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

HSBC s Interim Financial Statements and Notes thereon, as set out on pages 199 to 231, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB).

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

When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 12) and adjusted for the effects of acquisitions and disposals.

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

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HSBC HOLDINGS PLC
Financial Highlights

For the half-year

Total operating income 6 per cent lower at US$40,248 million (US$42,912 million in the first half of 2008).

Net operating income before loan impairment charges 12 per cent lower at US$34,741 million (US$39,475 million in the first half of 2008).

Group pre-tax profit 51 per cent lower at US$5,019 million (US$10,247 million in the first half of 2008).

Profit attributable to shareholders of the parent company 57 per cent lower at US$3,347 million (US$7,722 million in the first half of 2008).

Return on average shareholders equity of 6.4 per cent (12.1 per cent in the first half of 2008).

Earnings per ordinary share 63 per cent lower at US$0.21 (US$0.57 in the first half of 2008).

Dividends and capital position

Second interim dividend for 2009 of US$0.08 per share which, together with the first interim dividend for 2009 of US$0.08 per share already paid, represents US$0.16 per share for 2009 on the enlarged share capital following the rights issue. In 2008, the first and second interim dividends aggregated to US$0.36 per share.

Tier 1 ratio of 10.1 per cent and total capital ratio of 13.4 per cent.

Rights issue

In April 2009, HSBC Holdings raised £12.5 billion (US$17.8 billion), net of expenses, by way of a fully underwritten rights issue, offering its shareholders 5 new ordinary shares for every 12 ordinary shares at a price of 254 pence per new ordinary share.

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Profitability and balance sheet data

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
For the period			
Total operating income	**40,248**	42,912	45,659
Profit/(loss) before tax	**5,019**	10,247	(940)
Profit/(loss) attributable to shareholders of the parent company	**3,347**	7,722	(1,994)
Dividends	**2,728**	6,823	4,478
At the period-end			
Total equity	**125,298**	134,011	100,229
Total shareholders equity	**118,355**	126,785	93,591
Capital resources[1]	**155,186**	146,950	131,460
Customer accounts	**1,163,343**	1,161,923	1,115,327
Total assets	**2,421,843**	2,546,678	2,527,465
Risk-weighted assets	**1,159,274**	1,231,481	1,147,974
	US$	US$	US$
Per ordinary share			
Basic earnings[2]	**0.21**	0.57	(0.16)
Diluted earnings[2]	**0.21**	0.57	(0.15)
Dividends[4]	**0.18**	0.57	0.36
Net asset value at period end	**6.63**	10.27	7.44

Capital and performance ratios (annualised)

	%	%	%
Capital ratios			
Tier 1 ratio	**10.1**	8.8	8.3
Total capital ratio	**13.4**	11.9	11.4
Performance ratios			
Return on average invested capital[5]	**5.0**	11.1	(3.2)
Return on average total shareholders equity[6]	**6.4**	12.1	(3.4)
Post-tax return on average total assets	**0.31**	0.68	(0.14)
Post-tax return on average risk-weighted assets	**0.66**	1.39	(0.31)
Credit coverage ratios			
Loan impairment charges as a percentage of total operating income	**33.1**	23.2	31.0
Loan impairment charges as a percentage of average gross customer advances	**3.08**	2.04	2.86
Total impairment allowances outstanding as a percentage of impaired loans at period end	**86.6**	108.1	94.3
Efficiency and revenue mix ratios			
Cost efficiency ratio[7]	**47.9**	51.0	68.6

As a percentage of total operating income:			
net interest income	**51.0**	49.4	46.8
net fee income	**20.9**	25.6	19.8
net trading income	**15.5**	8.9	6.0
Financial ratio			
Average total shareholders equity to average total assets	**4.3**	5.2	4.9

For footnotes, see page 4.

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HSBC HOLDINGS PLC
Financial Highlights (continued)
Share information

	At 30 June 2009	At 30 June 2008	At 31 December 2008
US$0.50 ordinary shares in issue (million)	**17,315**	12,005	12,105
Market capitalisation (billion)	**US$ 141**	US$ 185	US$ 114
Closing market price per ordinary share:			
London	**£ 5.025**	£ 7.76	£ 6.62
Hong Kong	**HK$65.65**	HK$120.90	HK$73.70
Closing market price per American Depositary Share (ADS[8])	**US$ 41.77**	US$ 76.70	US$ 48.67

	Over 1 year	Over 3 years	Over 5 years
HSBC total shareholder return to 30 June 2009[9]	**79.0**	**72.1**	**91.9**
Benchmarks:			
FTSE 100[10]	79.1	81.9	114.5
MSCI World[11]	71.0	79.2	102.9
MSCI Banks[11]	66.0	53.3	74.4

1 *Capital resources are total regulatory capital, the calculation of which is set out on page 190.*

2 *The effect of the bonus element of the rights issue (Note 19 on the Financial Statements) has been included within the calculation of basic and diluted earnings per share.*

3 This footnote is intentionally left blank.

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Dividends recorded in the financial statements are dividends per ordinary share declared in the first six months of 2009 and are not dividends in respect of, or for, the period.

5 *The definition of return on average invested capital and a reconciliation to the equivalent Generally Accepted Accounting Principles (GAAP) measures are set out on page 25.*

6 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*

7 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before*

loan impairment charges and other credit risk provisions.

8 *Each ADS represents five ordinary shares.*

9 *Total shareholder return is defined on page 19 of the* Annual Report and Accounts 2008.

10 *The Financial Times Stock Exchange 100 Index.*

11 *The Morgan Stanley Capital International World Index and the Morgan Stanley Capital International World Banks Index.*

Cautionary statement regarding forward-looking statements

This *Interim Report 2009* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC s expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements that are not historical facts, such as those that include the words potential , value at risk , estimated , expect anticipates , objective , intends , seeks , plans , believes , estimates , and similar expressions or variations on su expressions may be considered forward-looking statements .

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission (SEC) on Form 20-F, Form 6-K, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials and in oral statements made by HSBC s Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Past performance cannot be relied on as a guide to future performance. Trends and factors that are expected to affect HSBC s results of operations are described in the Business Review , the Financial Review , and The Management of Risk . A more detailed cautionary statement is given on pages 6 and 7 of the *Annual Report and Accounts 2008.*

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HSBC HOLDINGS PLC
Group Chairman s Statement
Consistently delivering in an uncertain world

In the first half of 2009, we have delivered what we set out to achieve.

In this unprecedented economic environment, every financial institution has had to consider carefully what level of risk is appropriate for its business model in light of mixed economic and financial market indicators. We have continued to position HSBC s balance sheet conservatively, while focusing on enhancing the capabilities which will enable us to deliver sustainable long-term growth once the current global downturn has ended. Michael Geoghegan highlights these actions in his statement.

Our performance proves our ability to deliver profit, generate capital and make distributions to our shareholders throughout the business cycle even in challenging market conditions. We are pleased with our results and profitability overall is ahead of the expectations we had at the outset of this year. In large part this reflects an excellent performance in our Global Banking and Markets business. It also reflects progress made in the US, where we announced our decision to run off a major part of our consumer finance business in March. Following the very difficult conditions experienced in the latter part of last year, provisioning in 2009 has been lower at this stage than might have been expected given the rise in unemployment.

On a reported basis, pre-tax profit was US$5 billion, US$6 billion higher than the second half of 2008, but down 51 per cent on the first half. On an underlying basis and excluding movements in fair value on our own debt credit spreads, our pre-tax profit was US$7.5 billion, broadly in line with the first half of 2008.

HSBC fundamentally remains a deposit-led banking group, with a business model committed to long-term customer relationships and an emphasis on the world s faster-growing markets. This gives us revenue streams diversified by both customer group and geography, providing resilience for the Group in these difficult economic conditions.

Building capital strength

HSBC is both strongly capitalised and highly liquid. The completion of our rights issue in April boosted our financial position, raising US$17.8 billion of shareholders equity. In an environment where many institutions are reliant on government help, the 97 per cent support for our rights issue, given its scale and the environment in which it was launched, was a powerful vote of confidence in our future by you, our shareholders, and we are truly grateful for your support.

Notwithstanding that the rewards from attracting deposits from both personal and corporate customers are currently lower than normal, these remain at the heart of our banking philosophy, and the published ratio of customer advances-to-deposits remained conservative at 79.5 per cent.

The tier 1 ratio further improved to 10.1 per cent. At 31 December 2008, the tier 1 ratio was 8.3 per cent, or 9.8 per cent on a pro forma basis including the proceeds of the rights issue. The core equity tier 1 ratio was 8.8 per cent at 30 June 2008.

As projected at the time of the rights issue, we paid a first interim dividend of 8 cents per ordinary share on 8 July, and the Directors have approved a second interim dividend of 8 cents per ordinary share, payable on 7 October with a scrip alternative.

Pursuing a clear strategy

HSBC s strategy remains unchanged. This is to combine our emerging markets leadership with a global network that offers the advantage of international connectivity and scale, making HSBC the leading international bank. If anything, the recent financial and economic turmoil has only reinforced our conviction that this strategy is the right one. By retaining this focus, we remain confident in our ability to deliver sustainable growth and believe that a return on total shareholders equity within our target range of 15 to 19 per cent remains achievable over the full business cycle.

The proceeds from the rights issue have reinforced our capital strength, allowing us to navigate the economic and regulatory environment, take long-term decisions in support of our brand and

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Group Chairman s Statement (continued)

customer relationships and look confidently at expansion opportunities consistent with our strategy.

Growth in emerging markets

At a time when some organisations may be finding it difficult to look beyond the near-term, our appetite for developing business in emerging markets remains undiminished.

Many banks have disposed of their stakes in strategic investments to generate capital. HSBC has not done so, and we have continued to bring a long-term strategic approach to these relationships. The market value of our three largest strategic investments in mainland China has grown significantly since we acquired them, and increased by US$8.2 billion during the first half of 2009.

In this period of uncertainty, we are very disciplined in reviewing the new opportunities which emerge, but we continue to expand organically in line with our strategy and where there is customer appetite. In mainland China, where HSBC has the largest investment and largest branch network of any international bank, we became the first to settle cross-border trade in renminbi in July and we launched the first floating rate renminbi bond in Hong Kong in June. In Vietnam, HSBC became the first foreign bank to incorporate locally. We have increased the number of HSBC Premier customers to 2.9 million, of whom over half are based in emerging markets.

During the first half of 2009 we completed our previously announced acquisition in Indonesia and fully integrated our acquired business in India. We also received regulatory approval for a new jointly held insurance entity in mainland China.

Changing industry and regulatory trends

Consensus has rightly emerged that regulation must change, and that the quality and quantity of bank capital and liquidity must be improved. The debate is now underway about how this regulatory change should be applied to individual institutions in a way that is proportionate to the risks they assume, and in a way that enhances systemic stability without choking the supply of credit or increasing its cost unnecessarily. As a restructuring of the financial landscape takes place, there is clearly an important role for diversified and integrated banks which can provide services to customers requiring a wide range of financial products and operating across borders.

We are therefore pleased that there has been a rejection of calls for a return to narrow banking and the separation of wholesale banking from retail and commercial banking that this would involve. It is unrealistic to believe that this approach would deliver greater financial stability; no banking model has emerged from the crisis unscathed and some of the greatest casualties of the crisis so far have been smaller and narrowly-focused institutions. It would be dangerous to pursue any approach that acts as a further brake on global growth and constrains responsible financial innovation and credit formation. Finally, it is unreasonable to compel customers to use different types of institutions for different financial services in an age of global markets.

Of course, regulation cannot be a panacea for the failings that have been exposed in the financial system and the process of renewal must include instilling the right values across our industry. At HSBC we have been carefully developing and nurturing our culture and values for over 140 years. As Group Chairman I know that there can be no more important topic on the Board agenda and it is one of my responsibilities to make sure that we remain true to our standards and focused on the fundamentals of banking.

Economic outlook remains highly uncertain

Operating conditions in the financial sector have continued to improve as the effects of government and central bank policies work through the system and it may be that we have passed, or are about to pass, the bottom of the cycle in the financial markets.

Nonetheless, the timing, shape and scale of any recovery in the wider economy remains highly uncertain. Our view continues to be cautious as long as a number of serious impediments to growth remain.

Despite the macroeconomic uncertainty, we are confident in HSBC s continued ability to deliver results. Sustainable banking is our priority and, as we pursue a strategy of growth in faster-growing markets and in products where connectivity and scale can give us commercial advantage, we are convinced of our ability both to generate sustainable long-term growth for our shareholders and to contribute to balanced economic development in a way that benefits wider society.

Stephen Green, *Group Chairman*

3 August 2009

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HSBC HOLDINGS PLC

Group Chief Executive s Review

Managing the business through the downturn, and positioning for the upturn

In these tough times, we are deploying our capital base conservatively in order to build long-term, sustainable returns for our shareholders. We continue to provide responsible support for our customers, both depositors and borrowers. During this period of industry change we are taking opportunities to build market share in our target markets. We are adopting a conservative approach to risk management and have maintained a strong grip on costs. The value of HSBC s brand has been reinforced and we were delighted to be recognised as *Euromoney* s Global Bank of the Year for 2009.

In the first half, we saw much that is encouraging for our future.

We have continued to enhance HSBC s signature financial strength. We have further improved the core equity tier 1 ratio that we strengthened through the rights issue after meeting the dividend payments indicated at the time. By attracting core deposits, we have maintained a conservative advances-to-deposits ratio, which was 79.5 per cent at the end of the period. Although deposit spreads remained compressed in the challenging economic environment, HSBC is fully committed to its strong and distinctive liquidity position.

We delivered a significant increase in underlying operating revenues, excluding movements in fair value on our own debt related to credit spreads. We have stood aside from the aggressive competition for deposits driven by government-influenced banks but, thanks to our strong brand and selective pricing, we retained and grew the high level of personal balances gained during the market turmoil of 2008.

We have continued to strengthen our position in the world s faster-growing markets and we were especially pleased that the 2009 PwC survey *Foreign Banks in China* ranked HSBC top in ten major categories, confirming our position as the leading international bank in the country.

We have balanced our revenue growth with tight cost control. We reduced our total operating expenses and, excluding movements in fair value of own debt credit spreads, our cost efficiency ratio was 44.8 per cent, better than our target range.

This careful positioning of our balance sheet and our focus on the needs of our customers means that HSBC is well placed to build on opportunities as they emerge, as the record performance in Global Banking and Markets shows. Furthermore, as economies begin to recover and interest rates start to rise, we are confident that our deposit strength will reinforce our profitability and our flexibility to respond to new customer demand.

Growing the business in faster-growing markets

HSBC continues to strengthen its position in the world s faster-growing markets.

Mainland China remains key to our growth strategy. We opened 8 new HSBC-branded outlets in the country during the period, and remain on track to have around 100 by the year-end. We have the strongest rural presence of any international bank in mainland China, and added 2 new rural banks, bringing the total to 5. Hang Seng Bank also opened 2 new outlets in the period, bringing their total to 36.

Elsewhere, completion of our acquisition of Bank Ekonomi almost doubled our presence in Indonesia to 207 outlets in 26 cities. In India we successfully integrated the operations of IL&FS Investsmart, which has added further capabilities and 77 outlets to our wealth management business. We grew customer accounts by over US$17 billion in Asia during the period, notably in Hong Kong, India and mainland China. We also attracted deposits in Latin America in the commercial and global banking sectors.

Record performance in Global Banking and Markets

Global Banking and Markets reported a record pre-tax profit for the first half of 2009 of US$6.3 billion, more than double pre-tax profit for the first half of 2008, and a seven-fold increase compared with the second half.

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Group Chief Executive s Review (continued)

The success of our emerging markets-led and financing-focused strategy was proven by strong revenues in both developed and faster-growing markets. This was driven by market share gains in trading and financing as activity increased from earlier depressed conditions. Market conditions were also favourable and our performance in the second half of 2009 will depend in part on whether and how these change.

A record performance in the rates business and continued strong revenues in foreign exchange underscored the strength of our core products. The value of our client franchise was illustrated by strong growth in financing revenues, which rose by 17 per cent to US$1.6 billion compared with the first half of 2008. HSBC ranked first in the Bloomberg bond league table combining all issuance in Europe, the Middle East, Asia excluding Japan, and Latin America, up from third. *Euromoney* named HSBC Best Global Debt House for the first time, as well as Best Debt House in Asia, the Middle East and Latin America.

The benefits of our integrated business model have been reinforced in the current low interest rate environment. In Balance Sheet Management we generated significantly higher treasury revenues of US$3.4 billion as a result of positioning for lower interest rates.

Global Transaction Banking contributed revenues of US$1.5 billion, a decline of US$0.7 billion compared with the first half of 2008. This was largely driven by lower assets under custody and by the low interest rate environment, partially offset by higher deposit balances than in the comparable period in 2008.

With greater liquidity in financial markets and capital concerns receding, credit spreads improved considerably. Write-downs on legacy positions in credit trading, leveraged and acquisition financing, and monoline credit exposures amounted to US$762 million, significantly lower than in both the first and second halves of 2008.

Asset-backed securities held within our available-for-sale portfolios continued to perform in line with expectations and within the parameters of the stress testing we disclosed in March. The carrying value of the portfolio reduced from US$56.2 billion to US$47.1 billion during the first half of 2009, primarily through the sales of government-sponsored enterprise securities and through repayments.

Loan impairment charges rose in Global Banking due to adverse economic conditions, driven by deterioration in the credit position of a small number of clients.

Commercial Banking resilient

Commercial Banking delivered a pre-tax profit of US$2.4 billion in the first half of 2009, a solid performance in the current environment. Underlying pre-tax profit declined by 39 per cent compared with the first half of 2008 as the economic environment weakened. However, given the speed and depth of the downturn, credit quality remained remarkably resilient, and loan impairment charges were in line with the second half of 2008.

Commercial Banking continues to be at the heart of HSBC s strategy of expansion in faster-growing markets and serving customers with international needs. We increased customer numbers to 3.1 million during the period, with 61 per cent of new customers based in emerging markets. We saw strong growth in international product revenues, especially from foreign exchange and in trade and supply chain services. The volume of international referrals through our Global Links programme was 7 per cent higher than in the first half of last year.

During the period, our revenues benefited from a wide range of successful asset re-pricing initiatives, begun in 2008 across both emerging and developed markets. Our ability to re-price assets further in 2009 has reduced somewhat as the availability of credit has started to improve in many economies. Revenues also reflected a lower contribution from Global Transaction Banking, which declined by US$0.5 billion to US$1.9 billion, primarily due to lower deposit margins.

Customer deposits remained high, which we believe reflects in part a flight to quality since 2008. However customer loans and advances held up well despite the downturn, and we supported small and medium size businesses by launching our international SME Fund in Malaysia and further increasing our commitment in Hong Kong to HK$16 billion in July.

Personal Financial Services taking the long term view

The economic environment has been hard for depositors, who make up the majority of our Personal Financial Services customers. As a deposit-rich bank, HSBC has suffered too, and our liability revenues have been particularly depressed.

As a result, Personal Financial Services reported a loss before tax of US$1.2 billion in the first half of 2009, as our profitability outside the US was more

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than offset by losses within the US. Outside the US, credit quality deteriorated, but remains satisfactory in our view in light of economic conditions.

Our commitment to personal customers is unchanged and our liquidity position will drive strong revenue opportunities when a more normal interest rate environment returns. Even in the challenging current climate, we continue to deliver growth in our target customer segments. Through a focus on relationship banking and differentiated service, HSBC is winning new and affluent customers, and the total number of HSBC Premier customers has grown by 23 per cent over the last twelve months.

We committed £15 billion for new mortgage lending in the UK, of which we lent £6.7 billion during the first half of the year. We increased our share of UK mortgage sales from 4.5 per cent to 9.5 per cent and were one of the first major players to come back into the market to support first time buyers. In Hong Kong, we also maintained our leading position in new mortgage lending. Our market share increased to 32 per cent in June, while loan impairment charges remained very low.

Good progress in US Personal Financial Services

In the US, Personal Financial Services reported a pre-tax loss of US$2.9 billion for the first half of 2009, compared with a loss of US$2.2 billion in the first half of 2008 and a loss of US$15.2 billion in the second half including the goodwill impairment of US$10 billion.

HSBC Finance completed the closure of 813 Consumer Lending branches, incurring US$156 million in restructuring costs, which was lower than expected, and we are on track to achieve the financial savings we set out in March.

We are satisfied with the progress achieved on our run-off business at this point. The majority of our customers continue to meet their obligations and dollar delinquency stabilised in the first half of the year. Loan impairment charges increased at a lower rate than we expected, and were lower than in the second half of 2008. This was driven by early action in prior years to reduce exposure to higher risk segments, tight management of accounts and collections, lower loan balances and the impact of government stimulus programmes.

Our customers saw fewer opportunities for refinancing, which slowed the rate of run-off in the mortgage portfolio in the first half of the year. However, all parts of the exit consumer finance portfolio declined during the period and since we began to run down the portfolio, starting with the Mortgage Services business in the first quarter of 2007, we have cut balances by US$34 billion, or 27 per cent in total, to US$91 billion, including a US$9 billion reduction in the first half of 2009. We also continue to support customers in difficulty where we can. During the first half of 2009, HSBC Finance modified over 69,000 real estate customer loans with an aggregate balance of US$9.8 billion under the foreclosure avoidance account modification programme.

Our cards business was profitable in the first half of 2009, despite difficult economic conditions. The cards portfolio reduced faster than expected during the period due to actions taken to lower origination volumes and reduce credit limits, and the effect of lower customer spending. Overall, our cards performance in the first half of the year was better than expected, due in part to active management of our credit appetite in recent years and government stimulus programmes.

Returns in Private Banking remain healthy

Private Banking reported a pre-tax profit of US$632 million, a decline of 23 per cent compared with the record first half of 2008, but in line with the second half. Revenues were affected by a reduction in the value of funds under management, which reflected falls in equity markets and lower transaction volumes in equities, funds and structured products as a result of lower client risk appetite. In addition, disposal gains recorded in 2008 did not recur.

Client assets remained stable at US$345 billion despite continued deleveraging by clients and our decision not to compete at uneconomic pricing levels for deposits. Net new money fell during the period, although there were net inflows from Asia and Latin America, while intra-group referrals generated more than US$2 billion of net new money.

Good progress in Insurance

Our insurance activities, largely undertaken within Personal Financial Services, contributed US$1.2 billion, representing 16 per cent of the Group s pre-tax profit, excluding movements in fair value on own debt credit spreads. On an underlying basis, the decline in pre-tax profit of 17 per cent compared with the first half of 2008 was partly due to claims deterioration within general insurance in Europe.

However, on an underlying basis, net earned premiums were up by 10 per cent and our bancassurance strategy delivered well in Asia, Latin America and France, focusing on life products. In

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Group Chief Executive s Review (continued)

June, the China Insurance Regulatory Commission awarded a licence to our life insurance company, jointly owned with National Trust, which will allow us to establish our insurance manufacturing business in mainland China.

Strong grip on costs and efficiency

In the first half of 2009 we increased our efforts to manage costs and improve efficiency across the Group. Despite one-off restructuring and redundancy costs, underlying costs were 3 per cent lower than in the first half of 2008, excluding the impact of the 2008 goodwill impairment. We also reduced staff numbers by 5 per cent to 296,000.

Through our *One HSBC* programme, we have promoted our direct channels, automated manual processes, developed our offshore centres of excellence and eliminated redundant systems. In 2009, we anticipate investing more than US$450 million in the *One HSBC* programme.

HSBCnet is one of our most successful examples of developing a global platform for our customers. By the end of the period it was used by close to 50,000 large corporations, an increase of 41 per cent over the last two years. The number of customers using Business Direct, targeted at small and micro businesses, also increased to nearly 300,000 during the first half of 2009.

By the end of 2009 we expect the *One HSBC* payments programme to handle more than three-quarters of the Group s high value payments. Similarly, we expect to have more than 80 per cent of our cards on a common platform by the end of the year, reducing our reliance on external service providers and enabling us to use scale to reduce processing costs per card.

Actively managing risk

In most major economies, the outlook for recovery remains uncertain and we can expect levels of loan impairment charges to remain elevated. HSBC therefore continues to manage the quality of its asset base carefully, and we maintain a conservative approach to risk.

Within our personal customer portfolios, we have progressively tightened underwriting criteria, improved our assessment of customer affordability and improved collection processes. We have actively withdrawn from some higher risk consumer products, and we are targeting higher quality and lower risk business.

In our commercial businesses, we have continued to support customers in the downturn through more active relationship management and, in our wholesale businesses, we are focused on serving our long-standing core customers and have lowered our risk appetite for certain vulnerable and high-risk industry sectors.

Other actions taken to manage risk over the last few years have also produced results. We started to reduce our appetite for exposure to commercial real estate in 2007. We are now seeing the benefits of this, and have to date avoided any significant impairments within the Group. Our appetite for highly leveraged and acquisition financing opportunities has always been modest and concentrated on the top end of the market. We considerably reduced our exposure to the major US auto manufacturers and had no material exposure to those which fell into bankruptcy. Finally, HSBC s exposure to Eastern Europe, where certain economies have suffered particular stress recently, has remained modest.

Leveraging our brand and competitive position

We are encouraged by HSBC s performance in the first half of 2009. We have again proven our ability to deliver consistently through diversity, and to execute on our strategic priorities. Despite the continuing economic uncertainty, we remain confident in our ability to do so.

We are proud of HSBC s strong global reputation and during the period we were named the world s top banking brand by *Brand Finance.* We are equally proud of our staff and I would like to thank all of them for their continued hard work and commitment to our customers around the world.

Because of this powerful brand and our excellent team of people, we can be confident that customers will continue to choose HSBC for deposits, borrowing and all other financial services. As a result, we are confident that HSBC is strongly and competitively placed both to attract market share in developed markets and to grow our business in the faster-growing markets of the future.

Michael Geoghegan, *Group Chief Executive*

3 August 2009

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HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review

Principal activities

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$141 billion at 30 June 2009.

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 8,500 offices in 86 countries and territories in six geographical regions: Europe; Hong Kong; Rest of Asia-Pacific; the Middle East, including Africa; North America; and Latin America. Previously, the Middle East was reported as part of Rest of Asia-Pacific. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic or regional banks, typically with large retail deposit bases, and by consumer finance operations.

Strategic direction

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

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

HSBC is, therefore, continuing to direct incremental investment primarily to the faster growing markets and, in the more developed markets, is focusing on businesses and customer segments which have international connectivity. A policy of maintaining HSBC s capital strength and strong liquidity position remains complementary to these reshaping activities.

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

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

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

- the HSBC brand and global networks will be leveraged to reach new customers and offer further services to existing clients;
- efficiency will be enhanced by taking full advantage of local, regional and global economies of scale, in particular by adopting a common systems architecture wherever possible; and
- objectives and incentives will be aligned to motivate and reward staff for being fully engaged in delivering the strategy.

Risks and uncertainties

A detailed account of HSBC s risks and uncertainties is provided on pages 12 to 17 of the *Annual Report and Accounts 2008*. Further comments on expected risks and uncertainties are made throughout this Interim Management Report, particularly in the sections on Market Turmoil and Risk.

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HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Reconciliation of reported and underlying profit before tax

HSBC measures its performance internally on a like-for-like basis by eliminating the effects of foreign currency translation differences and acquisitions and disposals of subsidiaries and businesses, which distort period-on-period comparisons. HSBC refers to this as its underlying performance.

Constant currency

Constant currency comparatives for the half-years to 30 June 2008 and 31 December 2008, used in the 2009 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2008 and 31 December 2008 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2009; and
- the balance sheets at 30 June 2008 and 31 December 2008 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2009.

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

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

Underlying performance

The tables below compare the underlying performance of HSBC for the half-year to 30 June 2009 with the half-years to 30 June 2008 and 31 December 2008. Equivalent tables are provided for each of HSBC s customer groups and geographical segments in their respective sections below.

The foreign currency translation differences reflect the general strengthening of the US dollar compared with its value throughout 2008, and were most significant in Europe due to the size of HSBC s operations in the UK. The Group s reported profit before tax for the first half of 2009 decreased by 51 per cent compared with the first half of 2008. On an underlying basis the decline was 9 percentage points smaller. Reported profit before tax improved compared with the second half of 2008, by 634 per cent or 217 per cent on an underlying basis.

The following acquisitions and disposals affected these comparisons:

- the sale of HSBC s UK merchant acquiring business to a joint venture 49 per cent owned by the Group in June 2008 and the subsequent sale of the Group s share in this joint venture to the Group s partner in the venture in June 2009; and
- the disposal of seven French regional banking subsidiaries in July 2008.

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Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
HSBC	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	21,178	(65)	(1,841)	19,272		1,266	20,538	(3)	7
Net fee income	10,991	(58)	(1,181)	9,752		(1,324)	8,428	(23)	(14)
Changes in fair value[5]	577		36	613		(2,913)	(2,300)	(499)	(475)
Other income[6]	6,729	(514)	(1,511)	4,704	280	3,091	8,075	20	66
Net operating income[7]	39,475	(637)	(4,497)	34,341	280	120	34,741	(12)	
Loan impairment charges and other credit risk provisions	(10,058)	6	592	(9,460)		(4,471)	(13,931)	(39)	(47)
Net operating income	29,417	(631)	(3,905)	24,881	280	(4,351)	20,810	(29)	(17)
Operating expenses (excluding goodwill impairment)	(19,613)	68	2,376	(17,169)		511	(16,658)	15	3
Goodwill impairment	(527)			(527)		527		100	100
Operating profit	9,277	(563)	(1,529)	7,185	280	(3,313)	4,152	(55)	(46)
Income from associates	970		26	996		(129)	867	(11)	(13)
Profit before tax	10,247	(563)	(1,503)	8,181	280	(3,442)	5,019	(51)	(42)

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
HSBC	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	21,385		(1,093)	20,292		246	20,538	(4)	1
Net fee income	9,033		(558)	8,475		(47)	8,428	(7)	(1)
Changes in fair value[5]	6,102		(100)	6,002		(8,302)	(2,300)	(138)	(138)
Gain on disposal of French regional banks	2,445	(2,445)							
Other income[6]	3,242	(166)	(577)	2,499	280	5,296	8,075	149	212
Net operating income[7]	42,207	(2,611)	(2,328)	37,268	280	(2,807)	34,741	(18)	(8)
Loan impairment charges and other credit risk provisions	(14,879)		520	(14,359)		428	(13,931)	6	3
Net operating income	27,328	(2,611)	(1,808)	22,909	280	(2,379)	20,810	(24)	(10)
Operating expenses (excluding goodwill impairment)	(18,922)		1,315	(17,607)		949	(16,658)	12	5
Goodwill impairment	(10,037)			(10,037)		10,037		100	100
Operating profit/(loss)	(1,631)	(2,611)	(493)	(4,735)	280	8,607	4,152	355	182
Income from associates	691		(2)	689		178	867	25	26
Profit/(loss) before tax	(940)	(2,611)	(495)	(4,046)	280	8,785	5,019	634	217

For footnotes, see page 94.

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Financial summary
Income statement

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Interest income	**32,479**	47,164	44,137
Interest expense	**(11,941)**	(25,986)	(22,752)
Net interest income	**20,538**	21,178	21,385
Fee income	**10,191**	13,381	11,383
Fee expense	**(1,763)**	(2,390)	(2,350)
Net fee income	**8,428**	10,991	9,033
Trading income excluding net interest income	**4,301**	639	208
Net interest income on trading activities	**1,954**	3,195	2,518
Net trading income	**6,255**	3,834	2,726
Changes in fair value of long-term debt issued and related derivatives[1]	**(2,300)**	577	6,102
Net income/(expense) from other financial instruments designated at fair value	**777**	(1,161)	(1,666)
Net income/(expense) from financial instruments designated at fair value	**(1,523)**	(584)	4,436
Gains less losses from financial investments	**323**	817	(620)
Dividend income	**57**	88	184
Net earned insurance premiums	**5,012**	5,153	5,697
Gains on disposal of French regional banks			2,445
Other operating income	**1,158**	1,435	373
Total operating income	**40,248**	42,912	45,659

Net insurance claims incurred and movement in liabilities to policyholders	**(5,507)**	(3,437)	(3,452)
Net operating income before loan impairment charges and other credit risk provisions	**34,741**	39,475	42,207
Loan impairment charges and other credit risk provisions	**(13,931)**	(10,058)	(14,879)
Net operating income	**20,810**	29,417	27,328
Employee compensation and benefits	**(9,207)**	(10,925)	(9,867)
General and administrative expenses	**(6,258)**	(7,479)	(7,781)
Depreciation and impairment of property, plant and equipment	**(814)**	(863)	(887)
Goodwill impairment		(527)	(10,037)
Amortisation and impairment of intangible assets	**(379)**	(346)	(387)
Total operating expenses	**(16,658)**	(20,140)	(28,959)
Operating profit/(loss)	**4,152**	9,277	(1,631)
Share of profit in associates and joint ventures	**867**	970	691
Profit/(loss) before tax	**5,019**	10,247	(940)
Tax expense	**(1,286)**	(1,941)	(868)
Profit/(loss) for the period	**3,733**	8,306	(1,808)
Profit/(loss) attributable to shareholders of the parent company	**3,347**	7,722	(1,994)
Profit attributable to minority interests	**386**	584	186

1 *The change in fair value related to movements in the Group s credit spread on long-term debt resulted in an expense of US$2.5 billion in the first half of 2009 (first half of 2008: income*

of
US$824 million;
second half of
2008: income of
US$5.7 billion).

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Pre-tax profits in the first half of 2009 were US$5.0 billion, a fall of 51 per cent compared with the first half of 2008. On an underlying basis, profit before tax was 42 per cent lower than the first half of 2008.

This underlying movement can be attributed to a turnaround in the movement in the fair value of HSBC s own debt from changes in HSBC s credit spread, which the Group does not regard as part of managed performance. The credit spread on the Group s long-term debt narrowed during the period as market conditions improved for financial sector debt instruments, and HSBC incurred a US$2.5 billion loss due to movements in the fair value of that debt attributed to credit spread, compared with a US$0.8 billion gain in the first half of 2008. These adjustments were recorded in the Other segment, were not allocated to customer groups and were not included within regulatory capital calculations.

Stripping out credit spread-related fair value movements on own debt from this underlying figure, profit before tax was 3 per cent lower than in the first half of 2008. The difference between reported and underlying results is explained on page 12. Except where otherwise stated, the commentaries in the Financial Summary are on an underlying basis.

Excluding the movement in fair value of own debt, HSBC s net revenues were driven by a record performance in Global Banking and Markets, and these revenues, together with a US$1.0 billion reduction in expenses, largely offset a US$4.5 billion rise in loan impairment charges and other credit risk provisions.

A record performance in Global Banking and Markets underpinned a 10 per cent growth in Group revenue, excluding credit spread-related movements in fair value of own debt.

The rise in loan impairment charges, which reflected continuing weakness in the US consumer finance business and the effect of deteriorating global economic conditions, and the fall in interest rates globally, which reduced the value of the Group s strong deposit base, meant that pre-tax profit declined in all regions and customer groups compared with the first half of 2008, apart from Global Banking and Markets. Its record performance was driven by market share and margin improvements in core business areas such as foreign exchange, interest rate and credit products and financing, and substantially higher treasury earnings within Balance Sheet Management from deployment of other customer groups surplus deposits and from positions taken during 2008 in anticipation of the reduction in short-term interest rates. HSBC also benefited from significantly lower write-downs on legacy structured credit positions and asset-backed securities.

Earnings per share declined to US$0.21 compared with US$0.57 in the first half of 2008, adjusted for the rights issue.

Group performance by income and expense item

Net interest income

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
Net interest income[9] (US$m)	**20,538**	21,178	21,385
Average interest-earning assets (US$m)	**1,345,569**	1,420,288	1,512,452
Gross interest yield[10] (per cent)	**4.87**	6.68	5.80
Net interest spread[11] (per cent)	**3.05**	3.03	2.73
Net interest margin[12] (per cent)	**3.08**	3.00	2.81

For footnotes, see page 94.

Reported net interest income of US$20.5 billion was 3 per cent lower than in the first half of 2008, 7 per cent higher on an underlying basis.

Growth in net interest income was driven by strong treasury earnings recorded in Balance Sheet Management, which benefited from the deployment of large and growing core deposit surpluses within the Group and from positions taken during 2008 in anticipation of the significant reduction in short-term interest rates as central banks responded to the turmoil in markets. The fall in interest rates also reduced the cost of funding for the Group s trading assets, further boosting net interest income. By contrast, in Personal Financial Services and Commercial Banking, the unprecedentedly low short-term interest rates reduced the value of deposits which, in normal times, are a principal driver of revenues for HSBC.

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Net interest income benefited from the deployment of large and growing commercial surpluses within the Group.

Average interest-earning assets increased due to a significant rise in financial investments as Balance Sheet Management increased HSBC s liquidity and deployed the Group s growing commercial deposit surpluses and the funds received from the rights issue. This was accompanied by an increase in loans and advances to customers in Europe which more than offset a decrease in North America as the consumer finance business continued to run off.

Average interest-bearing liabilities increased due

to the sharp rise in savings accounts in the second half of 2008, when clients liquidated riskier investments and sought to deposit funds with stable financial institutions. This growth was partly reversed during the first half of 2009 as conditions stabilised.

As short-term interest rates fell to very low levels, liability spreads remained under pressure, particularly on savings accounts. Repricing led to a widening of asset spreads, despite the expansion in the lower yielding financial investments portfolio. The overall net interest spread remained stable.

Net fee income

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	US$m	US$m	US$m
Cards	**2,209**	3,089	2,755
Account services	**1,771**	2,260	2,093
Funds under management	**945**	1,572	1,185
Broking income	**749**	954	784
Credit facilities	**729**	639	674
Insurance	**688**	942	829
Global custody	**471**	757	554
Imports/exports	**438**	496	518
Underwriting	**348**	204	121
Remittances	**281**	307	303
Corporate finance	**164**	232	149
Unit trusts	**137**	337	165
Trust income	**134**	164	161
Taxpayer financial services	**91**	154	14
Mortgage servicing	**62**	56	64
Maintenance income on operating leases	**55**	70	60
Other	**919**	1,148	954
Total fee income	**10,191**	13,381	11,383
Less: fee expense	**(1,763)**	(2,390)	(2,350)
Net fee income	**8,428**	10,991	9,033

Reported net fee income declined by US$2.6 billion to US$8.4 billion, 14 per cent lower on an underlying basis.

The reduction in fee income was driven by two principal causes: lower credit card origination and utilisation fees caused by the economic downturn and changes to charging practices, primarily in the US; and investor preference for the security of deposit products which reduced flows into, and the value of, equity products.

Credit card fee income fell significantly, primarily in the US and the UK. In the US, this resulted from lower volumes and changes in customer behaviour. In the UK, the decline was partly due to the disposal of the card-acquiring business to a joint venture in June 2008 and lower transaction volumes reflecting reduced customer demand.

Equity market-related revenues fell, primarily in Asia and Europe, driven by lower trading volumes in equity products, which was attributable to lower equity values and weakened investor sentiment. This reduced broking, global custody, funds under management and unit trust fee income.

Fees from Taxpayer Financial Services in the US fell due to a change in product mix towards lower revenue products and the termination of all partner relationships but one.

Partly offsetting the above, corporate credit facility and underwriting fees increased, reflecting strong performances in credit and lending due to higher syndication fees as a result of increased debt originations in Europe and North America.

Net trading income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Trading activities	**3,294**	559	2,429
Net interest income on trading activities	**1,954**	3,195	2,518
Other trading income hedge ineffectiveness:			
on cash flow hedges	**33**	(15)	(25)
on fair value hedges	**(3)**	(20)	25
Non-qualifying hedges	**977**	115	(1,237)
Losses on collapse of Bernard L Madoff Investment Securities LLC			(984)
Net trading income[13,14]	**6,255**	3,834	2,726

For footnotes, see page 94.

Reported net trading income increased by 63 per cent to US$6.3 billion, 123 per cent higher on an underlying basis.

Net income from trading activities increased significantly, with a record performance in Rates, increased foreign exchange earnings and significantly lower write-downs on legacy structured credit positions and asset-backed securities portfolios. With greater liquidity in the market, credit spreads improved considerably, which favourably affected performance in the core Credit business as customer appetite for corporate bonds increased and the market diversified away from government bond holdings. HSBC s strong capital position and its strength in emerging markets remained key attributes in attracting customer business to the Group.

HSBC s strong capital position and strength in emerging markets remained key attributes in attracting customer business to the Group.

The increase in Rates income was driven by correct positioning against interest rate movements, an increase in customer demand for trading and hedging products and an improvement in bid-offer spreads. This was partly offset by fair value losses on structured liabilities as credit spreads narrowed compared with gains in the first half of 2008. Similarly, the increase in foreign exchange trading

income was driven by market volatility and increased customer volumes.

Equities trading declined due to lower demand for structured equity products, compounded by the non-recurrence of gains in the first half of 2008.

The rise in income from trading activities was partly offset by a reduction in the net interest income earned on trading activities, as interest rates fell sharply. The internal funding cost of trading activities was also lower than in the first half of 2008. This compensating benefit is reported within Net interest income .

Within net trading income the benefit from non-qualifying hedges increased, mainly due to fair value gains on currency swaps held against non-dollar denominated debt instruments.

During the second half of 2008, HSBC reclassified US$17.9 billion of assets from held for trading to loans and receivables and available for sale following the IASB s amendment to IAS 39. Had these reclassifications not taken place and the reclassified assets had continued to be accounted for on a fair value basis, an additional net loss of US$0.3 billion would have been recorded in the first half of 2009. Further information on the effect of reclassifying these assets can be found in Impact of Market Turmoil on pages 96 to 137.

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

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**956**	(2,023)	(3,041)
liabilities to customers under investment contracts	**(197)**	745	1,006
HSBC s long-term debt issued and related derivatives	**(2,300)**	577	6,102
Change in own credit spread on long-term debt	**(2,457)**	824	5,746
Other changes in fair value[15]	**157**	(247)	356
other instruments designated at fair value and related derivatives	**18**	117	369
Net income/(expense) from financial instruments designated at fair value	**(1,523)**	(584)	4,436
Financial assets designated at fair value at period end	**33,361**	40,786	28,533
Financial liabilities designated at fair value at period end	**77,314**	89,758	74,587

For footnote, see page 94.

HSBC designates certain financial instruments at fair value to remove or reduce accounting mismatches in measurement or recognition, or where financial instruments are managed and their performance is evaluated together on a fair value basis. All income and expense from financial instruments designated at fair value are included in this line except for interest arising from HSBC s issued debt securities and related derivatives managed in conjunction with those debt securities, which is recognised in Interest expense .

HSBC principally uses the fair value designation in the following instances:

for certain fixed-rate long-term debt issues whose rate profile has been changed to floating through interest rate swaps as part of a documented interest rate management strategy. US$61 billion (31 December 2008: US$59 billion) of the Group s debt issues have been accounted for using the fair value option.

The movement in fair value of these debt issues includes the effect of own credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. As credit spreads widen or narrow, accounting profits or losses are booked, respectively. The size and direction of the accounting consequences of changes in own credit spread and ineffectiveness can be volatile from year to year, but do not alter the cash flows envisaged as part of the documented interest rate management strategy; as a consequence of this, gains and losses arising from changes in own credit spread on long-term debt are not regarded internally as part of managed performance. Similarly, such gains and losses are ignored in the calculation of regulatory capital;

for US$12 billion (31 December 2008: US$11 billion) of financial assets held to meet liabilities under insurance contracts, and certain liabilities under investment contracts with discretionary participation features; and for US$7 billion (31 December 2008: US$7 billion) of financial assets held to meet liabilities under unit-linked and other investment contracts.

A net expense from financial instruments designated at fair value of US$1.5 billion was reported, compared with a net expense of US$584 million in the first half of 2008.

Credit spreads narrowed markedly during the second quarter of 2009, leading to a significant negative fair value movement on certain long-term debt in issue by the Group in the second quarter as positive movements booked in previous periods partially reversed. This more than offset the positive movement in respect of the first quarter, resulting in US$2.5 billion of negative fair value movement attributed to credit spread movement on HSBC s own debt for the first half of 2009. The cumulative fair value adjustment at 30 June 2009 amounted to a net reduction in the carrying value of the debt (gains recognised) of US$5.5 billion; this will fully reverse over the life of the debt.

A positive fair value movement of US$1.0 billion was recorded on assets held to back insurance and investment contracts, compared with a negative movement of US$2.0 billion in the first half of 2008. This reflected investment gains in the current year driven by improvement in investment market performance, predominantly affecting the value of assets held in unit-linked and participating funds in Hong Kong, the UK and France. The

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positive movement in fair value is partly offset by a corresponding increase in Net insurance claims and movement in liabilities to policyholders to reflect the extent to which unit-linked policyholders, in particular, participate in the investment performance experienced on the linked investment portfolios.

For assets held to meet liabilities under investment contracts, a corresponding increase in the liability to customers is also reported within net income from financial instruments designated at fair value. The increase of US$197 million in the fair value of liabilities held under investment contracts reflected the improved performance of investment markets in the period and compared with a US$745 million reduction in the first half of 2008.

Gains less losses from financial investments

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net gains/(losses) from disposal of:			
debt securities	**329**	38	(19)
equity securities	**268**	1,107	109
other financial investments	**7**	(11)	15
	604	1,134	105
Impairment of available-for-sale equity securities	**(281)**	(317)	(725)
Gains less losses from financial investments	**323**	817	(620)

Reported net gains from financial investments of US$323 million were 60 per cent lower than in the first half of 2008, 47 per cent lower on an underlying basis. This was driven by a lower level of gains from disposals of equity investments compared with the first half of 2008, partly offset by gains on the disposal of debt securities in North America.

Net gains on the disposal of equity securities decreased significantly. A sale of Visa Inc. (Visa) shares in the first half of 2009 generated a gain of US$225 million, lower than the gain of US$332 million earned from disposals in the first half of 2008. Certain gains recognised in the first half of 2008 were not repeated in 2009, including from the sale of MasterCard Inc. (MasterCard) shares, four French mutual funds and HSBC s residual interest in the Hermitage Fund.

Net gains from the disposal of debt securities increased compared with the first half of 2008. This was primarily due to gains recorded on the sale of mortgage-backed securities in North America.

The level of impairments on equity investments fell slightly as the absence of impairments recognised in the first half of 2008 on strategic investments held in the available-for-sale portfolio in Asia was largely offset by impairments on certain Private Equity investments as the markets for unlisted investments remained illiquid.

Net earned insurance premiums

Half-year to

	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Gross insurance premium income	**5,255**	6,591	5,956
Reinsurance premiums	**(243)**	(1,438)	(259)
Net earned insurance premiums	**5,012**	5,153	5,697

Reported net earned insurance premiums amounted to US$5.0 billion, 3 per cent lower than in the first half of 2008. On an underlying basis, net earned insurance premiums increased by 10 per cent.

The growth in net earned insurance premiums was largely due to increased sales of traditional life products in Hong Kong, as a result of a strong focus on insurance sales within the branch network, and the non-recurrence of a large reinsurance transaction in France in June 2008, which passed insurance premiums to a third-party reinsurance provider. Adjusting for this, net earned insurance premiums in France were relatively unchanged despite a significant reduction in the distribution network following the disposal of the regional banks in July 2008.

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Insurance sales also developed well in Singapore following the launch of a new individual life single premium product, and in Ireland due to higher inward reinsurance premiums.

Partially offsetting this growth was the withdrawal of the Guaranteed Income Bond from sale in the UK as the product was no longer commercially viable in the prevailing economic environment. Furthermore, sales of insurance products in North America, which are strongly linked to loan originations and volumes, were adversely affected by the decision to run-off the branch-based consumer finance business.

Other operating income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Rent received	**273**	326	280
Losses recognised on assets held for sale	**(120)**	(16)	(114)
Valuation gains/(losses) on investment properties	**(43)**	27	(119)
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**305**	412	53
Change in present value of in-force long-term insurance business	**290**	324	(38)
Gain on repurchase of 8 Canada Square			416
Other	**453**	362	(105)
Other operating income	**1,158**	1,435	373

Reported other operating income of US$1.2 billion was 19 per cent lower than in the first half of 2008. This included gains of US$425 million in the first half of 2008 and US$280 million in 2009 on the sale, in two tranches, of the card merchant-acquiring business in the UK. On an underlying basis, other operating income rose by 21 per cent, primarily driven by gains on the sale of prime residential mortgages and lower losses on foreclosed properties in the US due to a reduction in stock of unsold properties.

Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**5,505**	4,769	4,437
reinsurers share	**2**	(1,332)	(985)

net[16]	**5,507**	3,437	3,452

For footnote, see page 94.

Reported net insurance claims incurred and movement in liabilities to policyholders increased by 60 per cent to US$5.5 billion. On an underlying basis, they grew by 81 per cent.

The increase in net insurance claims incurred and movement in liabilities to policyholders primarily reflected an improvement in investment market performance compared with the first half of 2008. This led to investment gains and therefore a positive movement in liabilities to policyholders on unit-linked and, to a certain extent, participating policies where policyholders share in the investment performance of the assets supporting a policy. The gains experienced on the assets held to support insurance contract liabilities are reported in Net income from financial instruments designated at fair value .

As well as market value movements, premium growth, particularly in Hong Kong, also contributed to the increase in policyholder liabilities, as did the non-recurrence of certain events which occurred in the first half of 2008, including the significant reinsurance transaction in France referred to above.

As a consequence of a rising incidence and severity of claims, there was a US$105 million strengthening of reserves in the UK motor book during the period.

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Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Loan impairment charges			
New allowances net of allowance releases	**13,710**	10,436	14,529
Recoveries of amounts previously written off	**(377)**	(479)	(355)
	13,333	9,957	14,174
Individually assessed allowances	**2,250**	332	1,732
Collectively assessed allowances	**11,083**	9,625	12,442
Impairment of available-for-sale debt securities	**591**	67	670
Other credit risk provisions	**7**	34	35
Loan impairment charges and other credit risk provisions	**13,931**	10,058	14,879
	%	%	%
as a percentage of net operating income before loan impairment charges and other credit risk provisions	**40.1**	25.5	35.3
Impairment charges on loans and advances to customers as a percentage of gross average loans and advances to customers (annualised)	**3.1**	2.0	2.9
	US$m	US$m	US$m
Customer impaired loans	**31,826**	20,702	25,352
Customer loan impairment allowances	**27,701**	20,580	23,909

Reported loan impairment charges and other credit risk provisions were US$13.9 billion, an increase of 39 per cent compared with the first half of 2008. On an underlying basis, loan impairment charges and other credit risk provisions were 47 per cent higher than in the first half of 2008 and 3 per cent lower than in the second half of the year.

Compared with the first half of 2008, deterioration in credit quality was experienced across all customer groups and regions as the global economy weakened, with significant reductions in trade flows, falls in commodity prices and rising unemployment. In addition, stresses within many financial systems reduced the supply of credit to both personal and corporate customers, restricting refinancing options. This resulted in a rise in Group loan impairment charges and other credit risk provisions notwithstanding an underlying 5 per cent decline in lending to customers, primarily from the run-off within the US consumer finance business.

Loan impairment charges and other credit risk provisions rose significantly in Personal Financial Services, by 20 per cent to US$10.7 billion, due to a widespread deterioration in credit quality affecting all regions, most notably North America as the US economy weakened further and unemployment grew.

The continued rise in unemployment, higher levels of personal bankruptcy filings, portfolio seasoning, further declines in house prices and limited refinancing options adversely affected loan impairment charges in US Personal Financial
Services. In HSBC Bank USA, N.A. (HSBC Bank USA), higher loan impairment charges were driven by an increase in delinquencies in the first lien prime residential mortgage portfolio. In the real-estate secured portfolios within HSBC Finance Corporation (HSBC Finance), which are in run-off, credit delinquency was most notable within first lien loans in Consumer Lending. Loan impairment charges in Mortgage Services, however, declined due to lower balances as the portfolio, which was put into run-off during 2007, further seasoned and continued to shrink. Underlying loan impairment charges and other credit provisions were lower than in the second half of 2008.

In the Consumer Lending unsecured portfolio, loan impairment charges rose due to credit delinquency in the 2006 and 2007 vintages, the effect of which was uneven, being more pronounced in certain geographical regions. In US Card and Retail Services, loan impairment charges increased for the reasons explained above, partly offset by an extended seasonal effect as consumers experienced a higher availability of cash due to various government economic stimulus programmes, reduced expenditure on energy, and lower levels of consumption, as well as management action taken to tighten credit availability.

Notwithstanding the above, loan impairment charges in HSBC Finance were lower than in the second half of 2008 and were lower than might

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have been anticipated given the rise in unemployment.

To date, delinquency levels, which might have been affected by the closure of the Consumer Lending branches, continue to perform within expectations.

In the UK, a rise in loan impairment charges in Personal Financial Services reflected rising delinquency rates in the personal loan and credit card portfolios due to a weakening economy. This was partly mitigated by the early implementation of improved collection practices and previous decisions to curtail growth in unsecured lending, which resulted in a year-on-year decline in other personal lending. In the real estate secured portfolios, overall delinquencies rose only modestly despite higher unemployment and continued house price depreciation, and loan impairment charges were low, reflecting modest growth in 2006 and 2007 and HSBC s very limited participation in the buy-to-let and brokered segments of the market. HSBC s mortgage exposure remained well-secured with average loan to value ratios in the UK of below 60 per cent. Credit quality in the unsecured portfolios deteriorated slightly in the period as consumers were affected by higher unemployment and lower household incomes.

In Brazil, loan impairment charges in Personal Financial Services rose as increased unemployment led to higher delinquencies across a range of products, in addition to the non-recurrence of a significant recovery in the first half of 2008 from the sale of a portfolio of written-down loans. In Mexico, higher loan impairment charges reflected higher delinquency rates, most notably in the credit cards business, as the deterioration in economic conditions was exacerbated by the impact of the H1N1 flu virus. Tighter credit origination policies have been put in place in Mexico to limit new issuance and the existing portfolio is being worked down. In the first half of 2009, credit card outstanding balances fell from US$2.4 billion to US$2.1 billion.

In Rest of Asia-Pacific, the rise in loan impairment charges in Personal Financial Services principally reflected a deterioration in the credit card and unsecured personal loan portfolios in India. HSBC took specific actions to mitigate loan losses there, including discontinuing origination in certain segments and tightening lending criteria, which resulted in a decline in balances.

In Personal Financial Services in Hong Kong, loan impairment charges rose from a low base, with increased delinquency in the credit card portfolio as economic conditions weakened.

In the Middle East, lower oil prices, a significant reduction in construction activity and the effect of falling equity and property prices on personal wealth contributed to the rise from a low base in loan impairment charges in the credit card and personal loan portfolios in Personal Financial Services, as economic activity in the region slowed and an increased numbers of expatriate workers departed leaving debts unpaid.

In Global Banking and Markets, loan impairment charges and other credit risk provisions rose by US$1.6 billion to US$1.7 billion, which reflected deterioration in the credit position of a small number of clients. Within this total, US$0.6 billion reflected impairments recognised in the available-for-sale debt securities portfolio, most notably on monoline-wrapped bonds where the monoline insurer s credit rating had been downgraded in the period; these impairments were in line with the stress test parameters described on page 149 of the *Annual Report and Accounts 2008.*

In Commercial Banking, loan impairment charges rose by US$1.0 billion to US$1.5 billion. Loan impairment charges in the UK grew as continued weakness in the economy led to higher impairment charges particularly against exposures to the real estate and construction sectors. Higher loan impairment charges in India were mainly on a small number of exposures to technology-related companies. They also rose in Hong Kong as exporters experienced a sharp downturn in business due to the contraction in global trade, and in Brazil, where they were driven by credit quality deterioration on exposures to firms in the small and mid-market sectors due to a general slowdown in economic activity.

Loan impairment charges in North America Commercial Banking rose from a relatively low base, driven by credit deterioration in business banking and commercial real estate exposures in the US, and among firms in the manufacturing, commercial real estate and export sectors in Canada which were affected by the continued weakness in the US economy.

HSBC s total outstanding customer loan impairment allowances at 30 June 2009 of US$28 billion represented 3.1 per cent of gross customer advances (net of reverse repos and settlement accounts), compared with 2.0 per cent at 30 June 2008.

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Operating expenses

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
By expense category			
Employee compensation and benefits	**9,207**	10,925	9,867
Premises and equipment (excluding depreciation and impairment)	**2,048**	2,137	2,168
General and administrative expenses	**4,210**	5,342	5,613
Administrative expenses	**15,465**	18,404	17,648
Depreciation and impairment of property, plant and equipment	**814**	863	887
Amortisation and impairment of intangible assets	**379**	346	387
Goodwill impairment		527	10,037
Operating expenses	**16,658**	20,140	28,959

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Staff numbers (full-time equivalent)			
Europe	**79,132**	84,457	82,093
Hong Kong	**28,259**	29,467	29,330
Rest of Asia-Pacific[17]	**87,567**	85,581	89,706
Middle East[17]	**8,819**	8,166	8,453
North America	**37,021**	48,069	44,725
Latin America	**54,812**	63,851	58,559
	295,610	319,591	312,866

For footnote, see page 94.

Reported operating expenses fell by US$3.5 billion to US$16.7 billion. On an underlying basis, operating expenditure fell by 6 per cent, primarily from the non-recurrence of a goodwill impairment charge in the first half of 2008 and an accounting benefit in the first half of 2009 from a change in the way certain staff benefits are provided to employees in the UK, partly offset by restructuring costs, primarily in the US and the UK, in 2009.

Operating expenses fell by 6 per cent despite continuing business expansion in selected markets and growth in performance-related compensation in Global Banking and Markets.

Employee compensation and benefits fell by 4 per cent. The decrease in staff numbers in the US was primarily driven by the closure of the branch-based consumer finance business and lower volumes. In the UK, a reduction in costs reflected a change in the basis of delivering death-in-service, ill health and early retirement benefits for some UK employees, which generated an accounting gain of US$499 million partly offset by a change in actuarial valuation on the defined benefit pension scheme. Higher costs in Global Banking and Markets reflected a rise in performance-related pay.

Premises and equipment costs increased as one-off costs were incurred due to the closure of

the Consumer Lending branch network in the US and HFC UK branches in the UK. Business expansion, primarily in the Rest of Asia-Pacific region and the Middle East, also resulted in higher infrastructure costs.

General and administrative expenses decreased as HSBC maintained its efforts to manage costs, increase efficiency and join up the Group. The *One HSBC* programme continued to contribute to progress through better use of direct channels, increased automation of manual processes, enhanced utilisation of global service centres and elimination of redundant systems. Marketing and advertising costs fell in all regions, but most notably in North America as credit origination was heavily curtailed. There was an aggregate increase in deposit insurance costs of US$190 million in the US and in the UK as part of the bailout costs of failed banks. The recovery of transactional taxes in Brazil in 2008 also affected the period-on-period comparison.

A goodwill impairment charge amounting to US$527 million was booked in the first half of 2008 to reflect deterioration in economic and credit conditions in North America at that time.

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Cost efficiency ratios

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	%	%	%
HSBC	**47.9**	51.0	68.6
Personal Financial Services	**49.1**	49.5	108.1
Europe	**65.7**	57.3	69.4
Hong Kong	**34.6**	29.1	36.1
Rest of Asia-Pacific[17]	**79.9**	75.0	88.2
Middle East[17]	**48.7**	51.4	54.8
North America	**36.9**	44.6	181.9
Latin America	**62.9**	57.4	62.1
Commercial Banking	**43.2**	40.2	46.1
Europe	**40.7**	39.4	50.6
Hong Kong	**33.4**	23.7	28.9
Rest of Asia-Pacific[17]	**45.4**	44.9	46.7
Middle East[17]	**32.1**	31.9	32.2
North America	**49.3**	44.7	47.6
Latin America	**54.4**	55.2	54.7

For footnote, see page 94.
Share of profit in associates and joint ventures

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	US$m	US$m	US$m
Associates			
Bank of Communications Co., Limited	**358**	349	392
Ping An Insurance (Group) Company of China, Limited	**235**	297	27
Industrial Bank Co., Limited	**92**	102	119
The Saudi British Bank	**136**	146	105
Other	**19**	47	16
Share of profit in associates	**840**	941	659
Share of profit in joint ventures	**27**	29	32

Share of profit in associates and joint ventures	**867**	970	691

HSBC s share of profit from its associates and joint ventures was US$867 million, a decrease of 11 per cent compared with the first half of 2008, and 13 per cent lower on an underlying basis.

This decrease was principally driven by lower contributions from Ping An Insurance (Group) Company of China, Limited (Ping An Insurance), Industrial Bank Co., Limited (Industrial Bank) and The Saudi British Bank.

HSBC accounts for its associates in mainland China one quarter in arrears in order to meet the Group reporting timetable, so in the current period the contributions reflect the fourth quarter of 2008 and the first quarter of 2009.

HSBC s share of profits from the Bank of Communications Co., Limited (Bank of Communications) remained in line with the first half of 2008 as increased fee income from cards and advisory services and cost savings were offset by reduced income from narrower deposit spreads.

HSBC s share of profits from Ping An Insurance decreased by 25 per cent due to the non-recurrence of favourable changes in investment assumptions in the first half of 2008.

Profits from The Saudi British Bank were lower than in the first half of 2008 as an increase in net operating income due to strong foreign exchange and trade-related performance was offset by a rise in loan impairment charges and marginally higher operating expenses from business expansion.

Profits from Industrial Bank declined marginally, due to a fall in net interest income as deposit spreads narrowed.

The fall in share of profits from joint ventures reflected a decline in the profitability of HSBC Saudi Arabia Ltd (IBSA) attributable to lower investment

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banking activity in 2009, offset in part by the inclusion in 2009 of profits from HSBC Merchant Services UK Ltd, which was created in June 2008. HSBC s 49 per cent share of the latter was sold in June 2009.

Economic profit

HSBC s internal performance measures include economic profit, a calculation which compares the return on financial capital invested in HSBC by its shareholders with the cost of that capital. HSBC prices its cost of capital internally and the difference between that cost and the post-tax profit attributable to ordinary shareholders represents the amount of economic profit generated. Economic profit generated is used by management as one input in deciding where to allocate capital and other resources.

In order to concentrate on external factors rather than measurement bases, HSBC emphasises the trend in economic profit ahead of absolute amounts within business units. The long-term cost of capital is regularly benchmarked on a consolidated basis and for 2009 remains at 10 per cent.

Economic profit decreased by US$4.0 billion. A decline in profit attributable reflected a significant increase in loan impairment charges and other credit risk provisions, and fair value losses on own debt of US$2.5 billion as credit spreads tightened, compared with a gain of US$0.8 billion in the first half of 2008.

Average invested capital decreased by 7 per cent due to the impact on shareholders equity of the effect of a stronger US dollar on foreign currency translation, partly offset by the additional equity raised through the rights issue. The benefit of the rights issue was not fully reflected in the average invested capital as the transaction was not completed until the second quarter of 2009.

The lower return on average invested capital led to a decrease in economic profit and an erosion in economic spread, which fell by 6.1 percentage points compared with the first half of 2008.

Economic profit

			Half-year to			
	30 June 2009		30 June 2008[18]		31 December 2008	
	US$m	**%**[19]	US$m	%[19]	US$m	%[19]
Average total shareholders equity	**105,734**		128,409		116,241	
Adjusted by:						
Goodwill previously amortised or written off	**8,123**		8,172		8,132	
Property revaluation reserves	**(804)**		(847)		(809)	
Reserves representing unrealised losses on effective cash flow hedges	**582**		1,069		926	
Reserves representing unrealised losses on available-for-sale securities	**19,456**		3,989		14,281	
Preference shares and other equity instruments	**(3,538)**		(1,939)		(3,423)	
Average invested capital[20]	**129,553**		138,853		135,348	
Return on average invested capital[21]	**3,213**	**5.0**	7,677	11.1	(2,180)	(3.2)

Benchmark cost of capital	**(6,424)**	**(10.0)**	(6,905)	(10.0)	(6,804)	(10.0)
Economic profit/(loss) and spread	**(3,211)**	**(5.0)**	772	1.1	(8,984)	(13.2)

For footnotes, see page 94.

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

	Half-year to 30 June 2009	Year ended 31 December 2008	2007	2006	2005	2004
Ratios of earnings to combined fixed charges and preference share dividends						
Ratios in accordance with IFRSs:						
excluding interest on deposits	**3.46**	2.97	6.96	7.22	9.16	8.64
including interest on deposits	**1.28**	1.13	1.34	1.40	1.59	1.86
Ratios in accordance with UK GAAP:						
excluding interest on deposits						8.07
including interest on deposits						1.81
Ratios of earnings to combined fixed charges						
Ratios in accordance with IFRSs:						
excluding interest on deposits	**3.89**	3.17	7.52	7.93	9.60	8.64
including interest on deposits	**1.30**	1.14	1.34	1.41	1.59	1.86
Ratios in accordance with UK GAAP:						
excluding interest on deposits						8.07
including interest on deposits						1.81

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

The above table contains ratios based on UK GAAP, HSBC s previous primary GAAP, which is not comparable to financial information based upon IFRSs, as explained in HSBC s 2004 IFRSs Comparative Financial Information *published on 5 July 2004.*

Balance sheet

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
ASSETS			
Cash and balances at central banks	**56,368**	13,473	52,396
Trading assets	**414,358**	473,537	427,329
Financial assets designated at fair value	**33,361**	40,786	28,533
Derivatives	**310,796**	260,664	494,876

Loans and advances to banks	**182,266**	256,981	153,766
Loans and advances to customers	**924,683**	1,049,200	932,868
Financial investments	**353,444**	274,750	300,235
Other assets	**146,567**	177,287	137,462
Total assets	**2,421,843**	2,546,678	2,527,465
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**129,151**	154,152	130,084
Customer accounts	**1,163,343**	1,161,923	1,115,327
Trading liabilities	**264,562**	340,611	247,652
Financial liabilities designated at fair value	**77,314**	89,758	74,587
Derivatives	**298,876**	251,357	487,060
Debt securities in issue	**156,199**	230,267	179,693
Liabilities under insurance contracts	**48,184**	46,851	43,683
Other liabilities	**158,916**	137,748	149,150
Total liabilities	**2,296,545**	2,412,667	2,427,236
Equity			
Total shareholders equity	**118,355**	126,785	93,591
Minority interests	**6,943**	7,226	6,638
Total equity	**125,298**	134,011	100,229
Total equity and liabilities	**2,421,843**	2,546,678	2,527,465

A more detailed consolidated balance sheet is contained in the Financial Statements on page 201.

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Movement between 31 December 2008 and 30 June 2009

Total assets amounted to US$2.4 trillion, 4 per cent lower than at 31 December 2008. On an underlying basis total assets fell by 9 per cent. A reconciliation of the reported to the underlying movement in the balance sheet is provided in the table on page 28. The following commentary is on an underlying basis.

The reduction in the size of the Group s balance sheet was largely attributable to a decline in the value of both derivative asset and liability positions as market volatility, credit spreads and interest rates all fell.

The Group s reported tier 1 ratio increased from 8.3 per cent to 10.1 per cent mainly due to additional equity of US$17.8 billion raised through the rights issue. For details of regulatory capital and risk-weighted assets, see pages 187 to 192.

Assets

Cash and balances at central banks increased by 5 per cent due to an increase in short-term funds held with central banks in Europe. This was partly offset by a redeployment of cash placements to treasury repos and government agency securities. Furthermore, additional liquidity was held in the US at 31 December 2008 to cover the pending card portfolio and vehicle finance asset transfers from HSBC Finance to HSBC Bank USA which were completed in January 2009.

Trading assets fell by 8 per cent. In Hong Kong, reductions in both government debt securities and debt securities held for trading were reported. Funds were redeployed to interbank placements and available-for-sale debt securities, supporting a trend towards secured and government-guaranteed investments. In Europe, the decrease was led by a reduction in reverse repo balances as liquidity improved following government intervention.

Financial assets designated at fair value increased by 8 per cent, primarily due to the purchase of UK government debt securities as part of Balance Sheet Management activities.

Derivative assets decreased by 41 per cent with reductions across all asset classes, notably foreign exchange, interest rate and credit derivatives. Lower volatility within the financial markets, steepening yield curves in major currencies and narrowing credit spreads led to a fall in the fair value of outstanding derivative contracts.

Loans and advances to banks grew by 15 per cent, mainly in Asia, as funds were redeployed from maturing debt securities to interbank placements.

HSBC s published advances-to-deposits ratio remained conservative at 79.5 per cent at the end of the period.

Loans and advances to customers fell by 6 per cent, driven by the run-off of the US Consumer Lending business, the sale of selected portfolios and lower credit origination as risk appetite was reduced in certain segments and customer demand declined. These factors were compounded by customer deleveraging in certain businesses and a decline in customer overdraft balances that are managed on a net basis but reported gross under IFRSs. By contrast, mortgage balances increased strongly in Europe and Hong Kong as HSBC targeted growth in these markets.

Financial investments grew by 13 per cent due to the continued investment of surplus deposits in government-guaranteed, agency, supra-national and government debt securities. These were partly offset by maturing available-for-sale treasury bills in the UK and a lower level of available-for-sale asset-backed securities within the Group s securities investment conduits (SIC s) due to both disposal and maturity of securities.

Other assets increased by 5 per cent, driven by growth in items in the course of transmission from other banks in Hong Kong as improved market sentiment led to a rise in equity-related transactions.

Liabilities

Deposits by banks fell by 6 per cent, mainly from lower Fed funds and maturing positions being settled and not replaced.

Customer accounts decreased by 1 per cent, driven by an outflow of deposits in Europe as the economic situation improved and investor risk appetite increased. There was also a fall in deposits from customers whose accounts are managed net but reported gross under IFRSs, as referred to under Loans and advances to customers above. These factors were partly offset by an increase in deposits in Hong Kong.

Trading liabilities increased by 1 per cent, driven by a seasonal rise in trading settlement account balances. This was partly offset by a reduction in repo balances in line with the decision to manage down reverse repo exposure described under Trading assets above.

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

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Debt securities in issue decreased by 16 per cent, primarily driven by a reduction in the North American funding requirements in line with the run-off of the consumer finance business.

Liabilities under insurance contracts increased by 8 per cent, with higher insurance sales, particularly of traditional life products in Asia following the launch of several new products, and gains recorded on unit-linked funds due to an improvement in investment market performance.

Other liabilities grew by 4 per cent, largely due to an increase in items in the course of transmission to other banks in Hong Kong as improved market conditions led to a rise in equity-related transactions.

Equity

Total shareholders equity increased by 23 per cent, mainly due to the additional equity raised through the rights issue.

Reconciliation of reported and underlying assets and liabilities

	30 June 2009 compared with 31 December 2008						
HSBC	**31 Dec 08 as reported US$m**	**Currency translation US$m**	**31 Dec 08 at 30 Jun 09 exchange rates US$m**	**Underlying change US$m**	**30 Jun 09 as reported US$m**	**Reported change %**	**Under-lying change %**
Cash and balances at central banks	**52,396**	**1,543**	**53,939**	**2,429**	**56,368**	**8**	**5**
Trading assets	**427,329**	**20,655**	**447,984**	**(33,626)**	**414,358**	**(3)**	**(8)**
Financial assets designated at fair value	**28,533**	**2,353**	**30,886**	**2,475**	**33,361**	**17**	**8**
Derivative assets	**494,876**	**30,237**	**525,113**	**(214,317)**	**310,796**	**(37)**	**(41)**
Loans and advances to customers	**932,868**	**50,260**	**983,128**	**(58,445)**	**924,683**	**(1)**	**(6)**
Loans and advances to banks	**153,766**	**4,347**	**158,113**	**24,153**	**182,266**	**19**	**15**
Financial investments	**300,235**	**12,937**	**313,172**	**40,272**	**353,444**	**18**	**13**
Other assets	**137,462**	**1,879**	**139,341**	**7,226**	**146,567**	**7**	**5**
Total assets	**2,527,465**	**124,211**	**2,651,676**	**(229,833)**	**2,421,843**	**(4)**	**(9)**
Deposits by banks	**130,084**	**7,205**	**137,289**	**(8,138)**	**129,151**	**(1)**	**(6)**
Customer accounts	**1,115,327**	**57,629**	**1,172,956**	**(9,613)**	**1,163,343**	**4**	**(1)**
Trading liabilities	**247,652**	**13,104**	**260,756**	**3,806**	**264,562**	**7**	**1**
Financial liabilities designated at fair value	**74,587**	**2,773**	**77,360**	**(46)**	**77,314**	**4**	
Derivative liabilities	**487,060**	**29,862**	**516,922**	**(218,046)**	**298,876**	**(39)**	**(42)**
	179,693	**5,597**	**185,290**	**(29,091)**	**156,199**	**(13)**	**(16)**

Debt securities in issue							
Liabilities under insurance contracts	**43,683**	**1,097**	**44,780**	**3,404**	**48,184**	**10**	**8**
Other liabilities	**149,150**	**3,903**	**153,053**	**5,863**	**158,916**	**7**	**4**
Total liabilities	**2,427,236**	**121,170**	**2,548,406**	**(251,861)**	**2,296,545**	**(5)**	**(10)**
Total shareholders equity	**93,591**	**2,862**	**96,453**	**21,902**	**118,355**	**26**	**23**
Minority interests	**6,638**	**179**	**6,817**	**126**	**6,943**	**5**	**2**
Total equity	**100,229**	**3,041**	**103,270**	**22,028**	**125,298**	**25**	**21**
Total equity and liabilities	**2,527,465**	**124,211**	**2,651,676**	**(229,833)**	**2,421,843**	**(4)**	**(9)**

In 2009, the effect of acquisitions was not material.

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Other information

Funds under management

	Half-year to		
	30 June 2009 US$bn	30 June 2008 US$bn	31 December 2008 US$bn
Funds under management			
At beginning of period	**735**	844	857
Net new money	**1**	23	(24)
Value change	**21**	(49)	(110)
Exchange and other	**6**	39	12
At end of period	**763**	857	735
Funds under management by business			
HSBC Global Asset Management	**387**	389	370
Private Banking	**223**	289	219
Affiliates	**3**	5	2
Other	**150**	174	144
	763	857	735

Funds under management at 30 June 2009 were US$763 billion, an increase of 4 per cent when compared with 31 December 2008. Both Global Asset Management and Private Banking fund holdings increased, primarily as a result of the improved performance of global equity markets in the first half of the year.

Global Asset Management funds increased to US$387 billion as a result of positive net flows into retail investment products, favourable foreign exchange movements and market performance.

Emerging markets funds increased during the first half of 2009, driven by performance gains. HSBC remains one of the world s largest emerging market asset managers with funds under management of US$69 billion.

Private Banking funds increased by 2 per cent to US$223 billion, driven by equity market performance.

Client assets, which provide an indicator of overall Private Banking volumes and include funds under management, were US$345 billion, broadly in line with 31 December 2008.

Other funds under management, which are mainly held by a corporate trust business in Asia, increased to US$150 billion.

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 30 June 2009, assets held by HSBC as custodian amounted to US$4.5 trillion, 25 per cent higher than the US$3.6 trillion held at 31 December 2008. This increase was largely a result of increased asset values.

HSBC s assets under administration business, which includes the provision of various support function activities including the valuation of portfolios of securities and other financial assets on behalf of clients, complements the custody business. At 30 June 2009, the value of assets held under administration by the Group amounted to US$2.8 trillion, compared with US$3.3 trillion at 31 December 2008.

Review of transactions with related parties

As required by the Financial Services Authority s (FSA s) Disclosure and Transparency Rules, a fair review of related party transactions that have taken place in the first six months of the current financial year and any changes in the related parties transactions described in the *Annual Report and Accounts 2008* has been undertaken. Pursuant to this review, where transactions and balances with related parties have a material effect on the financial position or performance of HSBC they have been disclosed in the Notes on the Financial Statements.

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Customer groups and global businesses

Summary

HSBC manages its business through two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Global Banking and Markets, and Private Banking. Personal Financial Services incorporates the Group s consumer finance businesses.

All commentaries on the customer groups and global businesses are on an underlying basis unless stated otherwise.

Profit/(loss) before tax

	Half-year to					
	30 June 2009		30 June 2008		31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**(1,249)**	**(24.9)**	2,313	22.6	(13,287)	(1,413.5)
Commercial Banking	**2,432**	**48.5**	4,611	45.0	2,583	274.8
Global Banking and Markets	**6,298**	**125.5**	2,690	26.2	793	84.3
Private Banking	**632**	**12.6**	822	8.0	625	66.5
Other[22]	**(3,094)**	**(61.7)**	(189)	(1.8)	8,346	887.9
	5,019	**100.0**	10,247	100.0	(940)	(100.0)

Total assets[23]

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**547,084**	**22.6**	619,528	24.3	527,901	20.9
Commercial Banking	**249,030**	**10.3**	292,871	11.5	249,218	9.9
Global Banking and Markets	**1,770,618**	**73.1**	1,823,167	71.6	1,991,852	78.8
Private Banking	**117,468**	**4.9**	144,331	5.7	133,216	5.2
Other	**170,414**	**7.0**	141,946	5.6	145,581	5.8
Intra-HSBC items	**(432,771)**	**(17.9)**	(475,165)	(18.7)	(520,303)	(20.6)
	2,421,843	**100.0**	2,546,678	100.0	2,527,465	100.0

For footnotes, see page 94.

Basis of preparation

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

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

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Personal Financial Services
Profit/(loss) before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**12,650**	15,217	14,202
Net fee income	**4,045**	5,626	4,481
Trading income excluding net interest income	**450**	142	33
Net interest income on trading activities	**39**	42	37
Net trading income[24]	**489**	184	70
Net income/(expense) from financial instruments designated at fair value	**744**	(1,135)	(1,777)
Gains less losses from financial investments	**195**	585	78
Dividend income	**17**	15	75
Net earned insurance premiums	**4,585**	4,746	5,337
Other operating income/ (expense)	**302**	390	(131)
Total operating income	**23,027**	25,628	22,335
Net insurance claims[25]	**(5,144)**	(3,206)	(3,268)
Net operating income[7]	**17,883**	22,422	19,067
Loan impairment charges and other credit risk provisions	**(10,673)**	(9,384)	(11,836)
Net operating income	**7,210**	13,038	7,231
Total operating expenses (excluding goodwill impairment)	**(8,774)**	(10,572)	(10,568)
Goodwill impairment		(527)	(10,037)
Operating profit/(loss)	**(1,564)**	1,939	(13,374)
Share of profit in associates and joint ventures	**315**	374	87
Profit/(loss) before tax	**(1,249)**	2,313	(13,287)

By geographical region			
Europe	**212**	1,324	334
Hong Kong	**1,337**	2,036	1,392
Rest of Asia-Pacific[17]	**135**	326	(115)
Middle East[17]	**35**	209	80
North America	**(2,843)**	(2,050)	(15,178)
Latin America	**(125)**	468	200
	(1,249)	2,313	(13,287)
	%	%	%
Share of HSBC s profit before tax	**(24.9)**	22.6	(1,413.5)
Cost efficiency ratio	**49.1**	49.5	108.1
Balance sheet data[23]			
	US$m	US$m	US$m
Loans and advances to customers (net)	**400,692**	458,302	401,402
Total assets	**547,084**	619,528	527,901
Customer accounts	**482,935**	474,263	440,338

For footnotes, see page 94.

Financial and business highlights

The reported loss before tax of US$1.2 billion compared with a profit of US$2.3 billion in the first half of 2008 as loan impairment charges rose in all regions, particularly in North America, following further deterioration in global economic conditions.

Net interest income was constrained by lower average customer loans as the US loan portfolio contracted, and by deposit spread compression following lower base rates. Revenue was further affected by a reduction in non-interest income due to lower spending levels and reduced transaction volumes in most regions, and weaker investment and insurance income.

Costs were essentially unchanged excluding the US$527 million goodwill impairment charge in North America in the first half of 2008 and a US$225 million accounting benefit from a change in the first half of 2009 in the way death-in-service, ill health and early retirement benefits for some UK employees is delivered. Further restructuring of the consumer finance businesses, principally in the US, and tight control of discretionary expenditure in all regions funded infrastructure growth in developing markets.

Loan impairment charges grew by 20 per cent, most notably in Consumer Lending in the US, as the economic downturn continued. Outside the US, credit quality deteriorated across a range of products and regions, with stresses most evident in the unsecured lending portfolios in the UK, the Middle East, Brazil, Mexico and India. HSBC continued to limit asset growth and to reduce risk in these markets where economic conditions remain uncertain and unemployment is rising by improving collections, reducing credit lines and further tightening lending criteria.

Customer accounts were broadly in line with December 2008 levels as HSBC retained most of the balances gained during the market turmoil experienced in 2008, and deposit growth was strong in Asia. Loans and advances to customers fell by 5 per cent as the US consumer finance portfolio declined and, globally, customers reduced their use of credit. At 30 June 2009, the aggregate ratio of customer advances to deposits was 83 per cent, compared with 91 per cent at the end of December 2008.

The HSBC Premier (Premier) product offering grew to 2.9 million customers in the first half of 2009 and remained at the core of HSBC s wealth

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Interim Management Report: Operating and Financial Review (continued)

management proposition. The Premier service was launched in Russia and Colombia during the period, taking the total number of territories to 43. 541,000 net new customers joined Premier, of whom more than 68 per cent were new to the Group.

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

Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)

	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Personal Financial Services									
Net interest income	**15,217**	**(36)**	**(1,363)**	**13,818**		**(1,168)**	**12,650**	**(17)**	**(8)**
Net fee income	**5,626**	**(32)**	**(536)**	**5,058**		**(1,013)**	**4,045**	**(28)**	**(20)**
Other income[6]	**1,579**	**(50)**	**(224)**	**1,305**		**(117)**	**1,188**	**(25)**	**(9)**
Net operating income[7]	**22,422**	**(118)**	**(2,123)**	**20,181**		**(2,298)**	**17,883**	**(20)**	**(11)**
Loan impairment charges and other credit risk provisions	**(9,384)**	**3**	**488**	**(8,893)**		**(1,780)**	**(10,673)**	**(14)**	**(20)**
Net operating income	**13,038**	**(115)**	**(1,635)**	**11,288**		**(4,078)**	**7,210**	**(45)**	**(36)**
Operating expenses (excluding goodwill impairment)	**(10,572)**	**38**	**1,228**	**(9,306)**		**532**	**(8,774)**	**17**	**6**
Goodwill impairment	**(527)**			**(527)**		**527**		**100**	**100**
Operating profit/(loss)	**1,939**	**(77)**	**(407)**	**1,455**		**(3,019)**	**(1,564)**	**(181)**	**(207)**

Income from associates	**374**		**14**	**388**		**(73)**	**315**	**(16)**	**(19)**
Profit/(loss) before tax	**2,313**	**(77)**	**(393)**	**1,843**		**(3,092)**	**(1,249)**	**(154)**	**(168)**

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Personal Financial Services									
Net interest income	14,202		(740)	13,462		(812)	12,650	(11)	(6)
Net fee income	4,481		(288)	4,193		(148)	4,045	(10)	(4)
Other income[6]	384	(71)	(94)	219		969	1,188	209	442
Net operating income[7]	19,067	(71)	(1,122)	17,874		9	17,883	(6)	
Loan impairment charges and other credit risk provisions	(11,836)		318	(11,518)		845	(10,673)	10	7
Net operating income	7,231	(71)	(804)	6,356		854	7,210		13
Operating expenses (excluding goodwill impairment)	(10,568)		707	(9,861)		1,087	(8,774)	17	11
Goodwill impairment	(10,037)			(10,037)		10,037		100	100
Operating loss	(13,374)	(71)	(97)	(13,542)		11,978	(1,564)	88	88
Income from associates	87			87		228	315	262	262

Loss before tax	(13,287)	(71)	(97)	(13,455)	12,206	(1,249)	91	91

For footnotes, see page 94.

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Commercial Banking
Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**3,809**	4,747	4,747
Net fee income	**1,749**	2,165	1,932
Trading income excluding net interest income	**183**	197	172
Net interest income/ (expense) on trading activities	**11**	24	(7)
Net trading income[24]	**194**	221	165
Net expense from financial instruments designated at fair value	**(17)**	(59)	(165)
Gains less losses from financial investments	**25**	191	2
Dividend income	**3**	3	85
Net earned insurance premiums	**390**	360	319
Other operating income	**519**	718	221
Total operating income	**6,672**	8,346	7,306
Net insurance claims[25]	**(328)**	(190)	(145)
Net operating income[7]	**6,344**	8,156	7,161
Loan impairment charges and other credit risk provisions	**(1,509)**	(563)	(1,610)
Net operating income	**4,835**	7,593	5,551
Total operating expenses	**(2,740)**	(3,280)	(3,301)
Operating profit	**2,095**	4,313	2,250
Share of profit in associates and joint ventures	**337**	298	333
Profit before tax	**2,432**	4,611	2,583

By geographical region

Europe	**852**	1,940	782
Hong Kong	**424**	869	446
Rest of Asia-Pacific[17]	**459**	653	582
Middle East[17]	**252**	308	250
North America	**224**	430	228
Latin America	**221**	411	295
	2,432	4,611	2,583
	%	%	%
Share of HSBC s profit before tax	**48.5**	45.0	274.8
Cost efficiency ratio	**43.2**	40.2	46.1

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**198,903**	238,116	203,949
Total assets	**249,030**	292,871	249,218
Customer accounts	**239,933**	247,705	235,879

For footnotes, see page 94.

Financial and business highlights

Commercial Banking demonstrated considerable resilience in difficult economic markets, generating pre-tax profits of US$2.4 billion, including US$1.4 billion from emerging markets. The decline of 39 per cent on the first half of 2008 resulted from reduced deposit spreads in the low interest rate environment and from increased loan impairment charges. A gain on disposal of HSBC s remaining stake in its UK merchant card-acquiring business reported in other operating income was less than the related gain in the comparable period last year.

Revenues declined by 6 per cent, as the fall in deposit spreads exceeded increased spreads on new lending, and fee income was constrained by lower business volumes. The increase in loan impairment charges was broadly spread across geographical regions and segments, reflecting the global spread of the economic downturn and representing 153 basis points of average advances. Operating expenses were in line, as modest cost growth was offset by an accounting benefit of US$190 million (see page 23).

Customer balances were 3 per cent lower than at the end of 2008, but 7 per cent higher than at 30 June 2008 at US$240 billion, as the Group retained the majority of the balance growth attracted to HSBC s brand strength during the second half of 2008. Growth in new lending was achieved in selected emerging markets, though loans and advances to customers declined overall as muted customer demand reflected the contraction in global trade and the difficult economic situation. These movements strengthened liquidity, as seen in the ratio of aggregate customer advances to deposits of 83 per cent.

The success of the strategy of leading international business was demonstrated by strong growth in product revenues, notably 19 per cent and 11 per cent increases in revenue from foreign exchange and from trade and supply chain products, respectively. The number of customers using the HSBCnet platform increased, particularly in India and Canada. The volume of successful referrals from Global Links increased by 7 per cent compared with the first half of 2008, contributing US$4 billion in aggregate transaction value.

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Interim Management Report: Operating and Financial Review (continued)

A deposit base of over US$100 billion illustrated Commercial Banking s success in positioning itself as the best bank for small business as the vast majority of such customers are deposit and payment services customers. The recruitment of new customers in the small and micro segments increased total customer numbers to 3.1 million with developing markets contributing over 61 per cent of organic growth. Business Direct is now available in eight countries, with nearly 300,000 registered customers. New receivables finance and insurance offerings were also launched in a number of countries.

Commercial Banking deepened its connections within the Group through an initiative to increase cross-referrals with Premier. Referrals to Private Banking contributed over US$650 million in new client assets.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Commercial Banking									
Net interest income	**4,747**	**(29)**	**(638)**	**4,080**		**(271)**	**3,809**	**(20)**	**(7)**
Net fee income	**2,165**	**(26)**	**(337)**	**1,802**		**(53)**	**1,749**	**(19)**	**(3)**
Other income[6]	**1,244**	**(464)**	**(198)**	**582**	**280**	**(76)**	**786**	**(37)**	**(13)**
Net operating income[7]	**8,156**	**(519)**	**(1,173)**	**6,464**	**280**	**(400)**	**6,344**	**(22)**	**(6)**
Loan impairment charges and other credit risk provisions	**(563)**	**3**	**98**	**(462)**		**(1,047)**	**(1,509)**	**(168)**	**(227)**
Net operating income	**7,593**	**(516)**	**(1,075)**	**6,002**	**280**	**(1,447)**	**4,835**	**(36)**	**(24)**
Operating expenses	**(3,280)**	**30**	**485**	**(2,765)**		**25**	**(2,740)**	**17**	**1**

Operating profit	**4,313**	**(486)**	**(590)**	**3,237**	**280**	**(1,422)**	**2,095**	**(51)**	**(44)**
Income from associates	**298**		**6**	**304**		**33**	**337**	**13**	**11**
Profit before tax	**4,611**	**(486)**	**(584)**	**3,541**	**280**	**(1,389)**	**2,432**	**(47)**	**(39)**

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Commercial Banking									
Net interest income	4,747		(347)	4,400		(591)	3,809	(20)	(13)
Net fee income	1,932		(151)	1,781		(32)	1,749	(9)	(2)
Other income[6]	482		(39)	443	280	63	786	63	14
Net operating income[7]	7,161		(537)	6,624	280	(560)	6,344	(11)	(8)
Loan impairment charges and other credit risk provisions	(1,610)		64	(1,546)		37	(1,509)	6	2
Net operating income	5,551		(473)	5,078	280	(523)	4,835	(13)	(10)
Operating expenses	(3,301)		265	(3,036)		296	(2,740)	17	10
Operating profit	2,250		(208)	2,042	280	(227)	2,095	(7)	(11)
Income from associates	333		(1)	332		5	337	1	2
Profit before tax	2,583		(209)	2,374	280	(222)	2,432	(6)	(9)

For footnotes, see page 94.

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Global Banking and Markets
Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**4,667**	3,737	4,804
Net fee income	**1,968**	2,354	1,937
Trading income/(expense) excluding net interest income	**3,422**	360	(203)
Net interest income on trading activities	**1,056**	273	51
Net trading income/(expense)[24]	**4,478**	633	(152)
Net income/(expense) from financial instruments designated at fair value	**329**	(211)	(227)
Gains less losses from financial investments	**158**	244	(571)
Dividend income	**23**	49	27
Net earned insurance premiums	**40**	62	43
Other operating income	**603**	551	317
Total operating income	**12,266**	7,419	6,178
Net insurance claims[25]	**(35)**	(40)	(39)
Net operating income[7]	**12,231**	7,379	6,139
Loan impairment charges and other credit risk provisions	**(1,732)**	(115)	(1,356)
Net operating income	**10,499**	7,264	4,783
Total operating expenses	**(4,405)**	(4,827)	(4,265)
Operating profit	**6,094**	2,437	518
Share of profit in associates and joint ventures	**204**	253	275
Profit before tax	**6,298**	2,690	793

By geographical region			
Europe	**2,891**	1,190	(995)
Hong Kong	**907**	770	666
Rest of Asia-Pacific[17]	**1,239**	1,546	1,424
Middle East[17]	**304**	426	390
North America	**477**	(1,625)	(950)
Latin America	**480**	383	258
	6,298	2,690	793
	%	*%*	*%*
Share of HSBC s profit before tax	**125.5**	26.2	84.3
Cost efficiency ratio	**36.0**	65.4	69.5

For footnotes, see page 94.

Financial and business highlights

Global Banking and Markets delivered a record half-year performance with pre-tax profits of US$6.3 billion, an increase of US$3.6 billion or 134 per cent compared with the first half of 2008, on a reported basis, underscored by robust performance in both developed and emerging markets. Higher margins and an increase in market share gave impetus to revenue growth across core businesses, with a record performance in Rates and an increase in revenues in foreign exchange and financing and equity capital markets. Balance Sheet Management also reported record revenues. The reported cost efficiency ratio improved by 29.4 percentage points to 36.0 per cent as revenues grew faster than operating expenses, with active cost management limiting the latter to a relatively modest rise.

Write-downs on legacy positions in credit trading, leveraged and acquisition financing and monoline credit exposures, which totalled US$762 million, were significantly lower than those recorded in the first and second halves of 2008. The reduction was driven by relatively smaller decreases in asset prices, coupled with the non-recurrence of impairments on trading assets which were reclassified from trading assets to loans and receivables in the second half of 2008, following the IASB s amendments to IAS 39. This was partly offset by a fair value loss of US$127 million resulting from tightening credit spreads on structured liabilities; a gain of US$262 million was reported in the first half of 2008.

Loan impairment charges and other credit risk provisions increased by US$1.6 billion, from a very low base. Loan impairment charges were US$1.2 billion compared with only US$23 million in the first half of 2008, primarily driven by a deterioration in the credit position of a small number of clients. This is reflective of the continuing market trends of a rise in the number and severity of defaults on loans despite recent improvements in investor sentiment. Impairment charges on the available-for-sale portfolio were US$564 million compared with US$51 million and US$575 million in the first and second halves of 2008, respectively. These remained within the parameters of the stress tests described on page 149 of the *Annual Report and Accounts 2008.*

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Interim Management Report: Operating and Financial Review (continued)

Management view of total operating income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Global Markets[26]	**5,991**	1,688	988
Credit	**1,066**	(3,124)	(2,378)
Rates	**1,964**	1,303	730
Foreign exchange	**1,797**	1,546	2,296
Equities	**315**	746	(810)
Securities services	**712**	1,112	1,004
Asset and structured finance	**137**	105	146
Global Banking	**2,403**	2,432	3,286
Financing and equity capital markets	**1,609**	1,371	2,201
Payments and cash management	**535**	839	826
Other transaction services	**259**	222	259
Balance Sheet Management	**3,350**	1,630	1,988
Global Asset Management	**414**	669	265
Principal Investments	**(38)**	167	(582)
Other[27]	**146**	833	233
Total operating income	**12,266**	7,419	6,178

For footnotes, see page 94.

Within the Group s available-for-sale portfolio, the negative reserves in respect of asset-backed securities reduced to US$17.5 billion. However, due to the underlying credit quality and seniority of the tranches held by HSBC, only a relatively modest impairment charge of US$539 million was identified on securities with a nominal value of US$721 million and was taken to the income statement in the first half of 2009. The expected cash flow impairment on these securities was US$148 million. A further US$646 million impairment was absorbed by income note holders who take the first loss on positions within the SICs now consolidated in HSBC s accounts. Further details on the SICs are provided on page 100.

Reflecting the continuing success of the emerging markets-led and financing-focused strategy were a number of key industry awards, including Best Global Debt House , Best Global Transaction Banking House , Best Debt House in Latin America , Best Debt House in Asia , and Best Debt House in the Middle East in *Euromoney.*

In Global Markets, volatile markets and increased customer activity in Rates, most notably in Europe, provided a backdrop against which market share increased and revenue grew robustly. The increase in foreign exchange revenues was driven by higher margins. Record revenues in Rates were boosted by improved margins and greater opportunities to trade debt issued by governments and corporations, as they sought to alleviate symptoms of a capital drought. With greater liquidity in financial markets, credit spreads improved considerably and, in addition to the fall in write-downs on legacy positions noted above, performance in the Credit trading business improved. Securities services revenues declined as lower interest rates drove down overall margins, and assets under custody fell. In Asia, however, recent improvements in regional equity markets stimulated increases in volumes and assets under custody in the second quarter of 2009.

In Global Banking, robust performance in the credit and lending business highlighted the strength of HSBC s franchise and the quality of the client portfolio; higher margins drove the 17 per cent increase in revenues. This increase was partly offset by modest fair value losses on credit default swap transactions as credit spreads tightened. Payments and cash management activities continued to be adversely affected by the low interest rate environment, partly countered by an increase in liability balances.

Balance Sheet Management continued to benefit from increasing flows of surplus deposits from the other customer groups and correct positioning against interest rate falls.

Global Asset Management continued to be adversely affected by the fall in equity markets during 2008 and the first quarter of 2009, resulting in decreases in management fees and performance fees. However, improving global markets and returning investor confidence resulted in a stronger performance in the second quarter. Funds under management at June 2009 were marginally down on June 2008. Global Asset Management launched a new range of funds, HSBC World Selection , in conjunction with Personal Financial Services, raising US$580 million in the first half of 2009 and demonstrating HSBC s breadth as a global asset manager and the value of close working relationships with other HSBC customer groups.

In Principal Investments, private equity revenues were adversely affected by an illiquid market. This, coupled with a small number of impairments on investments, resulted in a US$205 million decrease in revenues.

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Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Global Banking and Markets									
Net interest income	**3,737**		**(411)**	**3,326**		**1,341**	**4,667**	**25**	**40**
Net fee income	**2,354**		**(264)**	**2,090**		**(122)**	**1,968**	**(16)**	**(6)**
Other income[6]	**1,288**		**(425)**	**863**		**4,733**	**5,596**	**334**	**548**
Net operating income[7]	**7,379**		**(1,100)**	**6,279**		**5,952**	**12,231**	**66**	**95**
Loan impairment charges and other credit risk provisions	**(115)**		**7**	**(108)**		**(1,624)**	**(1,732)**	**(1,406)**	**(1,504)**
Net operating income	**7,264**		**(1,093)**	**6,171**		**4,328**	**10,499**	**45**	**70**
Operating expenses	**(4,827)**		**635**	**(4,192)**		**(213)**	**(4,405)**	**9**	**(5)**
Operating profit	**2,437**		**(458)**	**1,979**		**4,115**	**6,094**	**150**	**208**
Income from associates	**253**		**5**	**258**		**(54)**	**204**	**(19)**	**(21)**
Profit before tax	**2,690**		**(453)**	**2,237**		**4,061**	**6,298**	**134**	**182**

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
	2H08 as	2H08 acquisitions and	Currency	2H08 at 1H09 exchange	1H09 acquisitions and	Under-lying	1H09 as	Re-ported	Under-lying

	reported	disposals[1]	translation[2]	rates[8]	disposals[1]	change	reported	change[4]	change[4]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Global Banking and Markets									
Net interest income	4,804		(258)	4,546		121	4,667	(3)	3
Net fee income	1,937		(105)	1,832		136	1,968	2	7
Other income[6]	(602)		(166)	(768)		6,364	5,596	1,030	829
Net operating income[7]	6,139		(529)	5,610		6,621	12,231	99	118
Loan impairment charges and other credit risk provisions	(1,356)		133	(1,223)		(509)	(1,732)	(28)	(42)
Net operating income	4,783		(396)	4,387		6,112	10,499	120	139
Operating expenses	(4,265)		369	(3,896)		(509)	(4,405)	(3)	(13)
Operating profit	518		(27)	491		5,603	6,094	1,076	1,141
Income from associates	275		(1)	274		(70)	204	(26)	(26)
Profit before tax	793		(28)	765		5,533	6,298	694	723

For footnotes, see page 94.

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Balance sheet data significant to Global Banking and Markets

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific[17] US$m	Middle East[17] US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2009							
Trading assets[28]	**287,752**	**24,818**	**15,812**	**500**	**68,707**	**7,600**	**405,189**
Derivative assets	**178,579**	**20,034**	**19,355**	**682**	**84,307**	**3,921**	**306,878**
Loans and advances to:							
- customers (net)	**198,290**	**23,182**	**21,682**	**6,799**	**28,320**	**9,055**	**287,328**
- banks (net)	**66,639**	**33,833**	**27,487**	**4,470**	**8,703**	**15,572**	**156,704**
Financial investments[28]	**95,658**	**76,095**	**33,532**	**9,479**	**49,878**	**10,700**	**275,342**
Total assets[23]	**1,060,344**	**221,196**	**138,266**	**27,423**	**269,492**	**53,897**	**1,770,618**
Deposits by banks	**84,262**	**10,006**	**12,394**	**974**	**11,297**	**3,959**	**122,892**
Customer accounts	**208,792**	**34,875**	**42,712**	**7,312**	**19,268**	**18,003**	**330,962**
Trading liabilities	**161,294**	**11,019**	**3,747**	**39**	**66,308**	**5,737**	**248,144**
Derivative liabilities	**173,563**	**20,200**	**18,606**	**678**	**80,583**	**3,680**	**297,310**
At 30 June 2008							
Trading assets[28]	334,769	13,990	21,746	986	89,813	8,792	470,096
Derivative assets	147,265	14,344	17,115	630	68,405	3,511	251,270
Loans and advances to:							
- customers (net)	210,727	20,257	28,609	6,392	27,137	10,704	303,826
- banks (net)	78,488	64,186	30,587	8,996	18,624	13,812	214,693
Financial investments[28]	88,717	34,455	33,595	7,036	35,902	11,781	211,486
Total assets[23]	1,100,421	201,094	151,490	28,966	284,015	57,181	1,823,167
Deposits by banks	105,792	4,417	18,225	1,888	10,909	2,812	144,043
Customer accounts	196,432	31,577	48,625	9,537	23,709	19,072	328,952
Trading liabilities	219,526	13,565	8,388	86	82,312	4,107	327,984
Derivative liabilities	145,997	12,330	16,543	642	69,781	3,771	249,064
At 31 December 2008							
Trading assets[28]	281,089	45,398	19,192	414	74,498	5,004	425,595
Derivative assets	303,265	26,989	25,492	1,014	125,848	5,145	487,753
Loans and advances to:							
- customers (net)	185,818	23,042	27,941	6,649	35,583	8,273	287,306

- banks (net)	49,508	20,970	21,309	5,401	9,238	12,574	119,000
Financial investments[28]	105,546	46,964	29,772	7,574	39,841	8,179	237,876
Total assets[23]	1,180,759	233,187	147,714	27,975	348,347	53,870	1,991,852
Deposits by banks	79,509	11,509	12,261	944	16,244	3,871	124,338
Customer accounts	199,687	30,866	42,977	7,628	23,844	15,384	320,386
Trading liabilities	144,759	13,056	3,633	54	72,325	2,546	236,373
Derivative liabilities	300,200	28,536	25,465	1,016	122,699	4,615	482,531

For footnotes, see page 94.

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Private Banking
Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**784**	783	829
Net fee income	**602**	814	662
Trading income excluding net interest income	**154**	211	197
Net interest income on trading activities	**9**	7	7
Net trading income[24]	**163**	218	204
Net income/(expense) from financial instruments designated at fair value		1	(1)
Gains less losses from financial investments	**(2)**	80	(16)
Dividend income	**2**	4	4
Other operating income	**40**	16	33
Total operating income	**1,589**	1,916	1,715
Net insurance claims[25]			
Net operating income[7]	**1,589**	1,916	1,715
Loan impairment (charges)/ recoveries and other credit risk provisions	**(14)**	4	(72)
Net operating income	**1,575**	1,920	1,643
Total operating expenses	**(949)**	(1,098)	(1,018)
Operating profit	**626**	822	625
Share of profit in associates and joint ventures	**6**		
Profit before tax	**632**	822	625

By geographical region			
Europe	**447**	579	419
Hong Kong	**106**	123	114
Rest of Asia-Pacific[17]	**47**	52	57
Middle East[17]	**5**	2	2
North America	**23**	58	25
Latin America	**4**	8	8
	632	822	625
	%	%	%
Share of HSBC s profit before tax	**12.6**	8.0	66.5
Cost efficiency ratio	**59.7**	57.3	59.4

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**34,282**	45,895	37,590
Total assets	**117,468**	144,331	133,216
Customer accounts	**108,278**	109,776	116,683

For footnotes, see page 94.

Financial and business highlights

Pre-tax profits of US$632 million declined by 23 per cent or 18 per cent on an underlying basis. Underlying net operating income decreased by 13 per cent, driven by a fall in the value of client assets and lower transaction volumes as a result of client risk aversion and volatile equity markets. In addition, gains recorded in the first half of 2008 on the sale of HSBC s residual interest in the Hermitage Fund did not recur. These factors were partly offset by an increase in net interest income following successful positioning in the expectation of falling interest rates and growth in deposits. Loan impairment charges remained at a low level, despite the financial crisis. Operating expenses decreased by 9 per cent to US$949 million, mainly from reduced performance-related pay reflecting lower profits and strong cost control, including the implementation of a number of cost saving initiatives. The benefit from lower overall staff numbers was partly offset by redundancy costs and the hiring of almost 300 new front office staff in HSBC s core faster-growing markets, including mainland China, India and Russia, where Private Banking operations continued to expand.

Client assets

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	US$bn	US$bn	US$bn
At beginning of period	**352**	421	421
Net new money	**(7)**	15	9
Value change	**7**	(20)	(51)
Exchange/other	**(7)**	5	(27)
At end of period	**345**	421	352

Reported client assets were relatively unchanged at US$345 billion, as portfolio appreciation and foreign exchange movements offset a net outflow of funds caused by redemptions of hedge fund products, client deleveraging and deposit price competition. There were positive inflows in Latin America and Asia, and net inflows of more than US$2 billion were generated from referrals of clients by other parts of the HSBC Group. Reported total client assets remained relatively unchanged at US$426 billion. Total client assets is equivalent to many industry definitions of assets under management which include some non-financial assets held in client trusts.

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HSBC Alternative Investments Limited achieved strong returns on fund of hedge fund products for the year to date, including 5.4 per cent on the flagship HSBC GH fund. Subscription levels improved and a Distressed Markets fund of hedge funds launched in May 2009 received strong support from clients with US$111 million raised so far. Hedge fund redemptions have also reduced.

With interest rates at all time lows, clients invested heavily in higher yielding structured notes products issued by HSBC, with take up of around US$3.0 billion. Other new initiatives are being developed in preparation for the market turnaround.

The Private Bank launched a marketing campaign around HSBC s global ability to open doors and connect clients wealth to a world of opportunities.

The legal merger of HSBC s two Swiss private banks was completed in April 2009 and good progress has been made on IT and operational integration, due to be finished later this year.

Operations were launched in Russia in 2009, supporting HSBC s strategy of investing in emerging markets and domestic operations. Work also commenced with the Group s associate in Saudi Arabia on expanding the local Private Banking business.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Private Banking									
Net interest income	**783**		**(48)**	**735**		**49**	**784**		**7**
Net fee income	**814**		**(36)**	**778**		**(176)**	**602**	**(26)**	**(23)**
Other income[6]	**319**		**(24)**	**295**		**(92)**	**203**	**(36)**	**(31)**
Net operating income[7]	**1,916**		**(108)**	**1,808**		**(219)**	**1,589**	**(17)**	**(12)**
Loan impairment charges and other credit risk provisions	**4**			**4**		**(18)**	**(14)**	**(450)**	**(450)**
Net operating income	**1,920**		**(108)**	**1,812**		**(237)**	**1,575**	**(18)**	**(13)**
Operating expenses	**(1,098)**		**58**	**(1,040)**		**91**	**(949)**	**14**	**9**
	822		**(50)**	**772**		**(146)**	**626**	**(24)**	**(19)**

Operating profit									
Income from associates						**6**	**6**		
Profit before tax	**822**		**(50)**	**772**		**(140)**	**632**	**(23)**	**(18)**

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Private Banking									
Net interest income	829		(20)	809		(25)	784	(5)	(3)
Net fee income	662		(14)	648		(46)	602	(9)	(7)
Other income[6]	224		(2)	222		(19)	203	(9)	(9)
Net operating income[7]	1,715		(36)	1,679		(90)	1,589	(7)	(5)
Loan impairment charges and other credit risk provisions	(72)		6	(66)		52	(14)	81	79
Net operating income	1,643		(30)	1,613		(38)	1,575	(4)	(2)
Operating expenses	(1,018)		22	(996)		47	(949)	7	5
Operating profit	625		(8)	617		9	626		1
Income from associates						6	6		
Profit before tax	625		(8)	617		15	632	1	2

For footnotes, see page 94.

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Other

Profit/(loss) before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest expense	**(551)**	(375)	(581)
Net fee income	**64**	32	21
Trading income/(expense) excluding net interest income	**92**	(271)	9
Net interest income/(expense) on trading activities	**18**	(82)	(186)
Net trading income/(expense)[24]	**110**	(353)	(177)
Changes in fair value of long-term debt issued and related derivatives	**(2,300)**	577	6,102
Net income/(expense) from other financial instruments designated at fair value	**(279)**	243	504
Net income/(expense) from financial instruments designated at fair value	**(2,579)**	820	6,606
Gains less losses from financial investments	**(53)**	(283)	(113)
Dividend income	**12**	17	(7)
Net earned insurance premiums	**(3)**	(15)	(2)
Gains on disposal of French regional banks			2,445
Other operating income	**2,172**	1,943	2,318
Total operating income/(expense)	**(828)**	1,786	10,510
Net insurance claims[25]		(1)	
Net operating income/(expense)[7]	**(828)**	1,785	10,510
Loan impairment charges and other credit risk provisions	**(3)**		(5)
Net operating income/(expense)	**(831)**	1,785	10,505
Total operating expenses	**(2,268)**	(2,019)	(2,155)
Operating profit/(loss)	**(3,099)**	(234)	8,350

Share of profit/(loss) in associates and joint ventures	**5**	45	(4)
Profit/(loss) before tax	**(3,094)**	(189)	8,346
By geographical region			
Europe	**(1,426)**	144	5,152
Hong Kong	**(273)**	(725)	(230)
Rest of Asia-Pacific[17]	**142**	57	140
Middle East[17]	**47**	45	34
North America	**(1,584)**	294	3,240
Latin America		(4)	10
	(3,094)	(189)	8,346
	%	%	%
Share of HSBC s profit before tax	**(61.7)**	(1.8)	887.9
Cost efficiency ratio	**(273.9)**	113.1	20.5

For footnotes, see page 94.

Balance sheet data[23]

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Loans and advances to customers (net)	**3,478**	3,061	2,621
Total assets	**170,414**	141,946	145,581
Customer accounts	**1,235**	1,227	2,041

Notes

A loss before tax in Other of US$3.1 billion compared with a loss of US$189 million in the first half of 2008. This was attributable to losses on the fair value of HSBC s own debt which contrasted with gains booked in the comparable periods. For a description of the main items reported under Other , see footnote 22 on page 94.

Net expense from financial investments designated at fair value was US$2.6 billion, compared with income of US$820 million in the first half of 2008. This was largely driven by the partial reversal of fair value gains booked in previous years on certain long-term debt issued by HSBC Holdings and its North American and European subsidiaries, and resulted from a significant contraction of credit spreads in the second quarter of 2009.

Net trading income rose by US$463 million on a reported basis to US$110 million driven largely by fair value gains on certain non-qualifying hedges. These gains were partly offset by losses of US$344 million on a forward foreign exchange contract associated with hedging the proceeds of the Group s US$17.8 billion rights issue, which was completed in April 2009.

Net losses from financial investments amounted to US$53 million compared with a net loss of US$283 million in the first half of 2008, driven by lower impairment losses on certain equity investments.

The Group continued to pursue its Global Resourcing model, migrating further activities to Global Centres of Excellence. As a result, costs rose by 9 per cent in the Group Service Centres All costs are recharged to HSBC s customer groups and global businesses and related revenue reported under Other operating income .

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Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)

	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Other									
Net interest expense	(375)		15	(360)		(191)	(551)	(47)	(53)
Net fee income	32		(9)	23		41	64	100	178
Changes in fair value[5]	577		36	613		(2,913)	(2,300)	(499)	(475)
Other income[6]	1,551		(140)	1,411		548	1,959	27	39
Net operating income/ (expense)[7]	1,785		(98)	1,687		(2,515)	(828)	(146)	(149)
Loan impairment charges and other credit risk provisions						(3)	(3)		
Net operating income/ (expense)	1,785		(98)	1,687		(2,518)	(831)	(147)	(149)
Operating expenses	(2,019)		73	(1,946)		(322)	(2,268)	(12)	(16)
Operating loss	(234)		(25)	(259)		(2,840)	(3,099)	(1,224)	(1,097)
Income from associates	45		1	46		(41)	5	(89)	(89)
Loss before tax	(189)		(24)	(213)		(2,881)	(3,094)	(1,537)	(1,353)

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Other									
Net interest expense	(581)		1	(580)		29	(551)	5	5
Net fee income	21			21		43	64	205	205
Changes in fair value[5]	6,102		(101)	6,001		(8,301)	(2,300)	(138)	(138)
Gain on disposal of French regional banks	2,445	(2,445)						(100)	
Other income[6]	2,523	(95)	(84)	2,344		(385)	1,959	(22)	(16)
Net operating income/ (expense)[7]	10,510	(2,540)	(184)	7,786		(8,614)	(828)	(108)	(111)
Loan impairment charges and other credit risk provisions	(5)			(5)		2	(3)	40	40
Net operating income/ (expense)	10,505	(2,540)	(184)	7,781		(8,612)	(831)	(108)	(111)
Operating expenses	(2,155)		33	(2,122)		(146)	(2,268)	(5)	(7)
Operating profit/(loss)	8,350	(2,540)	(151)	5,659		(8,758)	(3,099)	(137)	(155)
Income from associates	(4)			(4)		9	5	225	225
Profit/(loss) before tax	8,346	(2,540)	(151)	5,655		(8,749)	(3,094)	(137)	(155)

For footnotes, see page 94.

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Analysis by customer group and global business

Profit/(loss) before tax

	Half-year to 30 June 2009						
Total	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other[22] US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income/(expense)	**12,650**	**3,809**	**4,667**	**784**	**(551)**	**(821)**	**20,538**
Net fee income	**4,045**	**1,749**	**1,968**	**602**	**64**		**8,428**
Trading income excluding net interest income	**450**	**183**	**3,422**	**154**	**92**		**4,301**
Net interest income on trading activities	**39**	**11**	**1,056**	**9**	**18**	**821**	**1,954**
Net trading income[24]	**489**	**194**	**4,478**	**163**	**110**	**821**	**6,255**
Changes in fair value of long-term debt issued and related derivatives					**(2,300)**		**(2,300)**
Net income/(expense) from other financial instruments designated at fair value	**744**	**(17)**	**329**		**(279)**		**777**
Net income/(expense) from financial instruments designated at fair value	**744**	**(17)**	**329**		**(2,579)**		**(1,523)**
Gains less losses from financial investments	**195**	**25**	**158**	**(2)**	**(53)**		**323**
Dividend income	**17**	**3**	**23**	**2**	**12**		**57**
Net earned insurance premiums	**4,585**	**390**	**40**		**(3)**		**5,012**

Other operating income	**302**	**519**	**603**	**40**	**2,172**	**(2,479)**	**1,158**
Total operating income/ (expense)	**23,027**	**6,672**	**12,266**	**1,589**	**(828)**	**(2,479)**	**40,248**
Net insurance claims[25]	**(5,144)**	**(328)**	**(35)**				**(5,507)**
Net operating income/ (expense)[7]	**17,883**	**6,344**	**12,231**	**1,589**	**(828)**	**(2,479)**	**34,741**
Loan impairment charges and other credit risk provisions	**(10,673)**	**(1,509)**	**(1,732)**	**(14)**	**(3)**		**(13,931)**
Net operating income/ (expense)	**7,210**	**4,835**	**10,499**	**1,575**	**(831)**	**(2,479)**	**20,810**
Total operating expenses	**(8,774)**	**(2,740)**	**(4,405)**	**(949)**	**(2,268)**	**2,479**	**(16,658)**
Operating profit/(loss)	**(1,564)**	**2,095**	**6,094**	**626**	**(3,099)**		**4,152**
Share of profit in associates and joint ventures	**315**	**337**	**204**	**6**	**5**		**867**
Profit/(loss) before tax	**(1,249)**	**2,432**	**6,298**	**632**	**(3,094)**		**5,019**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**(24.9)**	**48.5**	**125.5**	**12.6**	**(61.7)**		**100.0**
Cost efficiency ratio	**49.1**	**43.2**	**36.0**	**59.7**	**(273.9)**		**47.9**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**400,692**	**198,903**	**287,328**	**34,282**	**3,478**		**924,683**
Total assets	**547,084**	**249,030**	**1,770,618**	**117,468**	**170,414**	**(432,771)**	**2,421,843**
Customer accounts	**482,935**	**239,933**	**330,962**	**108,278**	**1,235**		**1,163,343**

For footnotes, see page 94.

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

	Half-year to 30 June 2008						
	Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking	Other[22]	Inter-segment elimination[29]	Total
Total	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/ (expense)	15,217	4,747	3,737	783	(375)	(2,931)	21,178
Net fee income	5,626	2,165	2,354	814	32		10,991
Trading income/(expense) excluding net interest income	142	197	360	211	(271)		639
Net interest income/ (expense) on trading activities	42	24	273	7	(82)	2,931	3,195
Net trading income/ (expense)[24]	184	221	633	218	(353)	2,931	3,834
Changes in fair value of long-term debt issued and related derivatives					577		577
Net income/(expense) from other financial instruments designated at fair value	(1,135)	(59)	(211)	1	243		(1,161)
Net income/(expense) from financial instruments designated at fair value	(1,135)	(59)	(211)	1	820		(584)
Gains less losses from financial investments	585	191	244	80	(283)		817
Dividend income	15	3	49	4	17		88
Net earned insurance premiums	4,746	360	62		(15)		5,153
Other operating income	390	718	551	16	1,943	(2,183)	1,435
Total operating income	25,628	8,346	7,419	1,916	1,786	(2,183)	42,912
Net insurance claims[25]	(3,206)	(190)	(40)		(1)		(3,437)
Net operating income[7]	22,422	8,156	7,379	1,916	1,785	(2,183)	39,475

Loan impairment (charges)/ recoveries and other credit risk provisions	(9,384)	(563)	(115)	4			(10,058)
Net operating income	13,038	7,593	7,264	1,920	1,785	(2,183)	29,417
Operating expenses (excluding goodwill impairment)	(10,572)	(3,280)	(4,827)	(1,098)	(2,019)	2,183	(19,613)
Goodwill impairment	(527)						(527)
Operating profit/(loss)	1,939	4,313	2,437	822	(234)		9,277
Share of profit in associates and joint ventures	374	298	253		45		970
Profit/(loss) before tax	2,313	4,611	2,690	822	(189)		10,247
	%	%	%	%	%		%
Share of HSBC s profit before tax	22.6	45.0	26.2	8.0	(1.8)		100.0
Cost efficiency ratio	49.5	40.2	65.4	57.3	113.1		51.0
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	458,302	238,116	303,826	45,895	3,061		1,049,200
Total assets	619,528	292,871	1,823,167	144,331	141,946	(475,165)	2,546,678
Customer accounts	474,263	247,705	328,952	109,776	1,227		1,161,923

For footnotes, see page 94.

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	Half-year to 31 December 2008						
	Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking	Other[22]	Inter-segment elimination[29]	Total
Total	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/(expense)	14,202	4,747	4,804	829	(581)	(2,616)	21,385
Net fee income	4,481	1,932	1,937	662	21		9,033
Trading income/(expense) excluding net interest income	33	172	(203)	197	9		208
Net interest income/ (expense) on trading activities	37	(7)	51	7	(186)	2,616	2,518
Net trading income/(expense)[24]	70	165	(152)	204	(177)	2,616	2,726
Changes in fair value of long-term debt issued and related derivatives					6,102		6,102
Net income/(expense) from other financial instruments designated at fair value	(1,777)	(165)	(227)	(1)	504		(1,666)
Net income/(expense) from financial instruments designated at fair value	(1,777)	(165)	(227)	(1)	6,606		4,436
Gains less losses from financial investments	78	2	(571)	(16)	(113)		(620)
Dividend income	75	85	27	4	(7)		184
Net earned insurance premiums	5,337	319	43		(2)		5,697
Gains on disposal of French regional banks					2,445		2,445

Other operating income/ (expense)	(131)	221	317	33	2,318	(2,385)	373
Total operating income	22,335	7,306	6,178	1,715	10,510	(2,385)	45,659
Net insurance claims[25]	(3,268)	(145)	(39)				(3,452)
Net operating income[7]	19,067	7,161	6,139	1,715	10,510	(2,385)	42,207
Loan impairment charges and other credit risk provisions	(11,836)	(1,610)	(1,356)	(72)	(5)		(14,879)
Net operating income	7,231	5,551	4,783	1,643	10,505	(2,385)	27,328
Operating expenses (excluding goodwill impairment)	(10,568)	(3,301)	(4,265)	(1,018)	(2,155)	2,385	(18,922)
Goodwill impairment	(10,037)						(10,037)
Operating profit/(loss)	(13,374)	2,250	518	625	8,350		(1,631)
Share of profit/(loss) in associates and joint ventures	87	333	275		(4)		691
Profit/(loss) before tax	(13,287)	2,583	793	625	8,346		(940)
	%	%	%	%	%		%
Share of HSBC s loss before tax	(1,413.5)	274.8	84.3	66.5	887.9		100.0
Cost efficiency ratio	108.1	46.1	69.5	59.4	20.5		68.6
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	401,402	203,949	287,306	37,590	2,621		932,868
Total assets	527,901	249,218	1,991,852	133,216	145,581	(520,303)	2,527,465
Customer accounts	440,338	235,879	320,386	116,683	2,041		1,115,327

For footnotes, see page 94.

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Geographical regions
Summary
In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of
US$1,347 million (first half of 2008: US$1,169 million; second half of 2008: US$1,323 million). Profit/(loss) before tax

	Half-year to					
	30 June 2009		30 June 2008		31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Europe	**2,976**	**59.3**	5,177	50.5	5,692	605.5
Hong Kong	**2,501**	**49.8**	3,073	30.0	2,388	254.1
Rest of Asia-Pacific[17]	**2,022**	**40.3**	2,634	25.7	2,088	222.1
Middle East[17]	**643**	**12.8**	990	9.7	756	80.4
North America	**(3,703)**	**(73.8)**	(2,893)	(28.2)	(12,635)	(1,344.1)
Latin America	**580**	**11.6**	1,266	12.3	771	82.0
	5,019	**100.0**	10,247	100.0	(940)	(100.0)

Total assets[23]

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,324,687**	**54.7**	1,384,022	54.3	1,392,049	55.1
Hong Kong	**413,107**	**17.1**	371,584	14.6	414,484	16.4
Rest of Asia-Pacific[17]	**217,794**	**9.0**	239,224	9.4	225,573	8.9
Middle East[17]	**48,601**	**2.0**	51,777	2.0	50,952	2.0
North America	**494,778**	**20.4**	568,114	22.3	596,302	23.6
Latin America	**107,515**	**4.4**	122,009	4.8	102,946	4.1
Intra-HSBC items	**(184,639)**	**(7.6)**	(190,052)	(7.5)	(254,841)	(10.1)
	2,421,843	**100.0**	2,546,678	100.0	2,527,465	100.0

For footnotes, see page 94.

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

	Personal Financial Services US$m	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Total US$m**
Half-year to 30 June 2009						

UK	**205**	**688**	**1,853**	**124**	**(1,214)**	**1,656**
France[30]	**26**	**51**	**661**	**1**	**(219)**	**520**
Germany		**17**	**129**	**8**	**(4)**	**150**
Malta	**13**	**29**	**5**			**47**
Switzerland				**233**		**233**
Turkey	**21**	**54**	**87**	**1**		**163**
Other	**(53)**	**13**	**156**	**80**	**11**	**207**
	212	**852**	**2,891**	**447**	**(1,426)**	**2,976**
Half-year to 30 June 2008						
UK	1,164	1,656	329	162	168	3,479
France[30]	122	151	492	14	(70)	709
Germany		21	122	20	(8)	155
Malta	26	33	12			71
Switzerland				335		335
Turkey	19	51	56			126
Other	(7)	28	179	48	54	302
	1,324	1,940	1,190	579	144	5,177

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 31 December 2008						
UK	382	705	(798)	88	2,829	3,206
France[30]	17	25	(219)	(4)	2,312	2,131
Germany		10	62	12	(14)	70
Malta	33	34	4			71
Switzerland				218		218
Turkey	(16)	40	74			98
Other	(82)	(32)	(118)	105	25	(102)
	334	782	(995)	419	5,152	5,692

For footnote, see page 94.

Loans and advances to customers (net) by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
UK	**342,153**	380,051	313,065
France[30]	**77,096**	78,376	70,896
Germany	**5,201**	7,638	5,756
Malta	**4,480**	4,684	4,343
Switzerland	**9,566**	14,829	12,708
Turkey	**5,586**	8,127	6,125
Other	**13,008**	15,255	13,298
	457,090	508,960	426,191

Customer accounts by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
UK	**371,675**	413,593	351,253
France[30]	**85,899**	60,281	74,826
Germany	**10,007**	11,054	11,611
Malta	**5,646**	6,292	5,604

Switzerland	**41,122**	42,125	44,643
Turkey	**5,394**	7,090	5,845
Other	**9,982**	9,205	8,694
	529,725	549,640	502,476

For footnote, see page 94.

Economic briefing

The **UK** economy contracted sharply during the first half of 2009, with much of this weakness concentrated in the early months of the year and the second quarter bringing some evidence of a stabilisation of economic conditions. Gross Domestic Product (GDP) fell by 5.3 per cent below the comparable period in 2008, the sharpest contraction on record. Labour market conditions continued to deteriorate with the unemployment rate rising to a twelve-year high of 7.6 per cent in May 2009. Indicators of housing market activity improved only marginally from very subdued levels, although some monthly increases in house prices were recorded during the second quarter of 2009. After reducing interest rates to just 0.5 per cent in March 2009, the Bank of England launched the Asset Purchase Facility in an attempt to improve the circulation of credit across the economy and encourage confidence in future economic activity. Consumer Price Index (CPI) inflation moderated throughout the first half of the year, falling from 3.0 per cent in January 2009 to 1.8 per cent in June, below the Bank of England s 2 per cent target.

The **eurozone** economies performed poorly during the first half of 2009. As in the UK, first

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Profit before tax

	Half-year to		
Europe	**30 June 2009 US$m**	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**5,978**	4,475	5,221
Net fee income	**2,843**	4,223	3,269
Net trading income	**3,429**	3,649	1,708
Changes in fair value of long-term debt issued and related derivatives	**(788)**	207	2,732
Net income/(expense) from other financial instruments designated at fair value	**212**	(866)	(960)
Net income/(expense) from financial instruments designated at fair value	**(576)**	(659)	1,772
Gains less losses from financial investments	**(60)**	608	(190)
Dividend income	**13**	20	110
Net earned insurance premiums	**2,134**	2,286	3,013
Gains on disposal of French regional banks			2,445
Other operating income	**976**	1,427	669
Total operating income	**14,737**	16,029	18,017
Net insurance claims incurred and movement in liabilities to policyholders	**(2,383)**	(1,388)	(1,979)
Net operating income before loan impairment charges and other credit risk provisions	**12,354**	14,641	16,038
Loan impairment charges and other credit risk provisions	**(2,813)**	(1,272)	(2,482)
Net operating income	**9,541**	13,369	13,556
Total operating expenses	**(6,587)**	(8,193)	(7,879)
Operating profit	**2,954**	5,176	5,677
Share of profit in associates and joint ventures	**22**	1	15

Profit before tax	**2,976**	5,177	5,692
	%	%	%
Share of HSBC s profit before tax	**59.3**	50.5	605.5
Cost efficiency ratio	**53.3**	56.0	49.1
Period-end staff numbers (full-time equivalent)	**79,132**	84,457	82,093
Balance sheet data[23]			
	US$m	US$m	US$m
Loans and advances to customers (net)	**457,090**	508,960	426,191
Loans and advances to banks (net)	**72,491**	94,795	61,949
Trading assets, financial instruments designated at fair value and financial investments[28]	**449,928**	481,015	433,885
Total assets	**1,324,687**	1,384,022	1,392,049
Deposits by banks	**87,159**	112,081	80,847
Customer accounts	**529,725**	549,640	502,476

For footnotes, see page 94.

The commentary on Europe is on an underlying basis unless stated otherwise.
quarter GDP fell by 4.9 per cent on the first quarter of 2008 with the broad range of economic data pointing to some stabilisation of conditions during the second quarter. Investment expenditure proved exceptionally weak, while consumer spending continued to contract as the unemployment rate increased to 9.5 per cent in May 2009 from 8.2 per cent in December 2008. The annual rate of consumer price inflation fell substantially during the period, moving from 1.6 per cent in December 2008 to minus 0.1 per cent in June 2009, the first negative reading since the eurozone s inception, although much of this decline reflected the earlier rise and then fall of energy prices. The European Central Bank cut interest rates by 150 basis points during the first half of the year, leaving the refi rate at a record low level of 1 per cent in June 2009.

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In **Turkey**, first quarter GDP fell by 13.8 per cent on the comparable period in 2008, and substantial declines in industrial activity continued to be recorded during the second quarter of the year. Inflationary pressures eased within this weak economic environment as the annual rate of change in consumer prices fell from 10.1 per cent in December 2008 to 5.7 per cent in June 2009. The unemployment rate averaged 15.6 per cent during the first four months of 2009 compared with 11.1 per cent during the equivalent period in 2008. Negotiations over an IMF assistance programme are ongoing.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
Europe	**1H08 as reported US$m**	**1H08 acquisitions and disposals[1] US$m**	**Currency translation[2] US$m**	**1H08 at 1H09 exchange rates[3] US$m**	**1H09 acquisitions and disposals[1] US$m**	**Under-lying change US$m**	**1H09 as reported US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**4,475**	**(65)**	**(866)**	**3,544**		**2,434**	**5,978**	**34**	**69**
Net fee income	**4,223**	**(58)**	**(806)**	**3,359**		**(516)**	**2,843**	**(33)**	**(15)**
Changes in fair value[5]	**207**		**39**	**246**		**(1,034)**	**(788)**	**(481)**	**(420)**
Other income[6]	**5,736**	**(514)**	**(1,127)**	**4,095**	**280**	**(54)**	**4,321**	**(25)**	**(1)**
Net operating income[7]	**14,641**	**(637)**	**(2,760)**	**11,244**	**280**	**830**	**12,354**	**(16)**	**7**
Loan impairment charges and other credit risk provisions	**(1,272)**	**6**	**276**	**(990)**		**(1,823)**	**(2,813)**	**(121)**	**(184)**
Net operating income	**13,369**	**(631)**	**(2,484)**	**10,254**	**280**	**(993)**	**9,541**	**(29)**	**(10)**
Operating expenses	**(8,193)**	**68**	**1,486**	**(6,639)**		**52**	**(6,587)**	**20**	**1**
Operating profit	**5,176**	**(563)**	**(998)**	**3,615**	**280**	**(941)**	**2,954**	**(43)**	**(26)**
Income from associates	**1**			**1**		**21**	**22**	**2,100**	**2,100**

Profit before tax	**5,177**	**(563)**	**(998)**	**3,616**	**280**	**(920)**	**2,976**	**(43)**	**(25)**

For footnotes, see page 94.

HSBC s European operations reported a pre-tax profit of US$3.0 billion, compared with US$5.2 billion in 2008, a decrease of 43 per cent. Within these figures was a negative fair value movement of US$836 million on the Group s own debt held at fair value as financial markets stabilised and credit spreads tightened in the first half of 2009. This movement compared with a gain in the first half of 2008 of US$434 million. As in previous years, HSBC does not regard this movement as part of operating performance. Results also benefited from a gain on the sale of the residual stake in the UK card-acquiring business to Global Payments Inc. of US$280 million in the first half of 2009 following the US$425 million gain realised in the comparable period in 2008 on the sale of the original holding. Adjusting for these gains on sale, the disposal of the French regional banks in July 2008 and the reversal of movements in the fair value of own debt, underlying pre-tax profits grew by US$311 million or 10 per cent. This was driven by a strong performance within Global Banking and Markets, with record revenues in Balance Sheet Management and Rates coupled with a significant fall in credit-related write-downs, partly offset by higher loan impairment charges reflecting the deterioration in the economic environment and increased impairments to assets in the available-for-sale portfolio.

Net interest income increased by 69 per cent, driven by significant growth in Balance Sheet Management revenues, which benefited from favourable positioning in expectation of interest rate cuts by central banks. The fall in interest rates also reduced the cost of funding trading activities, further boosting net interest income.

Mortgage balances increased, reflecting HSBC s continued efforts to support lending to core customers. During the first half of 2009, new mortgage sales in the UK amounted to 45 per cent of the £15 billion (US$25 billion) in new mortgage facilities made available to customers at the beginning of the year. Regionally, lending balances declined in line with reduced customer demand for credit and HSBC s diminished appetite for unsecured lending throughout the region. Lower funding costs, particularly in the personal sector, boosted income in cards, mortgages and personal

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loans. Given the volatility in the markets, and lack of liquidity, the pricing of commercial lending increased.

HSBC also benefited from an increase in customer accounts due to the strong flow of deposits gained during the market turmoil in the second half of 2008. However, both the Personal Financial Services and Commercial Banking businesses were adversely affected by interest rate cuts, which reduced liability spreads across the region. In Personal Financial Services, spreads were further constrained by competitive pressure to retain liability balances in the UK, and by further interest rate cap reductions on credit cards in Turkey.

Net fee income fell by 15 per cent. Card fees declined following the part disposal of the card-acquiring business to a joint venture in June 2008, and lower card utilisation which reduced transaction volumes. The relatively inactive markets resulted in lower mergers and acquisition fees, and the decline in global equity markets drove decreases in equity brokerage commissions in Private Banking and performance and management fees as the value of funds under management declined. As markets increasingly recognised the value of credit commitment and availability, HSBC generated higher underwriting fees as a result of increased debt originations in France and the UK.

Trading income increased by 19 per cent to US$3.4 billion, with a record performance in Rates and strong revenue generation in foreign exchange trading. Rates benefited from favourable positioning for falling interest rates and increased demand, while growth in foreign exchange earnings reflected market volatility. Trading income also benefited from credit spread contraction, which led to significantly lower credit write-downs on legacy positions and asset-backed securities portfolios than in the first half of 2008.

This increase in trading performance was partly offset by a loss on structured liabilities as credit spreads narrowed, compared with a gain last year, and a reduction in net interest income on trading activities due to the decline in interest rates (the compensating benefit is reported within Net interest income).

A net expense of US$576 million was incurred on *financial instruments designated at fair value,* primarily due to the fair value movements arising from the effect of narrowing credit spreads on certain fixed-rate long-term debt issued by HSBC, which partially reversed previous gains. This heading also encompasses movements in the fair value of assets held to meet liabilities under insurance and investment contracts in which, as equity markets recovered from declines sustained in the second half of 2008, gains were recorded.

To the extent that investment gains are attributable to policyholders, the increase in the fair value of assets held to meet liabilities under unit-linked policies and insurance and investment contracts with discretionary participating features is offset by a corresponding increase in claims incurred and movement in liabilities to policyholders.

Gains less losses from financial investments were US$498 million lower than those arising in the first half of 2008 due to the non-recurrence of certain disposals in 2008, including the sale of MasterCard shares, realisations from private equity investments and the disposal of its remaining stake in the Hermitage Fund by Private Banking. Excluding the reversal of movements in the fair value on own debt credit spreads, underlying pre-tax profit in Europe grew by US$311 million or 10 per cent, with a strong performance in Global Banking and Markets.

Net earned insurance premiums increased by 13 per cent. Premium income rose, mainly because of the non-recurrence of a significant re-insurance transaction in France in the first half of 2008 which passed insurance premiums to a third-party reinsurer. Excluding this transaction, premiums fell in the region. A reduction in premiums was driven by the withdrawal of the Guaranteed Income Bond from sale in the UK as the product was no longer commercially viable in the current economic environment. Sales in France were relatively unchanged despite a significant reduction in the distribution network following the disposal of the regional banks in July 2008.

Other operating income decreased by 9 per cent, with the non-recurrence of a favourable embedded value adjustment following HSBC s introduction of enhanced benefits to existing pension products in the first half of 2008 and reduced gains on the sale and leaseback of branches, partly offset by gains on the sale of properties in Private Banking.

Net insurance claims incurred and movement in liabilities to policyholders increased by US$1.2 billion as the allocation of investment returns to policyholders increased and net insurance premiums rose, in part due to the non-recurrence of the significant reinsurance transaction undertaken in France in 2008. In addition, an increase of US$105 million in claims reserving was required to reflect a higher incidence and severity of motor insurance claims with a standalone UK motor underwriter.

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Loan impairment charges and other credit risk provisions grew by US$1.8 billion to US$2.8 billion as the signs of stress observed at the end of 2008 continued into 2009 and economic conditions deteriorated across the region. Within Personal Financial Services and Commercial Banking, which in aggregate experienced a 63 per cent rise in loan impairments to US$1.6 billion, 85 per cent of the charge arose in the UK. Credit impairment charges in the personal sector in France remained low, reflecting the upmarket segmentation of the personal customer base.

Within the UK, the core residential mortgage portfolio continued to experience low impairment, in large part reflecting HSBC s continued focus on in-house origination and control. Stresses were more evident in the cards and other unsecured portfolios, and the secured portfolio of the consumer finance business, as unemployment rose and the ability to refinance existing debt reduced. In UK Commercial Banking, loan impairment charges rose from a low base of US$173 million to US$504 million, reflecting the general economic downturn with problems most evident in the property and retail distribution sectors. In Global Banking and Markets, impairment charges largely reflected HSBC s exposure to the financial and property sectors, as well as additional credit risk provisions from marking to market asset-backed debt securities held within the Group s available-for-sale portfolios on which cash flow impairment emerged in the period. Impairment booked on these exposures reflects mark-to-market losses which HSBC judges to be
significantly in excess of the likely ultimate cash losses.

Outside the UK, higher loan impairment charges reflected deteriorating credit card and personal loan delinquency rates in Turkey, Greece and Central and Eastern Europe. Action taken to mitigate these trends included the strengthening of collection practices and systems, tightening unsecured lending origination criteria and the cessation of new monoline consumer finance lending. The decision was taken during the period to wind down the monoline consumer finance businesses in Hungary and Poland in line with Group strategic objectives.

Operating expenses were broadly in line with the first half of 2008. Staff costs were 5 per cent lower, notwithstanding a rise in Global Banking and Markets from performance-related pay, partly from an accounting gain of US$499 million following a change in the basis of delivering death-in-service, ill health and early retirement benefits for some UK employees.

Non-staff costs were 4 per cent higher as bank failures in the UK led to a US$52 million increase in the Financial Services Compensation Scheme levy. Higher rental charges following the sale and leaseback of properties in 2008 and increased network costs in support of business expansion in Turkey, Russia and Central and Eastern Europe were partly offset by lower advertising and marketing expenditure in response to difficult trading conditions and reduced customer demand.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
Europe	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	5,221		(580)	4,641		1,337	5,978	14	29
Net fee income	3,269		(365)	2,904		(61)	2,843	(13)	(2)
Changes in fair value[5]	2,732		(100)	2,632		(3,420)	(788)	(129)	(130)
Other income[6]	4,816	(2,540)	(404)	1,872	280	2,169	4,321	(10)	116
	16,038	(2,540)	(1,449)	12,049	280	25	12,354	(23)	

Net operating income[7]									
Loan impairment charges and other credit risk provisions	(2,482)		328	(2,154)		(659)	(2,813)	(13)	(31)
Net operating income	13,556	(2,540)	(1,121)	9,895	280	(634)	9,541	(30)	(6)
Operating expenses	(7,879)		812	(7,067)		480	(6,587)	16	7
Operating profit	5,677	(2,540)	(309)	2,828	280	(154)	2,954	(48)	(5)
Income from associates	15		(2)	13		9	22	47	69
Profit before tax	5,692	(2,540)	(311)	2,841	280	(145)	2,976	(48)	(5)

For footnotes, see page 94.

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HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2009						
Europe	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income/ (expense)	**2,507**	**1,295**	**2,376**	**506**	**(265)**	**(441)**	**5,978**
Net fee income	**875**	**789**	**706**	**438**	**35**		**2,843**
Trading income excluding net interest income	**78**	**4**	**1,678**	**72**	**167**		**1,999**
Net interest income on trading activities	**(1)**	**7**	**966**	**9**	**8**	**441**	**1,430**
Net trading income[24]	**77**	**11**	**2,644**	**81**	**175**	**441**	**3,429**